



Voting and participation in a credit co-operative: a study of Sicredi Vale do Rio Pardo credit co-operative

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Abstract

This paper presents a discussion of voting and participation models in credit unions. It addresses future possibilities and perspectives for implementing governance mechanisms that increase member and community participation. The data are drawn from field research in the city of Santa Cruz do Sul (RS) and from interviews with co-operative leaders and staff at the Sicredi Vale do Rio Pardo Credit co-operative. Other sources are documents available at the co-operative's headquarters and research on the subject. This research contributes to expanding knowledge about governance in credit unions and voting models.

Key words: Credit co-operatives. Voting. Participation. Regional development.

Introduction

Transparency and participation are relevant themes for the study of organizations and societies, especially because they are mechanisms that allow social control in the management of public and private resources. Recent scandals involving corruption and anti-ethical attitudes in public and private organizations in Brazil are causing corporate responsibility and accountability to seek increasingly transparent mechanisms, requiring the involvement of managers, government, people and communities. This paper addresses a fundamental mechanism for self-organization and regulation of local financial systems: the voting model assemblies of Brazilian co-operatives. In particular, this paper presents partial results from an ongoing research project on local self-regulation in the context of the weak state in ancient and modern times (*LoSAM - Lokale Selbstregelungen im Kontext schwacher Staatlichkeit in Antike und Moderne*), funded by the German Research Foundation (DFG). The analysis comes from a field study conducted in September 2019 and February 2020 in the city of Santa Cruz do Sul, where interviews were conducted with co-operative leaders and staff, as well as a document analysis of the co-operative's minutes since its inception.



In the first topic, I introduce the Brazilian legislation on credit co-operatives and the voting model for their members based on Law No. 5.764 of 1971. The second topic I present the format of the general meetings held by the Sicredi Vale do Rio Pardo credit co-operative followed by the voting format adopted between 2012 and 2017, the delegated vote (*voto delegado*). The last topic I show the attempt to adopt proportional voting (qualified voting, as it is called – *voto qualificado*) by the Sicredi Vale do Rio Pardo Credit Union in 2017. Finally, in my concluding remarks, I identify future prospects for credit co-operative governance research. In addition, I offer alternatives for local credit co-operatives to implement the proportional voting model rejected by regulators and encourage local stakeholders, the central bank, other regulators, and experts to meet to discuss voting models and other proposals to improve governance mechanisms.

1. The general assembly of Brazilian credit co-operatives

In co-operatives, the General Assembly (GA) is the supreme body of the society. Any decision binds all members, even those who are absent or disagreeing. The GA is empowered to decide society's affairs and decisions concerning its development can be ordinary (held once a year until the first four months of the year) and extraordinary (held whenever necessary). The meetings must comply with the association statutes and internal bylaws (Brazil, 1971). The Board of directors' president, through a public announcement, normally calls general assemblies at least 10 days in advance. Normally, this announcement is fixed in visible spaces attended by the members, published in a local newspaper or sent to members through circular letters (*Idem*). The GA elects a president, vice president, supervisory board, and board of directors, and some executives may also be elected to permanent positions, but this decision varies from cooperative to cooperative. Some cooperatives recruit their executive positions directly at the choice of the board of directors, some at the choice of the president, and in rare cases at a general meeting. The electoral process follows the statutes of the co-operative and its internal regulations and an electoral commission made up specifically for this purpose, which shall ensure the autonomy and independence of the process.

It is important to keep in mind that a general meeting of a cooperative is quite different from a general meeting of a traditional bank. In a bank, one vote per share or unit is given at the general meeting, so decision-making is concentrated on the members with the most capital (financial control). The quorum at bank assemblies is based on the capital that exists in the



organization, i.e. the shareholder with the most capital has the greatest weight in the voting. In co-operatives, each member is entitled to one vote, and the quorum is based on the number of members present at the meeting.

Cooperatives operate for the benefit of members, and those benefits are distributed in proportion to each member's transactions with the cooperative. They operate on the principle of "one member, one vote", so control is allocated evenly among the users of the co-op without regard to how much money each has invested. On the one hand, the members of a cooperative have power to decide whether to distribute the surplus (financial results) or reinvest it in the cooperative itself. On the other hand, traditional banks distribute the results to investors based on their participation in the capital (number of shares). The Brazilian Law 5.764, Art. 40, sets the minimum quorum for the operation of general assemblies in co-operatives, being mandatory the participation of: I) Two-thirds ($\frac{2}{3}$) of the members on the first call, II) simple majority ($\frac{1}{2} + 1$) on the second call and III) at least ten (10) members on the third call. These mechanisms provide security and transparency for co-operatives' performance.

Considering the fact that the general assembly is the maximum instance of governance body in a co-operative, it is extremely important to have effective member participation and substantive representation of the distinct groups that make up the co-operative. The effective participation of members requires several conditions, such as training and education, dissemination of information, participation of youth and women and financial access. The members' involvement can be evaluated both quantitatively, by the number of participants, and qualitatively, by their contribution to the debate and decision-making. An assembly, for example, may have a reasonable quorum, but poor representativeness, in case certain groups are absent or stop manifesting themselves (Ventura et al. 2009). The next topic describes the assembly model in the organization studied.

1.1 The General Assembly in Sicredi Vale do Rio Pardo

In Sicredi Vale do Rio Pardo, the Ordinary General Assembly (OGA) is held, according to its internal regulations, once a year until the third month after the end of the fiscal year. The OGA deliberates on the following matters: i) accountability of the management bodies; approving the report of the Fiscal Council, (management report; balance sheet; statement of leftovers or losses) ii) division of profit or loss iii) election of the board of directors, fiscal council



and others, when applicable; iv) the salaries and benefits for elected positions (president, administrative board, and directors); vi) the maximum amount of capital that the society can borrow from third parties, and the maximum amount that each member can request vii) any matters of social interest.

The Extraordinary General Meeting (EGM) is held whenever necessary and decides on any matter of interest to the society whenever it is stated in the call. It is the exclusive competence of the EGM to deliberate the following matters: I - reform of the bylaws; II - fusion, incorporation or dissolution; III - change of the society's scope. For all these decisions, votes of two-thirds ($\frac{2}{3}$) of those attending are required for the deliberations to be valid.

Agenda items are discussed at the pre-assemblies and coordinated by the President of the Cooperative. The pre-assemblies are automatically held before the General Assembly (GA). As a rule, they are called by the President of the cooperative, but may be called by the Board of Directors (collegial), the Board of Supervisors, or 1/5 of the members of the nucleus. The call must be fixed in a visible location, such as a service unit or any space considered necessary by the cooperative. Members may vote or run for cooperative offices (president, vice president, board of directors, board of auditors) and may vote or be voted in by the nucleus coordinator. The general assemblies (GA) may be held on the second or third call, on the same day as the first call, with an interval of at least one hour between each call, as long as this is expressly stated in the official invitation (Sicredi Vale do Rio Pardo, 2016). The installation quorum is verified by signing the attendance book. The activities must comply with:

Table 1 - Required quorum for the assembly (general and extraordinary) in Sicredi Vale do Rio Pardo

Convocation for the assemblies	Events	Minimum number of members of a deliberative assembly (quorum)
First call	T0 = start time	two thirds ($\frac{2}{3}$) the number of delegates
Second call	T1 = T0 + 1 hour	(50% +1) delegates



Third call

$T2 = T1 + 1$
hour

ten (10) delegates

Source: Adapted from Sicredi Vale do Rio Pardo 2016

It is verified that the quorum of Sicredi Vale do Rio Pardo is set in accordance with national law (Law 5.764, Art 40). It is also identified that the organization follows the regulations of the central government. For example, in 2020, due to the COVID-19 pandemic, the national law was changed to allow general assemblies to be held remotely and digitally in accordance with federal executive branch regulations¹, and co-op leaders complied with that, respecting members' rights and regulatory requirements.

The assemblies, associated with other communication channels used by Sicredi, such as newsletters, social programs, periodical publications, educational and informative events, social networks, relationship with managers, collaborators, board of directors and administrative council, expand opportunities of representativeness and knowledge for members. In addition, a help desk to receive suggestions and complaints also contributes to active community participation. An analysis of all these mechanisms, which is beyond the limits of this text, was observed in field surveys, interviews and internal documents. These results will be included in future publications. As mentioned above, several initiatives have been implemented and tested to address or mitigate the impact of low participation rates and often ineffectiveness. One of the initiatives implemented by the organization to increase the participation of its members was indirect representation through delegates. This model is described in the following topic.

2. The delegated voting model

Due to the size of the co-operatives, either geographically or in the growing number of members, it is often not possible to organize unique and centralized events. In this way, some Brazilian co-operatives choose to adopt the delegated voting model allowed by the law. According to the national legislation², when members in single co-operatives exceeds 3,000 (three thousand), the co-operative may set that it can be represented at General Assemblies

¹ Article 43 of the Law no. 5.764, of December 16, 1971, amended by law no. 14.030, of July 28, 2020.

² Law no. 5.764, of December 16, 1971, which sets out the National Policy of Co-operatives, establishes the legal regime of co-operative societies, and makes other provisions.



by delegates (Article 42). For this, the bylaws should determine the number of delegates, the time and form of their election (§ 3°). Non-delegate members can attend the General Assembly, but they do not have right to speak or vote (§ 5°). The General Assemblies made up of delegates shall deliberate on all matters which, under the legislation or the bylaws, are the subject of the members' decisions (§ 6°). This model is similar to the model of presidential elections in the U.S., where citizens elect delegates, who in turn elect their political representatives.

When the co-operative adopts this regime, the ordinary or extraordinary general assemblies are held with delegates votes, who submit the decision of his/her core established in core assemblies. The delegate representation model is commonly used by co-operative credit systems such as Sicredi, Sicoob and Unicred and is widely accepted by BACEN (Central Bank) - the system's regulatory body (Meinen & Port, 2014). To be eligible to represent the members at the general assembly, delegates must be members of the corresponding co-operative and be up to date with their duties, in addition, they may not hold any elective position (Brasil, 1971). For the legislators and good governance practices, the delegate representation model facilitates the coordination of the assembly process and improves the interactions between managers and members, reducing timing and costs.

In small co-operatives one observes a direct participation format, when the member takes part directly in the general assembly matters, votes on his candidate and has a voice in the discussions. On the other hand, in larger co-operatives, it is common to find a model of indirect voting, also called delegated voting. The participation of members, the representativeness of groups and cores are important and give legitimacy to the internal control mechanisms triggered by the models of governance of the co-operative.

In cases of delegate representation, decisions must be recorded in minutes and the delegate must vote at the General Assembly under the deliberations of the cores. Thus, it is important to hold prior core meetings (pre-Assemblies and/or Core Assemblies), before the General Assembly, in order to increase the representativeness and participation of members in the decisions and allow a better understanding of the issues to be deliberated. We will describe this delegated vote in Sicredi on the next topic.

2.1 The delegated vote in Sicredi Vale do Rio Pardo



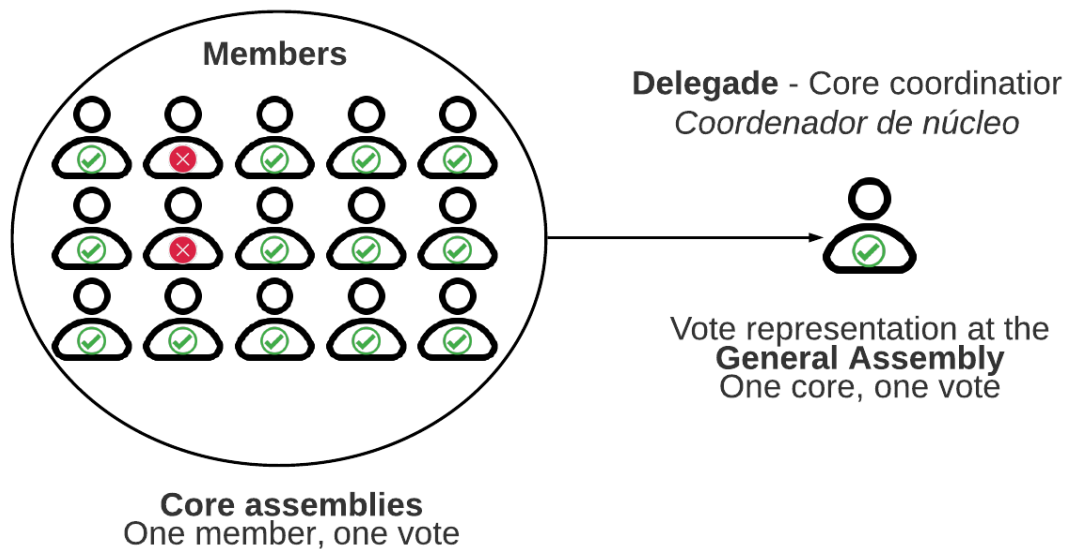
In 2012, aiming to improve the management process and expand the participation of members and, standardize the organizational structure of the membership, through the “co-operative cores”, the Sicredi System adopted the delegated voting model through the *Programa Pertencer* (PP)³ (Fundação SICREDI 2014).

The need to implement this program was due to the difficulty in organizing meetings. For example, in 2011, the last year of direct elections, there was not enough physical space to accommodate the number of members and guests, so the Sicredi Cooperative used a multi-sport gym in the city of Santa Cruz do Sul (RS) to accommodate the 2,435 members who attended the General Assembly. As a result, ordinary and extraordinary general assemblies began to be held with indirect representation. In other words, in the General Assembly, the core started to elect its representatives in accordance with the provisions of the PP (*Programa Pertencer*).

Sicredi Delegates are called core coordinators (*cordenadores de núcleo*) - because they represent the decisions taken by the members at core assemblies (*assembleias de núcleo*), among other functions (Sicredi Vale do Rio Pardo, 2017). Delegates represent the decision of the winning majority in the local assembly so far, and submit it as one vote to the General Assembly. No matter how many members participate in the Core Assembly, each delegate submits to the General Assembly only one vote representing (one) decision of the members in his or her core. This model can be depicted as:

Figure 1 - Delegated representation model for local core assemblies

³ Programa Pertencer (PP) — The Belong Program is a governance policy adopted by the Sicredi system in 2012. This policy was followed by all Sicredi local co-operatives in the country. According to the institutional website, the program “encourages [our] members to be part of Sicredi’s decisions” — “estimulamos nossos associados a fazerem parte das decisões do Sicredi” [...] “we bring more transparency and put into practice a collaborative management model” — “trazemos mais transparência e colocamos em prática o nosso modelo de gestão colaborativa” (SICREDI 2020 - <https://www.sicredi.com.br/site/sobre-nos/> Accessed on: 20.12.2020)



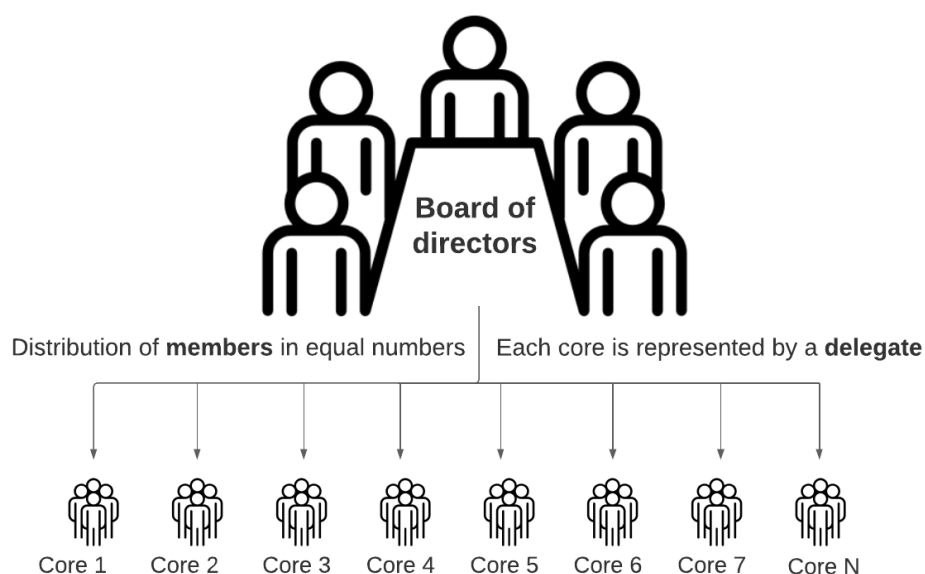
Source: adapted from Sicredi bylaws (2016-2017) and De Souza (2019)

This initiative is under Central Bank guidelines for good governance practices of credit co-operatives, which recommends the use of the delegate representation regime in co-operatives with many members (more than 3,000 members), mainly free admission co-operatives. This model has proven to be a significant practice for improving the interlocution between managers and members represented by delegates (Ventura et al. 2009).

Sicredi's *Pertencer* Program considers as a core a group of members of the co-operative in one location. There are two types of activities where members can directly engage in co-operative matters: core meetings (*reuniões de núcleo*) and core assemblies (*assembleias de núcleo*). In the core meetings the member gathers in their locality to discuss issues related to the management and development of the co-operative such as service operations, strategic planning, goal plan, monthly reporting, issues of specific interest to the core management or those defined by the board of directors. The core meetings are organized and held with the prior knowledge of the board of directors' president. These meetings, however, do not have deliberative issues. On the other hand, of a deliberative nature, there is the core assembly, which is the meeting held with the members and the core coordinator (delegate) to deliberate on: the election and resignation of the core coordinator and matters subject to the general assembly of the co-operative. In this core assembly, the delegate's vote is defined by most of the votes in the core. The delegate of the core assembly will represent with one vote all those present at the core assembly.

According to the internal regulations, the co-operative can have from 20 to 100 cores (N). The total of members per core, however, cannot be less than 250 or over 15,000. The board of directors must set the number of members per core, observing these limits

Figure 2 - Core membership organization in the Sicredi system



Source: author, adapted from Sicredi bylaws and statutes (2016-2017)

In 2012, the number of cores (N) in the co-operative was 122. From 2013 to 2020, the numbers of cores changed to 80. Its organization was based on the residential or commercial address of the members, according to criteria defined by the board of directors. The election of the core coordinators took place before the ordinary general assembly, with open or secret voting, as defined by the core members.

Core delegates can decide on all matters on the co-operative's agenda. Their term of office is four years, and they can be re-elected. The co-operative's bylaws establish that delegates may not hold elected or remunerated positions within the society. For organizational and management reasons, the core coordinator has access to the contact information of the core members for whom he/she was elected (name and email address/telephone number).



Another interesting aspect is that, like the other elected members (Board of Directors and Fiscal Council), the core coordinators may not have any political mandate. If they run for any position in the executive or legislative branch, they must resign as representatives of the co-operative, under penalty of vacancy.

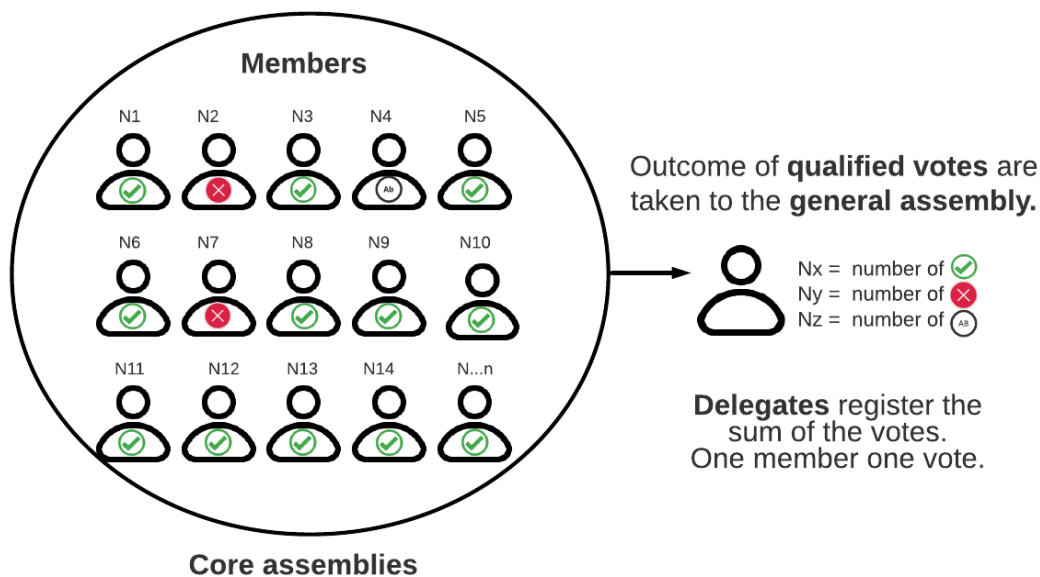
The core coordinator (delegate), must mobilize the associates for the core meetings and core assemblies. In addition, he/she must take part in the meetings of the core coordinators and the general assemblies of the co-operative⁴. This position is unpaid, however, the co-operative can contribute to the travel and other expenses of the coordinators. Some co-operatives may opt for the model of qualified delegated voting, which will be explained in the next topic.

2.2 *The change to a qualified voting model (voto qualificado) in 2017*

Although the delegated model has been used for five years (since 2012, with the *Pertencer* Program PP), the members of Sicredi Vale do Rio Pardo changed its operation. At the extraordinary assembly of the year 2016, the co-operative unanimously approved the use of a qualified vote. Following the internal dispositions established in article 20, of the Programa *Pertencer* (PP), paragraph (6§), which allows, upon prior authorization of the board of directors of the Central (in Porto Alegre), the use of qualified vote, and, therefore, including the result of individual votes of the members in the cores, i.e. the number of votes in favor, against and abstentions resulting from each core assembly, to be counted individually at the general assembly (Sicredi Vale do Rio Pardo 2016). The model can be seen below:

Figure 3 - Qualified vote in Sicredi Vale do Rio Pardo

⁴ The delegates must analyze issues related to the development of the co-operative, verify its economic and financial situation, deal with the management issues and get ready for the core assemblies, which take place before the general assembly (Article 11. *Programa Pertencer* — Sicredi Vale do Rio Pardo, 2016).



Source: adapted from Sicredi bylaws (2016-2017) and De Souza (2019)

On each core, all members' votes (pros, cons and abstentions) are summed up and the result of these votes is taken to the final general assembly. This voting process was applied for the first time in February 2017, in an assembly with 200 participants among associates and the community. With a qualified voting model, the 2017 annual general assembly registered the individual vote of all members (Sicredi Vale do Rio Pardo, 2017). As noted, this model was used upon authorization of the board of directors of the Central co-operative — Central Sicredi Sul / Sudeste (in Porto Alegre).

When analyzing the minutes of the general assembly of Sicredi Vale do Rio Pardo for 2018, it is also possible to verify that the co-operative registered individual votes of each of the 3,388 members present at the core assemblies (local) held in the 9 cities that delimit Sicredi Vale do Rio Pardo activities. These local meetings were also studied and observed by De Souza (2019).

Although innovative, in order to rescue the democratic aspect of 1 member, 1 vote, allowing the members effectively take part in the debates of several themes and the decision-making by vote, the national regulatory body presented some restrictions, proposing to readjust it.

The rejection by the regulatory body (BACEN) for the qualified voting model was explained to the members of the co-operative at the February 2018 general assembly. The



president of the co-operative informed delegates and members that the Central Bank of Brazil (BACEN) considered the proposal interesting, but not regulated, requiring a new collective reconstruction in order to normalize the qualified voting proposal (Sicredi Vale do Rio Pardo, 2018). The minutes recorded that the Central Bank suggested the co-operative an alternative way to expand member participation and ensure that decision-making processes reflect members' unique decisions. Therefore, the qualified vote did not proceed in the locality.

According to the Brazilian co-operative law⁵, the singularity of the vote in the central co-operatives and confederations may exist with proportionality criteria, however, this mechanism is forbidden in co-operatives that exercise credit activity. The researcher didn't find any official communication from the central bank destined to the co-operative on this subject. However, it is very likely that, based on this legislation, the Central Bank of Brazil may have prevented the qualified voting in the locality. This question also showed up in an interview conducted during the field research in 2020 when the researcher, by asking why the model was not legally implemented, was informed by the board of directors that BACEN understood the voting model as a “proportional vote”, which is forbidden in credit co-operatives.

According to the minutes of 2018, because of this restriction, the co-operative continued with the qualified model as an informative way (unofficial), so that more data from this experience could be available to the BACEN. But formally (according to the *Pertencer* Program approved by the Central Bank) it will continue to validate only the votes of delegate representatives within the model used by other co-operatives of the Sicredi group.

Conclusions

In order to reduce low membership participation and improve the management of co-operative societies, the Central Bank, co-operative systems and governance manuals have developed many mechanisms that facilitate governance, including the model of indirect representation at general meetings through delegates, which has been used by the Sicredi system since 2012. However, to rescue a better quality of representation of its members, the local co-operative Sicredi Vale do Rio Pardo proposed a new model of delegated voting, known as qualified voting.

⁵ Article 4 (Caput 5) of the Law no. 5.764, of December 16, 1971.



The co-operative from Vale do Rio Pardo was the first Sicredi co-operative to experience the qualified voting model, in which delegates register the number of individual votes from each core at the general assemblies. This model, however, needs to be adapted so that it can have legal effects and allow for the singularity of members' votes. It was observed on pre-assemblies, that discussions on qualified voting and incentives for access to the local community, expand possibilities of participation and, therefore, the strengthening of internal and external control systems (de Souza 2019).

In this paper, I have pointed out that the members' participation is a crucial element for the development of the organization. Nevertheless, the participation is not only expressed at the General Assembly or in pre-assemblies but also in the daily discussions, in the experience of the co-operative routine and in mechanisms of external control, verified by the supervision carried out by the community itself over the management. As noted, the analysis of these mechanisms goes beyond the proposed objectives in this article, but they can be used in future researches to expand the knowledge about governance in co-operatives. These and other questions should be investigated in order to have a greater vision of governance in co-operatives.

To enhance democratic governance in co-operatives, questions regarding the use of qualified or delegated voting models should be evaluated together with other relevant issues, with the participation of actors who are part of the co-operative universe: members, managers, staff and society. A broad discussion involving both the Sicredi co-operatives and other credit systems, centrals and confederations, together with the regulatory body (Bacen), can support the debate on the singularity of voting in credit co-operatives in Brazil. For future investigations it is interesting to have a comparative analysis of co-operatives of other systems and also of alternative systems such as Sicoob, Cresol, Unicred, and autonomous co-operatives.

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