FINANCIAL COOPERATIVES IN RURAL FINANCE: SICREDI, BRAZIL

BONNIE BRUSKY
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# ACRONYMS AND ABBREVIATIONS

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<th>Acronym</th>
<th>Description</th>
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| ANCOSOL | Associação Nacional de Cooperativas de Economia Solidária  
National Association of Cooperatives for Economic Solidarity |
| CRESOL  | Cooperativa de Crédito Solidário  
Mutual Credit Cooperative Network |
| DESUC   | Departamento de Supervisão de Cooperativas e Instituições não Bancárias e de Atendimento de Demandas e Reclamações  
Department of Supervision of Cooperatives and non-Bank Institutions and Requests and Complaints |
| DGRV    | Deutscher Genossenschafts-und Raiffeisenverband e.V.  
German Confederation of Credit Cooperatives |
| ECOSOL  | Economic Solidarity Cooperative Network  
Cooperativas da Economia Solidária |
| FRENCOOP| Frente Cooperativista  
Cooperative Front of Parliamentarians |
| IBGE    | Instituto Brasileira de Geografia e Estatística  
Brazilian Institute of Geography and Statistics |
| IFAD    | International Fund for Agricultural Development |
| IPEA    | Instituto de Pesquisa Econômica Aplicada  
Institute of Applied Economic Research |
| IT      | Information technology |
| OCB     | Organização das Cooperativas Brasileiras  
Brazilian Organization for Cooperatives |
| PRONAF  | Programa Nacional de Fortalecimento da Agricultura Familiar  
National Program to Strengthen Family Agriculture |
| SAS     | Sistema de Atividades de SICREDI  
SICREDI Activities System |
| SEBRAE  | Serviço Brasileiro de Apoio às Micro e Pequenas Empresas  
Brazilian Service to Support Micro and Small Enterprises |
| SESCOOP | Serviço Nacional de Aprendizagem do Cooperativismo  
National Service of Cooperative Learning |
| SICOOBD | Sistema das Cooperativas de Crédito do Brasil  
Brazilian Credit Cooperative System |
| SICREDI | Sistema de Crédito Cooperativo  
Credit Cooperative System |
| TA      | Technical assistance |
| TAC     | Technical advisory committee |
| WOCCU   | World Council of Credit Unions |
EXECUTIVE SUMMARY

This report presents the results of a case study of the Sistema de Crédito Cooperativo, SICREDI, the second-largest financial cooperative in Brazil. Historically a rural cooperative with origins in the southern state Rio Grande do Sul, SICREDI first organized as a network in 1980 and has grown considerably since 1996 when an increasingly favorable regulatory framework enabled the network to found its own Cooperative Bank. In December 2005, SICREDI serviced nearly one million members via 130 cooperatives, 890 branches across 10 states. The affiliates administered R$3.2 billion in loans, R$3.4 billion in deposits and R$1 billion in net capital, with profits of R$149 million.

Over the last 20 years, SICREDI has evolved from a small network of rural production/credit cooperatives to a sophisticated financial institution. While it is true that the cooperative sector as a whole has benefited from favorable regulatory changes, SICREDI, more than other financial cooperatives in Brazil, has managed to structure and consolidate its operations, creating a stronger foundation than the other cooperative networks. While not the largest network in the country, SICREDI is considered the most professional and well structured.

SICREDI is a three-tier structure administered by 8,000 technical staff and elected representatives. At the base are the individual cooperatives, which serve members via branches and service points. At the secondary level, five Centrals coordinate and supervise the activities of the cooperatives, with an emphasis on controls and institutional development. A Confederation and Cooperative Bank are at the tertiary level, alongside four auxiliary institutions: BC Card, an insurance administrator, a consortia administrator, and a hardware-logistics provider, Redesys. The Confederation, created in 2000, is responsible for developing corporate policies, developing technological tools to implement these policies, and operationalizing the policies. The Confederation centralizes human resources, auditing, information technology (IT), accounting, payroll, and most other administrative services for the entire network. The Bank was founded in 1996 to serve as an instrument of the cooperative affiliates to access financial markets and credit lines, and to administer the network’s resources. It is also responsible for elaborating technical policies.

Until recently, SICREDI’s member base was primarily composed of rural, middle-income farmers. This changed in 2003, when urban, free-admission cooperatives were authorized by the Central Bank of Brazil, and SICREDI began to move into metropolitan areas. Leaders now estimate 50 percent of membership is rural. The cooperatives offer all the traditional banking services: loans, savings, check cashing, insurance, credit cards,
and investment funds. Rural credit constitutes 50 percent of the cooperatives’ loan portfolio.

SICREDI employs a model defined as systemic integration. The defining characteristics of this approach are the following:

- **Standardization**, both in terms of external appearance and internal operations.
- **Centralization** of as many services as possible to cut costs and gain scale.
- **Specialization** of technical knowledge to ensure efficiency and effectiveness.
- **Transparency**
- **Horizontal integration** of the individual cooperatives based on a policy of shared responsibility (*responsabilidade solidária*) for operating results.
- **Vertical integration** of the three levels in order to achieve economies of scale and benefit from specialized technical knowledge.
- **A distinction between the “cooperative business” and “cooperative enterprise.”** In the SICREDI model, the cooperative business refers to services provided and costs incurred. The cooperative enterprise refers to the social relationship with members.

The network SICREDI has been advancing steadily since 1980 and growing more aggressively since 1996, essentially within the same model that was developed rather intuitively by the network’s leaders. The principal factors of success echo those identified in the World Bank report *Meeting Development Challenges: Renewed Approaches to Rural Finance*:

- Favorable policy and enabling environment
- Strong and transparent governance
- Professional management and staff
- Strong risk management and IT systems
- Centralization of services via second- and third-tier entities
- Clear definition of roles
- Well-defined auditing systems
- Intolerance of political affiliation
- Intense investment in human resources
- Well-defined model
- Culture of systematization
- Forward-looking, dynamic, and methodical
- Emphasis on social communication and image
- Cooperative culture (strong European influence)

The main weaknesses identified—a distancing from the member base, lack of capacity to track profitability and efficiency, and an underperforming IT platform—are related to the rapid growth SICREDI has experienced in recent years.
This report proffers the following recommendations:

- Create a Technical Assistance (TA) provider and visitor program to capitalize on expertise and experience
- Invest in understanding current and potential member base
- Develop nonfinancial services to increase value added
- Encourage strategic planning at the cooperative level with a local development perspective

The report concludes that although SICREDI is an exemplar cooperative network that has had a significant demonstration effect in the Brazilian context, it has emerged from a very particular cultural context and would be difficult to replicate.
1. BACKGROUND

COUNTRY BACKGROUND

Closing in on its second decade of democratic rule, Brazil is affirming its position as a global economic player. The largest economy in Latin America, Brazil’s GDP has nonetheless grown more slowly than its neighbors in recent years. After a small jump of 5 percent in 2004, growth slowed again in 2005 to 2.3 percent. Projections for 2006 are only slightly higher, around 3.5 percent. The per capita GDP of US$5,507 is the fourth highest in Latin America and increased 0.8 percent in 2005.

In the United Nations Development Programme’s Human Development Index, Brazil ranks 63rd, positioned sixth among the countries of medium human development. This indicator has stagnated over the last two years, but it has improved since 2002 thanks to improvements in health and education. Socioeconomic inequality remains pervasive, with the richest 20 percent concentrating 56.8 percent of national income.\(^1\) The Gini index, used to measure inequality, is 0.57 (0 being perfect equality and 1 being maximum inequality), one of the highest in the world.

Administratively, Brazil is composed of 27 states grouped together into five regions: the Center West (Distrito Federal, Goiás, Mato Grosso, Mato Grosso do Sul); Northeast (Alagoas, Bahia, Ceará, Maranhão, Paraíba, Pernambuco, Piauí, Rio Grande do Norte, Sergipe); North (Acre, Amapá, Amazonas, Pará, Rondônia, Roraima, Tocantins); Southeast (Espirito Santo, Minas Gerais, Rio de Janeiro, São Paulo); and South (Paraná, Rio Grande do Sul, Santa Catarina).

Roughly 21 percent of the 177 million inhabitants live in rural areas. According to the International Fund for Agricultural Development (IFAD), almost 80 percent of rural Brazilians live in poverty. The Northeast region of the country is particularly disadvantaged. In 2002, 25.2 percent of inhabitants in the Northeast lived in extreme poverty compared to 5.2 percent in the Southeast; the poorest 20 percent in the Northeast held an income share of 3.5 percent compared to 4.7 percent in the Northeast.\(^2\)

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\(^1\) IBGE and IPEA 2004.
\(^2\) IBGE and IPEA 2004.
Brazil’s financial system is the largest in Latin America, the overall depth of financial intermediation representing 140 percent of the GDP (Kumar 2005). Heavy investments in the sector in the 1980s resulted in a sophisticated sector, yet one lacking broad outreach. The central bank estimates that only one-third of the population has a bank account. This financial landscape is changing, however. Efforts to expand financial access through microfinance have gradually intensified since the late 1990s thanks to government commitment, combined with private sector and nongovernmental initiatives. These efforts include regulatory changes to stimulate pro-poor financial institutions, an increase in funds earmarked for microfinance, and measures to reach the unbanked through simplified accounts.

Financial cooperatives are playing no small role in this evolution. An increasingly favorable legal environment has made it possible for cooperatives to assert their importance as financial service providers. While the actual number of cooperatives has gone down slightly since 2003 due to consolidations (figure 1), growth in resources has outshined that of the financial sector (sector financeiro nacionl, SFN) as a whole in recent years (figure 2).

**Figure 1: Number of Financial Cooperatives**

![Cooperativas de Crédito](source: Central Bank of Brazil, cited in Schneider 2006.)

**Figure 2: Growth Rates—Financial Cooperatives versus Financial Sector**

![Growth Rates](source: Presentation by Gilson Bittencourt, Ministry of Finance, at Central Bank Seminar on Microfinance, Recife, June 2006.)
### Table 1: Market Shares of Financial Institutions (12/2004)

<table>
<thead>
<tr>
<th></th>
<th>Credit Operations</th>
<th>Deposits</th>
<th>Net Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public banks</td>
<td>4.4</td>
<td>6.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Banco do Brasil</td>
<td>19.4</td>
<td>17.1</td>
<td>8.7</td>
</tr>
<tr>
<td>Caixa Econômica Federal</td>
<td>7.5</td>
<td>15.6</td>
<td>4.1</td>
</tr>
<tr>
<td>National private banks</td>
<td>41.3</td>
<td>39.4</td>
<td>52.9</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>25.1</td>
<td>19.9</td>
<td>27.1</td>
</tr>
<tr>
<td>Financial cooperatives</td>
<td>2.3</td>
<td>1.4</td>
<td>2.6</td>
</tr>
</tbody>
</table>

*Source: Central Bank of Brazil, cited in Schneider 2006.*

Nonetheless, the overall market share of cooperatives in the financial sector is still small, representing only 2.3 percent of all credit operations, 1.4 percent of deposits, and 2.6 percent of equity, suggesting there is still a great deal of room to grow.

### ACCESS TO FINANCIAL SERVICES IN RURAL AREAS

The main financial actors in rural areas are the federal bank Banco do Brasil, the private bank Bradesco, a variety of regional development financial institutions, and financial cooperatives. Semiformal and informal actors like input suppliers, middlemen, and moneylenders are also more or less present, depending on the region. Most of these providers offer microfinance products as part of their product line, but there are few institutions that work solely as rural microfinance institutions. The largest microfinance program in Brazil, CrediAmigo of the regional development bank Banco do Nordeste, is primarily urban based, as are the majority of microfinance institutions operating in Brazil. This does not mean rural populations do not have access to microfinance; only that it is channeled through institutional forms mentioned above.

Rural credit in Brazil is financed with a variety of off-budget taxes and earmarked constitutional funds as well as a 25 percent mandatory lending requirement on all unremunerated demand deposits. Volumes have varied considerably in the last 30 years, reaching a present-day equivalent of R$94 billion (US$40.3 billion) in 1979 and dropping to a low of R$13.7 billion (US$5.9 billion) in 1996. Volumes have been increasing steadily since. Some R$39.5 billion (US$16.9 billion), about 8 percent of the total bank system’s portfolio, was lent to rural areas during the 2004/2005 harvest season, an increase of 48 percent from 2003/2004.

The target group of these resources is 4.9 million agricultural production units, of which 4.1 million are family farmers. Investment and production needs are met through a wide variety of credit lines for specific crops. Interest rates range from 6 to 12 percent per annum for credit financed by government resources, with potentially negative interest

rates for PRONAF\textsuperscript{4} loans because of interest rebates for on-time repayment. Interest rate for free credit, that is, not directed credit, averaged 8.75 percent. Overall average loan size in 2003 for rural credit was R$14,800 (US$6,349), while the average for PRONAF loans was R$2,600 (US$1,115).

Federal banks are the main suppliers of rural credit. Banco do Brasil is the primary rural lender, present in at least 87 percent of municipals across the country. Two regional development banks, Banco do Nordeste and Banco da Amazônia, service the Northeast and the Amazon regions, respectively. Financial cooperatives have a small role in rural lending in terms of volume, accounting for only 6.2 percent of total financing. But they are more important in terms of outreach. In certain regions, they are the only financial institutions available.

<table>
<thead>
<tr>
<th>Table 2: Rural Credit—Market Shares (2003)</th>
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<tbody>
<tr>
<td>Loan Volume (%)</td>
</tr>
<tr>
<td>Federal banks</td>
</tr>
<tr>
<td>State banks</td>
</tr>
<tr>
<td>Private banks</td>
</tr>
<tr>
<td>Financial cooperatives</td>
</tr>
</tbody>
</table>

\textit{Source:} Central Bank of Brazil.

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\textsuperscript{4} Programa Nacional de Fortalecimento da Agricultura Familiar, which directs credit to small family farmers.
2. POLICY AND INSTITUTIONAL ENVIRONMENT

LEGAL FRAMEWORK

Today’s financial cooperative legislation in Brazil bears little resemblance to that of the 1980s. Most observers point to 1992 as the beginning of the first significant changes. Following the formation of a working group on cooperatives, composed of representatives of the cooperative sector and the Ministries of Finance and Agriculture, Resolution 1.914 was adopted, nullifying restrictive norms adopted in the mid 1960s concerning savings mobilization and authorizing the mutual and rural credit cooperatives. Shortly thereafter, Resolution 2.193 was passed in 1995, permitting the creation of cooperative banks. This resolution was the result of intense lobbying efforts by the cooperative sector, but it was also a reaction to the observed reality: despite the restrictive legislation, several financial cooperative networks had managed to consolidate throughout the 1980s. The decision to permit cooperative banks was a way to reflect this.

In 1999, cooperative banks were authorized to offer government-subsidized rural credit lines (Law 9.848). In 2000, Resolution 2.788 again responded to the growing maturity of the sector and permitted cooperative banks to open their capital to outside investors, provided the Centrals maintained a minimum of 51 percent of shares. In 2004, cooperative banks were authorized to mobilize a passbook savings referred to as “rural savings,” of which 65 percent of mobilized resources can be used for rural credit.

Parallel to these refinements to the cooperative bank statute, several important resolutions addressing the constitution and functioning of credit cooperatives were adopted in 1999, 2000, 2002, 2003, and 2005. Resolution 2.608/99 introduced major innovations. It stipulated the supervisory role of Centrals, including responsibility for auditing affiliates. It more broadly defined the target public of cooperatives and set minimum capital requirements. It took a position in favor of integrated systems supervised by a centralizing entity.

Resolution 2.771/00 further refined 2.608, reducing capital requirements for individual cooperatives by adopting limits that set according to the degree of risk of the capital structure. Resolution 3.058/02 authorized credit cooperatives for small businesses and microentrepreneurs, and 3.041/02 addressed the conditions required (for example, personal solvency, no criminal record, and sufficient training or experience) to be an elected representative.
Resolution 3.106/03 authorized a constitution of open-admission cooperatives in regions of less than 100,000 inhabitants and the transformation of other cooperative forms into open-admission cooperatives in regions of less than 750,000 inhabitants. It also laid out the requirements for forming a cooperative, including an economic viability study, a description of internal controls, credit policies and products, and a description of the systems and technologies to be used to serve members. Resolution 3.321/05 revised the population limits for creating open-admission cooperatives (allowed now in regions with up to 300,000 inhabitants), authorized electronic service points, and emphasized the importance of external auditing.

These regulatory advances were spearheaded by a small group within the central bank whose interest in credit cooperatives was, in one interviewee’s words, “disproportional” given the participation of these institutions in the Brazilian financial sector. Frequent contact with DGRV, the German TA provider, was key in nourishing the interest, and regular exchanges with credit cooperative leaders helped central bankers understand the day-to-day implications of legislation on cooperative activities.

A more technical approach gave way to a more political approach that came with the election of President Lula in 2002. While government support was also present during the Cardosa administration, it grew significantly with Lula, who made all forms of cooperatives a priority. This support has undoubtedly speeded up regulatory changes and reduced the overall resistance that characterized most central bankers in the 1980s and 1990s. It has also led to some important laws regarding tax exemptions for cooperatives.

**SUPERVISION**

Since 2005, financial cooperatives are supervised by a distinct department within the central bank, DESUC, which oversees cooperatives, nonbank financial institutions, and, rather eclectically, complaints. DESUC is responsible for authorization of operations, evaluation of economic and financial capacity, enforcement of norms, and sanctions in the event of non-respect of norms. To do this, the department examines the business plan, assesses the capacity of proposed leaders, verifies documentation, and evaluates the capacity to supervise, in the case of a Central. It also conducts field inspections via its regional offices and monitors liquidity and credit risk. DESUC relies mainly on auxiliary supervision, via the Centrals, and directly supervises the Centrals and non-network-affiliated individual cooperatives. Centrals are expected to annually audit their rural credit affiliates and their open-admission and microentrepreneur cooperatives twice a year. The Centrals themselves must have annual external audits.

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5 That is, 95 percent of all municipalities.

6 Departamento de Supervisão de Cooperativas e Instituições não Bancárias e de Atendimento de Demandas e Reclamações.

7 Prior to 2005, supervision of cooperatives was combined with the supervision of banks.
Despite growing cooperative membership over the last decade, the number of punitive measures taken has decreased over time. This is as much the result of a maturing cooperative sector as it is the increasing knowledge and familiarity with cooperatives within the central bank. The main problems detected by DESUC have to do with bad management of credit risk, inadequate provisioning, irregularities in distributing losses and gains, operations with nonmembers, and accounting problems. Despite these irregularities, DESUC believes the sector to be “well-intentioned” and identifies the lack of professionalization of cooperative leaders, deficient internal controls, and internal supervisory entities as the primary cause of most irregularities.

**REMAINING REGULATORY CHALLENGES**

Overall, cooperative legislation has become increasingly aligned with that of the financial sector, and most observers agree that there is little left to do on the normative front. Nonetheless, a few challenges remain.

*Auxiliary supervision.* The quality of the Centrals’ supervision of their affiliates is unequal across the sector, reflecting not only different levels of maturity across the various networks but also different levels of professionalization within those same networks. Most sector stakeholders suggest it is time for a change, but discussions regarding an alternative have not yet started formally.

*National deposit insurance fund.* The absence of access to deposit insurance for financial cooperatives was identified as a challenge in the World Bank study on financial access in Brazil (Kumar 2005). Unlike the bank system, cooperatives do not have access to the national deposit insurance fund; thus, networks must enforce relatively high liquidity requirements in comparison to banks (40 percent in SICREDI), which reduces their loanable resources. While not a regulatory obligation, currently most networks including SICREDI have their own deposit fund. There is nonetheless a growing consensus that a sectorwide fund is necessary, and an international seminar on the topic was held in São Paulo in May 2006. SICREDI has attempted to resolve its own liquidity bottleneck by formulating a model (under final stages of development) based on dynamic liquidity needs, which will abolish the fixed 40 percent requirement and use an internal formula to establish levels for each cooperative.

*Cooperativist law.* The law that currently governs all types of cooperatives is a *lei orginária*, a form of law which, by constitutional definition, is vulnerable to changes. SICREDI proposes the creation of a new law to govern financial cooperatives that will protect cooperative networks from regulatory fluctuations like those of the 1960s.

*Contribution to national education system for cooperatives.* SESCOOP (Serviço Nacional de Aprendizagem do Cooperativismo) is part of the so-called “S” system, a series of supranational entities financed by various forms of taxes. This entity is administered by the Organization of Brazilian Cooperatives and promotes cooperative education via projects developed independently in each state. In order to boost
Role and Influence of Regulators, Government, and Advocacy Groups

SICREDI considers political independence to be key for a successful financial cooperative. Nonetheless, the network does not underestimate the importance of political forces and maintains a strong presence in circles of political power.

Central bank. SICREDI has maintained a direct relationship with the central bank since the early 1990s. This relationship has been fundamental to the network’s development, as it has been an impetus to significant regulatory changes. While prior to the 1990s SICREDI was subject to the influence of the central bank’s rules, currently SICREDI has an influential role in making and improving them. SICREDI is not the only privileged interlocutor from the cooperative sector; the other major networks, SICOOB (Sistema das Cooperativas de Crédito do Brasil) and ANCOSOL (Associação Nacional de Cooperativas de Economia Solidária), an umbrella organization of “economic solidarity” cooperatives, are also present. However, SICREDI’s systemic operational model appears to have the most credibility in the eyes of the central bankers.

Government and politicians. It is not customary for SICREDI to relate directly with the government via the ministries. Historically, SICREDI has developed relationships with local- and state-level politicians, independent of party ties, as a way to lobby for cooperative rights in Congress. A front of politicians sympathetic to cooperatives of all types was created in the early 1990s with this objective, and today this Frente Cooperativista (FRENCOCOP) continues to be active.

Rural organizations. SICREDI has also historically maintained ties with rural organizations like rural unions and producer associations in order to lobby in favor of cooperative rights. Presently, these relationships do not appear to play a major role in SICREDI, which has grown considerably and become first and foremost a financial institution, moving away from the purely advocacy nature of many of the rural organizations. Nevertheless, these relationships continue to exist and play a more or less important role depending on the community.

Brazilian Organization for Cooperatives (OCB). SICREDI is a member of this national lobby for all types of cooperatives. With offices in Brasília, OCB is an active leader of the pro-cooperative lobby and is responsible for the administration of SESCOOP. OCB maintains a registry of cooperatives in Brazil, although not all cooperatives are members.⁸

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⁸ Among the financial cooperatives, for example, the ANCOSOL institutions are not members. This is due to an ideological divide that separates the OCB members from the cooperatives with a stronger socially oriented perspective.
**ROLE AND INFLUENCE OF DONORS, TA PROVIDERS, AND OTHER PARTNERS**

Donors have played virtually no role and technical assistance has been minimal. The network has ties with local institutions, but it usually works in partnership with these to organize the member base or leverage particular knowledge of a new target group. As a whole, SICREDI’s development has been relatively endogenic.

*Donors.* SICREDI has built its asset base from the network’s profits. Only in isolated cases has it turned to donors for funds, as in the case of a partnership with the Inter-American Development Bank in the state of Tocantins. The Bank has contributed to the constitution of new cooperatives in this state by financing capacity-building activities and infrastructure. As a whole, multi- and bilateral donors do not have a significant role in SICREDI, nor does there appear to a need for them now. Should SICREDI find some value in the recommendations laid out in the final section, donor intervention may make sense sometime in the future, as a source of financing and/or knowledge. Presently, however, there are no clear “missing ingredients” in SICREDI that donors could readily provide.

*TA providers.* The German TA provider DGRV has worked with SICREDI in Brazil since 1996. Assistance has taken the form of helping to train new affiliates in the late 1990s in the state Mato Grosso do Sul and facilitating visits to German cooperatives, but DGRV essentially characterizes its relationship with SICREDI as one of exchange. It considers SICREDI the most advanced financial cooperative in Latin America and emphasizes that SICREDI’s know-how comes mainly from inside the institution, not from outside stakeholders. SICREDI often works in tandem with DGRV in other countries as an example of good practice. SICREDI is also a member of the World Council of Credit Unions (WOCCU).

*Other partners.* To assist in the creation of new cooperatives, SICREDI has worked with institutions like SEBRAE (Brazilian Service to Support Micro and Small Enterprises) and rural producer federations. Via its member-organization programs, the network works closely with local education institutions and city governments. These partnerships do not necessarily influence SICREDI, but they do help it conduct activities more efficiently and effectively.
3. SICREDI NETWORK

OVERVIEW

Historical Developments

SICREDI’s roots date back to 1902 with the founding of the first Brazilian credit cooperative by Jesuit priest Theodor Amstad. Swiss born and English educated, Amstad arrived with a wave of German immigrants in the mid 1800s and is credited with founding several Raiffeisen-type credit cooperatives in Brazil. The first, located in Rio Grande do Sul, the state where SICREDI’s presence is strongest, continues to function and is a SICREDI affiliate.

The financial cooperative movement grew throughout the 20th century in the South and Southeast as did a body of legislation to accompany it. By the end of 1961, some 511 financial cooperatives of various types were registered with the Ministry of Agriculture, representing some 550,000 members (Pinheiro 2006). When the military took power in 1964, the situation changed considerably. Responsibility for cooperatives was transferred from the Ministry of Agriculture to the central bank. It became illegal to redistribute profits among members, and only two types of cooperatives became acceptable: those whose objective was providing credit for rural production purposes and those composed solely of employees of a public or private entity. All other forms were prohibited. The existing cooperatives had 90 days to submit a request for reauthorization.

The result was a drastic reduction in the number of financial cooperatives, especially in urban areas, and a homogeneous cooperative landscape in which the financial activities of rural credit cooperatives were directly tied to the operations of production cooperatives. This linkage proved to be fatal in many cases, and a number of cooperatives were liquidated in the 1970s and 1980s, sullying the reputation of the cooperative sector as a whole.

The early 1980s witnessed a revitalization of rural credit cooperatives as a response to reductions in the massive direct credit lines used to finance Brazilian agriculture via the state bank Banco do Brasil. The few remaining cooperatives of Rio Grande do Sul joined to form the first Central in 1980. This institutional precursor to SICREDI was instigated by a former president of Banco do Brasil sympathetic to cooperative forms of

9 raiffeisen (rural based, restricted to one municipality), luzzatti (open to urban populations of one or more municipalities), agricultural credit (open to farmers only), mutual (open to employees of the same public or private entity), urban cooperatives (similar to but less restricted than luzzatti-type cooperatives), profession-based cooperatives (open to members of the same profession).
organization and supported by the Brazilian Organization for Cooperatives (OCB). This support ranged from providing financial resources for the Central’s infrastructure to financing trips for leaders (like the current Banco SICREDI President, Ademar Schardong) to Europe and Canada to observe different cooperative models.

Throughout the 1980s, rural credit cooperatives in the South gradually gained breadth and depth. Centrals were formed in Mato Grosso do Sul, Paraná, Santa Catarina, and Mato Grosso. But the sector suffered a major setback when the National Credit Cooperative Bank, responsible for offering access to financial services such as payments and check cashing to cooperatives, was dissolved in 1990 by executive order. Cooperatives had no choice but to access such services from Banco do Brasil at disproportionately high fees.

Cooperative leaders objected strongly to this “legal monopoly” and intensified lobbying efforts that sector activists, including SICREDI founding fathers, had begun during the late 1980s. Efforts paid off and in 1995, the central bank authorized the creation of private commercial cooperative banks, controlled by individual cooperatives. SICREDI was the first network to receive authorization, in October 1995.

In 1992, the Central of Rio Grande do Sul and its affiliates took a momentous step toward unification: the name and logo of SICREDI were adopted by all the member cooperatives. Until then, each cooperative had its own name and identity, a situation judged unviable for marketing the network as a whole. The move toward unification was considered a way to strengthen their position in the market and marked the beginning of an intense process of standardization that is today one of SICREDI’s defining characteristics.

1995 marked the beginning of a new era for SICREDI. With the founding of its own bank, the network began to enjoy autonomy that had hitherto not been possible. In the next five years, Centrals in Paraná, Mato Grosso, and São Paulo joined the system. From 2000 onward, expansion was accompanied by heavy investments to structure and solidify the network, including the construction of a new headquarters. At the same time, legislation, which had been taking small steps forward since the introduction of the 1988 constitution (marking the end of the military era), advanced by leaps and bounds, resulting in a very favorable regulatory environment for financial cooperatives by 2005.

SICREDI grew tremendously during this period, jumping from 200,000 members in 1998 to over 1 million in 2006. Institutional capital has gone from R$150 million (US$64.3 million) to over R$1 billion (US$429 million) during the same period. Average growth rates in assets, loans, and savings have been around 20 percent over the past five years. Figure 3 summarizes these recent milestones and shows the most important legislative changes that accompanied them.
First Central of the soon-to-become SICREDI network founded in Rio Grande do Sul with nine rural credit co-ops.

Start of lobbying efforts for credit cooperatives.
Founding of FRENCOOP, a pro-cooperative parliamentarian front.
SICREDI leaders invest in learning about other models.
Intensification of lobbying in 1990.

Unification of Central and affiliates under the name and logo SICREDI.

Banco SICREDI starts operations.

2000
Formalization of standardization processes via investment in social communication.
Creation of the Confederation.
Revamping of MIS

2004
Heavy investment in IT.
Focus on organizing member base.
Intensification of centralization process (accounting, HR, data processing).
Formalization corporate training plan.

Source: SICREDI
This brief historical overview is simplified, but nonetheless reveals elements that are important for understanding present-day SICREDI:

- **The influence of European culture.** The Brazilian financial cooperative movement has its roots in a region colonized primarily by Germans and Italians, two cultures marked by agriculture and peasant organization. These cultures are still very much alive today.\(^{10}\)
- **The role of production cooperatives.** The experience of linking financial and production cooperatives revealed the importance of autonomy, well-defined management principles, and transparency. It also resulted in the inclusion of producers with the means to adopt the production cooperatives’ standards, excluding the more resource-strapped family farmers. The majority of SICREDI’s members continue to be middle-income earners.
- **The danger of government influence.** Having seen the cooperative movement significantly curtailed by restrictive regulations, inopportune closures, and unfair service agreements (Banco do Brasil)—all the result of executive decisions—SICREDI has sought to construct a model that protects the network as much as possible from government interference.
- **The importance of political representation.** Authorization for the creation of cooperative banks was a hard-won victory, a consequence of organized, directed lobbying efforts that started at the local level and went up to federal parliamentarians.\(^{11}\) This victory was tangible proof of the value of political representation and laid the foundation for the advocacy work that SICREDI’s leaders continue to engage in today.
- **Openness to different cooperative models.** An openness to models “from the outside” is somewhat uncharacteristic in Brazil, yet makes sense in the SICREDI context, given the cultural heritage of its members. SICREDI has not tried to reinvent the wheel, nor do they attempt to replicate any one cooperative model. This approach makes the SICREDI model somewhat unique in the Brazilian context, yet in line with international cooperative principles.
- **Selective process of affiliates.** SICREDI was the first cooperative to organize into a network. This made it possible for leaders to choose the strongest existing cooperatives as affiliates. The result is a strong foundation composed of experienced members, which distinguishes SICREDI from the other cooperative networks.

**Mission, Vision, and Target Public**

SICREDI’s mission statement reads as follows: “Work as a cooperative system to give value to relationships, offer financial solutions to aggregate income and contribute to an improvement of the quality of life of our members and of society.” It is usually accompanied by SICREDI’s vision, “To be recognized by society as a cooperative

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\(^{10}\) It is not uncommon for fourth- and fifth-generation immigrants to still speak German or Italian at home.

\(^{11}\) It is important to note that SICREDI leaders were not the only actors in this effort; other financial cooperatives were also involved.
financial institution, with operational and management excellence, and a focus on economic and social development.” Its values are defined as the following:

- Unrestricted preservation of the cooperative nature of SICREDI.
- Respect for the individuality of each member.
- Commitment to valuing and developing people.
- Preservation of the institution as a system.
- Respect for official and internal norms.
- Efficiency and transparency in management.

The mission appears on all promotional material, and employees refer to it regularly when describing their role and activities within the institution. Based on the interviews conducted for this study, the mission and values espoused by SICREDI appear to be understood and internalized at all levels of the network. This is largely due to the extensive work of the social communication and marketing department since 2000 to “bring the knowledge of the business of cooperativism and the mechanics of a cooperative enterprise” to SICREDI staff, strictly referred to as collaborators. This term refers to both contracted and technical staff.

Due to its origins, SICREDI has a primarily rural base composed of family farmers. Some regions work specifically with lower-income farmers, but the average property size of roughly 20 hectares reflects a middle-income base. With the authorization of open-admission cooperatives in 2003, however, the network has started to transform most of its rural credit cooperatives into open-admission ones, thereby broadening its member base to include all economic actors in rural areas. SICREDI has also supported the creation of urban-based microentrepreneur and mutual (profession-based) cooperatives. While its target public may have started out as farmers, today SICREDI is open to anyone (although in some communities, new members must be referred).

SICREDI has two main networkwide programs that are geared toward community involvement. The first, União Faz a Vida (Union Makes Life), was piloted 10 years ago in Rio Grande do Sul and has started to roll out across the network since 2005. Designed in conjunction with pedagogues and psychologists from universities in Rio Grande do Sul, the program aims to develop a cooperative culture among schoolchildren and form future leaders. It is implemented through local elementary schools in partnership with teachers, administrators, and the local government.

The initial phase of the program first provides training to teachers in cooperative values, entrepreneurship, and citizenship. Then they are encouraged to develop games and activities that encourage these values. The activities take place during school hours and are integrated into the overall curriculum. Students are encouraged to form their own cooperatives and elect leaders. In municipalities where the program is underway,

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12 Most SICREDI affiliates had adopted open-admission practices several years before the legislation was passed (and the central bank turned a blind eye), since a mixed public was the only way the generate higher volumes of funds to offset the costs of the small-scale services used by the poorer members.
elementary students have formed a soap-making cooperative, a local band, and a community garden.

Municipalities are selected based on their interest in the program and the willingness of all the actors to participate. For example, if the municipal government does not buy in to the program, it will not be implemented. Results have been very positive, although cooperatives involved in the program say it is slow to take off. Only after a year or so of training do teachers begin to appreciate the program and understand its value. Nonetheless, demand for the program is growing across the network, as directors see it as a way to strengthen presence in the community and ensure the sustainability of the network.

The *Organização do Quadro Social* (OQS) program arose in 1998 in Rio Grande do Sul from SICREDI’s need to associate more closely with its member base. The program aims to educate members and potential members about the rights and obligations of participating in cooperatives and to create leaders among the member base. The program is based on the organization of *nucleos* in the communities where the cooperative works. The *nucleos* are divided geographically and organized by one or more couples who are members of the cooperative. These coordinators mobilize members for meetings and disseminate cooperative values in addition to participating in meetings to discuss proposals for organizing members. It is expected that these coordinators, over time, will form a pool of qualified candidates for fiscal advisors and other leadership positions.

**Business Model**

SICREDI’s business model is based on the concept of **systemic integration**. The elements of the network—the cooperatives, Centrals, Confederation, Bank, and the associated companies—are “dynamically related and interdependent.” Each element has distinctive attributes, defined in a document prepared by the Confederation titled *Internal Regiment of the System*, and is expected to function in an integrated and complementary manner with the other elements. When observed from the outside, the whole should appear as one sole entity.

The defining characteristics of SICREDI’s systemic integration approach are the following:

- **Standardization**, both in terms of external appearance and internal operations. Logos, branch layouts, and promotional material are identical across the network. Administrative processes, credit policies, financial management, auditing procedures, information systems, human resource and remuneration policies, product offerings, and member-organization efforts are all expected to be standardized throughout every element of the network.
- **Transparency** in decision making, remuneration scales, individual cooperative performance, planning, and so forth.
- **Horizontal integration** of the individual cooperatives based on a policy of shared responsibility (*responsabilidade solidária*) for operating results. The cooperatives
are responsible for each other’s operations and must, as a group, absorb losses in any cooperative(s).

- **Vertical integration** of the three levels in order to achieve economies of scale and benefit from specialized technical knowledge. This involves centralization of as many services as possible to ensure efficiency (by avoiding replication of technical activities) and effectiveness (by limiting the introduction of new products, services, or processes that are not technically sound). In practice, this means cooperatives’ financial resources are managed exclusively by the cooperative bank; operational manuals are elaborated by the apex institutions; and supervision policies are defined and executed by the second and apex levels.

- **A distinction between the “cooperative business” and “cooperative enterprise.”** In the SICREDI model, the cooperative business refers to services provided and costs incurred; focus is on economic viability, efficiency, and the bottom line. The cooperative enterprise refers to the social relationship with members; focus is on profit distribution, participation, and community involvement.

SICREDI is a three-tier structure. At the base are the individual cooperatives, which serve members via branches (unidades de atendimento) and service points (ponto de atendimento de cooperativa). There are currently 130 cooperatives and 890 branches in ten states, administered by 7,900 paid collaborators. The cooperatives are the only element in the network with direct contact with members. One cooperative usually serves at least two municipalities and usually many more in rural areas (for example, SICREDI Vale do Piquiri in Paraná has branches in 29 municipalities).

Figure 4: Map of Geographic Coverage

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13 The cooperative is practically a virtual entity—it does not have its own physical infrastructure. Operations take place in branches and service points, and backstopping activities are performed in the offices of the regional unit of the Central.
Table 3: Institutions and Outreach by Centrals (March 2006)

<table>
<thead>
<tr>
<th>Central</th>
<th>Rio Grande do Sul</th>
<th>Central Paraná and Santa Catarina</th>
<th>Central Mato Grosso, Rondônia, and Pará</th>
<th>Central Mato Grosso do Sul, Tocantins, and Goias</th>
<th>Central São Paulo</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional unit</td>
<td>29</td>
<td>19</td>
<td>12</td>
<td>04</td>
<td>04</td>
<td>68</td>
</tr>
<tr>
<td>Cooperatives</td>
<td>57</td>
<td>27</td>
<td>11</td>
<td>16</td>
<td>19</td>
<td>130</td>
</tr>
<tr>
<td>Branches</td>
<td>447</td>
<td>266</td>
<td>37</td>
<td>102</td>
<td>38</td>
<td>890</td>
</tr>
<tr>
<td>Members</td>
<td>614,002</td>
<td>222,127</td>
<td>23,414</td>
<td>90,010</td>
<td>9,978</td>
<td>959,531</td>
</tr>
</tbody>
</table>

Source: SICREDI.

Each cooperative is attached to a regional unit (RU) of the Central, the second tier. Currently, many regional units service only two cooperatives, but to reduce costs this is proposed to be changed to an average of one regional unit for three cooperatives. SICREDI currently has five Centrals, which supervise the activities of the individual cooperatives. The division is geographic, although states with a very low volume of activity do not have their own Central.

The third tier is composed of two major institutions, the Cooperative Bank and the Confederation. The bank is designed to enable the cooperatives to access the financial market and credit lines, as well as administer the network’s resources. Four private companies—an insurance administrator, a credit card company, a logistics and computer hardware company, and an administrator of consórcios—are also situated at the apex level. A fifth, nonprofit entity, SICREDI Foundation, is currently in construction.

Decision making takes place at all three levels of the network. Most all corporate decisions (changes to operations, structure, products, and internal policies) go through the boards of administration at the cooperative and Central level, and the deliberative committee at the Confederation. Voting takes places in general assemblies at the Cooperative, Central, and Confederation, held each March. Bylaws stipulate that decisions must be approved by two-thirds of the representatives, but in practice, leaders do everything they can to obtain consensus. Operational decisions, however, are made at the cooperative level. Member admissions, loan approvals up to a certain ceiling, and communication/advertising campaigns for example, are all dealt with by the cooperatives, albeit following guidelines developed by the Confederation.

Proposed changes may originate at any level of the structure. If coming from a cooperative, the proposal goes through the Central in order to reach the technical advisory committee (TAC). The TAC is responsible for testing the viability of any new proposals before they are presented to the Confederation’s deliberative committee. A proposal that is not approved by the TAC returns to whoever submitted the proposal to be

14 The structure and attributes of the regional units are under transformation. Under the new model, they are to be called Regional Superintendencies.

15 This is a rotating savings product (similar to chit funds in India) that is commonly used to purchase durable goods and homes.
refined and resubmitted. Once approved, it goes to the Confederation’s deliberative committee for a vote. If approved, the proposed change works its way back down the decision-making bodies of the network and is presented at the general assemblies, held in March. If the proposed change is purely technical (a change in legislation requiring a change in reporting format, for example), it may not necessarily be voted on.

Participation in the general assemblies, some 20 percent of total membership, is better than the average in Brazil (around 10 percent), and efforts are being made to improve participation through mobilization of the member base. SICREDI concedes that the decision-making process is slow, as decisions must go up and down the whole pyramid and the goal is always to reach a consensus. For this reason, the Internal Regiment defines timeframes for every step of the process to help keep it moving.

**Member Profile and Rural Outreach**

SICREDI targets all rural economic actors, both individuals and firms. Only local government administrations are not allowed to join SICREDI (although their employees are) in some states (as SICREDI is a private institution), although in some regions they do anyway, for lack of financial institutions.

Until about three years ago, 90 percent of SICREDI’s members were from rural areas. Today, this proportion has dropped to around 40 percent. The share of deposits and loan portfolios in rural cooperatives also match their share in membership (table 4). With the new regulations on open-admission and microentrepreneur cooperatives (2003), an increasing number of urban cooperatives have opened in recent years, mainly in São Paulo and Porto Alegre. The network’s intention is to expand into the urban market during the next five years, as it believes that is where the most intense growth is possible.
Table 4: Rural-Urban Mix—Outreach and Financials (October 2006)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Urban Cooperatives</th>
<th>Rural Cooperatives</th>
<th>All Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of co-ops</td>
<td>77</td>
<td>49</td>
<td>126</td>
</tr>
<tr>
<td>No. of members</td>
<td>623,565</td>
<td>435,810</td>
<td>1,059,375</td>
</tr>
<tr>
<td>Loan portfolio (in R$ millions)</td>
<td>2,072.5</td>
<td>1,339.1</td>
<td>3,411.6</td>
</tr>
<tr>
<td>Deposits (in R$ millions)</td>
<td>2,622.3</td>
<td>1,731.8</td>
<td>4,354.1</td>
</tr>
<tr>
<td>Institutional capital (in R$ millions)</td>
<td>599.0</td>
<td>459.4</td>
<td>1,058.4</td>
</tr>
<tr>
<td>Investment funds (in R$ millions)</td>
<td>128.2</td>
<td>130.7</td>
<td>258.9</td>
</tr>
<tr>
<td>ROA</td>
<td>1.39%</td>
<td>1.85%</td>
<td></td>
</tr>
</tbody>
</table>

Source: SICREDI.

The overwhelming majority of members are individuals (97 percent), with businesses representing only 3 percent of membership. Of these individuals, the majority are men (68 percent); women usually appear as second titular on joint accounts. Some 35 percent of all members are over 50 years of age, 34 percent are between 36 and 50 years, and 31 percent are under 35. This balanced distribution is the consequence of efforts in recent years to involve a younger public. Efforts to bring in new members are also reflected in data on time of association: 21 percent of all members joined the network in the last year, 20 percent in the last three years, and 15 percent in the last five years. Forty-four percent of members have been with the network for more than five years.

While the data are not available, SICREDI leaders estimate the average property size of rural members to be 20 hectares. According to data from 1995/96, the national average was around 26 hectares for the 4.1 million family farmers surveyed, with the poorest 40 percent showing an average of 16.5 hectares of land. An analysis of member-reported

Figure 6: Members—Time of Membership

![Time of Membership](image)

Source: Author.

16 FAO/INCRA database, data from 1998 census.
data on monthly income, however, reveals that 38 percent of members declare annual income of under R$6,000 and 34 percent declare over R$24,000. By comparison, the poorest 40 percent of farmers across the country declare less than R$2,000. These figures suggest that SICREDI’s member base is a healthy mix of lower-income (although not the poorest) and wealthier farmers.

**Competitive Position**

The cooperatives’ main competitors are Banco do Brasil; Banrisul (in Rio Grande do Sul); private bank Bradesco; and, in the larger agglomerations, Caixa Econômica Federal. In many rural areas, SICREDI is the only financial service provider. SICREDI has excellent name recognition in the regions visited and appears to be viewed positively by the general population.

SICREDI is the second-largest financial cooperative network in Brazil, second only to Sistema das Cooperativas de Crédito do Brasil (SICOOB). Both networks work primarily in rural areas, although changes to cooperative legislation have led both to target urban areas in recent years. The Unicred network, composed of members of the medical profession, ranks third in size, followed by CRESOL, which targets very small family farmers. The most recently formed cooperative network, an initiative of the largest workers’ union in the country (Central Único dos Trabalhadores), is also the smallest; ECOSOL targets low-income workers in both rural and urban areas. While SICOOB and SICREDI share ostensibly the same member base, they are not yet direct competitors as there is little overlapping of areas where each works. In the rural areas, SICREDI’s main competitor is Banco do Brasil, often the only other financial service provider.

**Figure 7: Members—Income Distribution**

![Income Distribution Chart](chart.png)

*Source: Author, using SICREDI data.*
Table 5: Main Cooperative Networks in Brazil (2006)

<table>
<thead>
<tr>
<th></th>
<th>SICOOB</th>
<th>SICREDI</th>
<th>UNICRED</th>
<th>CRESOL</th>
<th>ECOSOL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of states of operation</td>
<td>21</td>
<td>10</td>
<td>24</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Members</td>
<td>1.2 million</td>
<td>1 million</td>
<td>122,000</td>
<td>66,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Number of cooperatives</td>
<td>675</td>
<td>128</td>
<td>132</td>
<td>101</td>
<td>23</td>
</tr>
<tr>
<td>Institutional capital (in R$ millions)</td>
<td>2,400</td>
<td>1,000</td>
<td>654</td>
<td>51.2</td>
<td>3,100</td>
</tr>
<tr>
<td>Loans (in R$ millions)</td>
<td>4,600</td>
<td>3,200</td>
<td>1,100</td>
<td>218</td>
<td>5.9</td>
</tr>
<tr>
<td>Deposits (in R$ millions)</td>
<td>3,800</td>
<td>3,400</td>
<td>1,800</td>
<td>79.5</td>
<td>3.6</td>
</tr>
<tr>
<td>Profits (in R$ millions)</td>
<td>402</td>
<td>149</td>
<td>136</td>
<td>2.7</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: SEBRAE 2006.

Future Strategy

Recently, SICREDI engaged in a year-long process to establish a strategic plan for 2005–2010. The process was spearheaded by an external consultant and a team of representatives from the Centrals, Bank, and Confederation. The presidents of the Bank and Confederation also participated actively in the process. Throughout the process, external experts were brought in to talk about different strategic issues like growth, risk, and competition.

The process started with a revision of the previous plan to determine what had not yet been accomplished. Next, visits were made to all the Centrals to conduct meetings with the executive and elected management of the cooperatives, in order to collect local perceptions. Results of the meetings were consolidated in a document defining strategic orientations and indicators, which was validated through another series of meetings throughout the network. The final document was launched at a networkwide event on strategic planning and disseminated throughout the network via a short 20-page aide-mémoire describing the process and results.

The four strategic orientations adopted by all three levels of the network are the following:

- Growth and expansion—both geographically, via metropolitan regions and new states, and through deeper penetration;
- Corporate governance—focusing on refining the Internal Regiment, intensification of capacity building of directors and management of the network, risk management, and social responsibility;
- Investment in information technology;
- Investment in the member base—focusing on intensifying and qualifying relationships with members.
Based on the interviews conducted for this study, it appears staff have integrated these orientations and are developing activities to their effect. Each cooperative’s strategic planning document for the year reflects the strategic orientations of the network as a whole.

**PRIMARY COOPERATIVES**

This section is based on interviews with collaborators at the second and third levels, field visits to four cooperatives and eight branches, and data provided by SICREDI. All the cooperatives visited are well established, with at least 25 years of history behind them. This is relatively representative, as the majority of SICREDI’s affiliates were established in the early 1980s. All the cooperatives were located in Rio Grande do Sul, where SICREDI’s activities started, and where the network has the highest concentration of cooperatives. Wide geographic coverage and time constraints precluded visiting more cooperatives, but there are few structural differences from region to region, given the standardized model adopted by SICREDI. The main characteristics that vary from cooperative to cooperative are the following: (i) target public and, consequently, activities financed; (ii) staff size (ranging from two to eight); and (iii) geographical coverage (some cover 18 municipalities while others, only one).

The primary cooperatives espouse the same vision, mission, and values as the network as a whole (discussed in the previous section). The goals of each cooperative vary and are laid out in the annual strategic planning document prepared by each affiliate. Generally, they refer to the cooperative’s aspiration to achieving deeper levels of penetration, measured by percentage of the population served and market participation (percentage of resources administered by SICREDI compared to resources administered by other financial institutions in area of coverage).

**Products and Services**

SICREDI provides all the same products offered by banks, including some 64 loan products, 11 savings products, and 22 insurance products (annex 3). If all the variations are counted, SICREDI has close to 160 products. In addition to basic payment and check-cashing services, SICREDI offers international exchange services to members who export (for example, soybeans, precious stones), MasterCard (via its own administrator, BC Card), and interbank transfers. It is starting to offer Internet banking and consortia; the latter is expected to address the lack of housing-finance products in SICREDI’s product line. These rotating-credit schemes are commonly used to finance home purchases in Brazil. The cooperatives do not offer any nonfinancial services.

Cooperatives offer a variety of savings products, including passbook savings, time deposits, certificates of deposit, and investment funds. Savings are remunerated at market rates, and investment funds have performed above the market average. Insurance policies administered by SICREDI Insurance in conjunction with two major insurers, MAPFRE
and Icatr Hartford, is a growing product line, accounting for roughly 15 percent of the network’s income. Other than the basic forms of life, car, and accident insurance, SICREDI offers several forms of agriculture insurance, to protect against hail, poor harvests, and overall property and equipment. Rural credit made with government resources, however, is not eligible for these policies, as the government offers its own line of agricultural insurance, PROAGRO. PROAGRO can be contracted with the loan, and farmers are eligible for disbursement only after an evaluation is conducted by SICREDI and/or EMATER, a supranational body that offers technical assistance and extension services throughout Brazil via state offices.

The Rural Credit Manual produced by the government determines interest rates for rural credit. Rates for loans made with private bank funds are capped at 8.75 percent. Rates for loans from subsidized resources vary from 4 to 12 percent, but average around 8 percent with the exception of PRONAF loans, which may have negative interest rates if the on-time repayment rebate applies. SICREDI’s rural credit portfolio accounts for 52 percent of the total, of which 23 percent are made with its own resources and 77 percent comes from subsidized funds. The PRONAF credit line is the most commonly used, and the average loan size is around R$5,000. Terms for rural credit range from one year to up to twelve years, with the majority being five-year operations. SICREDI estimates its profitability between 3 and 5 percent per annum on subsidized loans. SICREDI affiliates may offer another 28 forms of credit, all financed with network resources. Terms and conditions are equivalent to those of the financial market or slightly lower. Fees are lower than the market average.

Management and Governance

Depending on its size, a branch is composed of one manager, one or more “business consultant” and/or “relationship manager,” and one or more tellers. A larger branch may also have an administrative/financial manager and an administrative assistant. Currently, 71 percent of the branches have up to five staff. The branch staff is responsible for servicing the financial needs of members. Each branch has a credit committee, which meets at least once a week, composed of the manager, one or more of the business consultants, and one teller.

According to the Internal Regiment the cooperative is responsible for (i) serving members via the branch offices, administering financial resources, and elaborating and executing a strategic plan involving deepened market penetration, member expansion, and marketing, based on directives from the apex institutions; (ii) organizing the member base and engaging in total transparency of management; and (iii) promoting SICREDI via the press. The second point is detailed further in the Internal Regiment, and stipulates that cooperatives must (i) facilitate economic-financial transparency and the effective participation of members in the management of the cooperative via mini-assemblies; (ii) decentralize the cooperative enterprise (not the cooperative business) and engage members in the development of the cooperative; (iii) build a permanent communication channel between the administrators of the cooperative and the members; and (iv) regularly monitor member satisfaction.
Each cooperative has an elected president and vice president who direct the board of administration and supervise the day-to-day administration of the cooperative. Six elected fiscal advisors sit on the fiscal committee, which meets monthly and supervises the board of administration. Day-to-day decision making is carried out by the administrative staff and the board of administration. Mini-assemblies are organized to discuss issues that must be voted upon in the general assembly. Decisions with implications for the system as a whole follow the decision-making process outlined in the previous section.

Elections take place in general or mini-assemblies (assemblies that antecedent the general assembly) and any member who meets the following conditions, as laid out in the *Internal Regiment*, can contest the elections:

- Regular use of the cooperative over the last two years;
- Active involvement in the general assemblies;
- Active participation in efforts to organize the member base;
- A clean credit record;
- No political affiliation.

There are no term limits for elected officials, and some presidents have held the position for 20 years or more. Elected officials can be removed from office by force, if members vote to do so or if the senior management of the Central deems it is necessary. However, the representative usually has the choice of withdrawing from his position voluntarily, which is what usually happens, in order to avoid open conflict.

All of the expected procedures and processes appear to be followed in practice. Because of changes currently underway, some responsibilities, like promoting SICREDI in the press, are being transferred to the regional unit. Staff express a thorough understanding of their responsibilities and the overall functioning of the network. With regard to elected officials also, the rules appear to be followed rigorously. Elected officials, for example, have been dismissed for one bounced check, and no demonstration of political sympathies of any kind is tolerated. While elections are open to all, it is common for existing representatives to suggest candidates. In some regions, positions have been rigorously disputed. In these cases, differences tend to concern management style rather than ideological positions.

**Staffing and Remuneration**

SICREDI has a policy of recruiting local staff whenever possible as a way to promote a strong connection with the community. This can be difficult, depending on the region, and at times can take a long time. Nevertheless, it is rare to find a nonlocal working in a cooperative. Recruitment takes place in conjunction with the Central. The cooperative conducts an initial selection process based on interviews and a written technical and psychological test. Preselected candidates are forwarded to the Central, which refines the selection further and suggests a favorite. The cooperatives have final say over recruitment, but as is customary in the network, consensus is sought.
Table 6: Staff Profile—Cooperatives

<table>
<thead>
<tr>
<th>Sex</th>
<th>Age</th>
<th>Years of Service</th>
<th>Education*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>0–2</td>
<td>2–5</td>
</tr>
<tr>
<td>M</td>
<td>F</td>
<td>18–35</td>
<td>36–45</td>
</tr>
</tbody>
</table>

*Secondary: equivalent of US high school; Tertiary: higher education (college/university); Tertiary completed: equivalent of a US undergraduate degree; Post-grad: Master’s-level programs; Post-grad completed: equivalent of US graduate degree.

Source: SICREDI.

SICREDI collaborators at the cooperative level are, as a rule, young. Of the 6,803 collaborators, some 82 percent are between 18 and 35 years of age, and only 5 percent are 45 years or older. The majority have worked with SICREDI for less than five years (71 percent). The staff, as a whole, is extremely well educated. Nearly 82 percent are either working toward or have completed tertiary education, and nearly 3 percent have gone on to do graduate work. In some cooperatives, 100 percent of the staff either are studying for their tertiary level diploma or already have one.

Salaries are standardized across the network and respect a salary grid that is revised regularly. Salaries for elected representatives are based on those of collaborators. All collaborators receive a fixed salary and variable percentage based on resources administered and gains/losses of the entire system. The formulas for calculating the salary are detailed in the Manual for Responsibilities and Remuneration, developed by the human resources department of the Confederation. The fixed salary is based on a detailed evaluation system in which five weighted factors (education, experience, autonomy, responsibility for errors, and the complexity of the task) are evaluated and punctuated to achieve a total number of points that determine the level of remuneration.

The variable is calculated monthly. In recent times, the average has been 33 percent monthly, but the objective is to reach 40 percent. In addition, monthly salaries include other bonuses. Administrative and management staff receive monthly bonuses based on the number of existing financial institutions in the municipalities where each branch is located. Presidents may opt between this so-called competitor bonus and a structural bonus, based on the number of branches under their responsibility. Presidents also receive an additional 20 percent of their base salary to reflect the responsibility of the position. Vice presidents receive 80 percent, and fiscal advisors receive 1/22 of the president’s total monthly salary. Individual cooperatives may also implement incentive programs, offering bonuses if yearly objectives are met.

Financial and Operating Performance

The cooperatives have maintained a healthy financial and operating performance (table 7). The member base and products are growing steadily. Most profits are obtained from credit operations, as the network seeks to keep fees below those of banks as a way to differentiate its position in the financial sector. It is network policy, however, not to
emphasize low fees as a way to gain members but rather include this as just one of many advantages of a member-owned cooperative.

Profitability has dropped slightly, with return on equity slipping from 18 percent to 15 percent. Profits are distributed among the system, 50 percent integrated into the member shares on a pro rata basis, 45 percent going to reserves, and 5 percent to a Technical Assistance and Educational Fund.

Operational costs (including fixed, variable, and promotional expenses) are around 11 percent of total assets, slightly higher than recommended levels (WOCCU recommends less than 10 percent). The network calculates an efficiency indicator, administrative expenses / (operational income – operational expenses). The objective is to stay below 0.60, although data from April 2006 shows that 27 percent of the cooperatives maintain a rate that is less than 0.59, and 73 percent are above 0.60. To improve efficiency and reduce back-office costs (retaguarda), currently more than double those of the average bank’s (60 percent versus 25 percent), the regional units, Confederation, and Bank are being restructured. Portfolio quality is excellent, with default rates of less than 1 percent.

The SICREDI network has full, unlimited liability for each of the member cooperatives. The primary affiliates are mutually responsible for each others’ debts and failures. Although some cooperatives report occasional losses, most SICREDI staff will assert that no cooperative has ever gone bankrupt. This is because troubled cooperatives that are unable to redress their situation are systematically absorbed into a neighboring cooperative structure in such a way that members may experience no change in service, other than the new geographical location of their branch office.

Table 7: Consolidated Performance of Cooperatives

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>959,531</td>
<td>852,261</td>
<td>714,784</td>
<td>590,989</td>
<td>471,406</td>
</tr>
<tr>
<td>Net institutional capital*</td>
<td>999.3</td>
<td>808.9</td>
<td>623.1</td>
<td>465.7</td>
<td>338.4</td>
</tr>
<tr>
<td>(in R$ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member share capital (PL)</td>
<td>539.5</td>
<td>429.5</td>
<td>315.0</td>
<td>232.0</td>
<td></td>
</tr>
<tr>
<td>(in R$ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits**</td>
<td>3,417.9</td>
<td>2,801.4</td>
<td>2,327.0</td>
<td>1,814.7</td>
<td>1,564.8</td>
</tr>
<tr>
<td>(in R$ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans***</td>
<td>3,214.3</td>
<td>2,819.0</td>
<td>1,952.2</td>
<td>1,131.1</td>
<td></td>
</tr>
<tr>
<td>(in R$ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets (in R$ millions)</td>
<td>5,420.7</td>
<td>4,424.7</td>
<td>3,598.1</td>
<td>2,771.6</td>
<td>1,979.5</td>
</tr>
<tr>
<td>Profits (in R$ millions)</td>
<td>149.4</td>
<td>129.5</td>
<td>110.6</td>
<td>82.1</td>
<td>61.2</td>
</tr>
<tr>
<td>ROE (net institutional capital)(%)</td>
<td>14.95</td>
<td>16.01</td>
<td>17.70</td>
<td>17.64</td>
<td>18.09</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>2.76</td>
<td>2.93</td>
<td>3.07</td>
<td>2.96</td>
<td>3.09</td>
</tr>
<tr>
<td>Op expenses/total assets (%)</td>
<td>11.20</td>
<td>11.00</td>
<td>11.00</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>PAR &gt; 15 days (%)</td>
<td>0.10</td>
<td>1.00</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Growth in assets (%)</td>
<td>18.40</td>
<td>18.70</td>
<td>23.00</td>
<td>28.60</td>
<td>NA</td>
</tr>
<tr>
<td>Growth in members (%)</td>
<td>11.20</td>
<td>16.10</td>
<td>17.30</td>
<td>25.40</td>
<td>25.80</td>
</tr>
</tbody>
</table>

Notes: * Member shares, profits, reserves; **sight and time deposits; ***credit operations, securitization, and obligations

Source: SICREDI.
Training and Capacity Building

SICREDI prioritizes training of both collaborators and the member base. During visits to the individual cooperatives, at least one staff member of every single branch was participating in training, either at the regional unit or at headquarters in Porto Alegre. Until 2004, the decision to participate in training and capacity building was relatively ad hoc, in that cooperatives were more or less left to decide the courses they wanted to participate in and which staff would go. Consequently, some cooperatives prioritized training more than others. With the rapid growth of the institution, the network decided to create a formal corporate education program, developed by the human resources department of the Confederation. The program standardizes the training process, details how training should take place, and lays out guidelines for evaluating its effectiveness.

Training is both internal and external. To the extent possible, the Bank and Confederation develop in-house didactic material available to collaborators online via SICREDI’s intranet. Courses include guidelines for the trainer, a presentation, and materials for the participants. Currently, some 52 courses are available (of the total 102 planned), ranging from general institutional knowledge ("SICREDI’s Social Statutes") to technical topics. Depending on the subject matter, courses may be administered by cooperative or regional unit staff, or the appropriate expert from anywhere else in the network. Investments are made in training multiplier agents throughout the network to keep costs down. Currently most training material is in the form of downloadable files. The Confederation has recently subcontracted a private sector specialist to help develop courses administered via distance learning.

When the topic falls outside of SICREDI’s domain, or an external point of view is deemed necessary, external trainers are used. During the field visit, for example, the managers and directors from one regional unit were being trained in “Managing Change,” a two-day course administered by a São Paulo consulting firm. In addition to corporate training, SICREDI offers incentives for collaborators to complete their tertiary education, offering scholarships of up to 70 percent of total costs. Based on the interviews conducted for this study, a significant number of collaborators take advantage of this opportunity, from cooperative presidents to Confederation directors.

There is no cooperative college or training institution linked to SICREDI, although it has started to make linkages with SESCOOP, an entity administered by the Organization of Brazilian Cooperatives that promotes cooperative education, to share its didactic material with other cooperative networks.

Auditing

Cooperatives are audited internally (i) by the regional unit and (ii) by the Central, on the basis of audit reports and accounting statements. Within SICREDI, this first type of auditing is referred to as “direct” auditing, since inspectors examine the cooperative’s books in situ. The second type is considered “indirect,” as it does not involve hands-on visits to the cooperatives but only analysis of daily and monthly indicators designed to
serve as an early warning system. The larger Centrals have an exclusive auditing department (manager, administrative assistant, auditors, and inspectors), while smaller Centrals (Mato Grosso do Sul and São Paulo) have only auditors and inspectors. Each regional unit has an auditing unit composed of auditors and inspectors who circulate in the individual cooperatives under their jurisdiction.

The Centrals audit their affiliates on the basis of 24 reports generated by an auditing system developed by the Confederation. One of these reports, the ranking, is used to guide direct auditing. Based on a map of cooperatives that categorizes the cooperatives in green (within limits), yellow (showing problems), and red (in trouble), a ranking is established to determine which cooperatives need to be audited in priority. The ranking evaluates the position of each cooperative in the system based on the report indicators (70 points possible) and 10 items analyzed in reports from direct audits done by the Centrals (30 points possible). It is updated daily and visible online to all cooperatives. Cooperatives must formally justify any irregularities or substandard indicators to the Central and present a plan of action to improve the situation. The inspectors at the regional level monitor closely cooperatives with problems. Auditing protocols are detailed in an auditing manual prepared by the Confederation.

Lending Technology and Risk Management

Credit policies are defined by the Cooperative Bank and formalized in a credit manual. Credit decisions of up to US$20,000 take place in the branch’s credit committee, composed of the branch manager, one or more of the client relations managers, and a teller. Beyond that, loans that represent up to 15 percent of the cooperative’s capital must be approved by the regional unit. Any one member may borrow up to 15 percent of the cooperative’s institutional capital, and the total loan balance of the 10 largest borrowers may not exceed 70 percent of the capital and 40 percent of the total loan portfolio. These regulations are monitored rigorously via indirect auditing.

To apply for a loan, members are supposed to be in the network for at least six months, but in practice, if the member is known in the community, he may receive a loan upon joining the cooperative. Loans are individual and generally require the same guarantees as those required by banks. The bulk of activities take place at the local branch office; mobile banking technologies like palmtops or smart cards are not used. While a member survey would be needed to reveal if users consider this a constraint, research on demand for financial services in other regions has not found distance to be an issue.  

Alternative delivery mechanisms are not common. While SICREDI serves members who may be integrated into an agribusiness production chain (in tobacco producing regions, for example) or work with production cooperatives, loans are almost exclusively made individually, without any linkage with the agribusiness for repayment.

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17 Kumar 2005; Brusky and Fortuna 2002.
MIS and Technology Platform

All operations at the cooperative level are registered online via the *Sistema de Atividades de SICREDI* (SAS), an integrated system developed by the Confederation. Various network systems are used (Linux, Oracle, Microsoft), depending on the applications. By the end of 2006, all the cooperatives will be trained in using teleconferencing technology, should the telecommunication structure in their region permit. All cooperatives and branches can also communicate using Voice over Internet Protocol (VoIP), again, if infrastructure permits. Cooperatives and their branches are provided the necessary hardware via Redesys, the SICREDI company that manages hardware solutions for the network.

**SECONDARY INSTITUTIONS: THE CENTRALS**

Five Centrals oversee the activities of cooperatives in 10 states, with the help of regional units. The units are administrative structures but often share locales with a cooperative. Centrals coordinate and supervise the activities of the cooperatives, with an emphasis on controls and development. Their responsibilities include the following:

- Supervision of the cooperatives
- Human resource management
- Monitoring performance
- Coordination of strategic planning and marketing activities
- Evaluation of technical propositions before they are sent to the technical advisory committee
- Communication and promotion
- Representation of the cooperatives at the state level
- Execution of decisions made by the apex institutions

**Products and Services**

The Central provides the following services to the cooperatives under their supervision:

- Internal auditing
- Legal assistance
- Performance evaluation
- Organizational advisory services
- Human resource management, including recruitment
- Training

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18 The following section is based on one onsite visit of the oldest Central, Rio Grande do Sul.
Like the cooperatives, the Centrals are equipped with various network platforms, teleconferencing, and Internet for communicating with individual affiliates, other Centrals, and the apex institutions. The Centrals develop a consolidated strategic plan based on those of the cooperatives under its supervision and in line with the strategic orientations for the network as a whole.

Management and Governance

The Centrals are managed by a board of administration. In states with few cooperatives, all the presidents of the cooperatives may sit on the Central’s board of administration; in states with many cooperatives, regional advisors elected from among the cooperative presidents sit on the board. The board elects a president and a vice president. Meetings are usually held monthly and until recently took place at the headquarters. Recently, teleconferencing technology has been introduced to cut costs and time. Each state is divided into regions, and the fiscal committee is formed of six elected fiscal advisors from each region. Candidates for these positions are voted on in the Central’s general assembly. The general assembly unites all the cooperative presidents and is held yearly in March.

The development department of a Central oversees human resources and geographic expansion and provides organizational advisory services to cooperatives in difficulty. The supervision and control department centralizes internal auditing services, controls, and a legal area. The Centrals are audited annually by the Confederation and an external accounting firm such as PricewaterhouseCoopers.

The regional units are currently being restructured. The new structures, to be called regional superintendencies, will be managed by a regional superintendent. A development department will monitor financial products and services; an administrative and financial department will oversee credit analysis, human resources, and administrative activities; and a communication area will be responsible for publicity, promotion, and social projects. A management committee composed of the regional superintendent and managers of these departments will oversee the activities of the regional unit and an internal inspector. This structure is practically the same as the existing one. The main change is in the number of cooperatives supervised; a regional superintendency will provide services to an average of three cooperatives, while the current regional unit supervises an average of two cooperatives.

Staffing and Remuneration

A total of 551 collaborators are on the payrolls of the five Centrals. Three-fourths of the collaborators are under 35 years of age, 44 percent are women, and 80 percent have been with SICREDI for less than five years. Sixty percent of the collaborators have tertiary education and 35 percent are working toward it.

Presidents receive a base salary equivalent to that of a regional manager (regional superintendent under the new structure), plus 100 percent to reflect the responsibility of
the position. In addition, like the cooperative presidents, Central presidents and department managers may opt between the competitor bonus and the structural bonus. Vice presidents receive 80 percent of the President’s total salary with bonuses.

Financial and Operating Performance

The Centrals’ financial performance is not reported separately from that of the cooperatives; a consolidated balance sheet appears in the annual report. Until this year, 20 percent of the cooperatives’ institutional capital (member capital, reserves, and profits) was used to capitalize the Centrals and Bank: 12 percent to the Bank and 8 percent to the Centrals. Typically, Centrals used half of their annual capital infusions to purchase stocks in the Bank and maintain their position as majority shareholders. In 2006, SICREDI revised its interpretation of what constitutes the Bank’s controlling stockholders while concurrently concluding that there is no longer a need to capitalize the Centrals. Starting in 2006, cooperatives will provide institutional capital only to the Bank; the percentage of its capital to be used for this purpose will continue to be 12 percent. SICREDI uses operational costs over total resources administered as an indicator to estimate the efficiency of the Centrals; this ranges from 0.03 percent to 0.10 percent.

TERTIARY INSTITUTIONS: CONFEDERATION

The Confederation was created in 2000. It is responsible for developing corporate policies, developing technological tools to implement these policies, and facilitating overall policy implementation. In addition, the Confederation represents SICREDI to the broader public and external stakeholders. Confederation directors attend conferences, work with the cooperative lobby, and keep a regular presence in Brasília. The Confederation shares headquarters with the Cooperative Bank and other auxiliary companies in Porto Alegre, the capital of Rio Grande do Sul.

Products and Services

SICREDI is planning to move to a model where all administrative services for the cooperatives will be provided through the Confederation. The Confederation currently provides the following services:

- Legal advisory services for the entire network and associated companies
- Elaboration of projects for initiating or restructuring new companies
- Performance evaluation of the Bank, Centrals, and other SICREDI companies
- Auditing of the Bank, Centrals, and other SICREDI companies
- Accounting for the entire network
- Paycheck processing for the entire network
- Administration of human resources (benefits and incentive packages)
- Website and intranet
• Help desk for cooperatives and Centrals
• Operations processing center of the Bank, Confederation, Centrals, and cooperatives
• Software development
• Organization of training (either direct or third-party provision) for staff in the entire network and associated companies

Management and Governance

The Confederation is organized into three departments: corporate policies, corporate operations, and information technology. It is also responsible for overseeing activities of Redesys, the auxiliary institution that provides logistics and hardware services. A management committee composed of a president, a vice president, and the executive managers of these departments oversees activities. The directors are elected during the general assembly. There are no term limits.

There are no decision-making bodies expressly for the Confederation. The president of the Confederation is customarily invited to sit on the deliberative committee, composed of the presidents of the five Centrals. The Confederation may be represented on the technical advisory committee if the proposal to be reviewed falls under its areas of expertise.

Staffing and Remuneration

A total of 358 collaborators are on the payrolls of the Confederation. Over four-fifths of the collaborators are under 35 years of age, 91 percent have been with the SICREDI for less than five years, and 36 percent are women. Ninety-two percent have or are completing a tertiary education degree. The presidents receive a base salary equivalent to that of the manager/superintendent of development of the Centrals, plus 130 percent to reflect the responsibility of the position, in addition to either the competitor bonus or the structural bonus. Vice presidents receive 80 percent of the president’s total salary, plus bonuses.

Financial and Operating Performance

The Confederation is capitalized with contributions from the cooperatives with some income coming from service agreements with other institutions for the supply of information technology (IT) services (for example, SICREDI-designed project management software). Roughly 80 percent of assets are in IT investments; a new data-processing platform is being designed in conjunction with Brazilian and Indian IT specialists. Operational expenses have increased dramatically since 2002, due to the increasing number of services being centralized by the Confederation (accounting, human resources, paycheck processing). It is difficult to assess the Confederation’s efficiency by comparing operational expenses to assets because of the various cost centers. SICREDI is currently working on establishing a format to assess efficiency and productivity at the Confederation level to fill this information gap.
Table 8: Financial Performance of Confederation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net institutional capital (in R$ millions)</td>
<td>5,371</td>
<td>5,370</td>
<td>5,370</td>
<td>6,969</td>
</tr>
<tr>
<td>Total assets (in R$ millions)</td>
<td>27.6</td>
<td>28.0</td>
<td>12.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Operating expenses (in R$ millions)</td>
<td>35.1</td>
<td>25.3</td>
<td>14.7</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Source: SICREDI.

TERTIARY INSTITUTIONS: COOPERATIVE BANK

The Cooperative Bank was founded in 1996 to (i) serve as an instrument of the cooperatives to access financial markets and credit lines and (ii) administer the network’s resources. It is responsible for the following:

- Conducting financial planning of the entire network
- Creating marketing and communication policies for the entire network
- Defining credit policies
- Setting parameters for financial management
- Accessing credit lines from government and banks
- Brokering agreements with government entities and private utility companies (for payment services)
- Supervising the BC Card, the insurance administrator, and the consortia administrator, three auxiliary institutions in the SICREDI network

Products and Services

The Bank offers the following services to the network:

- Daily reports of macroeconomic indicators
- Advertising—development of institutional dissemination materials
- Economic viability studies for new cooperatives, restructurings, fusions, and so on
- Management of the Solidarity Guarantee Fund and Electronic Transfers Fraud Fund
- Management of investment funds
- Verification of applications for loans administered with public funds
- Technical assessments of project proposals
- Administration and disbursement of cooperatives’ resources
- International-exchange services and transfers
- Insurance
- Consortia products via the consortia administrator
- MasterCard via BC Card
- Directives for the financial planning of the cooperatives
Management and Governance

The Bank was recently restructured and is currently organized into four major departments: products and business, administration, credit and exchange, and finance (appendix 2). An elected president and vice president oversee Bank operations. The president of the Bank is customarily invited to sit on the deliberative committee and may be represented on the technical advisory committee if the proposal to be reviewed is within the Bank’s area of expertise. The Bank is controlled by the Centrals, which have 52.04 percent of shares and the right to vote, while the cooperatives hold 47.96 percent and do not have the right to vote.

Staffing and Remuneration

A total of 194 collaborators are on the payrolls of the Cooperative Bank. Eighty-four percent of the collaborators are under 35 years of age, 75 percent have been with the SICREDI for less than five years, and 39 percent are women. Ninety-six percent have or are completing a higher education degree. The president receives a base salary equivalent to that of the manager/superintendent of development of the Centrals, plus 150 percent to reflect the responsibility of the position, in addition to either the competitor bonus or the structural bonus. The same goes for the department director, with the exception of the responsibility increment, which is 50 percent.

Financial and Operating Performance

In 2005, the Bank had R$2.8 billion in assets, a 24 percent increase from 2004; profits were also up in 2005. The Bank shows low profitability primarily because it is not designed to generate profits; operating expenses are very low. As was mentioned previously, starting in 2006, 12 percent of the institutional capital of the cooperatives will be used to capitalize the Bank (down from 16 percent in previous years). Shareholder capital represented only 3 percent of total assets in 2005. Loans accounted for 39 percent of assets, while deposits accounted for 34 percent of liabilities. The Bank mobilizes resources through market operations (44 percent).

Table 9: Financial Performance of SICREDI Cooperative Bank

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity (in R$ millions)</td>
<td>51.2</td>
<td>7.07</td>
<td>4.34</td>
<td>13.09</td>
</tr>
<tr>
<td>Deposits (in R$ millions)</td>
<td>428.5</td>
<td>672.9</td>
<td>612.6</td>
<td>991.8</td>
</tr>
<tr>
<td>Loans (in R$ millions)</td>
<td>470.9</td>
<td>682.9</td>
<td>843.7</td>
<td>1,117.4</td>
</tr>
<tr>
<td>Total assets (in R$ millions)</td>
<td>1,727.5</td>
<td>1,997.0</td>
<td>2,009.9</td>
<td>2,847.0</td>
</tr>
<tr>
<td>Profits (in R$ millions)</td>
<td>3.6</td>
<td>3.7</td>
<td>3.6</td>
<td>11.1</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>7.07</td>
<td>7.07</td>
<td>4.34</td>
<td>13.09</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>0.21</td>
<td>0.19</td>
<td>0.18</td>
<td>0.39</td>
</tr>
<tr>
<td>Operating expenses ratio (%)</td>
<td>1.44</td>
<td>2.02</td>
<td>1.87</td>
<td>1.54</td>
</tr>
</tbody>
</table>

Source: SICREDI.
4. LESSONS LEARNED

Over the last 20 years, SICREDI has evolved from a small network of rural production/credit cooperatives to a sophisticated financial institution. SICREDI’s success is undeniable: growth rates have been high and sustained over the last 10 years. Profits continue to climb. The network has not yet faced major crises of any kind over the last decade, and, barring any major change, sustainability appears ensured.

While it is true that the cooperative sector as a whole has benefited from the favorable regulatory changes, SICREDI more than other financial cooperatives in Brazil has managed to structure and consolidate its operations, creating a stronger foundation than the other cooperative networks. While not the largest network in the country, SICREDI is considered the most professional and well structured.

What has enabled SICREDI to function so well in a context where rural finance is essentially left to the government? What are the ingredients to success? Not surprisingly, SICREDI embodies practically every success factor detailed in cooperative literature. This section will first present each one of these factors and see how it applies to SICREDI, followed by an examination of the weak spots.

SUCCESS FACTORS

**Policy and enabling environment.** Regulatory changes have been fundamental to SICREDI’s evolution. However, it is also in part thanks to SICREDI’s performance that the regulatory changes took place. The relationship between regulation and growth has been a virtuous spiral. The more SICREDI showed signs of maturity, the more the central bank proved reactive to their demands. Likewise, the more the regulatory environment improved, the better SICREDI performed. This virtuous spiral has been accompanied by solid technical knowledge on the side of SICREDI and an openness on behalf of the central bank.

**Strong and transparent governance.** SICREDI’s governance structure is well defined, transparent, and perhaps most important, respected. The decision-making processes detailed in the *Internal Regiment* are followed. The network uses a series of technological tools such as project management software, teleconferencing, Internet and intranet, as

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19 This list of success factors is taken from *Meeting Development Challenges: Renewed Approaches to Rural Finance*, World Bank.
well as more traditional organization and dissemination methods to ensure information flows throughout the network.

Professional management and staff. SICREDI prioritizes highly qualified staff and has developed training and remuneration policies to reflect this priority. At the same time, SICREDI does not disregard the importance of cooperative values. Given the choice between a technically competent director and one with an understanding of cooperative philosophy, SICREDI prefers to go with the latter and then invest heavily in technical training.

Strong systems. Rapid growth in the last 10 years has forced SICREDI to revamp all of its existing management information systems and develop new ones. This need, combined with the leaders’ forward-looking perspective, has resulted in systems that use the most recent technologies and knowledge available.

Centralization of services. SICREDI opted for a three-tier structure to keep costs low and maximize specialized technical knowledge by centralizing services. This process of centralization is not yet complete, but eventually SICREDI hopes to achieve a structure similar to that of the Desjardins model, in which all services not related to operations with members are centralized by the Confederation.

Clear definition of roles. For the most part, roles and responsibilities of each entity are clear both on paper and in practice. Because of continuing efforts to render the network more efficient through restructuring and further centralization, there appears to be some overlap in certain areas like human resources and communication. This duplication will likely be eliminated over time as the changes are rolled out across the network.

Well-defined auditing system. Internal auditing is highly systematized, transparent, and rigorous. The extensive system of early warning bells and controls appears to function well, and while some cooperatives have encountered financial difficulties, there have been no major financial crises in the past 10 years of operations.

Intolerance of political affiliation. At all levels of the institution, from the coordinators of nucleos who are part of the member organization program to the Bank president, SICREDI embodies political independence. This policy emerged when it became clear that financial difficulties in cooperatives often went hand in hand with the involvement of local political figures. Political independence is strictly observed and as a result has helped insulate the network from problems that come with political interference. In addition to these generally accepted success factors, SICREDI has a number of key features that underlie its success.

Intense investment in human resources. All the above factors are made possible either directly or indirectly by SICREDI’s commitment to developing, valuing, and retaining human resources. Salaries are competitive and staff extremely well qualified—even more so than their commercial bank counterparts, according to some observers. A youthful workforce, combined with generous education benefits, means that the majority are recent graduates, possessing up-to-date specialized knowledge. In traditional banks, on
the other hand, managers are generally older, having obtained their diploma 10 or 15 years earlier. This has an impact on not only overall dynamism but also work performance.

**Well-defined model.** SICREDI’s model is the foundation of the network. This creates an inherent coherency in decision-making processes and systems, especially since the model is well defined and reflected in the strong corporate cultures. Specialization and standardization are fundamental elements in this model, as they ensure it is technically sound and is applied as broadly as possible. The distinction between the cooperative business and the cooperative enterprise is also a very important element, as it sets SICREDI apart from its bank competitors.

**Culture of systematization.** Almost anything that can be regulated and systematized has been in SICREDI. While this approach is standard practice in areas like credit policies, financial management, and auditing in most organizations, SICREDI has also extended this culture into strategic planning (with the publication of the aide-mémoire, the intention of creating a manual that will define a standardized strategic planning process for years to come), communication, and corporate education. As one SICREDI staff member who used to work for a private bank put it, the existence of so many rules and regulations helps one feel protected, key in an institution with no real owner.

**Forward-looking, dynamic, and methodical.** SICREDI leaders are particularly forward-looking and open to change. The institution is extremely dynamic, willing to make major investments and modifications to become stronger and more efficient. At the same time, the whole process of studying future possibilities, proposing changes, and implementing them is very methodical. Decision-making processes are respected, viability studies are conducted, and change is rolled out slowly across the network. Each of these elements aims to minimize possible resistance of members and directors to what could feel like an excessive depersonalization or corporatization of the cooperative network.

**Emphasis on social communication and image.** Investment in a social communication and marketing department has been fundamental to disseminating SICREDI’s model and creating a strong corporate identity internally, and creating a positive image externally.

**Cultural legacy.** This aspect may appear trivial, but it has been fundamental to SICREDI’s development. The regions where SICREDI has the deepest penetration are those where the gaúcho culture is strong. There is an understanding of cooperative culture in these areas that does not exist in regions where European colonization is much less pervasive. It is not coincidental that SICREDI’s structure has a strong German influence (and, to a lesser extent, French and Dutch); exchanges between SICREDI staff and German cooperatives (as well as DGRV) have been facilitated by the common culture and language.

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20 The SICREDI president characterizes the network as German at the tertiary level, Dutch at the secondary level, and French at the primary level.
PITFALLS

SICREDI is a relatively young institution. While many of the individual cooperatives have 20-odd years of experience, the structure in its present form has existed only since 2000, when the Confederation was established. As such, it is still very much an institution in formation. Many elements, such as the centralization of accounting, payroll, human resources and corporate education policy, and intranet, are still very new. Only time will tell to what extent these changes will render SICREDI more efficient.

This study did not identify any missed opportunities or major missteps that have made SICREDI what it is today. The network SICREDI has been advancing steadily since 1995, essentially within the same model that was developed rather intuitively by the networks leaders. Nevertheless, the rapid growth in recent years has inevitably led to some weak spots, most of which SICREDI is already fully aware.

Distancing from the member base. Despite the discourse that SICREDI differs from banks in its relationship with members, there is lack of a clear understanding of the nature of membership. Except at the cooperative level, collecting information on the member profile proved arduous, requiring a several-week process of sorting through the data system.21 Few efforts have been made to thoroughly study member satisfaction. And until recently, the personal-information forms at the branch level were not standardized. SICREDI is aware of this disconnect and is trying to strengthen the relationship via its member organization programs. This aspect is also one of the four strategic orientations for the next five years.

Tracking profitability. With some 160 product offerings that are operationalized via a three-level structure (that is, three different cost centers), SICREDI was unable to provide a clear picture of which products are most efficient or effective or that respond most to members’ needs. Also difficult to secure were data on the cost of services provided by the Centrals and Confederation. Because financial planning and accounting are rigorous, making it possible for SICREDI to have a general if not detailed notion of its overall profitability, this knowledge gap may not be very relevant right now. However, federal interest rates have started to fall and competition is increasing, both of which could lead to reduced profit margins. In anticipation of these changes, it seems important that SICREDI gain a thorough understanding of the products and services that add the most value to the network.

Assessing productivity and efficiency. SICREDI does not yet have set indicators to assess productivity of any one of the institutions in the structure. These indicators are being developed and should be implemented by the end of 2006. On the other hand, several different indicators do exist for judging efficiency, although they do not appear to be standardized across the network. These indicators are also being reworked in efforts to resolve the discrepancies.

21 Performed graciously by SICREDI.
Keeping up with technology. All of the above points are related to information technology, a department that is working furiously to keep up with the growing network. A new US$25 million data platform is being developed in conjunction with Brazilian and Indian software firms and should be ready by the end of 2006.

Slow decision-making process. This was a commonly cited weakness among SICREDI collaborators. Because efforts are made to build consensus and keep all levels of the network in the decision-making loop, decision making is not very agile. This appears frustrating for some (although everyone claims to understand why this form of decision making is so important).

SWOT ANALYSIS AND RECOMMENDATIONS

This paper sought to understand the SICREDI network: its mission, structure, activities, strengths, and weaknesses. This objective was fulfilled only partially. Time constraints did not permit a thorough investigation of the network, which is as complex as it is extensive. The auxiliary institutions were not addressed in the course of this study, and only a tiny proportion of cooperatives were visited. For this reason, it is somewhat inappropriate to make recommendations; nonetheless, a few general suggestions are offered, if only to help SICREDI identify opportunities for the future.

Moreover, SICREDI itself appears to be in a process of constant self-reflection, analyzing its strengths and weaknesses and obsessively seeking solutions. The strategic planning process in 2004–2005 characterizes this aspect, but is by no means the only example. Interviews with people from within and outside the network supported this impression; SICREDI is a model and teacher in the financial cooperative sector. Thus, it is unlikely that this short study will provide many new perspectives to the institution.

The following table nonetheless attempts to summarize SICREDI’s strengths and weaknesses, and their corresponding opportunities and threats. Because the strengths and weaknesses are essentially addressed in the previous two sections, this section will focus on the opportunities and challenges, closing with some recommendations for the network.

Threats and Challenges

A drop in the overnight lending rate and the increasing supply of microfinance through banks and crédito consignado mean that SICREDI will be facing smaller profit margins in the future. While the move to urban areas could be a way to compensate, it also presents a major challenge for the network. Competition is tight. Urbanites have myriad credit options at their disposal, ranging from formal bank services to semiformal

\[22\] Crédito consignado refers to low interest rate, guarantee-free loans with repayment deducted directly from paychecks or pension payments, which have become the most widely used form of consumer credit across the country since their authorization in 2003.
<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enabling environment</td>
<td>Knowledge of member base</td>
</tr>
<tr>
<td>Clear vision and defined strategy</td>
<td>Detailed performance monitoring</td>
</tr>
<tr>
<td>Rigorous organizational and management principles</td>
<td>IT platform (in review)</td>
</tr>
<tr>
<td>Forward-looking</td>
<td>Slow decision-making process</td>
</tr>
<tr>
<td>Intense investment in people</td>
<td></td>
</tr>
<tr>
<td>Highly qualified staff and technical expertise</td>
<td></td>
</tr>
<tr>
<td>Strong corporate culture and esprit de corps</td>
<td></td>
</tr>
<tr>
<td>Politically independent</td>
<td></td>
</tr>
<tr>
<td>Cultural legacy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opportunities</td>
</tr>
<tr>
<td>Nonfinancial services to create value-added at cooperative and apex levels</td>
<td>Macroeconomic changes</td>
</tr>
<tr>
<td>Urban markets</td>
<td>Increasing competition from banks</td>
</tr>
<tr>
<td>Capitalize on expertise: TA provision, study tours</td>
<td>Smaller profit margins</td>
</tr>
<tr>
<td>Local development perspective</td>
<td>Urban challenge</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author.

microlenders to informal moneylenders. Consumer credit is widely available: it can be accessed in all forms (post-dated checks, credit cards, installment credit) from most all sources (including department stores, banks, nonbank financial institutions, and supermarkets). This is a very different reality for SICREDI, one that may take some time to adjust to.

Similarly, the expansion into areas where the cultural background is dramatically different (like the state of Pará) is likely to be a resource-intensive undertaking. The reputation of cooperatives in most other parts of the country (perhaps with the exception of Minas Gerais) is far less favorable than in the south. Overcoming negative perceptions, educating potential members on cooperative principles, and identifying qualified technical staff will demand great efforts. While this is no reason to avoid expansion to these areas, it is probable that growth will be slower and more painstaking than it has been in the South.

Opportunities and Recommendations

**Creation of a TA provider.** SICREDI could use its extensive experience and knowledge as a revenue source by creating a separate entity to offer TA to financial cooperatives. Regulatory changes and government support have created a renaissance in the cooperative sector. SICREDI could capitalize on this context and its own experience by offering services to the newcomers, many of which are lacking a solid technical base.

**Creation of a visitor program.** Similarly, SICREDI could consider creating a formatted study tour for both national and international parties interested in observing the network in action. Such tours are already organized on an ad hoc basis; rarely does a month go by without a visit from an entity interested in SICREDI’s work. SICREDI conducts these
visits graciously and at no cost. In the future, the network might want to consider a model like that of the Indian institution Basix in which interested parties pay a fee to participate in a three-day visit of the institution held the third full week of every January, April, July, and October (Basix Quarterly Review).

**Investment in understanding current and potential member base.** Efforts are being made in this area via the *Organização do Quadro Social* program, but could be complemented by qualitative research on demand for financial and nonfinancial services. What financial services do members use, outside of those offered by SICREDI? What are their financial management strategies, considering both monetary and nonmonetary income? How can SICREDI ensure loyalty? This exercise is especially important in urban areas, where the member profile is very different, and there is little experience of open-admission financial cooperatives for SICREDI to draw on.

**Development of nonfinancial services that add value.** A better understanding of the financial lives of members would make it possible for SICREDI to develop nonfinancial services such as financial education or business development services. Especially in the urban areas, where financial services are in excess and indebtedness is a growing concern, offering a specialized “planning your family’s finances” program or making available the services of an advisor to help consolidate debts could give SICREDI an edge in a market that does not yet make a distinction between traditional and cooperative banks. Such services will be in line with SICREDI’s philosophy of valuing its members and their families.

**Encourage planning with a local development perspective.** Some cooperatives have had success working with local development actors to create a virtuous cycle of territorial development. These experiences involve, for example, working with local extension specialists to train dairy farmers in production techniques and then offering credit to upgrade equipment. More could be done to systematize these successful experiences and integrate their lessons into strategic planning across the network.

Can SICREDI’s success be replicated? After all, much of SICREDI’s success stems from the application of internationally accepted best-practice principles: solid governance, rigorous and transparent management, political independence, a mixed-income member base, sound financial management, and technological innovation. The recipe sounds simple, but it is not easy. Because of its cultural roots, the SICREDI network is rich in human and social capital; its geographical location in the resource-rich south differentiates it in economic terms from the rest of Brazil; a favorable political and economic context has provided the backdrop in recent years. These types of ingredients can not necessarily be induced, with perhaps the exception of the regulatory framework. But even this element has evolved in a very specific context. Legal changes occurred mainly in response to increasing maturity, as demonstrated by networks like SICREDI; with the exception of the changes starting in 2003, they were not the result of political initiative. In sum, contextual specificities make it difficult to make a solid case for replicating the SICREDI model.
Some observers joke that SICREDI’s impressive growth in recent years is “a no-brainer”—with the favorable legal framework that emerged and the institutional capacity to reach populations with few financial options, it would have been difficult not to grow. This point of view unjustly diminishes the more than 20 years of hard work put in by SICREDI leaders and their affiliates. However, it is no less true that the next 10 years are likely to be as much a test to the network’s solidity as the past 10 have been to its capacity.
BIBLIOGRAPHY


APPENDIX 1: ORGANIZATIONAL CHART OF THE CONFEDERATION
APPENDIX 2: ORGANIZATIONAL CHART OF THE BANK

ASSEMBLÉIA GERAL

DIRETORIA EXECUTIVA

Corretora de Seguros

Administradora de Consórcios

Administradora de Cartões

DIRETORIA DE PRODUTOS E NEGÓCIOS

DIRETORIA ADMINISTRATIVA

DIRETORIA DE CRÉDITO E CÂMBIO

DIRETORIA FINANCEIRA

DIRETORIA ADJ. DE REC. DE TERCEIROS

SUPERINT. DE COM. E MARKETING

Conselho Fiscal

Adm. de Bens

Secretaria Executiva

Gestão de Pessoas

Área de Análise de Risco de Crédito

Área de Controle e Form. de Crédito

Área de Cobrança e Pagamentos

Área de Cartões

Em fase de constituição: Fundação SICREDI.
## APPENDIX 3: SICREDI LOAN PRODUCTS

<table>
<thead>
<tr>
<th>Credit Product</th>
<th>Limit in R$</th>
<th>Interest Rates</th>
<th>Term</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CREDIT LINES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft facility</td>
<td>R$30,000.00</td>
<td>5.5% /mo.</td>
<td>Automatically renewed every 90 days</td>
<td>Overdraft facility for checking account</td>
</tr>
<tr>
<td>Payroll loan</td>
<td>Monthly loan of up to 30% of net income of member</td>
<td>1.78% - 4.57% /mo.</td>
<td>Up to 1,080 days (fixed)</td>
<td>Diverse</td>
</tr>
<tr>
<td>Personal loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 5.26% /mo.</td>
<td>Up to 1,080 days (fixed) or up to 1,440 days (floating)</td>
<td>Diverse</td>
</tr>
<tr>
<td>Retiree loan</td>
<td>Dependent on member’s payment capacity</td>
<td>1.97% - 4.23% /mo.</td>
<td>Up to 1,080 days (fixed or floating)</td>
<td>Loan for retirees who receive pension payments at SICREDI</td>
</tr>
<tr>
<td>Tax payment</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.29% /mo.</td>
<td>Up to 360 days</td>
<td>Payment of property and automobile taxes</td>
</tr>
<tr>
<td>Advance on income tax rebate</td>
<td>Dependent on member’s payment capacity</td>
<td>2.31% - 3.89% /mo.</td>
<td>Until 20/12 or the day of rebate receipt, whichever comes first</td>
<td>Advance on income tax rebate</td>
</tr>
<tr>
<td>Advance of 13&lt;sup&gt;th&lt;/sup&gt; salary</td>
<td>Up to 40% of salary after taxes, if already receiving the advance or up to 70% of salary after taxes if member has not yet received any advance</td>
<td>2.36% - 4.36% /mo.</td>
<td>Until 20/12</td>
<td>Advance of 13&lt;sup&gt;th&lt;/sup&gt; salary</td>
</tr>
<tr>
<td>School material loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.29% /mo.</td>
<td>Up to 360 days</td>
<td>Educational expenses</td>
</tr>
<tr>
<td>Tourism loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.73% /mo.</td>
<td>Up to 1,080 days (fixed or floating)</td>
<td>International and domestic travel</td>
</tr>
<tr>
<td>Construction and renovation</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.73% /mo.</td>
<td>Up to 1,080 days (fixed) or up to 1,440 days (floating)</td>
<td>Construction, additions, renovation of buildings</td>
</tr>
<tr>
<td>Computer loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.73% /mo.</td>
<td>Up to 1,080 days (fixed or floating)</td>
<td>Acquisition of computer materials</td>
</tr>
<tr>
<td>Electronics loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.73% /mo.</td>
<td>Up to 1,080 days (fixed) or up to 1,440 days (floating)</td>
<td>Acquisition of electronic material</td>
</tr>
<tr>
<td>Machines and equipment</td>
<td>Dependent on member’s payment capacity</td>
<td>2.03% - 4.73% /mo.</td>
<td>Up to 1,080 days (fixed) or up to 1,440 days (floating)</td>
<td>Acquisition of new or used machines and equipment, made domestically</td>
</tr>
<tr>
<td>Credit Product</td>
<td>Limit in R$</td>
<td>Interest Rates</td>
<td>Term</td>
<td>Objective</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
<td>-------------------------</td>
<td>-------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>CREDIT LINES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Vehicle</strong></td>
<td>Up to 80% of the total value, depending on the member’s payment capacity</td>
<td>1.79% - 4.69% /mo.</td>
<td>Up to 1,080 days (fixed) or 1,440 days (floating)</td>
<td>Acquisition of new or used domestic vehicles</td>
</tr>
<tr>
<td>Automatic credit</td>
<td>Dependent on member’s payment capacity</td>
<td>1.88% - 4.65% /mo.</td>
<td>Up to 1,080 days (fixed or floating)</td>
<td></td>
</tr>
<tr>
<td>Agro inputs</td>
<td>Dependent on member’s payment capacity</td>
<td>DI + 0.87% or 2.76% /mo.</td>
<td>Up to 120 days</td>
<td>Financing of crops and animal husbandry activities</td>
</tr>
<tr>
<td>Factoring— checks</td>
<td>R$5,000.00 per issuer</td>
<td>2.04% - 4.31% /mo.</td>
<td>Up to 120 days</td>
<td>Advance on receivables</td>
</tr>
<tr>
<td>Factoring— promissory notes</td>
<td>R$5,000.00 per issuer</td>
<td>2.04% - 4.31% /mo.</td>
<td>Up to 120 days</td>
<td>Advance on receivables</td>
</tr>
<tr>
<td>Factoring— trade receivables</td>
<td>R$10,000.00 per withdrawer</td>
<td>2.04% - 4.31% /mo.</td>
<td>Up to 120 days</td>
<td>Advance on receivables</td>
</tr>
<tr>
<td>Carta fiança</td>
<td>Dependent on member's payment capacity</td>
<td>3.39% - 5.74% /mo.</td>
<td>Depends on object of financing</td>
<td>Finance obligations contracted by members for third parties</td>
</tr>
<tr>
<td>Automobile financing</td>
<td>Info missing?</td>
<td>Info missing?</td>
<td>Info missing?</td>
<td>Info missing?</td>
</tr>
<tr>
<td>Entrepreneur check</td>
<td>Up to R$50,000.00</td>
<td>5.50%</td>
<td>Automatic renewal every 90 days</td>
<td>Overdraft facility</td>
</tr>
<tr>
<td>Hot money</td>
<td>Dependent on member’s payment capacity</td>
<td>0.12% - 0.21% /mo.</td>
<td>Up to 15 days</td>
<td>Extremely short-term loans</td>
</tr>
<tr>
<td>Working capital loan</td>
<td>Dependent on member’s payment capacity</td>
<td>2.10% - 4.43% /mo.</td>
<td>Up to 360 days</td>
<td>Working capital</td>
</tr>
<tr>
<td>Investment loans</td>
<td>Dependent on member’s payment capacity</td>
<td>2.67% - 4.89% /mo.</td>
<td>From 361 to 720 days</td>
<td>Investment</td>
</tr>
<tr>
<td>Microfinance for individuals</td>
<td>R$600.00</td>
<td>2% /mo.</td>
<td>Up to 360 days</td>
<td>Loans for low-income members</td>
</tr>
<tr>
<td>Microfinance for firms</td>
<td>R$1,500.00</td>
<td>2% /mo.</td>
<td>Up to 360 days</td>
<td>Loans for low-income members</td>
</tr>
<tr>
<td>Rotating credit</td>
<td>Dependent on member’s payment capacity</td>
<td>2.04% - 4.40% /mo.</td>
<td>Up to 360 days</td>
<td>Credit operation with rotating limit and fixed term</td>
</tr>
<tr>
<td>Factoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## INVESTMENT CREDIT LINES—Brazilian National Economic and Social Development Bank (BNDES)

<table>
<thead>
<tr>
<th>Program</th>
<th>Amount</th>
<th>Interest Rate</th>
<th>Duration</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic</td>
<td>R$500,000.00</td>
<td>TJLP(^{23}) + 4% to 7% p.a.</td>
<td>60 months</td>
<td>Finance implementation, expansion, modernization, or relocalization of companies, including acquisition of domestically made machines and equipment approved by the BNDES and working capital.</td>
</tr>
<tr>
<td>FINAME</td>
<td>R$500,000.00</td>
<td>TJLP + 4% to 7% p.a.</td>
<td>60 months</td>
<td>Finance commercialization of new, domestically made machines and equipment approved by the BNDES and working capital associated with acquisitions.</td>
</tr>
<tr>
<td>Modermaq</td>
<td>R$500,000.00</td>
<td>13.95% p.a.</td>
<td>60 months</td>
<td>Finance acquisition of machines and equipment in view of modernizing national industrial parks.</td>
</tr>
</tbody>
</table>

## RURAL CREDIT PRODUCTS
### INSTITUTIONAL RESOURCES

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Duration</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural investment</td>
<td>Depends on contract</td>
<td>1,080 days</td>
<td>Costs, commercialization, investment.</td>
</tr>
<tr>
<td>Animal husbandry investment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural costs</td>
<td>Fixed and floating</td>
<td>1 harvest</td>
<td></td>
</tr>
<tr>
<td>Animal husbandry costs</td>
<td></td>
<td>360 days</td>
<td></td>
</tr>
<tr>
<td>Precommercialization</td>
<td>Discount on rural promissory note or rural receivables</td>
<td>240 days</td>
<td>Up to 360 days, depending on term of receivables of 90 to 120 days.</td>
</tr>
</tbody>
</table>

\(^{23}\) Long-term interest rate