

**BRAZILIAN COOPERATIVISM:
THE CONQUEST OF AUTONOMY**

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INTRODUCTION

ACDI/VOCA's mission is to improve people's lives in less developed countries and emerging democracies through support and technical assistance for development, economic growth, and social inclusion. It has been pursuing this mission over several decades and across the globe. Through a vast cooperative network and with the support of the United States Agency for International Development (USAID), ACDI/VOCA works with volunteers who are highly specialized in the management of civil society organizations and agribusiness, undertaking an exceptionally wide range of projects centered on sustainable development and improving people's quality of life.

Along these lines, ACDI/VOCA has engaged in ongoing technical cooperation with Brazil for more than 30 years through numerous projects across the country. It has accompanied the development of cooperatives over the past three decades as Brazil transitioned from State-led and controlled cooperatives to autonomous and self-managed cooperatives following the 1988 constitutional reform.

Seeking to advance the global development of cooperatives, ACDI/VOCA set a goal of preparing a publication about Brazil's experience with transitioning from state-controlled to autonomous cooperatives. This experience may offer lessons for other countries undergoing similar transitions.

With a view to drawing upon this remarkably rich Brazilian experience with cooperatives, ACDI/VOCA invited me to coordinate a group of leaders and specialists in the field who would be able to describe and recount Brazilian cooperatives' successful struggle for autonomy.

I have been actively involved in the transition process from its inception in the 1970s: first, as training director for ASSOCEP (Cooperative Counseling Association – *Associação de Orientação às Cooperativas*); later, as a member of the Board of Directors of SENACOOOP (National Cooperative Secretariat – *Secretaria Nacional de Cooperativas*); then, as executive director of DENACOOOP (National Cooperative Bureau – *Departamento Nacional de Cooperativismo*); and, finally, as international adviser for OCB (Organization of Brazilian Cooperatives – *Organização das Cooperativas Brasileiras*). This longtime experience allowed me to accept the challenge, made difficult by how recent the transition is and the fact that there are still adjustments happening at the national level. We determined that the publication should recount this unique Brazilian experience from various vantage points. Thus, cooperative leaders, cooperative specialists, and directors of cooperative institutions who have personally lived through this transitional period were called on to provide their contributions.

We invited the Minister of Agriculture, Dr. Roberto Rodrigues, to contribute an article on this decisive period of struggle for cooperative autonomy. He is an acclaimed authority on cooperatives in Brazil and around the world, and as president of the Organization of Brazilian Cooperatives in 1988, he was an important leader during that scintillating moment in Brazilian history.

The first president of the Organization of Cooperatives of the State of Parana (OCEPAR – *Organização das Cooperativas do Estado do Paraná*), Guntolf Van Kaick, also kindly consented to our request for a contribution. Mr. Van Kaick helped craft the successful struggle for cooperative self-management and was a pioneer in both the debate and the creation of instruments for the transition from State-controlled cooperatives to self-managed cooperatives. In his article, he describes the early period and the path to final victory for autonomy with superb skill.

Likewise, the current president of the Organization of Brazilian Cooperatives and currently the top leader of the Brazilian cooperative movement, Marcio Lopes de Freitas, promptly acceded to our request. He analyzes the strategic positioning of OCB—which is the entity that coordinates the practice of self-management in Brazil—in light of Brazilian cooperatives' current stage of development in self-management.

The current president of OCEPAR, João Paulo Koslovski, contributes an invaluable analysis of the development and implementation of the State of Parana's Self-Management Program (*Programa de Autogestão no Estado do Paraná*), which has provided a key model for the development of national

programs. In his article, he discusses strategies for implementing the program, overcoming barriers, and making it operative in the state.

In addition to the articles prepared by these four leaders of the cooperative movement in Brazil, we also invited the current director of National Cooperative Department (Denacoop) of the Ministry of Agriculture, José Roberto Ricken, to recount the current State approach to the development of cooperatives in Brazil. He imparts to us a vast program of incentives to accelerate the implementation of cooperative self-management in Brazil.

Carlos Claro de Oliveira Junior, general consultant for the 10th Cooperative Conference (*X Congresso de Cooperativismo*), consultant on strategic cooperative management, and professor of masters-level courses on cooperatives, was called on to coordinate the technical aspects of this document's preparation. He was also asked to develop an article on the transition between management models, the shift in paradigms among cooperatives as they won autonomy, and the 10th Brazilian Cooperative Conference—an exceptionally rich experience that was a milestone in getting people involved in the transition process.

Nelson Vieira Fraga Filho, executive secretary of Frencoop (Congressional Coalition for Cooperatives – *Frente Parlamentar Cooperativista*), describes the crucial role of Congressional action for attaining self-management and developing institutional support for Brazilian cooperatives.

To complete this team of authors, we invited two specialists in the legislation that regulates cooperatives in Brazil, seeking to define the legal framework for Brazilian cooperatives. Thus, Dr. Paulo Roberto Stoberl, legal consultant for OCEPAR and specialist in cooperative legislation, masterfully recounts the historical evolution of the legal framework of Brazilian cooperatives. Finally, Dr. Fernando Torres Lima, legal consultant for INCRA (National Institute for Colonization and Agrarian Reform – *Instituto Nacional de Desenvolvimento e Reforma Agrária*) discusses the legal context of the pre-constitutional period, focusing on State actions when it had the power to intervene in cooperatives.

Armed with these various approaches, we have sought to recount the experience of attaining autonomy from a political, legal, juridical, technical, and institutional perspective. Our intention is to provide readers with a broad understanding of this process of transition from a State-controlled cooperative system—in place until 1988—to a free and self-determining cooperative system.

In the name of ACDI/VOCA, I would like to thank these individuals for their willingness to provide these invaluable contributions. We would also like to mention several leaders of the cooperative movement, such as Apolônio de Castro Figueira, José Pereira Campos Filho, Wilson Thiessen, Desjandir Dalpasqualle, Antonio Rodrigues, and the presidents of the individual statewide cooperative organizations, who all contributed greatly to this process by mobilizing their membership bases. In addition, we would like to thank the OCB legal advisers, particularly Dr. José de Campos Melo—who calmly, persistently, and perseveringly coordinated the legal development of the topic—and Dr. Virgílio Périus—who, through his vigor, power of expression, and strategic view of the system, made a laudable contribution. Countless other leaders, specialists, and public servants merit mention due to the importance of the role they have played in forging autonomy for Brazilian cooperatives. We hereby honor all of them.

We thus offer this contribution to the enrichment of the cooperative movement worldwide, a role that is inherent to ACDI/VOCA's institutional mission.

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SELF-MANAGEMENT IN BRAZILIAN COOPERATIVES

Roberto Rodrigues*

The Brazilian cooperative movement woke up to the concept of self-management in the 1980s. This term arose in Europe—mainly Germany—where cooperatives manage themselves, while the government's role is simply to monitor the work of the auditing federations, which are created by the cooperatives themselves.

After a trip by Brazilian leaders to Europe, Brazil began to structure the Self-Management Program. Initially, they made agreements with the government agency that controlled and inspected cooperatives. Subsequently, they cemented the concept of self-management through the General Constituent Assembly that wrote the 1988 Constitution, which prohibited state interference in the functioning of cooperatives.

The Brazilian law on cooperatives—Law 5.764 of 16 December 1971—was of great importance for the organization of the Brazilian cooperative movement led by then-president of the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), Antônio José Rodrigues Filho. However, compared to the current situation, the law established a quasi-“paternal” relationship between the State and cooperatives—which reflected the political climate in Brazil in the beginning of the 1970s. A cooperative could be created only by obtaining an operating permit (AF – *autorização de funcionamento*) granted by a government agency, which would first have to conduct a technical, economic, and legal analysis as well as an assessment of the proposed leaders and members of the new cooperative.

Initially, INCRA (National Institute for Colonization and Agrarian Reform – *Instituto Nacional de Desenvolvimento e Reforma Agrária*)—linked to the Ministry of Agriculture—was the agency responsible for the registration and inspection of cooperatives. State involvement did not end there: each year, all cooperatives had to send INCRA their balance sheets and accounting reports for verification of their activities and financial results. In the event that any kind of embezzlement or misuse of funds in the cooperative was detected, INCRA had the right to intervene and even to coordinate the removal of leaders considered dishonest or incapable.

Later, the autonomous National Cooperative Secretariat was created within the Ministry of Agriculture itself. It took over the responsibilities previously carried out by INCRA, because the latter took on a more direct role in implementing Agrarian Reform in Brazil. The National Cooperative Secretariat (Senacoop – *Secretaria Nacional de Cooperativismo*) had full authority to intervene in the creation and operation of cooperatives, but its resources were also used to support the movement, especially in education and training.

In addition, as stipulated by Law 5.764, the National Council on Cooperativism (CNC – *Conselho Nacional de Cooperativismo*) was instituted. It was a kind of hybrid tribunal, with involvement of government agencies and the cooperative movement, presided over by the Minister of Agriculture. In this Council, suits and issues relating to cooperatives that were not dealt with by existing legislation were adjudicated and settled.

Under the guidance of a handful of leaders, headed by Guntolf Van Kaick, then-president of OCEPAR (Organization of Cooperatives of the State of Parana – *Organização das Cooperativas do Estado do Paraná*), the OCB system began, in the mid-1980s, to move concretely in the direction of self-management. The motivating factor was the call for elections, actually held in October 1986, for the National Constituent Assembly—an idea put forth by president-elect Tancredo Neves (who did not take office), and actually carried out by installed president José Sarney.

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OCB arranged for cooperatives to participate and submit proposals at the National Constituent Assembly, with a view to including some articles in favor of the movement in the new Constitution. Around the nation, corporate bodies of various ideological stripes were mobilizing with this same objective. To begin, OCB prepared an explanatory primer about what a National Constituent Assembly was and what they expected to be included in the new Constitution that it would draft. The primer was sent to cooperatives nationwide, along with a recommendation that it be analyzed and discussed by the cooperative directors and members. Next, OCB sent all the cooperatives a questionnaire requesting a list of items that should be included in the new Constitution. This issue was also thoroughly debated at the 10th Brazilian Cooperative Conference held in the beginning of 1988.

The proposals were analyzed by a competent group of legal experts, coordinated by the great OCB legal consultant, José de Campos Melo. Through this process, the articles to be championed by the movement were prepared. They consisted of five points—among them, one demanded self-management, and another assigned responsibility to the State to support and encourage the cooperative movement. Based on the discussion of these items, OCB began the electoral campaign by sending a series of documents to the State Cooperative Organizations (OCEs – *Organizações de Cooperativas Estaduais*), as follows:

- list of points that it wanted the members of the constituent assembly to champion;
- commitment letter in which candidates for the constituent assembly committed themselves to defend these items, should they be elected;
- questionnaire that allowed OCB to identify the origin and/or commitment of the candidates to associative movements in the past.

Each OCE sent this material to all the political parties that had candidates for the Constituent Assembly in their state, requesting that they return the signed commitment letter and the candidate history form. In this manner, dozens of candidates were identified throughout Brazil that were already committed to self-management and fulfilled other prerequisites. OCB eliminated upstart candidates who had no previous commitment to associative movements such as cooperatives or were even opposed to them. Thus, several candidates were selected who, supported by the cooperative movement, committed themselves firmly to its modernization.

In the election, 47 deputies were elected from various political parties that were supported by the OCB system. Under the coordination of deputy Ivo Vanderlinde of Santa Catarina, and with the assistance of the Minister of Agriculture, Íris Resende, a large meeting was held soon after the National Constituent Assembly was sworn in, in February 1987. This meeting culminated with the creation of a Congressional Coalition for Cooperatives (*Frente Parlamentar Cooperativista*) composed of the 47 elected members. Each was charged with the duty of bringing new colleagues to the cause's agenda and, in less than 60 days, it was the largest Congressional coalition, with 217 members.

OCB hired a Congressional adviser, professor of cooperativism at Unisinos, Rio de Janeiro, Virgílio Peres. Peres joined deputy Ivo Vanderlinde's cabinet and undertook intense proselytizing efforts on behalf of the desired agenda.

It was an extraordinary period during which groups of cooperative leaders from all sectors and states paid weekly visits to their congresspersons. A powerful—though discrete and quiet—lobby worked during all of the Assembly's deliberations. At a time in which a kind of undesirable Manichaeism was developing—you were either on the left or on the right—the Congressional Coalition for Cooperatives, above partisanship and ideology, was gaining ground among all groups. Finally, it fulfilled a long-held dream: self-management was consolidated in clause 18 of Article 5, as follows: "The creation of associations and cooperatives, in accordance with the law, does not require authorization, and State interference in their operation is prohibited." In addition, State support was guaranteed by Article 174, paragraph 2, which states, "The law shall support and encourage cooperative activity and other forms of associativism."

The cooperative movement's strategy, led by the OCB, along with the spectacular efforts of the Congressional Coalition for Cooperatives, was so successful that other points favoring cooperatives were included in the new Constitution:

- **“Appropriate tax regime”** – by this rule, cooperatives gained the constitutional right to appropriate tax treatment in the Magna Carta.
- **Protection of cooperative placer mining** – the Constitution, by mentioning and favoring cooperatives in the organization of placer mining activities, recognizes that cooperatives best protect the interests of placer miners.
- **Recognition of credit cooperatives** – the Federal Constitution thus guaranteed credit cooperatives the right to inclusion in the national financial system; equal treatment with other financial institutions; and non-restriction on their activities as banking institutions, thus incorporating them into the national financial system.
- **Participation in agricultural policy** – agricultural policy will be planned and executed according to the applicable law, with the ongoing participation of the productive sector—involving producers and rural workers as well in marketing, storage, and transport—and taking the cooperative system, in particular, into account.
- **Health** – private institutions will be able to participate in a complementary fashion with the unified health system (*sistema único de saúde*). As a result of this clause, medical cooperatives, unions, and all other cooperatives benefited, since they complement the unified health system, via public contracts or agreement.

Beginning in October 1988, therefore, State intervention in the creation and operation of cooperatives was eliminated, and the movement, led by the OCB System, initiated a great effort toward creating the basic rules for self-management. All of this effort, however, was consolidated by the 10th Brazilian Cooperative Conference, held in 1988, which defined a new cooperative system for Brazil. This Conference was the turning point for the system, securing the importance that it now boasts nationwide.

Not even the dissolution of Senacoop and of the CNC by the infamous Collor Plan (*Plano Collor*) affected the plans of the movement led by OCB. In fact, in order to meet the constitutional requirement that demands State support, Denacoop was created within the Ministry of Agriculture: this agency still coordinates government measures relating to the cooperative system.

The cooperative leaders' dream came true: the 10th Conference in 1988 and the 1988 Constitution were the means of that fulfillment.

GENERAL GUIDELINES FOR COOPERATIVE SELF-MANAGEMENT IN BRAZIL

Márcio Lopes de Freitas *

Cooperatives were first created to combat the problems arising from the Industrial Revolution and they continue to be the best tool for promoting economic development with social justice. Their universal character allows cooperatives to be present in all countries of the world, regardless of economic and political regime, for they are founded on a vision of solidarity in seeking solutions to common problems.

Brazil is no exception to this rule, and in our country the cooperative model found fertile soil for its development. For more than three decades, Brazilian cooperatives have had a single representative institution, the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), founded in December 1969. It was created during the 4th Brazilian Cooperative Conference held in Belo Horizonte (in the state of Minas Gerais), to replace the Brazilian Cooperative Alliance (Abcoop – *Aliança Brasileira de Cooperativismo*) and the National Union of Cooperative Associations (Unasco – *União Nacional das Associações de Cooperativas*). Previously, these two organizations had shared the task of representing cooperatives.

In 1971, Law 5.764 supported the will of cooperatives by ratifying OCB as the highest agency of representation for Brazilian cooperatives, with the mission of representing, promoting, integrating, and defending the interests of the national cooperative system; of providing expertise and consulting services to the government; of transferring knowledge and technology to cooperatives; and to coordinate relations and alliances among institutions at the national and international level while seeking sustainable development.

The OCB System won a great ally with the creation of the National Cooperative Education Service (Sescoop – *Serviço Nacional de Aprendizagem do Cooperativismo*). This agency met a demand that cooperative leaders had been making for two decades, and was a great victory for the movement. Sescoop was created on 9/3/1998 by Provisional Measure No. 1715 and sustained on 4/6/1999 by Decree No. 3017 with the mission of making cooperative self-management and monitoring viable in Brazil by training human resources to this end.

As the executing agency for the Brazilian Cooperative Self-Management Program (*Programa de Autogestão do Cooperativismo Brasileiro*), Sescoop's importance for the development of the cooperative system has continually grown. It provides capacity building and training for cooperative employees, members, and leaders. The service has also been responsible for the organization, management, and implementation of professional training programs and community development programs for workers and cooperative members in all of Brazil.

The unification of the cooperative system leveraged the national cooperative movement. Today, almost six million people are cooperative members in Brazil. The lives of more than 20 million Brazilians are directly or indirectly linked to cooperatives. However, despite this very large number—equivalent to the population of many countries—the movement still has great potential for growth in Brazil. We already represent an economic force of unquestionable importance, with approximately 6% of the country's Gross Domestic Product (GDP). We are responsible for almost 40% of production in agribusiness and we will probably increase this number to 50% in coming years. Brazilian cooperative exports surpassed 1.3 billion dollars in 2003.

The 5.7 million members of the 7,355 different cooperatives form the base of the OCB System and comprise the state organizations in the 27 Brazilian states, the 81 central cooperatives, 76 federations, and 13 confederations. Brazilian cooperatives are organized among 13 distinct branches

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of business: Agriculture, Consumer, Credit, Educational, Special, Infrastructure, Housing, Mineral, Production, Health, Labor, Tourism and Leisure, and Transport.

Currently, the cooperative system is oriented by four general guidelines formulated by top cooperative leaders in annual meetings: professional management, cooperative education, mutual cooperation, and social responsibility.

Management implies professional attitudes and training of leaders, members, and employees. The commitment and involvement of all is needed for cooperatives to be capable of meeting the challenges imposed by a new global economic order. Administrative tools, such as strategic planning and the creation of operational procedures suited to the development of cooperative business, are among the items that currently comprise the agenda of cooperative leaders. Some of the actions extolled for improved cooperative management, however, are predicated on changes that can only occur through new paradigms and new behavioral standards as an ongoing and coherent process. This transformation requires massive investments in education and in training new cooperative members to be aware of the rights and responsibilities inherent to cooperative ideology. Investments in training new leaders and providing more basic, technical, and post-graduate courses in cooperative management are needed.

Education—the basis of any organized society—will allow for the development of another important trend of modern cooperatives: the formation of mutual cooperation networks. It is in this regard that our leaders can broaden the future horizons of the cooperatives for which they are responsible. They are doing so: once more, cooperatives are breaking barriers and adopting new strategies. The formation of alliances between cooperatives and commercial enterprises—unthinkable in the recent past—are now gaining ground, making them more competitive and opening larger markets.

Mutual cooperation networks have brought gains in scale through joint commercial operations and increased negotiating power with financial institutions, suppliers, and clients. They have also allowed for a substantial reduction in costs and unification of cooperative marketing strategies.

Finally, the fourth general guideline for Brazilian cooperatives centers on social responsibility, a practice that, in truth, is inherent to the genesis of any cooperative and is one of the Seven Universal Cooperative Principles adopted by the countries that are part of the International Cooperative Alliance (ICA). Social responsibility means that every cooperative is committed to the well-being and sustainable development of the community in which it is located. Various projects with national reach are coordinated by OCB, including the Small-Scale Seaweed Cultivation Project in the Brazilian Northeast (*Projeto de Cultivo de Algas Marinhas em Pequena Escala no Nordeste Brasileiro*), developed in conjunction with the United Nations Food and Agriculture Organization in three states in the Northeast region. This program has provided extra income to fishing families who sell their seaweed production, mainly to the cosmetics industry.

These four trends, permeated by the self-management process, show that the cooperative system today is on firm footing. Brazil may someday become the largest cooperative republic in the world, a goal set forth by the president of the Republic, Luiz Inácio Lula da Silva. The OCB System will always be on duty to make its contribution so that this goal may be attained. With unity and solidarity in our shared objectives, we will become stronger and stronger.

CHANGES IN THE LEGAL FRAMEWORK FOR BRAZILIAN COOPERATIVES

Paulo Roberto Stöberl*

INTRODUCTION

The current cooperative movement in Brazil has the profile of a system; in other words, it has a series of interrelated institutions.

The legal structure of cooperative societies, defined by Federal Law No. 5764/71, is based on the notion of a system, although the legislation does not express it as such. There are currently three basic sets of legal bodies that can be pointed to as constituting the Brazilian cooperative system: Brazilian cooperative societies; their representative institutions—the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*) and its affiliates, the Organizations of State Cooperatives (OCEs – *Organizações de Cooperativas Estaduais*); and the national cooperative education service and its state units.

The cooperative movement is a life philosophy. It cannot be separated from attitudes and social life—or rather, social structure. The act of cooperating is the foundation of joint action; it is the union of a group that shares a common identity to solve a collective problem.

All civilized countries have made use of the basic universal and structural principles of cooperatives and have implemented, in one way or another, the cooperative system at the national level. Brazil is no exception: it has been doing so for a century. Thus, although cooperative societies have a different face in each nation, their basic structural design has similarities in the entire civilized world.

THE STRUCTURE OF COOPERATIVES IN BRAZIL

The modern structure of Western cooperatives was brought to Brazil by the flow of immigrants that arrived mainly beginning in the second half of the 19th century. The unfamiliarity of the land, the language, the customs, the economy, and the culture reinforced the immigrants' need to unite and recall the models of cooperative practice from their countries of origin. Cooperatives were also made possible by the geographic proximity with which the colonies of immigrants were founded.

It should be noted that in Latin America—and more specifically in Brazil—we had examples of cooperation, or rather, pre-cooperative manifestations, since we adopted the term *cooperativismo* (the cooperative system) for manifestations after Rochdale (Rochdale Cooperative, England, 1844), according to the International Cooperative Alliance (ICA). These manifestations included the Jesuit reductions, among other practices. The starting point of these manifestations is found in the *Encarnación de Itapúa* reduction, in 1627, according to writer Virgílio Périus (1999), who cites studies by Professor Carbonell.¹ Another experience considered pre-cooperative was the Palmares Republic

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¹DE MASY, Rafael Carbonell. **Estratégias de desarrollo rural em los pueblos Guaraníes** (Rural development strategies among Guarani peoples) (1609-1767). Barcelona: Antoni Bosch, 1992. 512p.

(*República de Palmares*), “a group of slave communities (...) that existed from 1600 to 1695” (RICKEN and RITZMANN, 2001, p.5).

It is also worth citing the important cooperative experiences mentioned in Ricken and Ritzmann’s work (2001, p.5), such as the Tereza Cristina colony in the states of Parana and Santa Catarina in the 1840s, under the leadership of French doctor Jean Maurice Faivre; the Raiffeisen credit cooperative led by Father Amstad in 1903 in Nova Petropolis, Rio Grande do Sul; and the agricultural cooperative in Minas Gerais fostered by João Pinheiro in 1907.

However, the idea of structured cooperatives—as we know them today—was born in England during the Industrial Revolution, with the constitution of a consumer cooperative in 1844:

The origin of the Cooperative System as a socioeconomic enterprise took place in England in the village of Rochdale, near Manchester. Under the growing threat of being substituted by steam-driven machines and with the worsening of the working class’ extreme poverty, 28 weavers joined together to seek an alternative for their work and survival.²

In Brazil, the first piece of legislation that regulates, or at least cites, cooperatives was Legislative Decree No. 979 from January 6, 1903.

DEVELOPMENT OF BRAZILIAN LEGISLATION ON COOPERATIVE SOCIETIES

The particular structure of this type of society in Brazil always followed international cooperative principles: the cooperative society is not a Brazilian invention, nor, perhaps, that of any nation. Thus, it possesses a series of fundamental structural principles³ that can be found in countries that adopted and implemented this type of society.

It is necessary to chart a brief chronological history of all Brazilian legislation that governed cooperative societies, or the cooperative system itself, in the 20th century, and now in the 21st century. The following is a transcription of the exhaustive research conducted by professors Fábio Luz Filho (196, p.201), Diva Benevides (1991, p. 28 e s.), and Waldírio Bulgareli (1998):

- Legislative Decree No. 979 of 1/6/1903;
- Legislative Decree No. 1637 from 1/5/1907;
- Decree No. 22239 from 12/19/1932;
- Decree No. 23611 of 12/20/1933;
- Decree-Law No. 581 of 8/1/1938;
- Decree-Law No. 926 of 12/5/1938;
- Decree-Law No. 1386 of 12/5/1939
- Decree No. 6980 of 3/19/1941;
- Decree-Law No. 5893;
- Decree-Law No. 6274 of 2/14/1944;
- Decree-Law No. 8401 of 12/19/1945;
- Decree-Law No. 59 of 11/21/1966;
- Decree No. 60597 of 4/19/1967;
- Law No. 5764 of 12/16/1971;
- Law No. 10406 of 1/10/2002.

²O *Cooperativismo Paranaense* (Cooperatives in the state of Parana), a 1999 Ocepar publication.

³The ICA’s seven principles are worth reading.

Some cooperative scholars dispute the affirmation that the Legislative Decree No. 979 of 1903 inaugurated the regulation of cooperatives in Brazil. The Decree regulated, so to speak, cooperative societies, since in Article 10, it determines that in the case of closure these societies would be subject to the same laws as civil societies.

Legislative Decree No. 1637 of 1907 was incontestably the first important legal milestone for to the cooperative movement⁴, since it created the first law in Latin America dealing specifically with cooperative societies. Professor Bulgarelli states that:

Profoundly influenced by the French law of 1867, it did not attribute a unique form to cooperatives. They should be constituted as commercial societies, with a collective name, limited liability, and anonymous membership. It gave them, however, full liberty of constitution and operation, without subordination to any state institution. To operate legally, they only needed to deposit a copy of their articles of association at the Board of Trade. Subsequently, their only obligation was to deposit a list of members and any changes in bylaws semi-annually.

They had so much freedom of operation that they could, among other things: (Art. 25) “1 – borrow on mortgage, agricultural pledge, or warrants, thus establishing general warehouses according to the applicable laws. Agricultural pledges could be made by private contract, which would need to be registered in the county in order to have value before third parties; 2 – issue merchandise receipts according to the applicable laws; 3 – receive money, by deposit, on interest, not only from members but also from persons outside the society” (BULGARELLI, 1998, p.65).

Decree No. 22239 of 1932 altered the clauses of Legislative Decree 1637. According to Professor Diva Benevides, whose classic work was cited above, this decree changed the civil conception of cooperatives: the law began to consider “cooperatives associations of persons and not of capital, *sui generis* in their legal nature, having specific characteristics” (PINHO, 1991, p.38).

Decree No. 23611 of 1933 revoked Legislative Decree No. 979 of 1903, and authorized the creation of professional-cooperative consortiums. It created the state cooperative agency, thus beginning state tutelage of cooperatives.

Decree No. 24647 of 1934 revoked Decree No. 22239, establishing principles for professional cooperation, as well as for social cooperation. This decree also granted direct and indirect assistance to cooperatives and instituted the Professional Cooperative Consortiums Fund.

Decree-Law No. 581 of 1938 legislated on registrations, inspection, and assistance to cooperative societies, and revoked Decrees No. 23611 and 24647. Also in 1938, Decree-Law No. 926 regulated the creation, financing, and inspection of cooperative insurance societies.

Decree-Law No. 1386 permitted the admission of legal entities as members of cooperatives in extractive industries.

The notable feature in Decree No. 6980 of 1941 is in the regulation for the inspection of cooperative societies, established in Decree-Law No. 581.

Law-Decree No. 5893 of 1943 deals with the organization, operation, and inspection of cooperatives. This decree was subsequently altered by Decree-Law No. 6274 of 1944.

The last two decrees were revoked by Decree-Law No. 8401 of 1945, except for articles 104 and 118; the clauses of Decree-Law No. 581 of 1938 and 22239 of 1932 were reinstated.

Decree-Law No. 59 of 1966 and its regulating Decree No. 60597/67 defined national cooperative policy, creating the National Cooperative Council. Waldírio Bulgarelli levels severe criticism at this legislation, due to its “lack of organization and systematization, and its intent to submit the cooperative

⁴Fábio Luz and W. Bulgarelli.

movement to rigid State control” (BULGARELLI, 1998, p.68). Decree-Law No. 59 was substituted by Law No. 5764 of 16 December 1971, which defined the National Cooperative Policy. This legislation warrants separate mention, as does Chapter VII of the 2002 Civil Code.

ANALYSIS OF COOPERATIVE PRINCIPLES FROM A LEGAL PERSPECTIVE

To penetrate this topic, it is important to elucidate and delimit legislation applicable to cooperative societies from 2003 on, in light of the regulations enacted by Chapter VII of the 2003 Brazilian Civil Code, which deals with cooperatives.

CURRENT LEGISLATION APPLICABLE TO COOPERATIVE SOCIETIES

At present, cooperative societies are governed first by Chapter VII of the 2002 Civil Code, Law No. 10406, and, where it is silent, by Law 5764/71. General laws governing all kinds of societies apply when Law 5764/71 does not deal with a particular issue.

As of 2003, cooperative societies are conceptualized or classified by Article 982 of the 2002 Civil Code⁵ as being simple societies. This classification is, in our opinion, a mistake.⁶ However, this criticism is merely from a theoretical point of view, since from a legal standpoint it cannot be changed.

The Civil Code’s method of classification was an attempt to unify private law in Brazil. Accordingly, its content includes registers of all types of societies in Brazil, including corporations, whose commercial character is indisputable. Under the mantle of this new system of classification, the Civil Code must present the type of society and not be concerned with delimiting its structure and operation. This latter task falls to special laws, as was the case for cooperative societies in Article 1093.⁷

The argument that the Brazilian Civil Code is above Law 5764/71 but that the latter has not been entirely replaced, is based on the application of rules that resolve apparent conflicts between laws in our legal system—more precisely, conflict in laws from different time periods—since we have two laws that govern the same issue.

Thus, the civil law began to frame and determine basic guidelines for societies in Brazil. This system of organization brought apparent contradictions in legal orientation, mainly in respect to the content of Articles 1093 and 1096, and Law 5764/71. An apparent contradiction exists between the directives, making it necessary, according to Maria Helena Diniz, to refer to standards on interpretation and applicability of laws in general—that is, the Introductory Law of the Civil Code.⁸

⁵Art. 982. (...) Sole paragraph. Regardless of their business purpose, societies that sell stock are considered corporations (*sociedade empresária*); cooperatives are considered simple.

⁶It is a mistake because, in terms of their economic activities, cooperative societies are very similar to large corporations (considered “*sociedade empresaria*”). The unique (*sui generis*) nature of cooperatives has always been unanimously agreed on by the movement; therefore, endeavoring to classify cooperatives a specific type of society is dangerous, because their unique nature will always lie somewhat outside of the classification.

⁷Art. 1093 – Cooperative societies shall be governed by what is stipulated in this chapter, with the exception of special legislation.

⁸Decree-Law No. 4657 of 4 September 1942.

Article 2 of the Introductory Law of the Civil Code⁹ stipulates that the content and authority of previous laws are revoked only if this is explicitly stated in the new law (which was not the case here);¹⁰ if there are clauses in the new law that change the old law; or if the new law is exhaustive in legislating on the issue. The latter two hypotheses did occur; however, this is not the place to delve into them.

Our objective in this text is to report on and delimit Brazilian legislation applicable to cooperative societies.

THEORETICAL APPROACH TO COOPERATIVE SOCIETIES

The Civil Code regulations did not alter the theoretical conception of cooperative societies. Article 1094¹¹ delineates the features of a cooperative society, reaffirming those features described by Article 4 of Law 5764/71.¹²

⁹Art. 2. This not being a temporary law, it shall be in effect until another law modifies or revokes it.

Paragraph 1. New laws revoke previous laws when they explicitly claim to, when they are incompatible with previous laws, or when they cover all aspects of the previous laws.

Paragraph 2. New laws, when they establish general or special provisions in line with existing laws, do not revoke nor modify previous laws.

Paragraph 3. Unless otherwise stipulated, revoked laws are not automatically reenacted when the law that revoked them is no longer in force.

¹⁰Law 10406 never expressly revokes Law 5764/71.

¹¹Art. 1094. The following are features of cooperative societies:

- I – variability or inexistence of share capital.
- II – grouping of minimum number of members needed to constitute the cooperative's management, with no maximum number.
- III – limitation of value of sum of shares of share capital that each partner is allowed to have.
- IV – capital shares cannot be transferred to third parties outside of the cooperative, even by inheritance;
- V – quorum for the General Assembly to function and debate based on number of partners present at the meeting and not on the proportion of capital share represented;
- VI – distribution of profits proportional to the value of operations between members and the cooperative; fixed interest can be established on capital obtained;
- VIII – indivisibility of reserve fund among members, even in the case of dissolution of the cooperative.

One feature of a cooperative society is the variability of share capital; this mention enthrones one of the features of the cooperative member/partner—that is, of being owner of the cooperative society that he or she belongs to. The condition of being *cooperative owner*¹³ is shared by many persons and legal entities that agree to a *partnership contract*. Legally, they become cooperative partners—replacing their previous legal status—and now possess a *part* of the cooperative through capital invested therein; that is, a portion (share) of it, and they become responsible for the operations of the cooperative before the market in which the cooperative transacts. Variability of social capital means division of the society in parts, and this division is variable.

The noteworthy feature of the Civil Code was that it allowed for the constitution of cooperatives without capital—that is, without assets. Whenever there are assets, they must be somebody's property: this somebody is necessarily *owner* of the society, because he or she physically possesses it. We believe that it is possible, in theory, for a cooperative society to exist without capital¹⁴, since the only function of a cooperative is to provide direct services to members¹⁵ and there are some branches¹⁶ that fulfill this function without need of capital: they simply offer services.

¹²Art. 4. – Cooperatives are civil societies of persons, having a unique structure and legal status, not subject to bankruptcy, and constituted to provide services to their members. They can be distinguished from other kinds of societies by the following features:

- I – voluntary membership of unlimited number, except in the case of technical incapacity to provide services;
- II – variability of capital, divided into shares;
- III – limit on number of capital shares that each member can have; the establishment of criteria based on proportionality is also allowed, if that is more appropriate to obtain business objectives;
- IV – unavailability of capital shares to third parties who are not part of the cooperative;
- V – each member has a single vote; central cooperatives, federations, and confederations of cooperatives—except those engaged in credit activities—may opt for the criterion of proportionality;
- VI – “quorum” for the General Assembly’s functioning and debate based on number of members and not on capital;
- VII – distribution of fiscal year net surplus in proportion to operations performed by each member, unless otherwise decided by the General Assembly;
- VIII – indivisibility of Reserve, Technical Assistance, Education, and Social Funds;
- IX – political neutrality and religious, racial, and social non-discrimination;
- X – provision of assistance to members and, when stipulated in the bylaws, to cooperative employees;
- XI – area from which members can be admitted is limited by feasibility of meetings, control, operations, and provision of services.

¹³As in the classic theory of “dual quality of the cooperative member, who is both a owner and a user: an owner because he has a share in the cooperative and, as such, ‘owns’ it.” In: **Tributação das Cooperativas** (Cooperative Taxation), São Paulo: Dialética, 1998. p. 108, item 7.1.

¹⁴Art. 4. – Cooperatives are civil societies of persons, having a unique structure and legal status, not subject to bankruptcy, and constituted to provide services to their members (...)

¹⁵Text from Article 4 of Law 5764/71

¹⁶The division/classification by branches designates the cooperatives’ business objectives and is made by OCB, which classified 13 different branches.

Another issue inherent to this feature relates to the role of capital in cooperatives societies. We believe that the *raison d'être* of cooperatives is the creation of mechanisms/structures needed to fulfill their sole role: providing services to their members. *We do not accept the idea of the existence of cooperative capital if it is not linked to the provision of services.* Accordingly, when the law institutes capital in cooperatives, according to the very structure of cooperatives, it is linking it to the provision of services and not to the direct remuneration of cooperative members.

Civil Law No. 10406, in clause II of the previously discussed Article 1094, determines that there are a minimum number of members necessary to constitute a cooperative society. The framers of this legislation saw it best not to stipulate the exact number; instead, they established that this number depended on the cooperatives' need for administration. We should understand the term *administration* in the broadest possible sense—that is, that cooperatives exist and should be administrated in such a manner as to provide adequate services for their members, thus fulfilling the role for which they were created.

Since 1971, legislators have prioritized the continuity of cooperatives. In the Federal Constitution, there is also a directive stating that the law should support and stimulate cooperatives, showing that legislators are concerned with creating rules and mechanisms for the maintenance of cooperatives, even when there are internal forces working for their dissolution. Now, the only explanation for the existence and continued support for this concern is that cooperatives have a social role that is important to the Brazilian nation.

According this reasoning, cooperatives are, without a doubt, national enterprises; they create and distribute wealth in the community and they also assemble a sizable group of members—more than in other types of societies—besides the direct and indirect jobs that are created, the economic activity generated, and the resulting organization of the market, since cooperatives prioritize professionals and not profit. We believe that these are the reasons that the Constitution itself establishes laws to maintain cooperatives in Brazil.¹⁷

Another feature is to limit the quantity of shares that any given cooperative member can have. Capital belongs to the cooperative members and must be returned to them in the event of their leaving the society, which can happen in one of three cases.¹⁸ If individual shares represented too large a percentage of total capital, the restitution of the value might destabilize the entire enterprise.

The directive that establishes that shares of cooperative capital are nontransferable is important, as it is associated to the first clause of Article 1094, which deals with capital. This clause rounds out the conception of cooperatives as societies of people, and not of capital. It solidifies the notion that the shares exist *outside of the market*, since the only reason for their existence lies in the need to provide services to cooperative members. In other words, cooperatives exist to provide the necessary structure for the provision of services to the cooperative members that created it or maintain it, and this is, at all times, the justification for their existence and continuity.

Another feature established by Article 1094 is that the quorum for operation and deliberation cannot be based on capital; rather, the Article states, the quorum must be based on the number of members present at the assembly. This prohibition is perhaps one of the pillars of the cooperative system, in conjunction with the one-member/one-vote directive, determined by clause VI of the same article.

Again, capital cannot constitute the basis for deliberation or the calling of assemblies. It is only a means, and not an end of the cooperative society. It is well understood that the reason for creating societies of persons does not lie in the capital involved. In cooperatives the same is true, and furthermore capital is a means for the society's operation and not an end. The cooperative member enters the cooperative to benefit from the provision of services, and not to gain capital, invest, or seek returns.

¹⁷Articles 146, III, c, and 174, Paragraph 2 of CF/88.

¹⁸Dismissal, Elimination, Exclusion (Articles 32, 33, and 35 of Law 5764/71).

The one-member/one-vote aspect tops off what has been confirmed here, and underscores the idea that the structure of cooperative societies is unique, *sui generis*; no other type of society in Brazil has this distinctive feature of attributing to each member the right to one single vote. The novelty in 2002 is that even in cooperatives without capital, this policy holds.

Another fundamental theoretical pillar that characterizes cooperative societies is that distribution of cooperative profits must obey the criterion of *distribution proportional to the value of operations performed between members and the society*, due to the simple fact that the origin of the profits lies precisely in the operations of the cooperative members.

This standard simply means that owners must receive their due; in other words, cooperative members are the only parties responsible for the existence of profit—commonly called surplus—so it must be returned to them. This *existence* of surpluses is due precisely to the operations performed between members and the cooperative, thus the money is proportionally returned to them. To better understand this line of reasoning, it is necessary to analyze profit, or its synonym, surplus.

Surplus arises in two ways: from error coefficients or from price complements. The error coefficient is the value retained by cooperatives to pay for cooperative expenses in providing services to their members. Thus, the more operations/services that members use, more retention there will be. At the end of the year, if there was more retention that needed to cover expenses, the excess value retained is returned to the members.¹⁹

With price add-ons, the product/service of the cooperative members is sold at a higher price on the market than what is paid to the members. For example, if the price of soybeans is set²⁰ at ten Brazilian *reals* but the market is paying eleven *reals* due to price oscillations, at the end of the fiscal year there will be a value to return to the members.

In both cases, the profit arose from an operation between the cooperative and its members, and is proportional to this transaction/operation. Accordingly, it must be returned to whom it is due and in the appropriate proportion.

Another issue, also from clause VII of Article 1094, is the possibility of attributing fixed interest to integrated capital, since this capital is not subject to indexation. Each cooperative must analyze the expedience and value of using a portion of the surplus (cooperative operations) to remunerate capital, because this practice can weigh down cooperative operation.

The indivisibility of funds is, ultimately, a manifestation of the fact that cooperatives exist to provide services and not remunerate cooperative members. The Reserve Fund is instituted for maintenance of the society, and the Technical and Social Assistance Fund (Fates – *Fundo de Assistência Técnica e Social*), contained in Article 28 of Law 5764/71, facilitated operations with third parties and guaranteed social benefits for cooperative members and employees.

¹⁹If there is retention of operations with non-members, the corresponding amount goes to Fates (see cooperative legislation).

²⁰Permission-for-sale procedure between members and the cooperative in the agricultural branch.

ANALYSIS OF THE CONSTITUTIONALITY OF THE POLITICAL AND REPRESENTATIVE MODEL AND THE RELATIONSHIP BETWEEN COOPERATIVES AND THE STATE

Law 5764/71 erected a system of representation for cooperative societies, attributing this prerogative to OCB in Article 105.²¹ The legal arrangement remains intact until today, even after the 1988 Constitution that received the existing structure. Therefore, the constitutionality of the Single Cooperative Representation System remains in force. The legal framework that comprises the basic laws on cooperatives was organized systemically. It follows a harmonious order in which the supreme text of the Constitution outlines principles and precepts adhered to by all hierarchically inferior laws.

This “supremacy principal” establishes the necessity of conformity of all laws outside the Constitution to the Constitution, thus establishing the constitutional control to be exercised by the Republic.

In October 1988, cooperative societies, previously considered by cooperative doctrine to be State-controlled societies, obtained autonomy of formation and operation through explicit norms in the Constitution. The situation prior to the enactment of the Constitution must be analyzed in order to understand the intent of the constituents in writing clause XVIII of Article 5.²²

In the previous period, cooperatives could be formed only with the authorization of the National Institute for Colonization and Agrarian Reform (Incra – *Instituto Nacional de Desenvolvimento e Reforma Agrária*). Incra was part of the Ministry of Agriculture, which had broad powers to inspect and close societies. The National Cooperative Council (*Conselho Nacional do Cooperativismo*), a collegiate body formed by members of government and cooperative representatives that analyzed legislation and issued legally binding resolutions, also regulated the operation of cooperatives.

It was in this context that cooperatives demanded autonomy of creation and operation—just like other societies in Brazil—with the implementation of self-inspection mechanisms instituted by the cooperative system itself. And such was the intent of the constituent assembly members: *remove state control from cooperative societies and allow for the operation of these mechanisms*. Nonetheless, the single system of cooperative representation in Brazil, through the Organization of Brazilian Cooperatives, remained intact. This fact led to some criticisms about the reach of constitutional law and, consequently, about the alleged unconstitutionality of the legislation that established this single system. It is specifically clause XVIII of Article 5 that has led to interpretations of the Constitution that consider the single system of cooperative representation unconstitutional.

Notwithstanding these interpretations, it is incontrovertible that the Constitution sought to guarantee the creation of cooperatives in keeping with the legislation that regulates them, though without need for authorization by a state body; any state interference in their operation was also precluded.

The reality extant before the advent of the 1988 Federal Constitution, regulated only by Law 5764/71, involved three agencies that formed the Brazilian cooperative system: Incra, responsible for authorizing the creation and operation of cooperatives and for inspecting them; CNC, a collegiate body responsible for the political and analytical guidance of the legislation; and OCB, responsible for representing cooperatives and also the government’s technical assistance and consulting agency.

²¹Art. 105 – The Organization of Brazilian Cooperatives (OCB) is responsible for representing the national cooperative system. It is a non-profit, civil society, structured according to this Law, that provides technical/consulting services to the Government and has its headquarters in the Federal Capital. It is essentially (...)

²²Art. 5 ... - XVIII – the creation of associations and, under the terms of the law, that of cooperatives is not subject to authorization, and State interference in their operation is forbidden.

The regulation of the cooperative system by these three agencies was not prohibited by the Constitution. What was prohibited was the need for authorization for the creation and operation of cooperatives by *State agencies*; consequently, Incra was removed from this process of creation and inspection of cooperative societies. There was also a strong directive disallowing state interference in cooperative operations, thus definitively removing Incra and CNC from this role. These two agencies drew up rules through their resolutions. These rules had had coercive power which cooperatives were compelled to obey; thus, they interfered with cooperative operation.

As for the system's representation, the Constitution was silent—first of all, because it did not involve state agencies, as they are civil societies governed by private law, and second, because OCB and its state organizations never had any authorizing or inspecting roles over cooperative societies. Even if they had, however, the constitutional ban would apply *only* to *state agencies*.

The legal enforceability of registering with OCB, a requisite factor for the applicability of a single representation system, has two theoretical explanations deriving from the way that cooperatives are constituted. The first is that registration is a requirement for bestowal of legal status on the cooperative society; the second explains registration as being merely a regulating condition for the creation of a society as a “cooperative,” along the same lines that registration in regulating agencies is necessary for some professional activities or even, as an extreme example, registration is obligatory with the Ministry of the Treasury for tax purposes or with the Board of Trade.

In any case, one of the theories explains the enforceability of registration as an inherent factor for a society to belong to the Brazilian cooperative system—a consequence of cooperative principles, which posit mutual association as a source of strength for the cooperative system.

The enforceability of registration in no way runs against the broader legal context, because the Federal Constitution specifically states that legislation outside the Constitution shall regulate the matter. We should also analyze this issue from a systemic constitutional perspective, because there are other cases of mandatory registration of individuals and, even more so, of legal entities, that do not impede freedom of creation or operation. For instance, unions must register with the Ministry of Labor, but this registration does not constitute some kind of interference.

At this point, it is necessary to write a brief exposition of the content of clause XVIII, in reference to the phrase “according to the applicable law.” To this end, we need to understand the concept of the effect of “*adaptation of laws in light of the enactment of a constitution*.” This effect allows for the systemic harmony of the legal system. Theoretically, immediately after the enactment of a new constitution, all laws that conflict with it no longer belong to the nation's legal system. This effect is called *implied repeal* and derives from the recognition of the “declaratory unconstitutionality”, under the responsibility of the Judicial Branch—whether under concentrated or diffuse control.

Thus the adaptation of Law 5764/71 by the aforementioned clause in the Constitution stipulates that the creation of cooperative societies shall occur according the legislation that regulates it, whether this legislation was enacted before or after the Federal Constitution, as long as that legislation does not conflict with the content of the Constitution. Consequently, the idea of a single system of representation as established by the 1971 law remains constitutional.

In conclusion, we believe that the institution of this kind of national cooperative system is a product of cooperatives' own wishes. The system is freed from state tutelage but contains a series of rules that delimit the operation and structure of cooperative societies, reproducing the universal principles that underlie this type of society. It benefits from a system of representation enacted by the cooperatives themselves. It is consonant with the Principle of Cooperation, one of the universal cooperative principles, and a direct result of the constitutional directive expressed by the constituent assembly members who wrote Article 5, clause XVIII.

FINAL CONSIDERATIONS

In this text, we sought to make it clear that in Brazil, not only is there regulation of cooperative societies, but also the construction of a cooperative system based on three legal entities: the cooperative itself, the representational entity, and the cooperative education service.

Cooperative societies have their own distinct characteristics, as the rules governing them have been established by Brazil, that is, international structural principles were enacted into law by chapter VII of the 2002 Brazilian Civil Code as well as by Federal Law No. 5764 of 1971.

The system of representation remains valid and was accepted by the 1988 Federal Constitution, the same political document that barred state interference in cooperative societies, breaking its chains and thus allowing for sustained and deliberate development.

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LEGAL FOUNDATIONS OF THE BRAZILIAN COOPERATIVE MOVEMENT IN THE 1970s AND 1980s

Fernando Torres Lima *

In Brazil, Cooperative Societies submit to the jurisdiction of Law No. 5764 of 16 December 1971, which defined National Cooperative Policy as activity resulting from initiatives connected to the cooperative system, originating in the public or private sector, in isolated or coordinated fashion, as long as they take the public interest into account (Article 1). With the declaration of the aforementioned law, the legal regime of cooperative societies was instituted, defined as a “civil society of persons, having a unique structure and legal status, not subject to bankruptcy, and constituted to provide services to its members” (Art. 4).

Thus defined, cooperatives are societies of individuals who previously undertook economic activity independently and now voluntarily unite to attain their common needs and economic, social, and cultural aspirations and needs. To this end, they institute a democratic association of collective property, based on the principles of mutual help, responsibility, democracy, equality, equity, and solidarity.

Defined by specific legislation, cooperative societies are distinct from commercial societies, charitable associations, foundations, associations, and other public or private legal entities. They have distinctive features, including:

- they are civil societies, not subject to bankruptcy, with variable capital, represented by shares, with capital share limits per member—they must be proportional to the quantity of services used by the cooperative member;
- they are societies constituted with the sole purpose of providing services to their members;
- democratic management, with decisions voted in General Assemblies, where votes are based on number of associates and not on shares of capital;
- profits from operations are returned directly to members, in proportion to the volume of services they have used, and not in proportion to their share of capital in the society, since the society does not seek profits in its commercial operations;
- specific, obligatory, and indivisible funds to provide socio-economic assistance to members and—when included in the bylaws—to cooperative employees;
- freedom of association—both in entering and in leaving the cooperative—for all those who wish to use the services offered by the cooperative, as long as they exercise the economic activity autonomously, compatibly with the other members, and do not engage in partisanship or religious, racial, and social discrimination.

With a view to reforming the large number of so-called “cooperatives” created under the structures of previous legislation, the new law attributed the coordination and stimulus of cooperative activities to the federal government. It established mainly government actions to provide technical assistance, financial incentives, and special credit—all necessary for the creation, development, and integration of cooperative entities.

Cooperatives societies were granted the right to adopt any service, operation, or activity as their business purpose. At the same time, they were guaranteed the exclusive right—and also obligated—to use the expression “Cooperative” in their official name. As a result, the name automatically differentiates them from other kinds of associations. Credit cooperatives were also prohibited from using the word “bank” in their names.

A new authorization was required for cooperatives to be created and for existing cooperatives to adapt to the new statutes that altered the previous system’s regulations. A period of 36 (thirty-six) months counting from December 18, 1971 was granted for obtaining this authorization; for new

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cooperatives, previous authorization was required from the National Institute for Colonization and Agrarian Reform (Incra – *Instituto Nacional de Desenvolvimento e Reforma Agrária*). This federal government agency was charged with inspecting and controlling cooperative societies, with the exception of credit and housing cooperatives, which were now governed by Brazil's Central Bank (*Banco Central do Brasil*) and the National Housing Bank (*Banco Nacional de Habitação*). The latter no longer exists.

Incra, according to legal requirements, inherited the prerogative of monitoring cooperative societies from the Ministry of Agriculture's Rural Social Service (*Serviço Social Rural*), which had been dissolved. It created the Rural Development Directory (*Diretoria de Desenvolvimento Rural*), with a Cooperative Division and a Technical Assistance Division, both of which inspected and maintained control of cooperatives and rural unions.

Throughout Brazil, Incra's Regional Superintendencies, coordinated and centralized by Incra's Rural Development Board with headquarters in Brasilia, Federal District, examined documents relating to the creation of cooperatives; subsequently, they continued to control and inspect them.

Incra's inspection of cooperatives was geared chiefly to defending member interests, seeking to preserve the integrity of the cooperatives' unique features and to ensure that they maintained proper relations with their members.

Art. 92, Paragraph 2 of Law No. 5764/71 stipulates that cooperatives must permit any kind of verification by the appropriate control agencies, providing all explanations that are requested. They were also required to annually remit a list of new members and members that left the cooperative for various reasons; minutes from assembly meetings; balance sheets; fiscal year reports; and the Board of Directors' analysis.

Once this documentation was examined and the cooperative was deemed to be operating normally, Incra issued an annual "Certificate of Proper Operation" (*Certificado de Regularidade de Funcionamento*). This certificate allowed cooperatives to enjoy tax exemptions in their normal operations, which were called the "Cooperative Act" (*Ato Cooperativo*) and defined by Art. 79 of Law 5764/71 as follows:

On the Cooperative Act

Art. 79. Activities practiced between cooperatives and their members, and between cooperatives when they are associated, for the achievement of stated business purposes, are called cooperative acts.

Sole Paragraph. The cooperative act does not include market transactions, nor purchase and sale agreements of products and merchandise.

If Incra identified irregularities, the cooperative was advised, through its Audit Committee, to carry out the needed corrections within 90 (ninety) days in order for its Certificate of Proper Operation to be issued. If the corrections were not made by the cooperative, an "Inspection Process" was initiated. If serious irregularities were detected, as stipulated in Art. 93 of the Cooperative Law, Incra intervened in the cooperative, removing the directors and designating provisional directors—who could be members or outside persons—with a view to reestablishing cooperative compliance in properly providing services to its members.

Art. 93. The Government, through the central administration of the competent federal executive agencies—whether by its own initiative or by request of the General Assembly or Audit Committee—shall intervene in cooperatives in any of the following cases:

- I - contumacious violation of legal provisions;
- II - threat of insolvency due to poor cooperative administration;
- III - suspension of activities for more than 120 (one hundred twenty) consecutive days;
- IV - Violation of article 56, paragraph 2.

Sole paragraph. This article applies to housing cooperatives in what appertains to them.

Examining the balance sheets sent annually by the cooperatives, compliance with legal provisions relating to proper accounting and distribution of surplus was analyzed. The surplus was distributed after deduction of the quantity required for the obligatory funds created when the cooperative was founded (called Technical and Social Assistance Fund, or Fates – *Fundo de Assistência Técnica e Social*).

Contribution to these funds, which are exclusively for cooperative societies, is compulsory. The minimum percentages are established by Art. 28 of Law No. 5764/71, which states:

Art. 28. Cooperatives are obligated to create:

I – Reserve Fund to make up for possible losses and to meet needs for development of their activities. At least 10% (ten percent) of annual net surplus must be contributed to this fund;

II – Technical, Educational, and Social Assistance Fund to provide assistance to members, their families, and, when included in the bylaws, to cooperative employees. At least 5% (five percent) of annual net surplus must be contributed to this fund.

Paragraph 1. Besides those mentioned in this Article, the General Assembly may create other funds—including revolving funds—whose resources are earmarked for specific purposes. The General Assembly shall determine the method of formation, application, and liquidation of said funds.

Paragraph 2. Services to be provided for by the Technical, Educational, and Social Assistance Fund may be contracted for through agreements with public or private entities.

Services offered to members create costs that are covered by contributions called service fees, which are divided proportionally, according to the volume of use of the services by the members.

By contrast to for-profit organizations, the capital of a cooperative society, represented by shares, is rooted in the number of members and on the quantity of services needed that are offered and utilized by the members. In other organizations, capital owned by partners is intended only to bring profits to its trustees, shareholders, or quota holders. Based on this principle, corporations are not permitted to associate with cooperatives, since the main objective of the former is profit.

Exceptionally, paragraphs 2 and 3 of Article 29 of Law No. 5764/71 permit legal entities to be admitted to certain cooperatives—agricultural, rural electrification, irrigation, telecommunications, and fishing—as long as these companies practice the same economic activities as the members and are acting in the cooperative's field of activity. In addition, nonprofit associations may participate in cooperatives, according to clause I of article 6 of Law No. 5764/71.

Art. 29. Membership in cooperatives is open to all who desire to use the services offered by the cooperative, as long as they adhere to the established purposes and fulfill the conditions established in the bylaws, except as provided for in article 4, item 1, of this law.

Paragraph 1. Admission of members may be restricted, at the discretion of the respective regulating agency, to those persons who exercise a specific activity or profession or who are linked to a specific organization.

Paragraph 2. Membership in fishing cooperatives, or those constituted by rural producers or placer miners, is open to legal entities that practice the same economic activities as the persons who are already members.

Paragraph 3. In electrification, irrigation, and telecommunications cooperatives, legal entities located in the same area of operation may join the cooperatives.

Paragraph 4. Commercial agents or business owners may not become members of a cooperative that operates in the same economic field as them.

Cooperative societies are structured on principles of equal participation for the attainment of benefits for members through their socio-economic protection, always keeping productive processes in mind.

The common objective of all cooperatives—whatever their specific modality—is the provision of services to members and the substitution of intermediaries, with a view to providing economic advantages to members by streamlining shared costs, strengthening bargaining power in the market, eliminating intermediaries, and allowing more efficient quality control over products acquired and products produced by the cooperative.

The provision of services to members simply means that which would be performed by the cooperative individually. It is merely intermediation for members in their dealings with the market, facilitating the execution of these activities, representing them and acting as a service agency for all members in helping them expand their economic activities.

From an economic standpoint, cooperatives are business organizations that provide support, intermediating a group of consumers and producers, promoting their common economic interest.

This function is carried out in two manners:

- in its consumer role, savings are obtained by the cooperative through the acquisition of goods at the lowest cost;
- in its producer role, members use the cooperative to intermediate the sale of their products through organized transactions, seeking to reach consumer markets with goods or utilities produced individually or collectively.

The removal of the intermediary, however, is not strictly an essential element of the cooperative concept. It benefits cooperative economies. What is certainly essential for the cooperative concept is that it promotes the protection and improvement of the economic situation of members, whether by obtaining lower costs for goods that they need or by offering what they produce on the market at fair prices.

Cooperative societies seek to make the economic activities practiced individually by their members viable, adopting as their business purpose the provision of types of services that—within the constraints of the law and cooperative principles—offer higher quality and prosperity for their participants in the exercise of legitimate activities. The business purposes that distinguish and characterize the various cooperative branches of activity relate to the common economic needs of groups of people who, in order to successfully carry out their economic endeavors, seek through association to absorb the impacts brought by the commercial and financial speculation of corporations whose main objective is profitability in their business transactions.

In order to meet their needs, people practicing typical economic activities—individually and independently—create many kinds of associations with the support of cooperative legislation. The most useful are those belonging to the following branches of activity:

- Rural Producer Cooperatives (Agricultural Cooperatives);
- Urban Consumer Cooperatives: for food products, clothing apparel, household appliances, and other basic consumption goods (Consumer Cooperatives);
- Autonomous Professionals Cooperatives that exercise their professionally regulated activities autonomously, without being employed by a company—doctors, dentists, architects, engineers, lawyers, taxi drivers, truck drivers, seamstresses, tailors, trash collectors, teachers, janitors, etc. (Labor Cooperatives);
- Cooperatives of persons seeking to obtain financial resources to cover contingent expenses (Personal Credit Cooperatives).

Rural producer cooperatives seek to provide services to their members by undertaking joint purchase and sale of goods, buying supplies needed by members for their activities, and also acquiring basic consumption goods, such as: objects for personal and household use, not only for members (farmers, cattle breeders, placer miners, fish breeders, etc.) but also for their families and employees. In addition, the joint sale of members' production, after processing, selection, or classification, is carried out through sales on the internal and external markets.

Consumer cooperatives serve their members by acquiring goods for personal and household use necessary for their survival on better terms, providing them with these products at lower prices than those practiced by merchants in the region.

Currently, in accordance with Article 5, clause XVII of the Federal Brazilian Constitution of 5 October 1988, the creation of associations and, according to the applicable law, of cooperatives, does not depend on authorization, and state interference in their operation is prohibited.

Hence, to create a cooperative society, it is no longer necessary to present documents to obtain the "Operating Authorization," Those interested in creating a cooperative must simply follow these steps:

- Identification of a group of at least twenty persons with a common economic objective that, after analyzing other options, wish to create a cooperative.
- Preparation of a bylaws proposal.
- Public notice of convocation of a General Constituent Assembly, including date, location, time, and issues to be discussed. Among these issues, the bylaws themselves must be discussed and voted on, elections for a new Board of Directors and Audit Committee must be held, and those who win the vote must be installed.
- Minutes, signed by all participants, of the General Assembly meeting for voting on cooperative bylaws and electing Board members. The bylaws should include the name and abbreviation of the cooperatives, as well as headquarters address, period of existence, field of activity, beginning and end of the fiscal year, business purposes, form of administration, rights and responsibilities of cooperative members, as well as the method for dissolving the cooperative.
- Proof of Registration with the Brazilian Ministry of Finance's Corporate Taxpayer Registry (CNPJ – *Cadastro Nacional da Pessoa Jurídica*).
- Registration document from the Board of Trade.
- Registration document from the respective State Cooperative Organization (OCE).
- Business license.

The formalities for creation of cooperatives do not differ, in terms of procedures, from those needed by other associations. Cooperative societies are created by deliberation of the General Assembly of Founders. They are similar to other types of associations of persons but they are governed by bylaws and not by articles of association. Their acts must be registered with the Board of Trade for them to be legally valid. It is also necessary for them to register with the Organization of Brazilian Cooperatives (OCB), according to Article 107 of Law 5764/71.

EARLY MILESTONE FOR COOPERATIVE SELF-MANAGEMENT

Guntolf Van Kaick*

A LONG PATH TOWARD COOPERATIVE SELF-MANAGEMENT

The first milestone for cooperative self-management in the state of Parana, Brazil, occurred concomitantly with the establishment of the Organization of Cooperatives of the State of Parana (Ocepar – *Organização das Cooperativas do Estado do Paraná*) on April 2, 1971. The next day, an assembly of the 34 cooperatives that founded Ocepar approved the Cooperative Orientation Association (*Assocep – Associação de Orientação às Cooperativas*) bylaws.

From its inception, Ocepar had already incorporated into its bylaws the legal foundations contained in the bill that was making its way through the National Congress. Once approved, this bill became Law No. 5.764, effective nationwide as of December 16, 1971. This General Law, which applied to all branches of cooperatives, was technically well structured, functional, and advanced by the standards of that time. Its general thrust was to advance the economic needs of cooperatives and it was faithfully aligned with the principles and values consecrated by the worldwide cooperative movement and defended by the International Cooperative Alliance (ICA). The Law created a unified federal system of cooperative representation, the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), with national representation, and state organizations (OCEs – *Organizações de Cooperativas Estaduais*)—with the same rights and responsibilities in their area of jurisdiction as OCB had nationally.

Nonetheless, the Law sustained a State-controlled cooperative system: the government had to authorize the operation of cooperatives as well as any changes in their organization; it inspected them, with complete discretionary power to intervene in their operations—contrary to the treatment dispensed by the State to other business organizations, whether service or product oriented. This regime of State tutelage was later abolished by the 1988 Federal Constitution, which granted national cooperatives the legal responsibility to manage themselves.

The cooperatives that founded the second society, Assocep, determined that it should be the cooperative entity responsible for the introduction, in the state cooperative system that was beginning to be constructed, of the successful self-management formula practiced by German cooperatives. This decision was incorporated into Assocep's mission by being officially acknowledged in its corporate purpose. In Germany, cooperative legislation provided for the existence of audit associations, which, by law, register all cooperatives in their areas of jurisdiction, which are determined by the State. In order for cooperatives to be legally recognized as such, they must possess this registration. The associations, invested with authority by the State, must conduct independent audits in the cooperatives that are registered with them. The audits are for the purpose of monitoring and oversight and are paid for by the cooperatives themselves. They are carried out by independent auditors who are either trained and maintained by the audit associations or hired by them. The conclusive findings and reports issued by the auditors are first evaluated by the technical staff of the respective association and then sent expressly to the Executive Committee (*Conselho de Administração*) or Board of Directors (*Diretoria*) and to the Audit Committee (*Conselho Fiscal*) of the audited cooperative. In addition, they are analyzed in detail and discussed with these bodies and, finally, also taken to the general assembly of the cooperative

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members for their information and consideration. The associations are granted power to act in a preventive manner in the registered cooperatives. They have legal authority, delegated by the State, to force them to correct the imperfections in their management, thus avoiding painful corrective intervention. These self-management procedures are founded on the principals of prevention and absolute transparency in cooperative management procedures; they rely on open and upright practices by the professional managers hired, who must abide by legal requirements, the cooperative's articles of association, the deliberations and decisions of the general assemblies and the boards of directors or management, and—no less importantly—by the principles of sound professional management. They allow members, the government, and civil society, to trust in the complete integrity and transparency of the services and business provided by the cooperative society.

Assocep also set out to support the education and training of staff human resources, cooperative leaders, and audit committee members, and to promote—in all cooperatives—audits of administrative and operational management and of the practice of transparency with the membership in cooperative business dealings .

THE POLITICAL AND SOCIAL ENVIRONMENT IN WHICH SELF-MANAGEMENT BEGAN

At the time, Brazil was experiencing the effects of political, social, and economic restructuring brought by import substitution, the military regime's economic policy implemented in mid-1964. One of the purposes of this policy was to modernize the country's legal, productive, and social infrastructure.

The modernization of Brazilian agribusiness was one aspect of this strategy, emphasizing the organization of farmers and of agricultural production and focused on supplying the domestic market and generating surpluses for export. These efforts met the call by leaders of industrialized nations concerned with increasing scarcity of foodstuffs and the high risk of food shortages in developing nations.

The prices of the main food commodities were at very high levels and led the Food and Agriculture Organization of the United Nations (FAO) to mobilize and warn world public opinion of an imminent threat. Political leaders were also clamoring for effective initiatives to counter this tendency. From these efforts, the Green Revolution emerged, led by the celebrated agronomist and Nobel Peace Prize winner Norman Borlaug.

Brazil also found itself, at this time, extremely dependent on foreign wheat for its food supply. In the 1960s, since it was having difficulties in meeting its domestic demand on the international market, the government implemented a National Wheat Self-Sufficiency Program (*Programa de Auto-Suficiência do Trigo Nacional*). It began in Rio Grande do Sul and spread rapidly to other regions suited to the crop, including the state of Parana, which benefited from strong government support for basing wheat production on the cooperative system. Farmers and their respective cooperatives began to produce for the government and were dependent on its policies of minimum price guarantees or exclusive purchase, as well as on rural insurance and rural credit with technical support, which were financed by the State.

FAVORABLE CIRCUMSTANCES HELP THE DEVELOPMENT OF COOPERATIVES IN THE STATE OF PARANA

In the beginning of the 1970s, Parana was already considered a state with great agricultural potential due the abundance of its production. A large portion of the state had arable land that lent itself to easy mechanization, a varied climate resulting from its peculiar topography consisting of elevated plains, and a regular distribution of rainfall during the year. It was also in the 60s and 70s that migrants coming largely from the states of Rio Grande do Sul and Santa Catarina began developing Parana's last agricultural frontier—the west and southwest of the state.

Parana was, then, already known as the “Land of All Peoples.” Since it had broken off from the state of Sao Paulo—of which it had been a province—150 years earlier, it had begun its socio-economic development with extensive beef cattle raising in the Campos Gerais region. Fifty years later, with the arrival of foreign immigrants, wooded areas within Campos Gerais were also settled and the maté as

well as lumber and timber export sectors developed. After another fifty years, the north and northwest regions of the state were incorporated in the productive process by the strength of the coffee sector. Finally, beginning in the 1970s and 80s, with the downfall of the world coffee sector, Parana diversified and became a granary for Brazil. Its agricultural economy took on national and international importance due to the size of its production, at different times, of cotton, soybeans, corn, wheat, barley, manioc, coffee, tropical and temperate fruits, vegetables, sugarcane, sugar and alcohol, wood and wood pulp, beef cattle, dairy cattle, swine, fowl, and silk. This importance also derived from the vigorous agro-industry developed with the objective of adding value to raw materials being produced in abundance.

SYSTEMIC VISION OF THE COOPERATIVIST MODEL

With the arrival of immigrants and internal migrants, rich cooperative experiences took place in Parana. During this period of settlement, with the development of the maté and wood sectors, the cooperative system began to make its mark. When agricultural production began in the Campos Gerais region, settlers began cooperatives and thus enriched our cooperative system by contributing experiences from European cooperatives, particularly from Holland and Germany, in addition to cooperatives established by settlers of Japanese descent. With the expansion of coffee production, new coffee cooperatives emerged, supported by the Brazilian Coffee Institute (IBC – *Instituto Brasileiro do Café*). Finally, with the advent of wheat farming and, in succession, of soybeans as a secondary crop, agricultural and agribusiness cooperatives were formed.

The consolidated cooperative model emerged from a Cooperative Development Project springing from the strategic vision of the federal government to modernize agriculture and to organize farmers and their production through cooperatives. At the end of the 1960s, three public agencies were dedicated to the fulfillment of this vision. At the federal government level, the National Institute for Colonization and Agrarian Reform (Incra – *Instituto Nacional de Desenvolvimento e Reforma Agrária*) was the agency responsible for—among other responsibilities—promoting cooperatives and associations in general, as well as controlling the system through monitoring and inspection. At the state level, the Cooperative Assistance Bureau (DAC – *Departamento de Assistência ao Cooperativismo*), which promoted courses and training, fostered the creation of new cooperatives. Finally, the Parana Rural Credit and Assistance Association (Acarpa – *Associação de Crédito e Assistência Rural do Paraná*), which worked with the professional training of farmers and their relatives and provided them with access to rural credit with technical support. These three agencies, along with the Far South Regional Bank for Economic Development (BRDE – *Banco Regional de Desenvolvimento Econômico do Extremo Sul*) and the Bank of Brazil (*Banco do Brasil S.A.*)—which was also responsible for managing the Production Financing Committee (CFP – *Comissão de Financiamento da Produção*)—decided to act jointly to streamline activities and pool scarce professional and financial resources. They sought a joint synergy in their efforts to organize producers and implement cooperatives in the new agricultural frontier being opened in the west and southwest of the state.

These agencies, armed with a diagnosis and evaluation of rural realities, decided to act jointly and consensually—without formal protocol—within a pact of mutual and reciprocal assistance. They created a pilot project covering the aforementioned west and southwest regions of the state, called *Projeto Iguaçu*.

In joint meetings of cabinet members of the aforementioned agencies with agricultural leaders, the following work strategy was adopted for further development:

1. Maintain and strengthen viable cooperatives in the region.
2. Incorporate, join, merge, or close cooperatives that have not demonstrated economic viability or sustainability.
3. Develop new cooperatives in areas where they do not yet exist or do not yet adequately meet local needs.
4. Locate the cooperative headquarters in the most economically important and central city of the region that the existing or planned cooperative encompasses.

5. Give the cooperative a meaningful name that appropriately portrays the region and avoids local disputes between municipalities.
6. Clearly delimit the area encompassed by cooperatives, including the central municipality where the headquarters are located and the neighboring municipalities. The entire area should be designated as the “area of responsibility,” meaning that rural producers living in that region should all be served by that cooperative and thus avoiding overlap between neighboring cooperatives.
7. Establish a mutual responsibility agreement—a “gentleman’s agreement”—of non-competition between cooperatives in the grain sector, safeguarding the viability of payments for projects that need to be financed. This financing is necessary for the building of an efficient support infrastructure for cooperatives’ business, such as administrative headquarters, warehouses for drying and storing grains and supplies, among others needs.
8. Promote intensive training for farmers that seek to develop cooperatives and their families on cooperative legislation, principles and values, rights and responsibilities, and advantages for members.
9. Democratically elect leaders to constitute the first board of directors and audit committee for the cooperative and provide assistance in the choice and training of managers; in addition, provide professional technical support as the cooperative is being constituted.
10. Create central cooperatives responsible for the vertical integration of economic cooperation to help affiliates in meeting the needs of cooperatives.
11. Make procedures uniform and divulge and disseminate them in an egalitarian fashion to all leaders participating in the project, through seminars coordinated initially by agency leaders, and later, by Ocepar, with the aim of strengthening the sharing of knowledge among leaders and to seek a firm commitment to solidarity and cohesive activities from leaders of cooperatives participating in the project.
12. Strengthen the commitment of the relevant public agencies to the project’s leadership to provide needed support for the approval, in the national Congress, of the new cooperative law and its agency of federal cooperative representation. It mirrored the format that already existed at the state level as Ocepar, even before OCB was constituted.

On April 2 and 3, 1971, Ocepar and Assocep were formed. They participated in intense efforts to functionally structure PIC (Iguaçu Cooperative Project – *Projeto Iguaçu de Cooperativismo*), which was transformed, first of all, into an institutional political arm of representation for cooperatives and to provide technical support on demand for the government. Secondly, it was transformed into an entity for technical professional training of human resources, for consulting and advisory services demanded by the cooperatives that founded it, and for audits and independent monitoring of these cooperatives.

PIC’s successful experience was later extended to the north and northeast regions of the state with the creation of the North Cooperative Project (Norcoop – *Projeto Norte de Cooperativismo*), which had the same basic philosophy but was adjusted to the specific demands of the region. This region was more complex and had more diverse interests on the part of the cooperatives as well as strongly rooted traditions resulting from their origins.

In less than a decade, the entire state was covered, as the Center-South Cooperative Project (Sulcoop – *Projeto Centro-Sul de Cooperativismo*) was also created, covering cooperatives already extant in this region.

THE OCEPAR COOPERATIVISM SYSTEM

The evolution over time of the cooperative movement in Parana was the fruit of the assimilation of European cooperative experiences brought by immigrants of various ethnicities. These immigrants established agricultural cooperative settlements, sustained by the immigrant communities themselves, and later, coffee cooperatives and agricultural production and agroindustrial cooperatives fostered by the government or founded by private initiatives.

The cornerstone of the structured phase of the cooperative system in Parana was laid in the beginning of the 1970s with the successive implementation of three projects for cooperative integration. These projects were cited earlier and—covering the entire state geographically—they structurally linked all the existing cooperatives.

In 1971, Ocepar and Assocep were created. In 1972, Ocepar's Research Department, sponsored by the registered agricultural cooperatives, was created, as well as a Research Center with headquarters in the city of Cascavel and a center in Palotina. In 1995, Ocepar's Research Department was transformed into the Central Cooperative for Agricultural Research (Coodetec – *Cooperativa Central de Pesquisa Agrícola*).

In 1983, Ocepar signed an agreement with Incra wherein it was delegated authority and responsibility to manage a self-monitoring pilot project for cooperatives. The project comprised cooperatives that were considered well structured by the official monitoring agency, with leaders who were aware of the mandate that cooperatives had to foster self-help, self-responsibility, and self-monitoring among their members. The cooperatives, which were chosen by common accord between Incra and Ocepar based on the existence of a solid self-management culture among the members—including several agricultural cooperatives of economic and social importance in the state—undertook this initiative that was unprecedented in Brazil.

In 1988, with the passage of the Federal Constitution by the National Constituent Assembly, the Brazilian cooperative movement attained its cherished goal of a constitutional right to determine its own destiny. This right was set out in Clause 18 of Article 5.

In 1991, the General Assembly decided to implement the Self-Management Program, which linked all registered cooperatives. This program involves the ongoing monitoring of the cooperatives through the Cooperative Monitoring System (SAC – *Sistema de Acompanhamento das Cooperativas*). It also offers guidance through a "Cooperative Incubator" to any party interested in creating new cooperatives and a Cooperative Development Program (Procoope – *Programa de Desenvolvimento de Cooperativas*), charged with providing guidance and technical assistance to small cooperatives in initial phases of development. It holds biannual seminars on improving uniformity of procedures with cooperative leaders from the five cooperative centers extant within Ocepar's functional structure. Whenever necessary, it calls for a "Forum of Presidents" of registered cooperatives to make consensual decisions on points of general interest to the Ocepar Cooperative System.

Still in 1991, the distribution of cooperative centers was reviewed in light of the three integration projects, and five regional centers were created—Center-South, North, Northwest, West, and Southwest—respecting each region's features and the cooperatives' most important common interests.

During a General Assembly, the cooperatives approved the "Parana Cooperative Plan 2000" (*Plano Paraná Cooperativo 2000*), a five-year strategic development plan. This plan was in line with consolidated strategic planning agreed on previously by Ocepar and the cooperatives, based on cooperative members' chief wishes and demands. It took into account the changing global economy with its trends toward globalization and it was based on market, business, and rural realities. The Plan's goal was to improve the positive image of cooperatives by fostering observance of fundamental cooperative principles such as self-help, self-responsibility, and self-monitoring. Accordingly, it promoted self-management of cooperation among cooperatives as well as the establishment of a commitment among leaders to continually offer high-quality services and products to its members and its consumers on the market.

In 1997, Ocepar incorporated into its scope activities the leadership of employer representation in labor negotiations involving cooperatives registered with it. It changed its name to Union and Organization of Cooperatives of the State of Parana (Ocepar – *Sindicato e Organização das Cooperativas do Estado do Paraná*), having statewide jurisdiction.

In 1999, Ocepar strengthened the Parana Cooperatives Self-Management Program (*Programa de Autogestão das Cooperativas Paranaenses*) with the creation of the Ocepar/Sescoop System. It was granted authority and responsibility at the state level to carry out the duties of the National Cooperative Education Service (Sescoop – *Serviço Nacional de Aprendizagem do Cooperativismo*).

In 2002, Ocepar prepared and edited the first Parana Cooperatives Performance Appraisal – Year 2001/2002. This annual report publicized the economic and social aspects of the state's cooperatives. To both civil society and established authorities, it elucidated the performance and the importance of cooperatives within the state's socio-economic context: they already accounted for 14% of Parana's GDP in 2003.

In 2003, the Ocepar System progressed further in the consolidation of cooperative interests through the creation of the Federation and Organization of Cooperatives of the State of Parana (Fecoopar – *Federação e Organização das Cooperativas do Estado do Paraná*), an organization that pooled together Employees' Associations. Its role is to support affiliated Employees' Associations in labor issues, analyzing platforms and demands and offering counterproposals with a view of reaching general workers' agreements.

Thus, the Ocepar System integrated three different non-profit societies that, in a tight-knit synergistic strategy, represent, foster, train, promote, and monitor cooperatives in Parana: the Union and Organization of Cooperatives of the State of Parana (Ocepar); the National Cooperative Education Service (Sescoop/PR); and the Federation and Organization of Cooperatives of the State of Parana (Fecoopar).

The series of efforts made by state cooperative leaders and, above all, the victories obtained in the pursuit of cooperative self-management illustrate well what great opportunities are open to true leaders who believe in freedom, equality and the power of solidarity in work, based on the cooperative principles and values consecrated by ICA for building a better world. In Parana, Ocepar is, without a doubt, a model of these virtues.

COOPERATIVE SELF-MANAGEMENT – PUTTING THE PROJECT INTO PRACTICE IN THE STATE OF PARANA

João Paulo Koslowski*

Beginning in 1983, Parana cooperatives had their first formal experience of freedom from state interference in their activities. It is widely known that, by legal order (Law 5.764/71), cooperatives were subordinated—in accordance with Chapter 13, Article 92—to inspection and control by government institutions. Credit cooperatives and agricultural credit divisions (which no longer exist) were subordinated to Brazil's Central Bank, housing cooperatives to the National Housing Bank (which also no longer exists), and all others to the National Institute for Colonization and Agrarian Reform (Incra – *Instituto Nacional de Desenvolvimento e Reforma Agrária*).

In the context of a broad discussion between the government, organizations representing cooperatives, and the interested cooperatives themselves, the first **self-monitoring** pilot project was implemented in Parana. This project can be considered the first milestone in the state's current self-management program.

In practice, the purpose of the project was to delegate the responsibility for self-monitoring to the cooperative system; to seek administrative improvements with the introduction of internal and external audits, thus guaranteeing greater security in the management of cooperative societies; to avoid the extrapolation of information or problems that are the exclusive interest of the cooperative system; and to confer a greater degree of security to the board of directors and/or management, audit committee, and to the cooperative members. Several positive points were observed in the evaluation of the pilot project, including:

- **Adoption of guidelines.** There was a good deal of acceptance of the guidelines provided by external auditing, allowing for administrative improvements in the majority of the cooperatives participating in self-monitoring.
- **Inputs for the audit committees.** The auditing reports were used by members of the audit committees to assist them in carrying out their responsibilities.
- **Training for audit committees member.** As one of the conditions of the agreement, the Organization of Cooperatives of the State of Parana (Ocepar – *Organização das Cooperativas do Estado do Paraná*) held—and has been holding since 1984—courses for audit committee members. These courses have obtained good results as they are aimed at enabling audit committee members to make use of auditing reports to carry out their work.
- **Timely correction of flaws.** In the method adopted, in which reports must be remitted to the cooperative within 20 days after the auditor's visit, corrections have been quickened.
- **Awareness of the role of audits as stimulus for correction of flaws.** It was clearly observed that the project created, in the heart of cooperatives, a greater awareness of the role and importance of auditing in management. The presence of external and internal audits was a factor that galvanized the correction of detected flaws.
- **Specific consulting projects.** As a result of the work done by the auditors, many cooperatives undertook specific consulting projects in order to improve the performance of a certain department or sector.
- **Staff restructuring.** The combined work of the external and internal audits led many cooperatives to restructure their staff (downsizing, hiring more competent workers, transfers, etc.)
- **Central cooperative participation.** On certain occasions during the execution of the Project, the the Central Cooperative was called on to participate in the process. It

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supported measures to solve various impasses that had arisen in the cooperatives, thus avoiding publicizing issues of sole interest to cooperative members.

- **Increased confidence among cooperative members, the audit committee, the board of directors, and management.** Without a doubt, the demands imposed by the Self-Monitoring Project led to increased confidence in the administrative management of the cooperatives who participated in the process.

Some negative points were also raised, such as:

- **Executives' initial refusal to accept the Project.** In the beginning of the Project's implementation, we observed that some cooperative executives were rejecting it. In light of this dilemma, we made direct contact with the most important cooperative executives, explaining and discussing with them the importance of the Project. From this point on, we gained their unconditional support.
- **Limitations for the audit committee members to accompany the external and internal audits.** Since the audit committee members do not work full time, they usually do not accompany the actual audits and cannot participate in meetings held with management or executives at the end of each visit. This factor limits their ability to put new measures into practice.
- **Short terms of service on audit committees.** Another salient factor that substantially limits the audit committee members' actions is their one-year terms. Just when they have acquired a significant amount of experience, they normally have to leave the function.
- **Relationship between the external and internal audits.** In the beginning of the Project, some problems occurred in the relationship between the two audits. These were partially mitigated by the preparation of a manual establishing procedural norms between the two audits.
- **Internal circulation of external audit report.** In some cooperatives, it was observed that the forwarding of the reports to the competent departments, in order for corrections to be made, was not systematically carried out, causing tardiness in receipt of documents and consequent delays in correcting flaws. In addition, some audit committee members had trouble gaining access to the reports.
- **High staff turnover.** In the beginning of the Project's implementation, a high turnover was noted among the staff of the Cooperative Guidance Association (*Associação de Orientação às Cooperativas*), the organization responsible at the time for the external audit services.

Nonetheless, there is no doubt that this initiative was of great importance to the cooperative system in the state of Parana.

A NEW REFERENCE POINT

In December 1986, the 5th Meeting of Presidents and Executives of the Organization of Brazilian Cooperatives, held in the city of João Pessoa, approved the creation of a commission comprised of executives, OCB employees, and the representative of the Friedrich Naumann Foundation in Brazil. The commission's purpose was to recommend guidelines for the Brazilian Cooperative System's Self-Control Program. The commission met in the beginning of 1987, prepared a draft for the program, and soon after, the OCB board of directors approved the guidelines for the Brazilian Cooperative System's Self-Control Program. Its scope was very similar to the program being executed in Parana, but with significant improvements.

Another important reference point, which we consider a "decisive milestone" for self-management, was the proposals approved by the 10th Brazilian Cooperative Conference, held between March 7 and 11, 1988, in Brasilia. Proposals coming from all over Brazil pointed to the need for organization of the membership and participative management, education and training, financial autonomy and credit policies, the relationships between cooperative members, cooperatives, and civil society, the relationships between cooperatives and the State and the system's representation.

Also in 1988, at the 7th Meeting of Presidents and Executives of the OCB System, based on the results of the 10th Brazilian Cooperative Conference, the policies that the cooperative system should adopt with regard to self-management were delineated.

NEW FEDERAL CONSTITUTION – BEGINNINGS OF SELF-MANAGEMENT

For the first time in history, the Brazilian cooperative movement, under OCB's direction, was able to include articles supporting the cooperative system in the new Constitution. The inclusion of cooperatives in the nation's new Constitution illustrates their importance to Brazilian society as well as the strength of our system of representation. Wisely and through integrated actions, it was able to raise awareness among constituent assembly members of cooperatives' real importance as instruments of development and social justice.

Few constitutions around the world contemplate cooperative activities as Brazil's does—this is a tribute to our cooperatives, which have proved themselves to be the best choice for development.

The main articles approved in the new Constitution, enacted on October 5, 1988, are listed below.

COOPERATIVE AUTONOMY

Art. 5 - "All persons are equal before the law, without any distinction whatsoever, Brazilians and foreigners residing in the country being ensured of inviolability of the right to life, to liberty, to equality, to security and to property, on the following terms:

Clause XVIII - the creation of associations and, under the terms of the law, that of cooperatives is not subject to authorization, and State interference in their operation is forbidden."

STATE SUPPORT

Art. 174 - "As the normative and regulating agent of economic activity, the State shall, in the manner set forth by law, perform the functions of control, incentive and planning, the latter being binding for the public sector and indicative for the private sector.

Paragraph 2 - The law shall support and encourage cooperative activity and other forms of associativism."

TAX REGIME

Art. 146. - " A supplementary law shall:

Establish general rules concerning tax legislation, especially with regard to:

a) appropriate tax treatment for the cooperative acts of cooperative societies."

PLACER MINING ACTIVITY

Art. 174. - "As the normative and regulating agent of economic activity, the State shall, in the manner set forth by law, perform the functions of control, incentive and planning, the latter being binding for the public sector and indicative for the private sector.

Paragraph 3 - The State shall favor the organization of placer-mining activities in cooperatives, taking into account the protection of the environment and the socio-economic advancement of the placer-miners.

Paragraph 4 - The cooperatives referred to in the preceding paragraph shall have priority in obtaining authorization or grants for prospecting and mining of placer

resources and deposits in the areas where they are operating and in those established in accordance with article 21, XXV, as set forth by law."

Art. 21. - " The Union's role is to:

XXV - establish the areas and conditions for the exercise of placer mining activities in associative form."

STRENGTHENING OF CREDIT COOPERATIVES

Art. 192. - "The national financial system, structured to promote the balanced development of the country and to serve the collective interests, shall be regulated by a supplementary law which shall also provide for:

VIII - the operation of credit cooperatives and the requirements for them to obtain operational and structural conditions characteristic of financial institutions."

COOPERATIVES IN AGRICULTURAL POLICY

Art. 187.^o - "Agricultural policy shall be planned and carried out as established by law, with the effective participation of the production sector, comprising producers and rural workers, as well as the marketing, storage and transportation sectors, with special consideration for:

VI - Cooperativism."

RECOGNITION OF THE ROLE OF COOPERATIVES IN THE AREA OF HEALTH

Art. 199.^o - " Health assistance is open to private enterprise:

Paragraph 1 - Private institutions may participate in a supplementary manner in the unified health system, in accordance with the directives established by the latter, by means of public law contracts or agreements, with preference being given to philanthropic and non-profit entities.

Paragraph 2 - The allocation of public funds to aid or subsidize profit-oriented private institutions is forbidden.

Paragraph 3 - Direct or indirect participation of foreign companies or capital in health assistance in the country is forbidden, except in cases provided by law."

While the cooperative system's demands were largely met by the National Constituent Assembly—which represented important progress—tremendous responsibility was transferred to it, which will have to be fully assumed by cooperativism.

It is worth emphasizing the content of Article 5, clause XVIII, which states: "the creation of associations and, under the terms of the law, that of cooperatives is not subject to authorization, and State interference in their operation is forbidden." The approval of this clause definitively unyoked cooperatives from state tutelage, transferring unprecedented responsibility to the cooperative system.

Although the removal of government control over cooperatives is highly positive and laudable, it is vital that that the system actually assume the liberty conceded by the new Constitution. It must establish guidelines that are compatible with its own evolution and that are in accord with the decisions approved by the cooperativism congresses. The system must order and standardize all procedures involving the creation, operation, and liquidation of cooperatives.

We must not lose sight of the changes deriving from the new Constitution, enacted in October 1988. The cooperative system's adaptation has been very slow: Only a few years ago did it finally approve the guidelines for carrying out the Self-Management Program on a national scale.

OCB'S SELF-MANAGEMENT COMMISSION AND SOME EXPERIENCES

The Commission on Self-Management was created by a decision of the board of directors of the Organization of Brazilian Cooperatives. It was assigned the mission of making recommendations to OCB's management on measures to get the self-management program started. This commission was comprised of professionals from OCB and its state organizations, with distinguished participants such as Paulo Roberto de Moura from OCB, Newton Amaral Cesar from Ocepe, José Norberto Kretzer from Ocesc, and João Paulo Koslovski from Ocepar.

In the first meeting, held on March 14, 1990, the members established a roster of activities, which were carried out in the same year, seeking to make self-management known among cooperative organizations. Since most people knew little about the issue at the time, the plan was developed to provide basic knowledge, focusing first on leaders and technical staff of the state cooperative organizations in the first phase, and subsequently, on leaders and technical staff at cooperatives themselves. Thus, the commission members recommended the following activities:

- a) Self-management courses for:
 - updating OCE leaders;
 - OCE specialists on the cooperative system;
 - experts on the cooperative system within cooperatives;
 - teacher training in specific areas of the cooperative system.
- b) Preparation of a video on self-management for the North/Northeast regions, and another for the South/Southeast and Center-West regions;
- c) Preparation of a primer on self-management;
- d) Preparation of an information booklet on self-management;
- e) Writing of text for a brochure about self-management.

All of the recommendations were approved by the OCB board of directors and put into practice by the Commission. Some of them were concluded in the beginning of 1991. In order to establish a consistent image of self-management, the publications such as the primer, the brochure, and the information booklet were prepared according to the same guidelines in terms of content. The videos and courses followed them as well.

Seeking to learn more about self-management, the commission traveled at the end of 1990 to Europe and visited various cooperatives and organizations. They visited Germany, Italy, France, Spain, and Portugal. In a subsequent article in this publication, the self-management experiences of these five countries are discussed.

Due to the high volume activities required for self-management, OCB management hired agricultural engineer Silvio Galdino de Carvalho Lima to coordinate it with the expressed intent of accelerating the development of self-management activities. Various events were planned for 1991, among which is worth mentioning the National Cooperative Self-Management Convention, held in June 1991 to approve the program's guidelines on a national level. Next, regional planning meetings were held to which the OCEs sent professionals to draw up a plan of action at the state level for self-management activities. Training courses for state self-management coordinators were also held.

On June 24, 1991, in its eighth meeting, the members of the self-management commission proposed its dissolution. They agreed that it had fulfilled its purpose and, since OCB had hired a professional to work specifically in this area, there was no further need for the commission.

During the 1990s, the program made significant progress, especially in the state of Parana, where the State Cooperative Organization created and still maintains a Cooperative Analysis and Monitoring System for the agricultural, health, and infrastructure branches. Through this system, the program is able to assist and monitor the development of cooperative societies and change their course of action when necessary. With the creation of the National Cooperative Education Service (Sescoop) in 1999, through a Provisional Measure, in which monitoring of cooperatives was included as one of the program's purposes, OCB formed a team to work specifically on the program.

This step, along with discussions in the 10th, 11th, and 12th Brazilian Cooperative Conferences, allowed OCB to approve, in a general assembly, the Self-Management Program to be implemented across Brazil.

Similarly to what happened at the national level, states had to approve their programs while taking national guidelines into consideration. Parana is one example, where Ocepar's regular general assembly, held on March 30, 2000, approved the self-management program, on the condition that each cooperative had to sign separately a commitment to self-management for the program to be implemented.

CONCLUSIONS AND COMMENTARY

Despite all of the effort expended by the OCB System to consolidate the self-management program in Brazilian cooperatives, there are countless difficulties that impede its full application in the heart of the cooperative system. The lack of up-to-date cooperative legislation that delegates this important role to the System is, without a doubt, the main factor that has restricted the program.

Our current cooperative law is from 1971. It is quite good; however, with the enactment of the 1988 Brazilian Constitution, it was not properly adapted to the new constitutional rules, thus creating a vacuum that adversely affects the Cooperative System. It is important to underscore that there are bills in the National Congress that deal with this matter and that would properly regulate cooperative self-management in Brazil.

Another factor that has made the process more difficult are the marked regional differences in Brazilian cooperativism. These differences create heterogeneous conditions that obstruct a more rapid implementation of self-management. It is also important to understand that much of the movement's leadership has not grasped the importance of self-management's role to the development of cooperatives. As a result, leaders position themselves against self-management or are simply waiting to see how the program develops.

Nonetheless, experiences in the states where the program has been implemented indicate that, despite some setbacks, cooperatives have evolved, grown, and organized; self-management has brought tangible benefits to all who have taken part in the program.

It is important to understand that self-management goes to the heart of the cooperative system. Representative entities, cooperatives, leaders, and, above all, cooperative members must go deeper in the discussion of the topic because the success of cooperatives depends on a frank discussion of their problems. This analysis will lead to self-initiated measures that can bring about improved socio-economic conditions for members. In this regard, the correct path lies in the full and continuous implementation of a self-management program. Thus, the System can lay solid foundations for projects that address all the needs of the different branches of Brazilian cooperatives.

PARANA STATE SELF-MANAGEMENT PROGRAM

João Paulo Koslovski*

INTRODUCTION

The National Cooperative Education Service (Sescoop - *Serviço Nacional de Aprendizagem do Cooperativismo*) was created to make the Self-Management Program viable. It reflected a long-standing goal of the cooperatives, which was manifested at the 11th Brazilian Cooperative Conference. Sescoop will make possible the effective monitoring, supervision, auditing, and control of cooperatives, as well as the education and professional development of cooperative members, employees, and their families and their integration in the community. They are the professed targets of the Self-Management Program. Thus, the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), through a General Assembly decision, will delegate the responsibility for the operation of the Self-Management Program to Sescoop.

Accordingly, OCB remained responsible for coordinating the Program at the national level and the State Organizations at the state level; the national Sescoop and respective state Sescops became responsible for the program's operation.

1 PROGRAM OBJECTIVES

1.1 GENERAL OBJECTIVES

- a) put the monitoring, supervision, auditing, and control of the cooperatives into operation;
- b) organize, manage, and implement instruction for the professional education of cooperative workers, employees, and their family members and their integration in the community;
- c) help cooperative societies who are employing workers in the preparation and implementation of training programs and in providing methodical and ongoing learning experiences;
- d) establish and disseminate methodologies that can effectively provide professional education in cooperative management and can help workers, cooperative members, and their families integrate in the community;
- e) perform the coordination, supervision, and inspection of the implementation of professional education and management projects and programs for cooperatives, for cooperative employees, and for cooperative members;
- f) provide advisory services for the government in issues relating to professional education and cooperative management, in addition to other similar activities.

1.2 SPECIFIC OBJECTIVES

- be a true instrument for the modernization of cooperative societies and the improvement of their business methods, thus adding value for the cooperative members;
- guarantee the transparency of the cooperative society's management to its members;
- foster the cooperative system's adoption of an orientation process for the creation and registration of cooperatives;
- promote the professional development of cooperative members through education, training, capacity building, and refresher programs for cooperative leaders, members, future members, families, and the community;

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- improve the professionalism of cooperative enterprises, making them more agile and competitive in their respective marketplaces, through training and capacity building programs for the professionals who work in them;
- make the cooperative system a model of market enterprise, reflecting quality and reliability to the general public, through monitoring, supervision, management auditing, and control of cooperatives.

2 IMPLEMENTATION

- National coordination by the Organization of Brazilian Cooperatives (OCB), through specific authorization at a special meeting of the General Assembly.
- State coordination by the Organization of Cooperatives of each state, through specific authorization at a special meeting of the General Assembly.
- Technical implementation by Sescop, with the support and approval of a special General Assembly meeting at the Organization of Cooperatives of each state.
- Adhesion of cooperatives by General Assembly approval and signing of Adhesion Agreement.
- Change in cooperative bylaws in order to allow Ocepar to participate in the General Assemblies and intervene—when necessary and within the constraints of the monitoring objectives—in order to guarantee transparency in management.
- Change in the bylaws of cooperatives, which benefit from public resources, to allow the “system,” by federally granted authority, to monitor the application of their resources.

3 SERVICES TO BE IMPLEMENTED

3.1 COOPERATIVE MONITORING/DEVELOPMENT

Monitoring of cooperative enterprises is necessary in order to maintain the management quality, credibility to third parties, transparency for members, and primarily, to guarantee the cooperative's continuity that it may fulfill its stated purposes. Several combined means will be used toward these objectives. They will be grouped according to their nature and the type of professional expertise required. This procedure will provide best results at the lowest possible cost. These means of control should be seen as administrative tools and not as mere inspection. The aim is to provide improved conditions that will allow cooperatives to become, in truth, democratic societies that meet their owners' aspirations, without losing sight of the market. Seeking to optimize resources and the best possible results from monitoring, activities were classified as follows:

3.1.1 Creation and Registration

This category involves activities aimed at guidance and follow-up in the period of creation and registration of new cooperatives. This phase should respect the principles that underlie the cooperative movement, assess the viability of the business to be undertaken, and respect the Law. It is considered a preventive monitoring phase. It is carried out using the cooperative's own structure, and comprises the following principles:

- a) guidance on cooperatives for groups interested in constituting them;
- b) promotion of the cooperative movement (videos, publications, educational material, talks, etc.);
- c) economic/financial feasibility project (preparation manual);
- d) legal guidance in opening a cooperative (legislation, bylaws, fiscal aspects, etc.);
- e) guidance on obtaining legal registration;
- f) operational guidance/controls to begin activities (talks);
- g) creation of partnerships with central cooperatives, federations, universities, and other groups;
- h) definition of criteria for registering cooperatives with Ocepar/OCB;
- i) formalizing cooperative agreements with the National Business Registration Bureau/Board of Trade.

3.1.2 Monitoring System

This category involves activities aimed at monitoring the management of cooperatives. It is done remotely, by analyzing data on the cooperative enterprise, its human resource, and the feasibility for members. Scenarios are compared to guide business strategies, considering the market and the competition. Partnerships with central cooperatives, federations, and confederations, among others, are used to in monitoring cooperative management, through electronic data processing.

3.1.2.1 Economic/financial monitoring of cooperatives

This category involves economic/financial analysis aimed at monthly assessment of the following elements: capital structure used by the cooperative, its efficiency, solvency, indebtedness, financial cycle, use of working capital vs. need for working capital, treasury, efficiency in use of financial resources for the enterprise and of fixed resources, financial results obtained, cost and expenditure structure, and profitability. Similarly, an annual analysis of the following is performed: participation of members in the cooperative, indebtedness/capitalization reduction through cooperative business profits, indebtedness/capitalization reduction through ongoing progress of retention of a percentage of members' production, operational risks involved in conceding credit, market share, etc. These analyses will be conducted in keeping with predetermined parameters based on data furnished by the cooperatives, according to each branch of cooperative activity, seeking to reflect the reality of the enterprise, regardless of the accounting criteria utilized in the cooperatives themselves.

Steps for implementing economic/financial monitoring:

- a) sign agreement between cooperatives and Ocepar to preserve information and avoid ceding the operational system to third parties;
- b) Codification of each cooperative in order to preserve its individuality, according to its branch of activity, and registration of information on activities developed by it;
- c) information criteria standardization through system implementation in each cooperative;
- d) establishment, in conjunction with cooperative professionals, of quality standards for information and of deadlines for systematizing them;
- e) grouping of information, creating scenarios for comparative analysis of cooperatives that are similar in terms of primary product, branch of activity, region of activity, solvency, and others;
- f) creation of comparative scenarios through databases of other companies in similar lines of business as the cooperatives;
- g) provision of consolidated information to cooperatives for their analysis;
- h) monitoring of each cooperative, verifying its performance and trends in comparison with others. If any trends are noticed that may present a risk to the cooperative's operation, the cooperative must be notified for it to undertake a more in-depth diagnosis. Support for performing partial and/or complete diagnoses will be guided by specific rules and will be considered a Specialized Consultancy service.
- i) periodic meetings with the cooperative's Board of Directors and Audit Committee for individualized assessments, in order to correct strategies that present potential flaws detected through the analyses.
- j) setting of deadlines, in conjunction with the cooperative, for measures to correct any flaws that have been detected;
- k) non-compliance with measures to correct detected flaws by the established deadlines, without formal justification, will lead to communication to the cooperatives' Audit Committee and Board of Directors and/or Management, requesting that immediate measures be taken;
- l) should the failure to take steps to correct detected flaws persist, after the new deadline transpires, the case will be taken to Ocepar, who will then communicate it to the cooperative's General Assembly;
- m) the cooperative's continued noncompliance may lead to its registration with Ocepar/OCB being cancelled.

3.1.2.2 Monitoring of human resources

This category involves a specific database and specific data analysis procedures for cooperatives' human resources, with a view to optimize the use of personnel. Various occupations are monitored—according to their similarity—analyzing remuneration, taxes, direct and indirect benefits, standardization of functions, etc. The monitoring of human resources is a derivative of the process of economic/financial monitoring of cooperatives. It seeks to streamline their personnel costs.

Steps for implementing human resource monitoring:

- a) signed agreement between the cooperative and Ocepar, seeking to preserve information and avoid its dissemination to third parties;
- b) description of basic functions of each cooperative unit; remuneration, benefits, list of individuals, and description per unit;
- c) creation of database, through standardized management information of cooperatives' human resources (total collaborators trained during a certain period, missed work days, payroll amounts, workplace accidents, employee lawsuits, employee turnover, direct and indirect benefits granted, etc.); basic classification, by state, region, cooperative, line of business, main activity, field of work, department, work responsibilities, and others;
- d) periodic updates of cooperative data to keep up with personnel turnover;
- e) grouping of information, calculating averages and forming comparative scenarios for analysis, as in economic/financial monitoring;
- f) half-yearly information analysis at the human resources forums, and comparison with data from economic/financial monitoring of cooperatives that relate to human resources.

3.1.2.3 Monitoring of viability of cooperative member activity

Database and analysis of cooperative members with the purpose of monitoring the viability of their activities through performance indicators for their operations. The basis of cooperatives' sustainability depends on ensuring the viability of members' activities and on the financial results of cooperative production. These factors can be analyzed by gauging and comparing individual and collective results. The improvement of these results is undertaken in such a way as to minimize efforts expended. Monitoring efforts should be adopted according to basic guidance for the development of cooperative business and member traits.

Steps for implementing the monitoring of viability of cooperative member activity:

- a) sign agreement between cooperative and Ocepar to restrict use of the information system to cooperatives and their members;
- b) train cooperative technicians to use the system of analysis, in benefit of the cooperative and its members, for:
 - registration of cooperative members, classifying them by specialty and/or primary product, techniques used, etc.;
 - organization of cooperative members according to characteristics of their activity/production in order to create interest groups seeking their collective improvement;
 - use of information with a view to the improvement of quality of production among cooperative members according to market demands;
 - organization of information to set cooperative-wide quality standards for member activities;
 - grouping of information, creating scenarios for comparative analysis of similar cooperative members, according to the main product or service that they offer;
 - professional guidance for cooperative members offered by the cooperative and geared toward the target market;
 - adjustment of steering of cooperative business activities through changes in members' professional behavior;
 - periodic meetings to assess performance, update systems, and make any needed corrections to basic information;
 - periodic assessment of training needs of cooperative members by cooperative, segment, region, and state.

3.1.3 Management Audit

The common **business** of a group of members of the same cooperative or of various cooperatives comprising one central cooperative, federation, or confederation, considering their stated objectives, should be well managed by those charged with its execution. To monitor the performance of this business in all relevant aspects, there is a series of controls that determine the security and reliability that cooperative members and outside entities (suppliers, banks, etc.) demand to conduct this business. Together, these controls constitute what is called a complete audit or an audit of management; the following groups perform it: the (regular) Audit Committee, the Internal Audit Group, and, most importantly, the Independent Audit Group. With the enhancement of business relations, cooperatives face more and more difficulty in obtaining “**certification**” in business quality. In this respect, the Independent Audit constitutes an important instrument for the consolidation of self-managed cooperatives, because its certification inspires “**public confidence**.” The leap in quality is directly linked to the requirement—in monitoring cooperatives and through the self-management process—of independent *certification, no longer by traditional auditing, but by complete auditing or management auditing*. The Independent Auditor is considered an indispensable figure for the market credibility and an invaluable tool for protecting cooperative members. He or she is responsible for the trustworthiness and reliability of the accounting reports of the audited cooperatives. The responsibility for analyzing and reporting on all the business’ management procedures lies with this Independent Auditor, as well as the accuracy and clarity of the accounting reports. Finally, he or she must divulge, in explanatory notes, indispensable information to apprehend the finances and assets and liabilities, as well as the results, of the audited cooperative.

Steps for implementing the management audit:

- a) promotion of training on management auditing or complete auditing in light of the need of cooperatives to have highly qualified independent auditors who also enjoy a high degree of independence in carrying out their activities.
- b) technical analysis of the registration processes and of independent auditing activity carried out within cooperatives according to standards established and approved by the Organization of Brazilian Cooperatives (OCB);
- c) maintenance of updated registration of professionals, businesses, and independent auditing businesses and authorized technical staff who can issue and sign evaluations accredited by OCB/Ocepar;
- d) hiring, by the cooperative, of an independent audit group properly accredited by OCB/Ocepar, must meet the criteria established in relation to the size and service capacity;
- e) in carrying out his or her activities within cooperatives, the independent auditor has some additional duties beyond the basic work plan; in order to fully meet the requirements of management monitoring, the independent auditor should:
 - Verify:
 - whether the assets presented as redeemable in at most 360 days can actually be converted into money in this period—regardless of accounting criteria being used according to habit and custom, classifying them in terms of operational and non-operational;
 - timeline for real future conversion of assets classified as long term, classifying them in terms of operational and non-operational;
 - values registered as investments and as fixed assets considered outside the focus of the cooperative’s activities;
 - whether the maturity of liabilities of up to 360 days and of long-term liabilities is compatible with the probable conversion of assets, in a clear and transparent manner;
 - whether the cooperative’s revenue and operational results, summed with its capitalization process, are compatible with its future need;
 - whether the proposed measures and budgets approved by the General Assembly were followed and, if not, if they were duly justified and reported in the management’s rendering of accounts;
 - whether the cooperative’s structures are being fully utilized, and if the operational costs are compatible with revenue generation;

- whether financial management is safely handled, especially billing and allowance of credit;
 - whether inventory stored is restricted to what is strictly necessary, and if it is managed in a way that minimizes costs and provides optimal results to cooperative members;
 - whether the market practices and policies adopted by the cooperative are satisfactorily fulfilling cooperative members' expectations and meeting established standards;
 - Indicate clearly the existence and extent of accounts or subgroups of accounts of assets, liabilities, results, and liquid assets and liabilities that are compromised by the adoption of accounting procedures that conflict with the Fundamental Accounting Principles, as well as the effects on the cooperatives' results, whenever an opinion and/or report is issued.
 - The independent auditing reports must be made available to:
 - coordinating and executing agencies of the monitoring process
 - the cooperative's Management and/or Board of Directors
 - the Audit Committee
 - the General Assembly
- f) regulate and establish criteria for special audits of specific projects;
- g) the independent auditor—both the individual and the auditing office—cannot audit the same cooperative for more than four consecutive years, counted from January 2000; a minimum interval of two years is required for them to be rehired;
- h) the independent auditor, whether individual or firm, cannot provide consulting services to the same cooperative for which it has provided auditing services, or to members of staff of that cooperative;
- i) the executing agency will maintain control of the quality of the audits, verifying and monitoring their activities in the cooperative;
- j) the independent auditor—both the individual and the firm—and the responsible technical staff can receive a warning or have their registration with OCB/Ocepar suspended or revoked, in addition to other legally established sanctions, if:
 - they act in contradiction to legal rules and regulations that regulate the cooperatives' activities, including noncompliance with the Self-Management Program's provisions;
 - conduct inept or fraudulent auditing, falsify data or figures, or unlawfully withhold information that should be disclosed;
 - lead the General Assemblies to make decisions based on flawed, erroneous, missing, or fraudulent information;
 - fail to comply with technical standards and existing legislation that regulate the exercise of the profession;
- k) insertion of internal cooperative auditors, integrated with the work performed by the Audit Committee, into the concept of management auditing;
- l) the work performed by the internal audit should be perfectly integrated with that performed by the independent audit;
- m) small-scale cooperatives, according to OCB/Ocepar criteria, can be exonerated from the need for an independent audit; in this case, after they have been submitted to a preliminary diagnosis, an individual project must be developed for monitoring their development, which must be submitted to the General Assembly for approval by a simple majority of cooperative members;

3.1.4 Specialized Consulting

This category involves activities aimed at ordering and supporting actions needed at the regional/branch level and in individual cooperatives. These activities are intended to improve management and the cooperatives' ability to fulfill their mission. They include:

- a) registration of service providers, identified according to their specific fields, and monitoring of satisfaction of the cooperatives who hired them in the service they provided, thus creating a quality control system;

- b) steering of consulting work based on needs detected by the monitoring of results in the cooperatives and on the recommendations made by the Independent Audit, or by a request made at the cooperatives' own initiative;
- c) promotion of special studies for the various branches and/or regions, aiming to improve cooperatives' business according to market changes and demands;
- d) preparation of situation diagnoses and projects containing measures to revitalize cooperatives;
- e) monitoring of the implementation of special programs and projects, accompanied by any necessary reformulations.

3.2 EDUCATION/HUMAN DEVELOPMENT

This category aims to organize, manage, and implement professional training for cooperative workers and members; help cooperatives societies who hire workers prepare and implement training programs and provide methodical and ongoing instruction; and provide community development programs for cooperative workers, members, and their families, seeking all-round human development and the resulting improvement in cooperative business management.

3.2.1 Professional training and capacity building

This category includes activities aimed at educating and training human resources at the executing agency and at cooperatives—both leaders and members. Training needs will be assessed and prioritized in conjunction with the Monitoring/Development of the Cooperatives, through management monitoring and auditing processes. Programs organized by cooperative, by branch, or for the entire state will then meet these training needs. They will be conducted in either a centralized or a decentralized manner, according to the demand specific kinds of training; the duration of training will be determined after overall planning has been done. Training and capacity building programs seek to meet the needs of individuals involved in cooperatives.

Steps for Implementation of Professional Training and Capacity Building

- a) **Technical courses and training** of short to medium duration, using training centers—in the cooperatives themselves or through cooperation with public or private educational institutions—for collaborators, employers, and workers in coordinating and executing agencies and for cooperatives in general;
- b) **Specialized forums**: specialized training for professionals in coordinating and executing agencies through brief forums and/or medium-term training courses, study trips, including through post-graduate courses, especially for professionals in areas relating to: Human Resources, Market, Financial, Administrative, Accounting, Auditing, Cooperatives, Judicial, Communications, etc.;
- c) **Board of directors and audit committee**: preparation of training at two levels: for candidates to boards or committees, aiming to prepare them through medium-term training courses; and for specialization in management for those who already occupy elected positions in cooperatives;
- d) **Training of educators**: special training courses for monitors, coordinators, and teachers/professors linked to the cooperative movement, so as to create a multiplying effect, expanding knowledge and skills: programs on the cooperative system should give priority to leaders, member and employee families, etc.;
- e) **Youth cooperative members**: special emphasis should be given to training youth to revitalize the cooperative system in the future, through training, exchange programs, and, mainly, seeking the inclusion of departments specializing in cooperatives in primary education and professional schools;
- f) Activities related to **integrated gender development** in cooperatives, seeking greater integration of families and made up of men, women, and youth, in the application of an integrated cooperative system in business, the community, social issues, and the environment;
- g) Production of auxiliary teaching material, through support for the production, reproduction, and dissemination of publications, technical books, brochures, primers, videos, etc.;

- h) Commitment to modernization, through the diffusion of new teaching methodologies, such as distance learning, videoconferencing, online debates, etc.

3.2.2 Community development

This category involves activities aimed at social integration and well being of cooperative workers, members, and their families. These activities seek, through social action, to improve the performance of all those directly or indirectly involved in the management of cooperatives, through implementation of benefits relating to health, leisure, sports, culture, social integration of families in the community, and organizations involving various cooperatives.

Steps for Implementing Community Development

- a) support in the formation of a health insurance system for cooperatives, through agreements with hospitals, health cooperatives, and cooperatives of users of medical and dental services;
- b) support for specific prevention programs and projects in benefit of the health, hygiene, and wellbeing of cooperative members and employees;
- c) support and incentives for sports in cooperatives, seeking the integration of employees and cooperative members, through mini-Olympics and open team games;
- d) support for leisure activities for workers, cooperative members, and their families, utilizing their own infrastructure or through agreements with public or private institutions, especially with the "S" system²³;
 - support for social activities depends on availability of resources and will be provided only within the annual program;
- e) incentives for the development of culture among cooperative families, through support for development of libraries, organization of art exhibits, competitions, and so forth.

²³ *Translator's Note:* the "S" System (*sistema "S"*) is a group of semi-autonomous institutions that provide training programs and educational and cultural activities that, directly or indirectly, reach millions of Brazilians. It includes the following institutions: SESI, SENAI, SESC, SENAC, SENAR, SENAT, SEST, SEBRAE, and SESCOOP.

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TRANSITION OF BRAZILIAN COOPERATIVES' MANAGEMENT MODEL

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INTRODUCTION

The transition of Brazilian cooperatives' management model was a critical factor in keeping this type of business organization—of vital importance to Brazil—competitive. Brazilian cooperatives experienced a long period of state control through regulatory agents that had police power. Thus, from the 1960s to the 1980s, cooperatives developed under the aegis of a paternalistic state and within a model of development that was dependent on whatever public policies were in force.

Institutional changes brought by Brazil's redemocratization, consolidated by the 1988 Constitutional reform, brought a deep need for behavioral change in organizations—particularly in cooperative societies. The end of the paradigm of state paternalism and protection was essential for Brazilian cooperatives to be able to adapt to the new world economic order marked by increasing globalization and international competition. In this article, we set out to elucidate the transition process from the developmentalist period, whose height was in the 1970s, to new, modern-day paradigms.

DEVELOPMENTAL PERIOD – 1970s AND 1980s

The development of cooperatives in the 1970s and 1980s was characterized, in Brazil, by the military regime's nationalist and developmentalist doctrine, which lasted for more than 20 years. From this ideology sprouted an immense state apparatus to support economic activities in general. For cooperatives, this meant, above all, various regulatory and development-promotion activities specifically tied to agriculture.

INSTITUTION	PURPOSE
National Institute for Colonization and Agrarian Reform (<i>Incra - Instituto Nacional de Colonização e Reforma Agrária</i>)	Promote development, control, and inspection of cooperative operations.
National Cooperative Credit Bank (<i>BNCC - Banco Nacional de Crédito Cooperativo</i>)	Promote financial support and credit for cooperative societies.
Brazilian Agricultural Research Corporation (<i>Embrapa - Empresa Brasileira de Pesquisa Agropecuária</i>)	Develop research and technology for agricultural activities.
Brazilian Technical Assistance and Rural Extension Agency (<i>Embrater - Empresa Brasileira de Assistência Técnica e Extensão Rural</i>)	Promote technical and agricultural support and disseminate technologies.
Cocoa Farm Plan Commission (<i>Ceplac - Comissão Especial do Plano da Lavoura Cacaueira</i>)	Promote research and development on cocoa farming in Brazil.
Sao Francisco Rivery Valley Development Company (<i>Codevasf - Companhia de Desenvolvimento do Vale do Rio São Francisco</i>)	Promote and foster the development of cooperatives within irrigation projects of the Sao Francisco River Valley.

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Executive Group on Rural Electrification (<i>GEER - Grupo Executivo de Eletrificação Rural</i>)	Promote and foster the development of rural electrification.
Brazilian Storage Company (<i>Cibrazem - Companhia Brasileira de Armazenamento</i>)	Promote the planning and development of storage infrastructure.
Sugar and Alcohol Institute (<i>IAA - Instituto do Açúcar e do Alcool</i>)	Promote the development of sugar and alcohol production.

This institutional apparatus had an important role in the creation of infrastructure for the economic and social development of the Brazilian economy's primary sector from the 1960s through the 1980s, because it laid solid foundations of support for a competitive and dynamic agribusiness structure. In this context, agricultural cooperatives, electrification cooperatives, and others boasted a strong pace of development. Most agricultural cooperatives that exist today began or grew during this favorable period.

With plentiful and subsidized credit, resources for promoting development and opening agricultural frontiers in extremely fertile areas of Brazil, cooperatives experienced a period of sustained growth, obtaining relative importance particularly in the agricultural sector. Ample credit to meet expenses and make investments, programs for building storage infrastructure, increasing production, stimulating technological development, and capacity building for producers, among other factors, led some regions of Brazil, such as the west of the state of Parana and the southwest of the state of Goias, to be completely transformed.

However, this state approach brought with it a paternalistic and welfare-type behavior toward cooperatives that was concomitantly interventionist. Incra's police power, which maintained cooperatives under rigid inspections and control, and its broad influence in conjunction with the other support and development agencies, led to the emergence of a series of cooperative leaders that, in a sense, reproduced this state behavior. As a result, the vast majority of cooperatives did not have management models based on business efficiency, due to government assistance, low costs, and low capitalization by cooperative members.

In practice, the physical and financial resources needed for the development of cooperatives came from public programs. Resources were abundant, and loans had long repayment periods and low interest rates—and were often subsidized. In this favorable environment, and with a high rate of economic growth in Brazil, a large number of cooperatives developed rapidly, enjoying spectacular growth rates.

This model began to show signs of crisis in the mid-80s, when a large number of agricultural cooperatives needed to be rescued financially, due to high indebtedness incurred during the 70s followed by difficulties in repayment. These difficulties were spawned by the state's inability to maintain favorable credit and development policies. At this time, cooperatives in general began feeling the negative effects and pitfalls of the model of state control and paternalistic policies. As a result, they began efforts for emancipation from the yoke of excessive state control.

Despite the great development of agricultural cooperatives during this period, other branches—such as credit, consumption, and labor, among others—were rigidly controlled and had critical organizational problems since they were not the State's center of attention.

The inherent flaws of this model became quite evident in a large number of cooperatives, because their members did not feel that they were truly owners of the business and did not adopt business practices. Instead, they appealed to the State as if it were a Messianic agent capable of solving all of society's maladies. This passive behavior, expectant of constant assistance, was responsible for the disappearance of a plethora of cooperatives. It was central in leading to a paradigm shift and the building of a new development model for Brazilian cooperatives, culminating in the 1988 Constitution.

PARADIGM SHIFT

With the enactment of the 1988 Constitution, which established the autonomy of Brazilian cooperatives, a new business management model was drawn up by cooperatives, with the support of the system's representative and regulatory agencies. The 1990s were defining years for the movement, because the changes made from 1998 to the present were extremely important in formulating current standards for cooperative management.

Parallel to Brazil's redemocratization and its new Constitution, a series of rapid changes in macroeconomic, political, and social factors has occurred, creating a new framework for cooperative development. The Constitution itself, the normalization of Brazil's democratic institutions, the adjustments to the Civil Code, among other legal regulations, created a new political/legal framework for the operation of cooperatives. On the one hand, these kept some tax benefits intact, such as exemption from paying income taxes and other taxes and contributions levied on cooperative activities. On the other, it removed the blanket of credit incentives and other incentives that benefited cooperatives in the 1970s and 80s.

The center of power, which had previously resided almost exclusively in the Executive Branch, shifted partially to the Legislature, creating the need to maintain Congressional cooperative coalitions at the federal and state levels and requiring the movement to adopt a new strategy for making their demands.

On the economic side, the internationalization of the Brazilian economy—resulting from the brisk and decisive opening of the Brazilian market, the influx of capital from around the world, the increased involvement of international regulatory agencies such as the WTO, and the consolidation of economic blocs—forcefully reoriented cooperatives' business efforts. Free competition in the domestic and foreign markets demanded a new management model from cooperatives, firmly based on business efficiency—which in the past was not vital for the system's survival, given the governmental protection network for cooperative business.

Evidently, cooperatives that were already active on international markets had less trouble adapting. They already possessed management models based on business efficiency, since the regulation of the international market already imposed standards of competition based on cost, quality, and productivity. Accordingly, cooperatives tied to agribusiness exports adapted with greater ease to the new circumstances. Conversely, those cooperatives whose business was centered on the domestic market or who were only indirectly linked to the international market, had to undertake substantial changes in their management models in order to survive.

In terms of technology, the introduction of computers in management, the development of international communications networks, quality standards like the ISO system, and the search for cost competitiveness in industrial and administrative processes, forced cooperatives to seek new strategies for their investment and development policies. The search for competitiveness in terms of cost, scale, and customer-driven organization led to new market-oriented management strategies, with the integration of production within these standards.

Finally, there were significant cultural and demographic changes, including deep changes in consumer behavior, which required a new management perspective. Rapid urbanization and internationalization of cultural standards forced cooperatives to acquire market insight, which in the past had always been relegated secondary importance.

These more recent changes in general aspects of the external environment—which were briefly summarized in this section—created, without a doubt, an increasing need to change cooperative management models. Cooperatives were required to consider the market as an essential component of their survival. The challenge of the day was to rapidly remove paternalistic behavior and the habit of government dependence; they needed to be substituted by a well-trained leadership, capable of acting within the context of business efficiency without distorting cooperative principles.

Beyond the issue of management, the success of cooperatives now depended on their members' ability to grasp the need for—and to implement—a balance between market demands and

cooperative principles. To this end, the role that cooperative business promotion agents played to jump ahead was dominant.

NEW INSTITUTIONAL FORMAT

At the end of the 1980s and beginning of the 90s, the large State apparatus gave way to a new concept of a streamlined State whose role is to stimulate the private sector. A large number of public institutions were closed; others saw their roles change completely, while yet others were grouped together according to similar objectives. The Brazilian state sought to take on the role of public policy guide, reducing its interference in business development.

Hence, throughout the 1990s, the public and private institutional apparatus for cooperatives gradually changed its role and its way of doing business. The State, through its specific institutions for supporting cooperatives, dropped its inspecting role and took on an incentive-providing role. The National Cooperatives Secretariat (Senacoop – *Secretaria Nacional de Cooperativismo*), which substituted Incra, and later, the National Cooperatives Department (Denacoop – *Departamento Nacional de Cooperativismo*), developed an important role in financing capacity building, research, and development programs for cooperatives. Subsequently, these roles were transferred to the National Cooperative Education Service (Sescoop – *Serviço Nacional de Aprendizagem do Cooperativismo*).

This State agent definitively substituted Incra, and acted specifically to provide stimulus and development by supplying financial resources for developing capacity-building programs. In partnership with the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), it provided the extensive network needed for these projects to reach their intended beneficiaries, especially in cooperatives with smaller economic power and unable to finance their own capacity-building projects.

The creation of the National Cooperative Education Service was undoubtedly a tremendous step forward for Brazilian cooperatives. With a national network of activity, it contributed resources generated by cooperative employee income taxes back into the system—a value equivalent to 2.2% of each cooperative's payroll. Accordingly, from the North to the South of Brazil, SESCOOP has provided for the training of cooperative leaders and directors in cooperative business management. There have been thousands of programs for boards of directors and audit committees, as well as for directing and managerial staff and cooperative members. This training process is essential for building a new critical mass in cooperatives, capable of overcoming the paternalistic and dependent attitudes that resulted from the model in force before the 1988 constitutional reform.

Taking on autonomy and self-determination requires cooperatives, and especially their leaders, to have a proactive attitude toward the market and external environment. It also demands a high capacity for mobilization of internal forces toward fulfilling the chief mission of this group of societies.

Beyond this institutional context, cooperatives also benefit from quality, productivity, and entrepreneurial programs carried out by the S system—Sebrae, Senai, Sesi, Sesc, and others—as well as partnerships with universities in preparing programs for managerial development. Various non-governmental organizations, such as the Naumann Foundation and VOCA, played a crucial role in supporting a new institutional design that permitted the swapping of management models to allow cooperatives to survive in a free-market regime.

REGIONAL DIFFERENCES

Brazil's continental size, regional differences, and different stages of cooperative organization are important elements to consider in this context.

In the South, Southeast, and part of the Center-West regions—which are more developed and centered on strong agribusiness with well-defined and integrated production chains—cooperatives somewhat naturally perfected this business model in a short time, forming large business

conglomerates with strong participation and even dominance in the market. In these cases, the development of business attitudes among cooperative members played an especially important role.

Ocepar and other organizations helped connect cooperatives, leading to a strong cooperative movement tied to agribusiness in Parana, where seven of the ten largest Brazilian agribusiness cooperatives are located. Investments in training, which began in the 1970s before the new Constitution, buffered cooperatives in this state from the impact of the changes that occurred in the 1980s and 90s. In fact, they obtained strong leverage in the new institutional/economic context.

The vast majority of cooperatives now have professional management, with their leadership prepared for the dual management function inherent to cooperatives—simultaneously businesses and associations of persons. These cooperatives have been largely successful in the harmonious management of these two aspects. In many cases, cooperatives lead the markets in which they compete, besides stimulating the productive chains involved.

In other regions of Brazil, a different environmental context and economic problems, among other factors, do not allow for as successful of a development as in the South, Southeast, and Center-West regions. In these cases, there is still a lot of work to be done. The North and Northeast regions of Brazil are still in an incipient phase of political and economic development. Cooperatives need exhaustive support to move ahead and adapt to the development context of the other regions. This is one of the greatest challenges that cooperatives face in Brazil.

EVOLUTION OF COOPERATIVES AFTER THE CONSTITUTIONAL MILESTONE

The cooperative movement in Brazil has undergone a broad change in its development profile since the 1988 Constitution, as the tables below illustrate.

TABLE 1 – CHANGE IN NUMBER OF COOPERATIVES BY BRANCH OF ACTIVITY – BRAZIL – 1988/2002

BRANCH OF ACTIVITY	1988	2002	PERCENTAGE VARIATION
Agriculture	1,742	1,624	-6.8
Consumer	485	170	-64.9
Credit	662	1,066	61.0
Educational	82	301	267.1
Housing	263	313	19.0
Health	219	880	301.8
Labor	718	2,807	290.9

SOURCES: Panorama of Brazilian Cooperatives (1988) - OCB, GETEC-OCB, Database Center (2002)

TABLE 2 – CHANGE IN NUMBER OF COOPERATIVE MEMBERS BY BRANCH OF ACTIVITY - BRAZIL - 1988/2002

BRANCH OF ACTIVITY	1988	2002	PERCENTAGE VARIATION
Agriculture	1,258,646	865,494	-31.2
Consumer	781,770	1,702,387	117.8
Credit	742,705	1,127,955	51.9
Educational	11,334	73,223	546.0
Housing	42,261	73,223	73.3
Health	53,026	384,215	624.6
Labor	137,060	400,099	191.9

SOURCES: Panorama of Brazilian Cooperatives (1988) - OCB, GETEC-OCB, Database Center (2002)

Changes in the macroeconomic, political, and social context had a significant impact on some cooperative branches in Brazil, especially the consumer and agricultural branches.

In the consumer branch, the development of large retail groups and supermarkets along with a strong economic policy of price and inflation control radically altered this sector's makeup. Economies of

scale and bargaining power in purchases, along with market strategies, came to determine success in this sector. Cooperatives with a low level of working capital and great difficulties in attaining economic integration—most were constituted by closed groups of state and private employees—gradually became less competitive and economically unattractive to their members.

Thus, there was a drastic 65% reduction in the number of cooperatives operating between 1988 and 2002. The cooperatives that survived in this context were those that followed the competitive logic of the market, considerably increasing the number of cooperative members (there was an 118% increase), gaining economies of scale, and adopting the sector's latest business strategies. Other types of consumer cooperatives, such as those involving medicine, books, and other more specific consumer items, have survived with difficulty.

The agricultural branch also experienced effects of the 1980s economic crisis, with a reduction in the number of cooperatives and cooperative members. In addition, the sector underwent significant adjustments, including countless mergers and acquisitions that are still underway. Despite the reduction of 7% in the number of cooperatives and 31% in the number of members, these cooperatives have been improving their economic position. They play a significant role in agriculture and food exports—more than US\$1 billion per annum. Business concentration was strong in the past two decades.

The agricultural branch is the most powerful economically. According to *Exame* magazine, 17 cooperatives are among Brazil's largest enterprises, generating about US\$5 billion, especially in the development of Brazilian agribusiness. There is an ongoing process of economic integration due to natural market tendencies toward a reduction in the number of cooperatives and an increase of involvement in the agricultural economy.

The cooperative health system has distinguished itself by becoming the largest system of private medicine in Brazil. With more than 850 cooperatives and more than 384,000 members, this branch of cooperative has grown rapidly. Unimed, with more than 300 cooperatives, 80,000 doctor-members, and 10 million users, has been the flagship of this process. This model of cooperative enterprise is extremely organized in terms of its vertical structure, with hundreds of small cooperatives organized and integrated into state or regional federations, and these, in turn, into national technical/political institutions. There is an appropriate division of labor and of market action. Its activities are focused on the areas of medicine, dentistry, and psychology, among others.

The credit branch also underwent significant change in this period. There are now more than 1,000 cooperatives with more than 1,500 branches that are already responsible for approximately 2% of financial transactions in Brazil. The opening of two cooperative banks—Bancoob and Bansicred—and the establishment of cooperative networks integrated with them, was a milestone for the development of this branch. It has also been maintaining a fast pace of operational integration with second-tier organizations.

Another branch that has experienced strong development in the past 15 years is that of labor cooperatives. Countless cooperatives in all areas of human activity have arisen. They constitute the largest cooperative branch in Brazil in terms of the amount of societies (more than two thousand), comprising more than 400,000 workers. Its development is recent, and it is undergoing stages of economic integration and consolidation.

Other cooperative branches, such as housing and education, had relatively solid growth in this period.

The main branches of cooperative activity are maintaining high rates of growth. Economic integration is a common business strategy: they are organizing themselves into central cooperatives and federations, with operational and business integration at the national level. These same aspects led to the disappearance of the vast majority of consumer cooperatives, which were not able to overcome institutional barriers to integration, losing scale and competitiveness within new economic realities. Their inability to integrate economically was a predominant factor in sealing their fate, in light of the strong concentration of capital in this sector.

Despite the removal of State control as an accelerating factor in the development of cooperatives, the inadequacy of the legal framework and the emergence of sector regulating agencies remain restrictive

factors for cooperatives—to a greater degree for labor cooperatives and to a lesser degree in the health and credit sectors.

From an internal perspective, lack of institutional clarity and slow economic integration also restrict the development of some branches.

In light of the situation presented in this chapter, certain factors can be seen as critical to the development and success of cooperatives in the context of the transition that occurred:

- a) autonomy in cooperative operation, with full liberty of association and self-determination in their development;
- b) predominantly independent behavior, utilizing State support mechanisms to speed up the development process.
- c) pioneering implementation, by the Organization of Parana State Cooperatives (*Organização das Cooperativas do Estado do Paraná – Ocepar*), of the first complete support program for cooperative autonomy, which served as a national model;
- d) reorganization of superstructures with the creation of the National Cooperative Education Service (Sescoop) within the OCB system, having the crucial role of rapidly training leaders. Its central focus is on professionalizing business management and on the development of strategic vision; in addition, it has a regulating function as it is in a phase of concretizing the national system of self-control and self-inspection;
- e) development of fundamental elements of strategic management, with ongoing capitalization, market insight, economy of scale, perception of changes in the external environment and adaptation of business strategies, dynamic integration in production chains, insertion in competitive production chains, and ongoing monitoring of general and activity-specific economic-financial results;
- f) incentives for active participation and for business training of leaders, and integration of cooperative members in the market context, making production more competitive and installing a stronger business mindset in cooperatives;
- g) economic integration of productive bases and development of continual technology transfer strategies;
- h) firm action by Social Agencies, cooperative Boards of Directors and Audit Committees, and maintenance of a transparent administrative process, with ongoing monitoring by the OCB System;
- i) use of cooperative principles as competitive advantages.

CONCLUSION

In this article, the main circumstances surrounding the transition of cooperatives from the model extant before the 1988 Constitution to a new model of self-determination were discussed. Emphasis was given to efforts made toward the development of autonomous behavior and business vision among leaders as essential factors for the success of cooperatives in the new globalized context of free competition.

Striking the balance between the business and social aspects of cooperatives, using cooperative principles to engender competitive advantages, consolidating self-determining behavior, and reducing regional differences constitute the great challenges for the Brazilian cooperative movement at the beginning of this new millennium.

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THE 10TH BRAZILIAN COOPERATIVE CONFERENCE – MILESTONE FOR DEVELOPMENT OF SELF-DETERMINATION

Carlos Claro de Oliveira Junior*

The 10th Brazilian Cooperative Congress had a decisive role in the context of recent changes in cooperatives in Brazil. Led by then-president of the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), Dr. Roberto Rodrigues, the Conference was held in the midst of the country's democratic transition in March 1988, a few months before the enactment of Brazil's new constitution. With a view to defining the political and strategic direction for the development of cooperatives in the new institutional context, the Conference was designed—beyond reaching its general objective—to draw on the participation of cooperative members themselves in this discussion.

This effort was needed because Brazil's institutional organization at that time led many cooperatives and their members into a position of passivity in face of all the changes that were occurring, and with a very low level of participation by the millions of cooperative members and their leaders in the redemocratization process. Democracy is a core principle of OCB, and participation is a matter of principle and philosophical belief. OCB sought, therefore, a discussion process in which the bases of the cooperative movement would be shaken up and stimulated to active participation.

With this objective in mind, the Conference held in March 1988 actually began one year earlier, through an unprecedented model of mobilization.

In a first phase of work, cooperatives from all over Brazil and from all branches of activity were encouraged to hold local meetings with their members in order to prepare proposals on policies and strategies to be voted on at the Conference. Based on an initial list of more than 30 issues, more than 350 meetings were held at individual and central cooperatives in 23 states over the course of four months. They led to the preparation of 187 consolidated reports, presenting more than 3,500 different proposals to be included in an initial document.

This formidable series of proposals was then consolidated into eleven general topics: cooperatives and cooperation, social organization, education and training, participative management, credit policy, financial autonomy, system of representation, relations among cooperatives, relations between cooperatives and civil society, relations between cooperatives and the State, and legislation. These topics made up the first document as a basis for discussion. The document was taken to 21 state seminars held between November 1987 and January 1988. The state seminars constituted a second phase of the Conference, with the participation of more than 2,000 representatives from more than 1,000 cooperatives. In their meetings, they discussed and revised the initial base document.

From this series of meetings, hundreds of suggestions for changes and reformulations of the text arose. They were again consolidated and systematized in order to constitute a base document for the 10th Congress. This enormous contribution from cooperatives was periodically revised, analyzed, systematized, and consolidated by a technical commission that worked constantly for one year. This commission was coordinated by the president of OCB and benefited from the participation of representatives of all regions of Brazil and of the various lines of cooperative thought.

With the final consolidated document in hand, the Conference began in March 1988 with more than 1,000 cooperative representatives and more than 700 delegates with a right to vote on it. The delegation of votes was done by the cooperatives in specific assemblies called for this purpose, and their validity was confirmed by the presentation of the minutes of the assembly meeting.

The third stage of the event began with special sessions of cooperative branches. On the first day, the proposals of the base document were exhaustively discussed. At the end of this day, more than 650

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amendments were made to the base document and were voted on, one by one, in the nine branch sessions on the following day. Having once again consolidated the document, topic-based sessions were then held, considering six general topics in the document. From these topic-based sessions, 250 amendments were voted on that led to the Conference's final document. This final version could only be modified by a plenary mark-up session with amendments presented bearing at least 100 signatures of delegates present at the event.

The final document was read in an official session and a deadline was stipulated for delegates to present final modifications. More than 21 amendments were added to the final document and voted on in a plenary assembly, creating the event's final document, which served, from that point on, as the basis for the formulation of the overarching political and strategic framework for the development of cooperatives.

Beyond the document's excellent content, the mobilization of this enormous contingent of cooperative leaders and members definitively established a participative, dynamic, and democratic stance for setting the course of cooperatives. The participation, debate, and discussion helped the cooperative system mature and, above all, overcome the inertia and apprehension surrounding the changes that were taking place.

The strong presence of political leaders from the National Congress during the event showed that there was a new balance of government powers and that participation and mobilization would play a fundamental role in the approaching political landscape.

Without a doubt, democratic and participatory practice for the Conference during 1987 and 1988 was decisive in helping cooperative leaders, captained by OCB, to take on self-determination and the cooperative self-management program.

HOW CAN THE GOVERNMENT SUPPORT THE SELF-MANAGEMENT PROCESS FOR COOPERATIVE SOCIETIES?

José Roberto Ricken *

Before focusing on the relationship between government and cooperative societies and the possibility of support for cooperative self-management, it is important to understand the role of cooperatives in the context of society in general. In other words, what makes cooperative businesses different from other businesses that exist on the market? This analysis will facilitate the understanding of the **cooperative-government** relationship.

In any given community anywhere in Brazil or in the world, various institutions exist: commercial enterprises, political parties, unions, churches, philanthropic organizations, social clubs, non-governmental organizations (NGOs), schools, and so on—and, almost always, cooperatives. Each of these institutions has certain characteristics, functions, and roles in the community's "social map." There are private and public enterprises, or enterprises organized on a self-management model—that is, those that involve many people and that need to engage in shared management. Most of these "self-managed" enterprises do social or cultural work and are nonprofit. Cooperatives, however, constitute an exception, because, although they are self-managed societies, they are profit-oriented.

In this context, the success of the cooperative movement essentially depends on two factors: finding its niche in society and making the people who comprise cooperatives understand how they work. The primary purpose of cooperatives is to organize their members economically such that they have more work and, consequently, higher income. When more people are included with a higher level of income, the community develops and the benefits extend to all of Brazilian society.

The government needs to understand the dynamics of cooperative societies in order to establish laws and regulations that are suited to this sector. Then, the government/cooperative relationship becomes appropriate and productive. In Brazil, both cooperatives and the government have sometimes failed to understand this relationship. This lack of understanding is one of the reasons for the comparatively low impact cooperatives have on the nation's economic and social life. Only 8% of the population has a direct relationship with cooperatives, while the world average is approximately 40%.

Historically, changes in the cooperative movement in Brazil have been related to the type of government and the political situation. There have been five distinct phases:

- **Introduction:** Decree No. 1637 of 1907 (introduction as a type of limited liability, anonymous commercial society); Law No. 4984/26 and Decree No. 17339/26 (Raiffeissen Rural Savings Banks and Luzatti Banks);
- **Partial Consolidation:** Decree No. 22239/32 (which consecrated basic principles of the state in relation to cooperatives); Law No. 1521/51 (crimes against the popular economy);
- **State Centralization:** Decree-Law No. 59/66 and its Regulation (Decree No. 60597/67); Decree-Law No. 60/66, later altered by Law No. 5636/70; Decree No. 58337/66; Decree No. 60.443/67 (income tax exemption); Law 5316/67 (medical cooperatives); Decree-Law No. 1110/70 (Incra) and its Regulation (Decree No. 68153/71). Decree-Law No. 59/66 came after the Bank Reform Law (Law No. 4595/64 and Central Bank Resolutions Nos. 11/65, 15/66 and 27/66); by Tax Reform Law (Law 5892 of 10/25/66, based on EC 18/65), and Decree-Law No. 73/66 (insurance);
- **Structural Renovation:** Law No. 5764/71; Law No. 6981/82 (altered Law No. 5764/71); Law No. 7231/84 and Decree No. 90.393/84 (authorizes Incra to delegate power to the cooperative system); 34 CNC Resolutions; Law No. 6024/74 (intervention and extrajudicial closure of financial institutions);

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- **Liberalization:** 1988 Federal Constitution. Law No. 8028/90 (dissolution of CNC and of Senacoop). Law No. 8029/90 and Decree No. 99192/90 (dissolution of BNCC). Decree No. 99621/90 (creates Denacoop). Law No. 8949/94 (changes the CLT, Art. 442, Sole Paragraph). Laws No. 8541/92, No. 8981/95, No. 9430/96 and No. 9532/97, and Decree No. 3000/99 (Income Tax). Law No. 9074/95 and Aneel Resolutions No. 333/99 and No. 012/2002 (rural electrification). Supplementary Law No. 84/96; Law No. 9711/98, No. 9876/99, No. 10.256/2001, and No. 10.666/2003; Decrees No. 1826/96, No. 3048/99 and No. 3265/99 (Social Security). MP No. 2168-40 and Decrees No. 2936/99, No. 3017/99, No. 3263/99, and No. 3641/2000 (creates Recoop and SESCOOP). Laws No. 9656/98 and No. 9961/2000; MP No. 2177-44 and Decree No. 3327/2000, and Resolution ANS 39/2000 (medical and dental cooperatives). Supplementary Law No. 70/91; Law No. 9715/99, No. 9718/99, No. 10.637/2002, No. 10.676/2003, and No. 10.684/2003; MP No. 2158-35 and Decree No. 4524/2002 (PIS and Cofins). Decrees No. 2219/97 and No. 4494/2002 (IOF). Law No. 9867/99 (social cooperatives). CMN/Bacen Resolutions No. 1914/92, No. 2193/95, No. 2608/99, No. 2645/99, No. 2771/2000, No. 3058/2002, No. 3087/2003, and No. 3106/2003 (credit cooperatives). Laws No. 9964/2000 and No. 10.189/2001 and Decree No. 3431/2000 (Refis). New Civil Code (Law No. 10.406/2002: Articles Nos. 982, 983, 1093 to 1096, and 1159). (Source: OCB).

The current relationship between the cooperative movement and the Lula administration is very promising. The president himself has publicly manifested his intention to promote the development of cooperatives. He said:

Cooperatives are an important lever for attaining a more balanced development in Brazil. Precisely for this reason, my administration is working to strengthen its presence nationally.

Strengthening the structure of the cooperative movement is an indispensable aspect of a development policy committed to solidarity and social justice.

We will strengthen and expand the cooperative movement because it meets two of this country's current urgent needs: beginning to grow again and doing so with social equality (statements during President Lula's address on International Cooperatives Day, July 4, 2003).

The Minister of Agriculture, Roberto Rodrigues, recognized as one of the most important leaders of the cooperative movement, has also manifested his support:

Cooperatives are a doctrine, a philosophy that has been making its way around the globe without any borders, without any ideology, without any ideological partisan position, for more than 300 years.

...All of this transforms cooperatives into a completely perfect partner for governments who hold a vision of democracy and peace, because with the government in these conditions, the cooperative movement seeks justice, full employment, nutritional security and food security, defense of the environment, equitable income distribution and, finally, overall wellbeing, within a regime of absolute political neutrality.

Cooperatives are the economic arm of societal organization, and a developed country cannot exist without an organized society (excerpts from Minister Roberto Rodrigues' address on International Cooperative Day).

Based on this guidance, Denacoop, as the official government agency for supporting cooperatives, has structured itself to provide incentives for the development of cooperative societies. There are three basic concerns that guide its activity: 1) establishment of government policies in support of cooperatives ("Cooperative Brazil" Plan – *Plano "Brasil Cooperativo"*); 2) establishment of Denacoop's Technical Program (PPA 2003-07); and 3) training of public and private agents to disseminate and guide the practice of the cooperative system at all levels of society.

The guidelines that should underpin new laws for cooperatives, in light of current constitutional precepts, are: a) **self-management** – determination of social responsibilities, authority, and, primarily, controls, keeping in mind that the constitutional ban on state interference in cooperatives (Art. 5, XVIII of the Federal Constitution) encourages self-control; b) **integration** – improve cooperation among the various cooperative branches; c) **respect for autonomy** – with greater organizational freedom, and greater freedom in framing cooperative articles of association and bylaws; d) **equality** – both in the political/partisan aspects and in relation to gender; e) **commitment to the community** – favoring sustainable models of economic and social development; f) **State support** – with a view to strengthening and developing cooperatives.

The interministerial working group on cooperatives, created by presidential decree during the commemoration of International Cooperative Day in July 2003, found that cooperatives have many demands for government policies. Three demands that all cooperative branches seem to share are:

- Reform of the Cooperative Law (Law No. 5764 of 1971);
- Adaptation of new Civil Code to the Law on Cooperative Societies;
- Definitive stipulation, for all cooperative branches, of activities that can be classified in the **Cooperative Act**.

Some official cooperative development programs should mainly address financing programs. The following were suggested:

- Cooperative Capitalization Program: used to supplement the shares tied to the cooperative's viability project;
- Program to Add Value to Cooperative Production, so that all branches of cooperatives can develop industry and add value to their members' products and services;
- Cooperative Export Support Program, with the goal of providing financial support to the production of goods for export;
- Cooperative Business Network Development Program to create economies of scale for cooperatives—especially small ones—providing them with improved ability to be competitive in markets they are already in and in new markets, thus increasing members' income;
- Cooperative Rural Settlement Program, allowing children of cooperative members to stay on the land through financing for purchase of rural properties and for investments in the land by young farmers;
- Cooperative Research Program, making cooperative members' production more competitive on the market. It is important to remember that the structure of cooperative societies allows for a rapid diffusion of technology and for research to be steered toward the concrete needs of its beneficiaries.

Finally, Denacoop/Mapa's Support Plan for Brazilian Cooperatives, already in its organization and implementation phase, prioritizes the following measures:

- diagnosis of cooperatives' economic and social potential;
- capacity building for cooperative members, directors, executives, and employees;
- training of new cooperative professionals, fostering cooperative schools, courses for cooperative administrators, and incentives for Master's theses on topics relating to cooperatives;
- development of small and new cooperatives through training programs and support for cooperative planning and structuring;
- local, regional, and national cooperation among cooperatives with a view to identifying appropriate models and administrative structures for cooperatives;
- dissemination and promotion of cooperatives to the general public.

In this manner, the goal is to guide the use of public resources with the objective of fostering human development, prioritizing the implementation of the Self-Management Program among cooperatives through capacity building, cultural and conceptual training, and sharing of experiences and information. Clearly centering our efforts on management quality and style, credibility to third parties,

and transparency to members will enhance the existing opportunities in the Brazilian cooperative model.

The *raison-d'être* of cooperatives is the economic organization of persons so that they can increase their income and thus reach the level of citizenship that they need for the well-being of their families and, by extension, for their community's development.

CONGRESSIONAL COALITION FOR COOPERATIVES

Nelson Vieira Fraga Filho *

The history of the Congressional Coalition for Cooperatives (*Frencoop – Frente Parlamentar do Cooperativismo*) in the National Congress began in 1983, and its presence was felt in the Constituent Assembly. This Assembly inserted into the 1988 Federal Constitution items that guaranteed freedom and adequate treatment for cooperatives. The result has been the economic and social development in evidence today, despite the countless difficulties that they have gone through.

After a period in which the cooperative movement's political representation was relatively inactive, at the end of 1995, Congresspersons began a movement to strengthen the Congressional Coalition, which culminated in 1996. In that year, a solemn ceremony was held at the *Palácio do Planalto* (the presidential palace), presided over by president Fernando Henrique Cardoso. The movement's political arm was thus strengthened, primarily by the fact that it comprised Congresspersons from all political parties and all states.

Frencoop is composed of Congresspersons—federal deputies and senators—regardless of party affiliation. It is a political organization, not an ideological one, and it works with solidarity and coordination to defend cooperative interests everywhere, representing cooperatives in the National Congress and in all areas and levels of government, acting in a participatory manner in the Legislature, and getting involved, when necessary, in the Executive as well. Frencoop always had at its helm important figures in national politics, such as ex-federal deputies Ivo Wanderling and Dejandir Dalpaqualle, senator Jonas Pinheiro, federal deputies Carlos Melles and Silas Brasileiro. It is currently presided over by deputy Moacir Micheletto.

Just as in the Cooperative System, Frencoop has Branch Coordinators, such that each of its branches, through its Coordinator, can focus on more specific issues with the support of the Frencoop Board of Directors and of the Cooperative System. In total, it represents 13 branches and its leadership consists of one Coordinator and two Assistant Coordinators. The branches are: Agriculture, Credit, Consumption, Educational, Special, Housing, Infrastructure, Mineral, Production, Health, Labor, Transport, and Tourism and Leisure.

Since it was reinstated in 1996, Frencoop has acted effectively with the three branches of government, especially in the National Congress, to implement significant measures that have already benefited various segments of the country's economy, such as agriculture, credit, health, education, housing, transport, electric, among others, thus contributing to job and income creation in various states. Over the years, several programs have been consolidated, such as: the program to extend rural debt, securitization, Special Program for Asset Restructuring (*Pesa – Program Especial de Saneamento de Ativos*), the Constitutional Funds (*Fundos Constitucionais*), the Special Program for Agrarian Reform Credit (*Procera – Programa Especial de Crédito para a Reforma Agrária*), the National Program for Strengthening Family Agriculture (*Pronaf – Programa Nacional de Fortalecimento da Agricultura Familiar*) and the Program for Revitalization of Agricultural Cooperatives (*Recoop – Programa de Revitalização das Cooperativas de Produção Agropecuária*).

Currently, cooperatives are responsible for economic transactions equivalent to 6% of gross domestic product (GDP), directly involve 21 million people, and have approximately 168 thousand employees. Ten million people use health cooperatives, and in transport the fleet has five thousand vehicles. Cooperatives have built 10 thousand residential units and have 11 thousand students enrolled in their schools. The importance of cooperatives to Brazilian society extends even beyond these figures. They have become a significant source of income and tax revenue that sustain at least 1,572 municipalities.

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United action among Frencoop, the Organization of Brazilian Cooperatives (OCB – *Organização das Cooperativas Brasileiras*), the 27 unions and state organizations, the 10 confederations and almost six thousand cooperatives allowed for the announcement of innumerable measures in benefit of productive segments of society. Among them, the exemption from income tax for agriculture cooperatives and electrification cooperatives; equalization of finance charges and interest rates based on average levels for rural financing offered by cooperative banks; inclusion of these banks among agencies authorized to administer resources from the Coffee Economy Defense Fund (Funcafé – *Fundo de Defesa da Economia Cafeeira*); approval of the regulation that controls the creation and operation of credit cooperatives, bringing, among other benefits, the maintenance of “Luzzatti”-type cooperatives; and the limitation of taxes for Recoop at 9.75% per year.

In relation to dairy farming, Frencoop’s activities, as well as those of other entities representing the sector, were decisive in the implementation of several measures. For example, they undertook an analysis of dumping practices, especially in Argentina, which led to the adoption of protective measures for Brazilian products. Other noteworthy measures include the ban on rehydrating powdered milk for the production of long-life and pasteurized milk; the inclusion of powdered milk on the list of Basic Mercosul Exceptions with an initial tariff of 35%; the lowering of financing deadlines for importing cheeses to a maximum of 30 days; the increase in TEC (*Tarifa Externa Comum* – Common External Tariff) for dairy products from 16% to 27% and deferment of ICMS (*Imposto sobre Circulação de Mercadoria e Serviços* – Value Added Sales Tax) for milk provided for social programs; the creation of the Incentives Program for Mechanization, Refrigeration, and Bulk Transport of Milk Production (Proleite – *Programa de Incentivo à Mecanização, ao Resfriamento e ao Transporte Granelizado da Produção de Leite*) and the National Program for Recovery of Degraded Pastures (Propasto - *Programa Nacional de Recuperação de Pastagens Degradadas*); the implementation of a discount on Rural Bills (DR – *Duplicata Rural*) and Rural Promissory Notes (NPR – *Nota Promissória Rural*); and, finally, the inclusion of milk in the federal government’s Minimum Price Guarantee Policy (PGPM – *Política de Garantia de Preços Mínimos*), with a set minimum price for milk.

Among benefits for the national productive sector were: a reduction of 0.5% in Funrural (*Fundo de Assistência ao Trabalhador Rural* – Rural Worker Assistance Fund) Tax Rate; an exemption from IPI (*Imposto sobre Produtos Industrializados* – Tax on Industrialized Products) for agricultural machinery and equipment; and a reduction in interest rates for rural credit, which were set at a maximum rate of 8.75% per annum. In addition, financing programs were created with interests limited to, at most, 8.75%, such as the Incentive Program for Use of Fertilizers (Prosolo – *Programa de Incentivo ao Uso de Corretivos de Solo*) and the National Program for Systematic Use of *Várzeas*²⁴ (*Programa Nacional de Sistematização de Várzeas*); the Support Program for Tilapia, Saltwater Shrimp, and Mollusk Production Development (*Programa de Apoio ao Desenvolvimento da Produção de Tilápias, Camarões e Moluscos*); and the Support Program for Fruit Farming, Winegrowing, Sheep Farming, Goat Farming, Cashew Farming, and Beekeeping (*Programa de Apoio à Fruticultura, Vitivinicultura, Ovino-caprinocultura, Cajucultura e Apicultura*).

In 2002, the federal government, with the support of Frencoop, implemented new programs that provided incentives for agricultural production and the generation of jobs and income. These included the Support Program for Irrigated Agriculture (Proirriga – *Programa de Apoio à Agricultura Irrigada*), the Program for Commercial Planting of Forests (Propflora – *Programa de Plantio Comercial de Florestas*), the Program for Cooperative Development to Add Value to Agriculture and Livestock Revenue (Prodecoop – *Desenvolvimento Cooperativo para Agregação de Valor à Renda Agropecuária*), the Support Program for Development of Cocoa Farming (Procacau – *Programa de Apoio ao Desenvolvimento à Cacaucultura*) and the Program for Eradication of Animal Brucellosis and Tuberculosis. In 2003, all of these programs were classified in only 8 large groups as follows: Modefrota, Moderinfra (Proazem and Proirriga), Prodecoop, Moderagro (Prosolo, Propasto and Sisvárzea), Prodefruta (Profruta, Prodevinho, Provaju, and Procacau), and Prodeagro (Prodecap, Prodamel, Prodeflor, and Aquicultura), Proleite and Propflora.

A ceiling of 11.95% per annum in interest rates and financing charges was established for financing from the National Bank for Economic and Social Development (BNDES – *Banco Nacional de*

²⁴ *Translator’s Note:* *Várzeas* are low and flat lands alongside a watercourse.

Desenvolvimento Econômico e Social) through the Special Agricultural *Finame (Finame Agrícola Especial)* for the purchase of machinery and equipment. The Rural Job and Income Creation Program (Proger Rural – *Programa de Geração de Emprego e Renda Rural*), that since its implementation in 1995 has served thousands of small producers all over the country, had interest rates for its loans reduced to a maximum of 8.75% and financing limits increased to R\$42 thousand per beneficiary or R\$60 thousand when investment costs are shared.

Another program that certainly deserves mention is the Family Agriculture Strengthening Program (Pronaf – *Programa de Fortalecimento da Agricultura Familiar*), launched in 1995 by then-Minister of Agriculture and senator Arlindo Porto. It is the main incentives program for agricultural production on small rural properties. Currently, it finances this sector and promotes fair income distribution. Payback periods are up to 12 years and interest rates vary from 1.17% to 4% per annum, with a right to a compliance bonus, providing this sector with credit on conditions that make its activities feasible. Additionally, it runs harvest insurance (*seguro-safra*), which benefits thousands of producers in the Northeast Region and the Semi-Arid region in the north of the states of Minas Gerais and Espírito Santo.

The Light in the Country Program (*Luz no Campo*), projected to benefit approximately one million people, only garnered the real participation of electrification cooperatives after the approval of Law No. 10438 of 2002, which included these cooperatives as beneficiaries resources earmarked for this purpose.

Over the years, Frencoop's efforts have always been directed toward issues of extreme importance to Brazilian cooperatives. Adequate tax treatment has been a constant battle, and the reduction of the base for calculating *PIS* and *Confins* social security taxes for agricultural and electrification cooperatives represented a great advance in legislation, which is likely to benefit all other branches already being analyzed by the Executive Branch. The new cooperative law that will substitute Law No. 5764 of 1971 is also a priority that lies ahead. Cooperatives are present in all economic and social sectors and have contributed, and will continue to contribute, a great deal to improvements in the Brazilian people's quality of life. Times have changed, and cooperatives need up-to-date legislation. They will certainly continue to require the active participation of all members of Frencoop and sector leaders.