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**Changes in the Brazilian Social Economy and  
Institutional Environment in the Co-operatives  
Development**

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# **Changes in the Brazilian Social Economy and Institutional Environment in the Co-operatives Development**

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## **Summary**

The Brazilian economy went through important transformations in the last years. The Real Plan controlled the inflationary process reducing inflation rate from 1,476% to only 1.7% a year. With this objective, it was necessary to control the macroeconomic variables as the exchange rates, the economy growth, and the reduction in the government budget deficits, cutting resources for the social programs.

In this situation, the unemployment rate increased from 7.1% to 11.68% a year and the informal labor, without rights and official register, represented 1/3 of the economy. The health and housing official programs decreased, and the alternative public policies did not have success attain the population.

On the other hand, the population was organizing different organizational models to improve the social services. The social economy in Brazil grew and its participation increased. The employers in the social economy, foundations, associations and co-operatives have increased in the last years, and non-profit organizations acquired importance.

The co-operatives must be analyzed under three different aspects: first, the sectors which had a rapid increase because of the economic situation as the medical, housing, labor and credit co-operatives; second, the very poor people co-operatives, around great cities, with great social commitment; and third, the agricultural co-operatives, traditionally the most important co-operative sector in Brazil having a competitive position in international markets but presenting both positive and negative impacts on the 57% changes in the exchange rates and then influencing approximately 1/3 of the rural producers in the Brazilian Central-Southern region.

Initially, this essay discusses the recent changes in the Brazilian economy, the dimension and growth of the social economy, and analyzes the importance of the co-operatives organization in the Brazilian social economy. Afterwards, it describes the institutional environment, the necessary changes in law to permit the co-operatives development, analyzes the X and XI Brazilian Co-operatives National Congress, and the most important resolutions in order to modify the institutional pattern. Concluding, this paper makes considerations about the modifications in social non-profit enterprises and co-operatives, and presents a theoretical analysis of the public economy and of the institutional environment.

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## 1. Recent Changes in the Brazilian Economy

During the last ten years the Brazilian economy went through important structural modifications and macroeconomic adjustments. The high inflation rates have been constant during the 70s and 80s reaching unbearable levels of 2,000% a year.

The middle and high classes employees could make use of financial products as investments and indexed bank accounts, which provided automatic readjustment for the monetary amounts deposited in banks. The lower classes had to use their money almost immediately after having received the salaries so as not to lose their acquisitive power. The economy was totally indexed.

In spite of this dramatic situation the population was accustomed to the inflationary fluctuations and lived pacifically with the constantly rising prices. On the other hand, the country managed to increase its Gross National Product (PIB). In 1993, the year before the Real Plan, the PIB showed a 4.9% positive variation indicating a real increase in income and also in the employment generation capacity.

But the Government spent more than collected and the State expenditures and the economy indexation were the main reasons why the inflationary process persisted.

After the implementation of the Real Plan, in July, 1994, it was possible to detain the inflationary spiral giving an end to the economy indexation and using to control the prices level an exchange anchor, that is, an overvalued exchange rate that allowed less expensive imports.

The so-called exchange anchor imposes, at the internal prices level, control originating from competitors and at the imported products prices level, compelling the different sectors of the economy to gain competitiveness in order to continue to compete in the market.

The immediate result of that macroeconomic policy is a disadjustment in the payments balance; there are more imports than exports and the country accumulates successive commercial deficits that press the international reserves and the Real Plan success. During the 80s until the middle 90s the commercial balance was positive, but after 1995, the commercial balance has been always negative. Imports surpass exports. The balance went from US\$ 10,5 billion positive in 1994 to US\$ 6.59 billion negative in 1998.

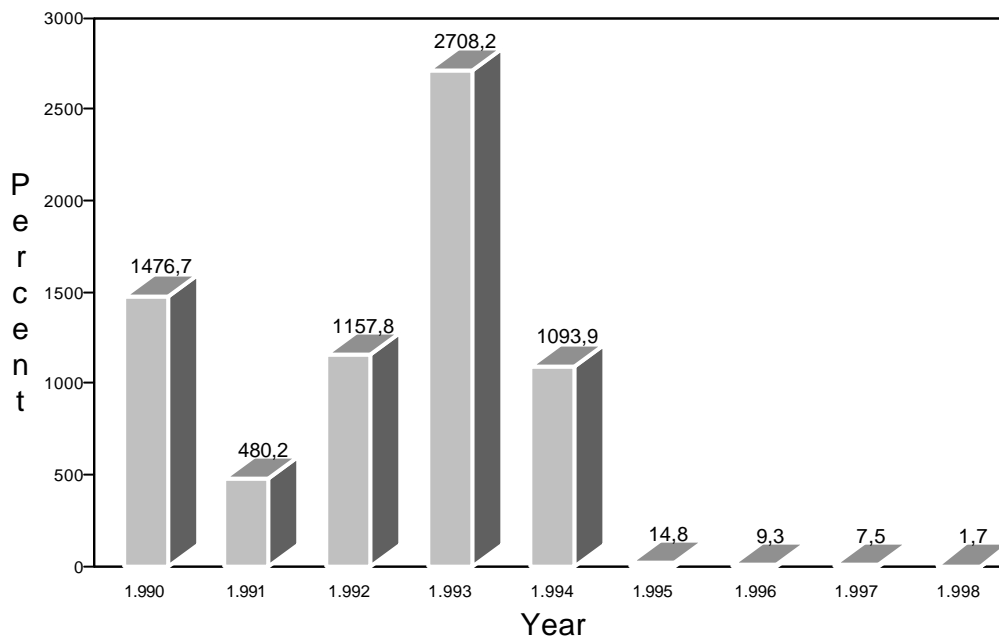
This policy directly influences the economy growth and the labor market. The national PIB decreases and the possibility exists that it will be negative in 1999. Unemployment rises considerably and achieves rates never before observed in the Brazilian economy surpassing 10% of the economically active population. The figures show the inflation reduction and the increase in the unemployment rates from 1990 to 1998.

The transformations in the economy also produced an impact on the enterprises, promoting bankruptcy and contributing not only to concentration in the market but also to the incoming of international enterprises. It is also necessary to add that there was a reduction in the PIB per capita, from US\$ 5,037 in 1997 to only US\$ 4,798 in 1998.

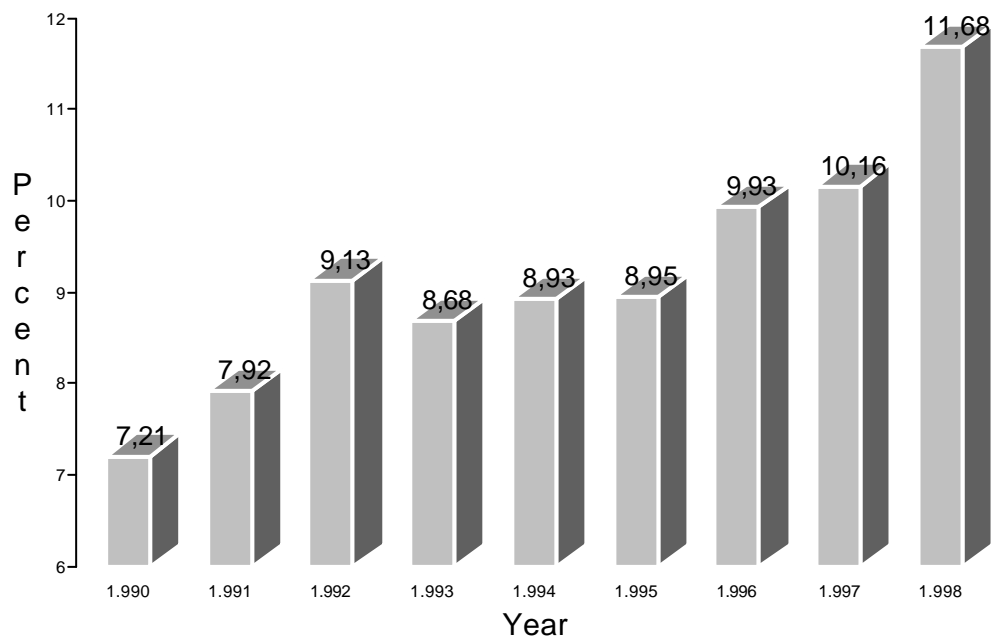
The rising number of unemployed enhances the so-called informal economy, that is, people who work without an official register or yet maintain small businesses not recognized by the economy and by the government. Those activities take place directly in the peoples' homes or without license from the state authorities, or also as small services contracted without official registration.

A forecast shows that this sector amounts to approximately 8% of the PIB, occupying about 25% of the economically active population in Brazil, that is, 12.87 million people in 1997, according to the Brazilian Institute of Geography and Statistics – IBGE.

### Brazil Inflation Rate



### Brazil Unemployment Rate



According to this Institute, the per capita average income of these people was US\$ 208/month and each of the informal economy enterprises had, in October, 1997, an average income of only US\$ 1220.00. In this sector of economy 84% of the enterprises did not have a specific line or credit and financing operation, and 66% did not have any kind of license to function. The informality criteria used are the same as for OIT – International Labor Organization. As a result of these transformations in the Brazilian economy, one can also analyze what happened in the labor organization and in particular in the co-operatives sector of the economy.

### 1.1 The impact on the co-operatives

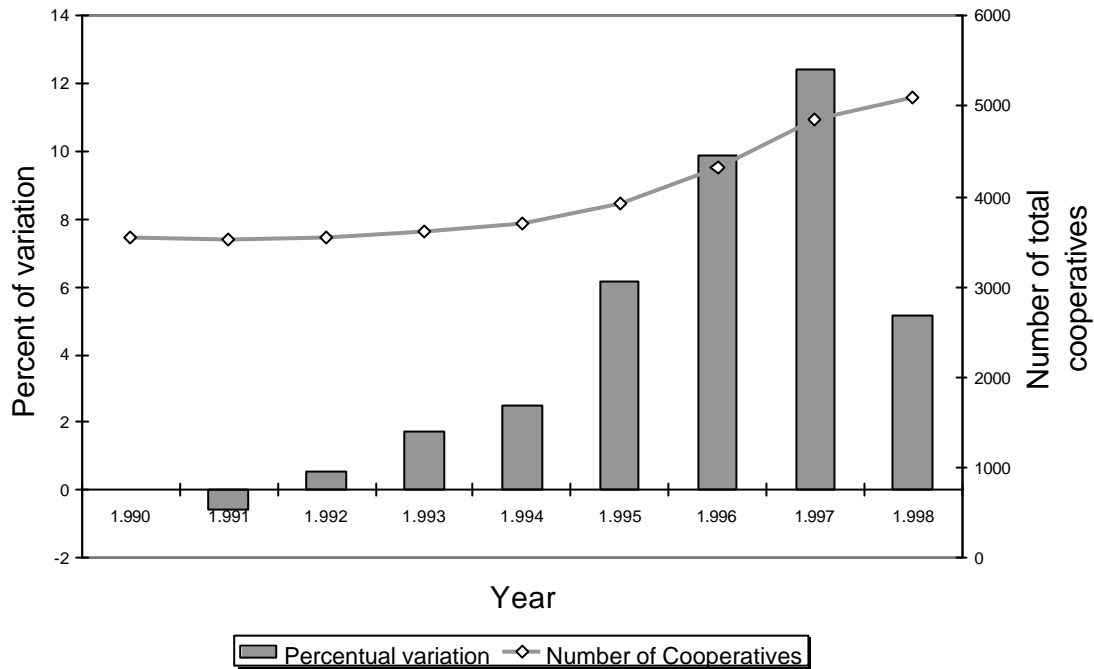
The co-operatives are also experiencing impacts during this macroeconomic adjustment process. The first impact occurs according to the co-operative organization sector. Therefore, one can analyze the evolution of the co-operatives number in the different sectors of the economy, according to data from the Brazilian Co-operatives Organization – OCB – 1999. Analyzing the table and the figure below, one can see that in Brazil the number of co-operatives grew from 1990 to 1998, and that in the period after 1994, that is, after the Real Plan, there was a clear increment in the formation of co-operatives. The growth rates are higher mainly in 1997 with a 12.39% increase in the number of co-operatives.

Evolution of Cooperatives Numbers in Brazil from 1990 until 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Agricultural</b>	1393	1404	1438	1344	1334	1378	1403	1449	1408
<b>Consumers</b>	311	336	336	292	261	256	241	233	193
<b>Services</b>	195	206	202	194	191	194	209	206	187
<b>Educational</b>	101	107	112	100	105	106	176	187	193
<b>Labor</b>	629	531	618	705	825	986	699	1025	1334
<b>Housing</b>	179	182	177	187	176	174	190	231	202
<b>Credit</b>	741	763	665	788	809	834	859	882	890
<b>Health*</b>							468	530	585
<b>Others - mineral</b>							71	108	110
<b>Total</b>	3549	3529	3548	3610	3701	3928	4316	4851	5102
<b>Percent variation</b>		-0,56%	0,53%	1,74%	2,52%	6,13%	9,87%	12,39%	5,17%

\* Until 1995 the Health Cooperatives were included in Labor Cooperatives classification, after 1996 the Health Cooperatives were considered as a special segment of cooperatives – OCB – 1999.

## Variation of the Number of Cooperatives in Brazil



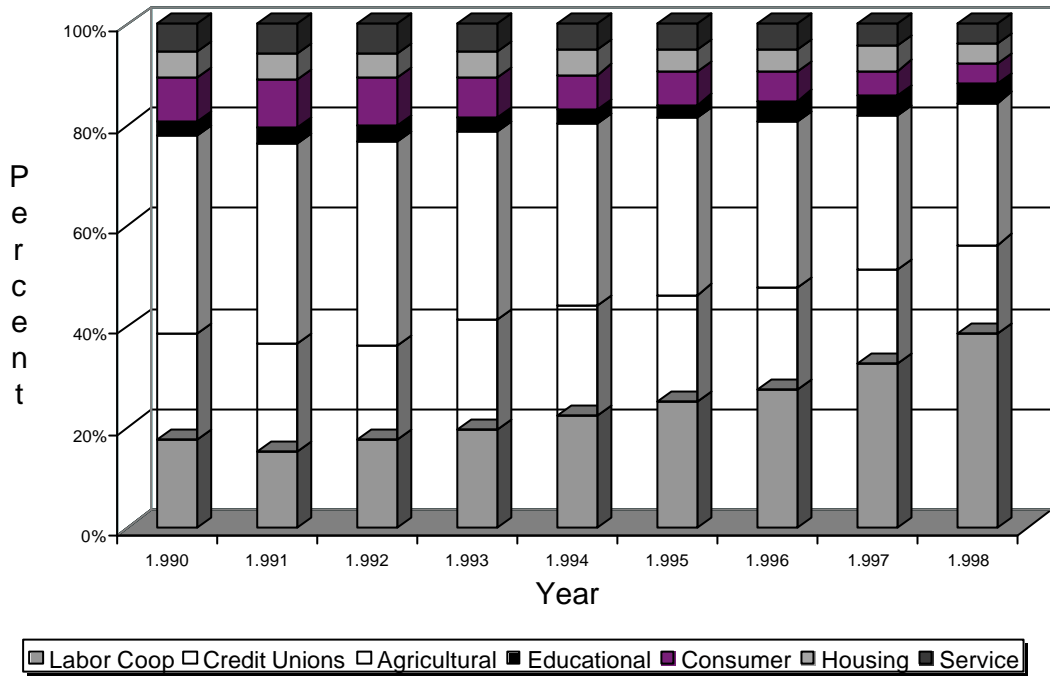
Evolution in the total number of co-operatives can be observed, however a different impact of the macroeconomic adjustments is noticed depending on the co-operatives economical segment.

Thus, the consumer co-operatives, pressed on by the supermarkets and facing difficulties in the operating scale and in the circulating capital administration, do not manage to survive and a constant diminution in the number of co-operatives is observed.

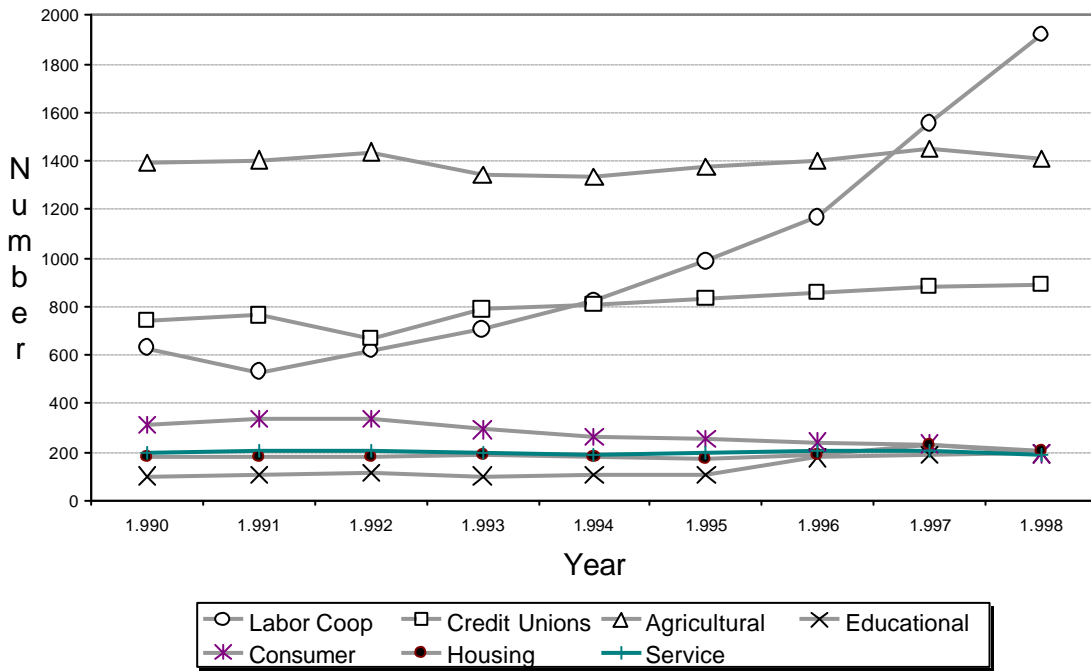
The number of agricultural co-operatives show some oscillations in number but they show a certain level of stability. A marked growth in these co-operatives indebtment level is observed notwithstanding.

However, one must notice the great oscillation in the number of labor as well as credit co-operatives; this situation can be directly associated to the macroeconomic adjustments and to the fluctuation of some important variables. In the box below those variations are shown.

### Proportion of Cooperatives in Brazil



### Number of Cooperatives in Brazil and Evolution



The number of labor co-operatives had a 112% increase from 1990 to 1998, 90.84% from 1996 to 1998. The labor co-operatives in Brazil are distributed in definite branches as craftsmanship, the cultural sector, transportation and several others comprehending different kinds of professionals and rural workers.

Among the labor co-operatives the ones which have steadily developed are related to professional activities as engineering, accountancy, informatic and others. According to the OCB (1998) the average number of associates per labor co-operative was 234.28 in 1994, when the Real Plan was instituted, reaching 424.98 associates/co-operative in 1997. Thus, not only there is a higher number of co-operatives but also a significant increase in the average size of each.

Comparing the labor co-operatives as a whole, with the medical co-operatives, we had in 1998 a total of 516,396 associated workers. According to OCB (1998), 23.1% had university level, 10.1% at graduation level. Thus, 1/3 of the cooperates have good educational level.

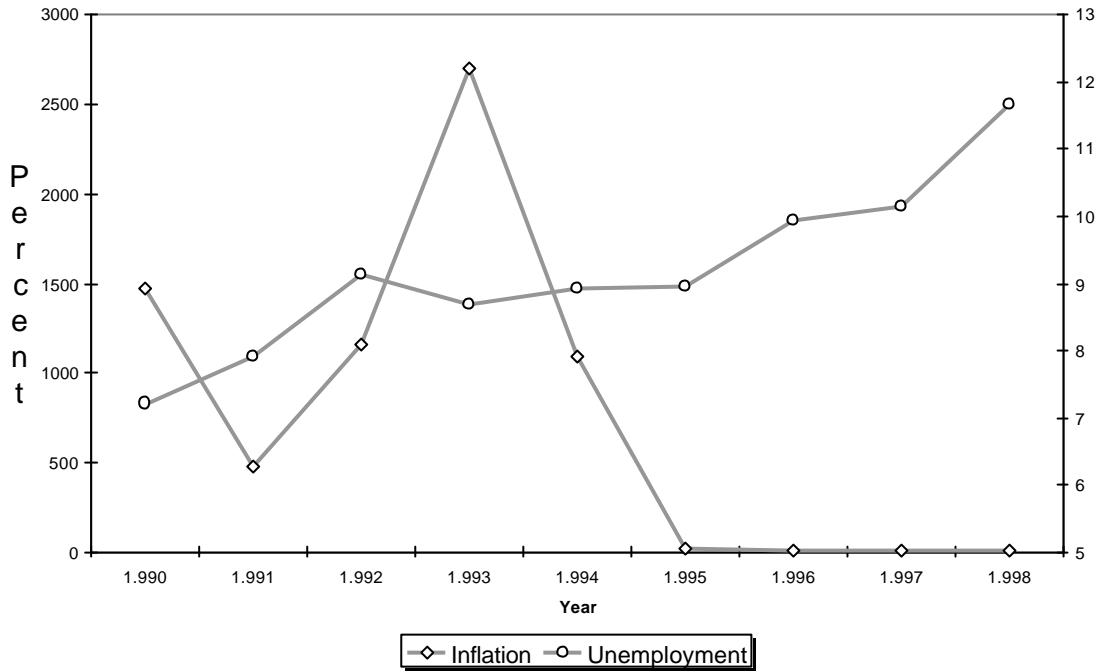
The activities which give origin to these organizations are a function of the public service privatization process in 10.2% of the cases, 22.2% are associated to the need of being positioned in certain sectors of the labor market, and 38.6% develop activities and were created as a consequence of the sub-contracting process of private firms.

One can notice, in the chart below, that due to the Brazilian economy adjustment process, there is a reduction in the inflation levels after 1994, and as a result there is a reduction in the Gross National Product growth, producing a recessive picture, with a consequent increase in the unemployment rates. In the second chart, one can observe that to the increase in the unemployment levels, there is a correspondent increase in the number of labor co-operatives in the country.

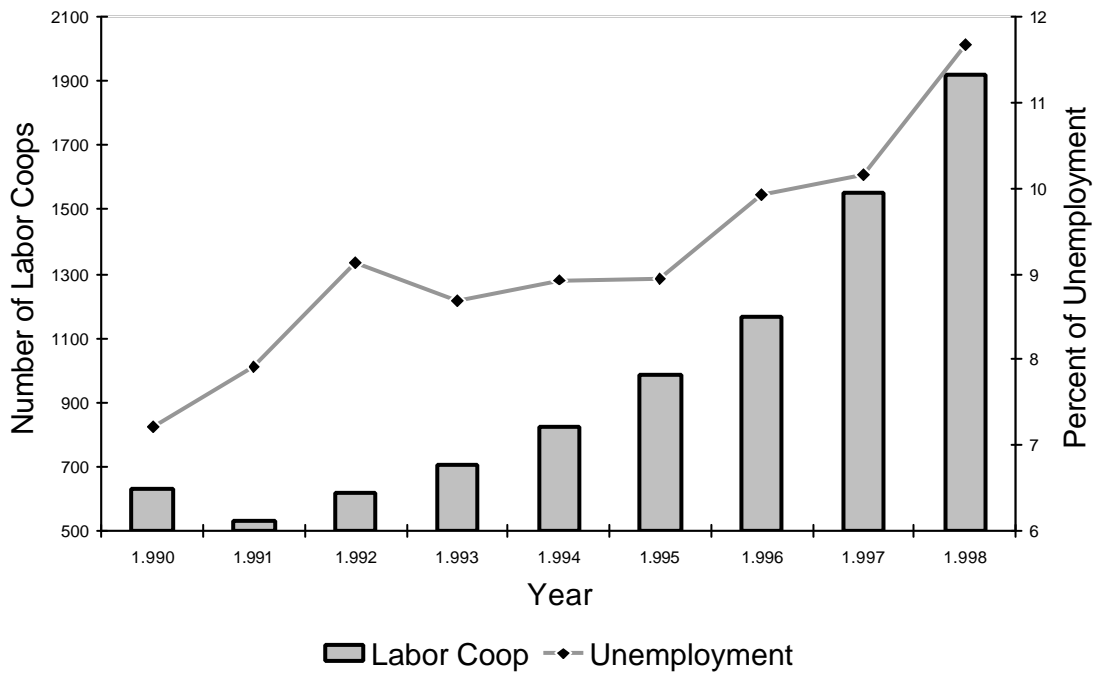
Accordingly, an increase in the credit co-operatives number is observed. This evolution has some important causes, the first that until 1997 co-operative banks were not allowed in Brazil, there were credit co-operatives that necessarily depended on government or private banks in order that their accounts could be used in the Brazilian financial system. Thus, these co-operatives payed a spread for these operations and were not allowed to declare all the advantages of the co-operativism.



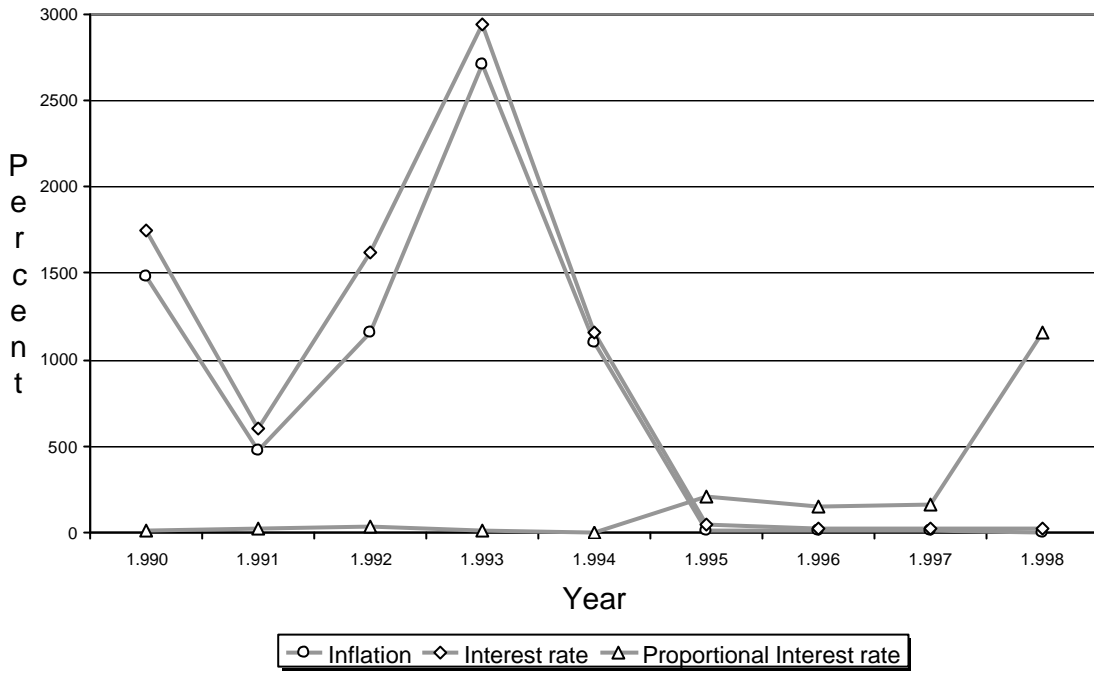
### Inflation and Unemployment in Brazil



### Unemployment and Labor Cooperatives in Brazil

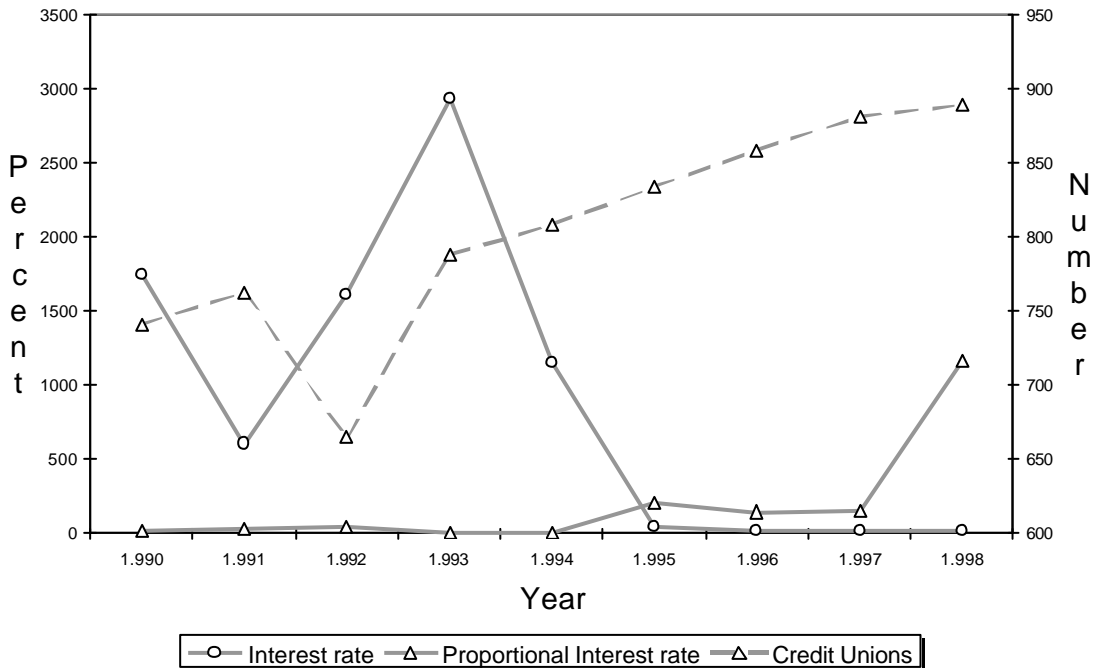


### Inflation and Interest Rate in Brazil



After the establishment of the co-operative banks, BANSICREDI and BANCOOB, the credit co-operatives had another impulse. In 1998, there were 825.911 associates to

### Number of Credit Unions and Interest Rates in Brazil



credit co-operatives in Brazil.

When the country situation during the adjustment period of the economy is analyzed, one observes that the interest rates are often above inflation levels; however, after the Real Plan, the interest rates rose proportionately more than in the former period, that is, when one considers the difference between the nominal interest paid to the Bank Deposit Certificates – CDBs – and the inflation measured by the Fundação Getúlio Vargas General Index of Prices – IGP – DI – divided by the annual inflation rate.

The charts below show that as inflation is reduced from 1994 on, a significant increase in the actual interest proportion concerning the annual inflation level is observed. After the currency desvalorization in the beginning of 1999 substituting the exchange anchor, the Federal Government adopted an inflationary goals plan consisting of controlling an annual inflationary goal mainly by means of interest rates variation.

The second chart shows that the increment in the number of credit co-operatives is constant possibly as a response to the proportional actual interest rise during the macroeconomic adjustment process. One can notice the mid-term growing trend in the number of credit co-operatives.

## **2. Modifications in the institutional environment**

In Brazil, the co-operative society is organized according to a specific legislation, Law 5764, December 16, 1971. In its 3<sup>d</sup> Article co-operatives are defined as a mercantile society aiming no profits. In their Paragraphs are listed all the fundamental and doctrinaire principles of co-operativism as voluntary participation, free ingress and egress, the impossibility to sell shares – the subscribed parts – their commercialization in stock exchange markets is not allowed – the lack of political and religious discrimination, the principle one man one vote, and in the 38<sup>th</sup> Article the general assembly as the supreme organ of decision in the organization (Bialorskorski Neto, 1994).

Today, the Brazilian co-operativism lies in a juridical vacuum due to the absence of a clear and modern legislation able to refine the former legislation, adding the modifications instituted by the constituent process in 1988, and not yet regulated. That is, the legislation is, in practice, ten years behind the decisions taken by the Constitution.

During the X Brazilian Congress of Co-operativism, in 1988, the institutional environment favored the emergence of a co-operativist parliamentary group that, articulating a group of pressure, was responsible by the advancements attained by the co-operativist movement in the constituent process of that time. Important institutional results were achieved by the 1988 Brazilian Constitution as:

Article 5<sup>th</sup>, XVIII: “the creation of associations and, as law determines, of co-operatives, is independent of authorization, the state interference in their functioning is prohibited”. Today, in Brazil, the co-operatives do not depend on the State.

Article 174<sup>th</sup>, item 2<sup>nd</sup>, says that: “the law will support and stimulate the co-operativism and other forms of association”. The State must support and incentive co-operativism as an organizational form of the population.

Article 146<sup>th</sup>, Chapter on the National Tributary System, says: “The complementary law must...III – Establish general norms about tributary legislation, particularly on... c) adequate tributary treatment of the co-operative act practiced by the co-operative societies”. Thus, the co-operative act is recognized as something different from the commercial act

and a differentiated tributary situation is guaranteed for this act, and this is very important for all the cooperation activities, since these are recognizably the opposite to the simple commercial activity.

Article 192<sup>nd</sup>, says: “The national financial system, structured as to promote a balanced development of the Country and to serve the collective interests, will be regulated by a complementary law which will also deal with ... VIII – the functioning of credit co-operatives and the requirements to adequately operate and structure financial institutions”. This puts the credit co-operatives in the same level as the financial institutions.

It is possible to observe the importance of the new legislation for the Brazilian co-operativism; that is also one of the reasons of the growing number of co-operatives as a result of the economical adjustments in Brazil.

Several advancements attained in that occasion had their origin in discussions and in the articulated action during the X Brazilian Congress of Co-operativism, and were not yet duly regulated and incorporated into the Brazilian co-operativism.

During the XI Congress, in 1998, some important questions were discussed. It was discussed and determined that a new form of representation in the Brazilian Co-operatives Organization would be necessary, where the branches of the co-operativism had greater representation in the organization administration; this was considered necessary due to the growing importance of some sectors as the labor and credit co-operatives.

Another important question was financial, with the possibility of the co-operative societies issue bonds aiming the necessary capitalization; the objective was to adjust the co-operative enterprises and obtain resources from other alternative financial sources. In Brazil, there are concrete pressures to change the institutional environment as to permit a greater efficiency of the co-operative societies.

The first modification concerns legislation, that is, Law 5764, which regulates co-operativism in the country. Tentative are being made to establish a new legislation both comprehending the problem of monitoring co-operative societies and allowing more modern capitalization processes which consider aspects as the doctrinaire fundamentals, the one man one vote principle, and the distribution of the results.

Therefore, the fundamental doctrinaire principles would be maintained, however possibilitating the co-operativism to have new resources, propitiating the environment for a new understanding of property rights aiming growth and economical efficiency.

These would be some of the institutional changes necessary and compulsory for the Brazilian co-operativism. One must observe that in other countries, these conditions exist and these procedures manage to succeed leading the co-operatives to better conditions of competitiveness.

### **3. Final considerations**

One can consider, observing these evidences, that due to the economical adjustment process Brazil is now passing through, and considering that this process leads the Brazilian society to a high level of sacrifice concerning income and growth, this society is freely and autonomously organizing itself, in order to face this process.

As a response to the extremely high level of unemployment rate, besides other alternatives, society is organizing itself in labor co-operatives, mainly comprehending university level professionals, many with graduation courses. It is interesting to observe that this profile changes as time passes.

Also as a consequence of high interest rates and the lower income level, society tends to organize itself in credit co-operatives, in order to reduce capital costs and obtain financial resources for investments and to have circulating capital for small firms.

This is now possible because the X Brazilian Congress of Co-operativism and in the Brazilian Constitution there is a legislation which permits an institutional environment where the co-operative societies organization does not depend on the State making totally possible the rapid response of the society to the adversities arising from the Brazilian economy adjustment.

On the other hand, it is necessary to adapt the national co-operative system to the modifications which occur in this sector, as during the XI Brazilian Congress of Co-operativism where a new OCB organization appeared aiming greater representativity of the co-operativist sectors which showed more growth in the last years, as credit and labor.

Finally, one must emphasize the importance of the population free and autonomous organization to propitiate a more just and egalitarian society. Co-operativism today in Brazil is a reliable and safe response to the adversities which afflict the population.

Formerly, this was more intensely observed in less favored classes but today by the evolution of the labor co-operatives, one perceives that the co-operatives are a form of organization which favors also people with better educational qualifications.

Co-operativism possibly will be considered in the future an efficient organization form to provide economical and social responses to face the economical modifications and the markets internationalization. In Brazil, the opinion is that a significant and important growth of the co-operativism is occurring which can become an important organizational element to be considered by the public policies concerning economy.

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