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Capitalization and Financing of Brazilian Agricultural Cooperatives

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Abstract— *The new scenario of the world economy presents itself to cooperative societies in the form of a permanent contradiction, that is, to remain a competitive company, capable of facing large multinationals that conquer their markets and, at the same time, meet the needs of its members, not always being able to do it with any result.This contradiction imposes limits on the financing of its expansion process with its own resources (self-financing), especially in developing economies, where the capital factor is generally scarce and expensive, and its need is apparently infinite. There is a consensus that the development of the capital market can supply this shortage of long-term private credit, just look at the international experience, in which this market captures the necessary resources to finance the expansion process of companies, promoting gains in competitiveness. and productivity across the economic system.The potential of the capital market to assume this role depends on the growth of voluntary institutional savings (investment funds, pension funds and open pension funds), as well as the persistent reduction in the interest rate on government bonds that will be possible, if there is a clear government intention to consolidate the long-term fiscal adjustment, reducing the vulnerability of the Brazilian economy to international financial capital.The expectation regarding the strengthening of this market is what justifies the proposal of this research, given the scarcity of credit permeating all the decisions of the agricultural cooperatives, when, from a certain stage of their growth process, a new relationship between own and third party resources, which, in some cases, compromises their financial balance.*

Keywords*— *Agricultural cooperatives; Capitalization, Financing, Structure of capital; Rural development.

I. INTRODUCTION

In order to resist and grow, cooperative or non-cooperative companies need to guarantee good economic performance through differentiating strategies and competent management of their businesses, acting with competitive advantage in international markets.

A new stance in relation to their strategic positioning and organizational architecture are actions that aim to increase the competitiveness of these organizations and are usually accompanied by investments and require additional resources.

The reduction of financial resources offered by the Brazilian Federal Government to rural producers and their cooperatives for the cost, investment and commercialization of their products, is evidence of the depletion of traditional sources of financing for national agribusiness.

In reality, this reduction is the result of transformations that the Brazilian economy underwent due to its high fiscal deficit, which reduced the investment capacity of the public sector, forcing the government to finance itself in the private sector, and thus redirecting the private savings for the acquisition of public bonds, to the detriment of financing productive activities.To supply the demand for rural credit, agricultural cooperatives began to act as banks, providing resources for rural producers who were unable to capture them in the financial market.

As the cooperatives did not have their own resources to make these loans to producers, they did so using financial institutions, and therefore ended up assuming the credit risk. If at the time of the harvest, in the event of crop frustration, the producer did not honor its obligations to the cooperative, it could face financial difficulties due to the mismatch between the liquidity of its assets and the liabilities assumed on behalf of the cooperative members, which in fact occurred In so many cases.Among the main issues that are currently being debated in thecooperative movement, he most important,

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conflictive and controversial movement is that whichrelates to the capitalization of agricultural cooperatives.

This article intends to discuss these issues and, for that, it reviews thetheoretical framework, exposing the thinking of several authors about the elements thatexplain the origins of cooperative thinking, the differences between societiescooperatives and capital firms, their contributions to developmentseconomic and social, and finally, its main challenges, especially thoserelated to the capitalization and financing of its expansion process.

II. ORIGIN OF COOPERATIVE THINKING

Even in competitive societies, there is a minimum of cooperation between individuals and organizations, otherwise it would be impossible to live together. This minimum cooperation does not always mean an intentional practice that can arise from simple attitudes of accommodation to coexistence and can change according to the circumstances or interests of the moment, both of individuals and groups. Such cooperation can happen informally and sporadically or formally, when a group of individuals decides to organize a cooperative society to meet their needs (Ricciardi, 1996).

Cooperativism as it is known today began in the 19th century. The transformations that marked the last century, the emergence of new ideas and philosophies, especially the Industrial Revolution, were the fertile ground for the emergence of cooperativism that is directly associated with workers' initiatives against state and business oppression from the beginning of the last century, by seeking solutions to their socio-economic problems by associations that aimed at mutual assistance (Pinho, 1982).

In England, two of the greatest creators of cooperativism emerged, William King (1786-1865) and Robert Owens (1772-1858), who disseminated in the labor-producing midst a movement encouraging the organization of cooperatives.Thus, in 1820, the League for The Propaganda of Cooperation was born. A few years later, William King, in 1827, organizes in Brighton, England, the first pre-cooperative of consumption. In 1835, a society similar to those found in England emerged in the city of Lyon, France: the Lionesa Association named *Au Commerce Véridique* (Menegário, 2000).

However, only in November 1843, in *Rochdale*,*Lancashire*district, near Manchester, England, a group of 28 weavers founded a consumer cooperative called *the Rochdale Society of Equitable Pioneers*,whose aim was to find ways to improve their precarious economic situation by mutual assistance. This act symbolized the beginning of the cooperative movement that spread throughout the world and is characterized by the predominance of the doctrinal approach, since the foundations of cooperative doctrine were based on the principles declared in the statutes of this society. (Menegário, 2000).

With regard to these "principles", Pinho (1966, p. 32) warns that they should not be so named, since they do not represent moral postulates that derive from the rules established by the cooperative custom, but the rules or norms of operation of the cooperative. Its first wording (1844) was somewhat modified in 1845 by the Pioneers themselves and, later, by the members present at the Congresses of the ACI (International Cooperative Alliance) in 1937 (Paris) and in 1966 (Vienna). Its current wording is thus understood: (i) free membership – allows the entry or withdrawal of the cooperative, voluntarily, without coerfraction or discrimination for political, religious, ethnic or social reasons; (ii) democratic management – administration of the cooperative members themselves, each of which is entitled to one vote only, with no relation to their participation in the share capital; (iii) distribution of net leftovers – to pro rata members of operations according to what each one performed with the cooperative;(iv) limited interest rate on share capital – capital is considered only a factor of production; establishment of a technical, social and education fund for members and the general public;(v) inter-cooperative cooperation, at local, national and international level.

At this stage, according to Bastiani (1991), the well-known School of Nimes (1886) appears under the leadership of Charles Gide (1847-1932). Gide was the main systematizer of Rochdale's cooperative thinking. Charles Gide (1847-1932) bears the phrase: "cooperative societies serve to give the working class knowledge and virtues without which it could not occupy the place to which it aspires and to which it is entitled" (Pinho, 1982, p. 35).

Over the course of 100 years, cooperativism has endured time without significant changes in its doctrine. The vigorous growth in the number of cooperatives and cooperatives ended up fostering the creation of an international entity representing the cooperative movement.The origin of this entity is due to a project of Robert Owen (1835), called Association of All Classes of All Nations, whose objective was the constitution of a central cooperative with branches around the world. The idea did not materialize, but resulted in the foundation, in London (1895), of the International Cooperative Alliance (ACI) (Menegário, 2000).

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The International Cooperative Alliance is an independent non-governmental organization representing cooperative organizations around the world. It has more than 230 affiliated organizations in more than 100 countries, representing more than 730 million people worldwide. It was the first non-governmental organization to receive advisory body status from the United Nations. The world cooperative has more than 740,000 companies, bringing together about 355 million members and working in various sectors of the economy (OCB, 1997).

III. COOPERATIVISM IN BRAZIL

Cooperativism in Brazil only found a favorable climate after the liberation of slaves (1888) and, concomitantly, the coming of European immigrants who brought in their culture associative doctrinal content.In Brazil, at the time of Gide's speech, a Brazilian representative – Santana Nery – would have participated in the Cooperative Congress then held in France. And in May 1888, The Financial Magazine, from Rio de Janeiro, had drawn attention to cooperatives as a way of reorganizing agricultural production and commercialization, after the crisis aggravated with the liberation of slaves.From the beginning of this century, some idealists began campaigns to disseminate cooperativism, to which were added experiences of immigrant groups, especially Germans, Italians and Japanese (Pinho, 1966).

From 1932 it was verified whether the appearance of a larger number of cooperatives, as a consequence of Decree No. 22.239/32 and campaigns disclosed by the Federal Government. These campaigns were developed by cooperative assistance agencies that were gradually being created, without, however, any of them reaching national coverage.In 1969, in Belo Horizonte, during the IV Brazilian Congress of Cooperativism, the national body representing the Brazilian cooperative movement was created, namely, the Organization of Brazilian Cooperatives (OCB) (Menegário, 2000).

The Organization of Brazilian Cooperatives is a non-profit civil society, is the result of the merger of the National Union of Cooperative Associations (UNASCO) and the Brazilian Alliance of Cooperatives (ABCOOP), entities that represented cooperatives until that date. Legally implemented in 1971, by Law 5,764, the OCB System also acts as a technical – advisory body of the government, bringing together all the Organizations of State Cooperatives (OCEs). Internationally, OCB is affiliated with the Organization of Cooperatives of the Americas (OCA) and the International Cooperative Alliance (ACI) (Menegário, 2000).

The structure of Brazilian cooperativism consists of three modalities:(i) *individual cooperatives*: are those consisting of at least 20 natural persons, being exceptionally allowed the admission of legal entities having as their object the same or related economic activities of individuals, or even those not for profit;(ii) *central cooperatives or cooperative federations:*those consisting of at least three individual cooperatives and may exceptionally admit individual members;(iii) *confederations of cooperatives*: are those consisting of at least three federations of central cooperatives or cooperatives, of the same or different modalities (Ferreira, 1999).

IV. THE CONCEPT OF COOPERATIVE ENTERPRISE

The International Cooperative Alliance (1995) concept the cooperative company as an autonomous association of people who voluntarily unite to meet common economic, social and cultural aspirations and needs through a collectively owned and democratically managed company.Cooperatives are societies that do not aim only at the pursuit of profit. The member, regardless of his or her capital contribution, is entitled to only one vote at the meetings. The leftovers, at the end of each fiscal year, are distributed in the direct reason of their participation in the delivery of production and consumption. These factors make cooperativism an economic-social system that seeks the collective interest of production and distribution (Antonialli, 2000).

It should be stressed, first, that cooperatives are private collective management companies. Its owners and managers are the users themselves, giving this company unique characteristics, both in terms of its operation and its internal regulation. Thus, the partners are not the capitalists, as in other private companies, but, according to the type of cooperative that is concerned, it is the users themselves, who contribute to the raw material, thus called associates.In this organization, the internal logic of operation is not guided by capital, but by the principles of democracy and solidarity. Within this perspective, the performance of these companies should also be evaluated by compliance with doctrinal principles and not only by maximizing corporate profit (Antonialli, 2000).

As Lauschner (1989, p. 11) observes, the cooperative is one:Technical, economic and financial body, under the collective administration that maintains, in the hands of workers, all management and risk and allocates to the work factor and to the global society all the added

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value after the interest has been paid (or fixed rate of lease of the capital factor).

Fleury (1983) concept cooperative society as an entity with three basic characteristics:(i) c*ooperative ownership*: means that the users of the cooperative are its owners and not those who contribute capital;(ii) c*ooperative*management: implies the concentration of decision-making power in the hands of the cooperative members;(iii) c*ooperative distribution*: means that the distribution of the cooperative's profit (net leftovers) is made pro *rata* and proportional to the operations of each member in the year.

According to Antonialli (2000, p. 10):these characteristics give it the character of 'associated company' because it includes: the voluntary association of people who constitute a society and a common undertaking by which this society achieves its objectives. Two aspects of this organization arise from the nature of this organization: the first is that individuals associate themselves with the purpose of organizing a joint venture; the second is that it meets the interests and needs of your individual economies.

V. DIFFERENCES BETWEEN COOPERATIVES AND CAPITAL COMPANIES

The cooperative is a different undertaking from the capital companies found in the economy and aimed at profits. This organizational form is based on doctrinal principles derived from utopian socialists and has as its ideas equality, solidarity and freedom.

This doctrinal origin makes these organizations have a differentiated organizational architecture. In this enterprise there is not a private property, but a co-property, private and common, not with the objective of achieving profits, because it is intended to offer conditions, so that each of its associates can establish themselves with greater advantages before an oligopolized market (Bialoskorski Neto, 1994) and Zylbersztajn (1994, 1999).

Pinho (1966) distinguishes cooperatives of capital companies by two basic points: while cooperative companies put people first, aiming at the provision of services, capital companies prioritize the maximization of capital by generating profits.

Irion (1997) states that cooperatives are an option of economic organization that lives together and even maintains business with the business option, since capital companies are sometimes clients; sometimes they are suppliers of the cooperatives themselves.

The cooperative company differs from the capital company by having a different relationship with the factors of production, capital and labor. The vote in a cooperative is proportional to the work – each man a single vote – while in a capital company, the decision is proportional to the number of shares, that is, proportional to the capital of each investor.

Whereas, in the cooperative, the distribution of the result is proportional to the activity of each partner, in a capital company, this result is divided proportionally to the capital invested by each owner.From the point of view of the factor of remunerated production, for example, capital companies and cooperative societies are different. Unlike the former who pay a capital, the latter pay a raw material, a job, a good or a final service.

Unlike the other companies, the cooperative is not structured in order to accumulate capital. The capital is necessary to the cooperative as well as in the other companies, however the first purpose of the cooperative is not capital, that is, the power of the producer associated with a cooperative does not emanate from the amount of capital that this producer has.

With regard also to capital, cooperative societies and capital companies present differences. For the cooperative, the financial supplement consists of bank loans, and members can be called upon to secure these loans. In commercial companies, capital is provided by shareholders/investors.

While members' rights are reduced in a cooperative, in commercial companies, shareholders have absolute rights to capital. In a cooperative, the member's capital cannot be transferred or sold.

In the case of self-financing, there is a difference between cooperative societies and capital firms. Capital companies can either distribute dividends or withhold profit, which, for the shareholder, constitutes, in any case, a gain.

In cooperatives, the retention of leftovers does not necessarily mean a capital gain for the member. AsJoseph Ballé put it, when the *Symposium de Lígia* (1988) put in place, the retention of leftovers is like a deduction on the wealth created by the associates, and it can be compared to a tax on the work of the producer and the cooperative collectivity, for its own development (Rocha, 1999).

Another fundamental point in these debates is that the cooperative is a working company with the objective of generating services to its members. This will only be possible consistently if it grows under some market precepts, according to usual assumptions of maximization

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of results, distributing its fruits after the exercise, in order to enable investments with equity and require associated members to also maintain the level of economic efficiency of the market without transferring to the cooperative company its economic inefficiencies.

Thus, the cooperative company has to act according to the economic logic of the market, both for "outside" the organization, as is clear, but also for "within" the organization, in the relationship with its associates, these are directions that can ensure its business efficiency and therefore its social effectiveness (Bialoskorski Neto, Marques and Neves, 1995).

The cooperative will present a clear tendency to overlap its functions of providing services to the associate above the very efficiency of the market business, focusing much more on the short-term benefits for the cooperative members than by the external environment of the consumer market. Such situations are not sustainable in the long term (OCB, 1997).

Pinho (1986, p. 12) also justifying the relevance of the balance between the social and the economic, reports the following:(i) the fact that the cooperative combines the characters of association and company causes many difficulties for its administrators. If they prioritize the associative aspect, they run the risk of encountering problems in the financial management of the company; (ii) if they consider only the business aspect, they can distance themselves from the cooperative members and forget the social purposes of the cooperative. The ideal will, of course, be the balance between both approaches. This balance can be verified by measuring social activity and economic-financial activity.

The cooperative is an association of people, but at the same time it is an economic company. For a long time the laws were very concerned with defining the cooperative according to its associative character, but did not take into account sufficiently this other concept, this other ingredient, which integrates the notion of cooperative, which is its condition of economic enterprise. This is one of the facts that should illuminate the reflection about the legislation of cooperatives in the future (Cracogna, 1997).

VI. COOPERATIVE CONCENTRATION STRATEGIES

Strategies of cooperatives and private companies are not very different. Analyzing the generic strategies described by Porter (1986), leadership in costs and differentiation strategies, it is verified that they are used by agricultural cooperatives, as well as by capital companies.

Zuurbier (1997) analyzing strategies of eighteen milk cooperatives from the European Union and private companies in the same sector, found some significant differences: (i) in both categories of companies, the strategies focused on cost reduction, value addition, geographic expansion and market segmentation. One difference found was in the number of mergers and acquisitions on the one hand and in the number of strategic alliances on the other. Capital companies have carried out more mergers and acquisitions than cooperatives;(ii) the reasons that led to the merger, acquisition and strategic alliances processes were different. Capital companies argued that their motives were derived from the need for expansion and better effectiveness in the distribution of products, while cooperative societies emphasized the arguments of efficiency and economies of scale;(iii) a difference was also detected in the strategic behavior of these organizations in relation to the concentration and establishment of the company in local markets and other markets. Mergers and acquisitions were identified as strategies for local markets, while strategic alliances were preferred in operating in other markets.

The research revealed that the need to add value, cost efficiency and expansion by mergers, acquisitions, or strategic alliances puts enormous pressure on the financial capacity of cooperative companies.

Most agricultural cooperatives seek to guarantee the highest selling price for the product of their members, in the short and long term. This condition creates clear conflicts, as in many cases short-term investments are needed to ensure long-term prices.

The cooperative is obliged to sell all the production of its members, reducing their chances of obtaining higher profit margins and, if it does not process the production received, ends up supplying raw materials with low added value to the industry.

When markets are saturated, cooperatives are forced to opt for low-cost and increased efficiency strategies. As long as capital companies allow, the prospects are good. But from the moment new companies appear in the market with lower costs, cooperatives start to face a big problem.

Conflicts can also occur between member groups that make decisions in the cooperative. Some may wish to explore international markets, and others consider, better or cheaper, the use of local processing raw materials. The resulting is a direct competition between the suppliers of the cooperative and its organization.

Another critical point for cooperatives is the decision to enter markets for products unrelated to their original mission. To ensure the greatest possibility of selling price to their members, cooperatives can strategically diversify their operational activities, provided that the risk to be assumed is evaluated with technical rigor.

In short, Zuurbier (1997) raises at least four critical points of a strategic nature, which pose challenges to the cooperative company: (i) the financial capacity for mergers and acquisitions; (ii) new companies with low-cost strategies; (iii) competitive supply e (iv) risk when diversifying.

Cooperatives have always followed the aggregative trend of capital companies, including having common objectives, such as: eliminating intermediaries from the various stages of production, operating on a larger scale, reducing the cost of labor by mechanizing production, acquiring complementary manufacturing plants, stabilizing the company's activities by diversifying products, conquering new markets or new consumer ranges , reduce administrative costs, advertising and distribution costs of products (Pinho, 1966).

At first, the concentration of cooperatives in Brazil occurred within the scope of intercooperative combinations, that is, limited exclusively by the constitution of central cooperatives and cooperative federations. Only from 1971, mergers and acquisitions began.

Strategically, the forms of concentration smissible by cooperative legislation are as follows: (i) v*ertical concentration*: vertical concentration integrates, in the same unit, the similar or complementary activities of singulars or central. Cooperative legislation allows for three forms of integration: central ones, federations and confederations; (ii) *Horizontal*concentration: horizontal concentration occurs when cooperatives expand their dimensions in the activities to which they were already engaged. The legislation allows for three types of horizontal concentration: mergers, incorporations and dismemberments; (iii) m*ixed concentration*: mixed concentration is the combination of horizontal and vertical concentration of cooperatives. If, for example, a group of single cooperatives found a plant, incorporate another cooperative, merge with other single cooperatives, and join two other plants at least, they will be constituting a confederation; (iv) d*iversification*: it is a strategy that allows to increase the potential of members by more product and market options; (v) a*greements between cooperatives*: are combinations between two or more cooperatives to carry out some activities together (such as in the case of *pool* sales pool or purchasing) or broader sectors (such as in the condominium of industries); (vi) c*oncentration of cooperatives and capital societie:*this type of concentration is only allowed to complement activities, fulfill contracts and supply the idle capacity of the cooperative's facilities.When cooperatives of raw material producers participate in non-cooperative companies to transform their raw materials into finished products, there is an example of this type of concentration e (vii) m*ultinational cooperative complex or hyper cooperatives:*multinational cooperativecomplexes carry out their manufacturing and commercialization operations in more than one country, assuming proportions of hypercooperatives.

VII. ADVANTAGES OF THE COOPERATIVE COMPANY

Cooperatives constitute a different organizational model of capital companies, and can become an alternative to manage business in the capitalist world, especially with regard to the distribution of income in the field in a more equitable way, since it can promote the aggregation of value to agricultural products and increase the bargaining power of the rural producer in relatively imperfect markets.

According to Michels (2000), in order for a cooperative to be able to offer advantages to members, it is necessary that it be covered with three characteristics: (i) self-help; (ii) self-responsibility e (iii) democratic self-determination.

Since the beginning, cooperativism has been based on the principle of self-help. Although any company, which is not individual, is based on the assumption that the association of people earns individual advantages by synergism of efforts and capabilities, it is in cooperativism that these advantages become more evident. Self-responsibility is the result of the cooperative act, certainly the greatest distinction between a cooperative society and other types of societies. Democratic self-determination in cooperatives is based on the principle that each member represents a vote, regardless of the capital that each member holds in society.

Schneider (1984) states that cooperativism must practice, in an authentic way, cooperative values and principles, mainly raising the material conditions of life by improving the income of its associates.

In some regions of the State of São Paulo, statistical analyses show that, for every 10% increase in the proportion of cooperative members, there is a probable average increase of 2.5% in the income of rural producers in the region. Where there is the presence of cooperatives, there are also better prices for agricultural products and lower prices in the inputs demanded by rural producers, these differences can be significant and benefit the entire rural community (Bialoskorski Neto, 1998a).

The improvement of the average income of the rural producer is also related to the increase in productivity achieved in agricultural enterprises, assisted by cooperatives. The Agricultural Census of 1985 shows an interesting relationship between the percentage of rural properties linked to cooperatives and land productivity.

In the States with the highest number of establishments linked to cooperatives (Rio Grande do Sul, 49%; Santa Catarina, 42% and Paraná, 38%), also recorded higher levels of land productivity. On the other hand, the States of the Northeast, with the lowest number of properties linked to cooperatives (Ceará, 8% and Rio Grande do Norte, 10%), have low land productivity.

Zuurbier (1997) analyzes the reasons that lead a producer to enter a cooperative, among which he highlights: (i) *market access*: the producer individually has limited opportunities to enter the market. By cooperating, market power increases and market access is made possible; (ii) e*conomies of scale:*by cooperating, the individual producer may have an operating scale that makes it possible to operate at lower costs; (iii) a*ccess to resources*: bycooperating, the producer can have access to information, technology, sources of capital at lower costs, improving the performance of the business; (iv) *risk spraying:* the individual producer can invest alone in technology and new processes. However, by cooperating, the risks of these investments are diluted; (v) i*deological motives*: the individual producer can enter a cooperative for ideological reasons, because of his belief in the fact that solidarity between producers can help everyone and increase the common well-being.

Agricultural cooperatives should especially exploit their advantages related to direct contact with rural producers and consequently their greater capacity to coordinate the supply chain, an aspect that may be interesting for companies more focused on stages of processing and distribution of products to final consumers (Lazzarini and Bialoskorski Neto, 1998).

Second Bastiani (1991, p. 26):Another comparative advantage that the cooperative agroindustry offers is that of higher return for the rural producer. These higher returns are due to the existence of leftovers which are paid (distributed) to the associates, according to their participation in the purchase and sale operations with the cooperative, in addition to the market price received at the time of sale of agricultural products. The net result of the year belongs to the associates who, at the same time, assume among other roles those of users and suppliers of raw materials (agricultural products) to the cooperative.

The cooperative enterprise is also superior to other forms of organization, when it enables the development of the private company of each member, providing services and offering conditions for the development of these efficient and autonomous work units without prejudice to the necessary freedom of each member.

Finally, there is a clear advantage of cooperatives in the coordinating role of a chain of processes in a constantly changing business environment, as is the case of agro-industrial systems in the agricultural cooperative segment (Bialoskorski Neto, 1997).

VIII. COOPERATIVE COMPANY PROBLEMS

Agricultural cooperatives, the largest segment of Brazilian cooperatives, have been facing difficulties to adapt to the new business environment. Their survival depends on their competitiveness, and for this, they need to professionalize their management, reduce costs, review their statutes, demand efficiency and loyalty of the cooperative members and, mainly, prevent political interests from interfering in the decision-making process, harming the economic and social performance of society.

The great challenge of cooperatives is to find the balance between the economic, social and political interest of their associates. The economic interest lies in the mutual growth of the shareholders' equity and the cooperative; the social is linked to the services that the associates and their respective families receive from the cooperative, and finally, the politician, which leads to internal disputes for power, as well as to the representativeness of the cooperative and its associates before the community. Managing these interests is a difficult and complicated task, and many cooperatives are losing space to their competitors because they cannot satisfactorily balance these interests (Antonialli, 2000).

Rodrigues (1997) understands that cooperatives with their peculiar characteristics make up the only sector of the economy whose doctrine has its emphasis on the balance between economic and social and has it as its first problem in the face of globalization, because they will have to be efficient and competitive. This will necessarily imply improvement of management, cost reduction, dismissal of employees, dismissal of bad co-workers and

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differentiated treatment for associates depending on size, efficiency and reciprocity.

With the pressures imposed in this new environment, either by the market or by the regulatory action of the State, cooperativism was challenged to adapt urgently, before it lost its effective importance as an economic system of production and or provision of services.

In order to survive, the cooperatives had to face the enormous challenge of acting as private companies in the market, besides having to preserve their relations with the cooperative members, who are, at the same time, owners, customers and suppliers (Dornelas, 1998).

Agricultural cooperatives, in order to survive in this new competitive environment, should develop strategies that allow them to be inserted in this context of modernization, analyzing three important aspects: the market, the company and the field (Koslovski,1998).

In the market topic, they should analyze competition in the marketing of inputs and in the marketing of products. To reduce costs they should make full use of installed capacities, establish partnerships in the acquisition of raw materials and increase the scale.

In the company topic, they should review the internal organizational aspects, human, physical and financial resource management, processes and methods of work and their optimization in the search for productivity and total quality; for this, integrations, partnerships and mergers must be carried out.

In the field, the strategies should contemplate the development of the cooperative members, seeing them as decentralized productive units of the cooperative, with management and own capital.

Historically, the 1960s and 1970s have been marked by various federal government incentives for agriculture, with much of these incentives transferred to farmers by cooperatives. As important agents in the conduct of the federal government's agricultural policy, cooperatives not only had broad access to subsidized credit, but also passed on part of the government's credit to their associates.

The transfer of the government's credit lines and the cooperative itself to the members was important to address the lack of resources needed to finance agricultural crops, as well as contributed to increase the participation of members in their cooperatives.

With the reduction of the availability of rural credit by the government, several cooperatives decided to finance their cooperatives with their own resources. This activity increased the operational risk of cooperatives, because, in periods of crop frustration and consequent drop in the revenue of associates, the default rate increased dramatically.

As the guarantees of the loans of the members in the cooperative did not always have good legal guarantees, the cooperatives had to manage high rates of default in the early 1990s. The lack of liquidity of cooperative credits further increased their indebtedness due to the need to seek third-party capital at high financial costs to try to balance a cash shortfall.

Agricultural cooperatives may have suffered the most from all the changes in the economy, since changes in the economic environment also influenced agricultural policy patterns and competitiveness, directly affecting all agricultural cooperatives. The state's removal from its traditional functions – technical assistance, minimum pricing policy and credit – has led to an increase in the short- and long-term liabilities of cooperatives (Bialoskorski Neto, 1988b).

The professionalization of the management of the cooperative, clearly determining the boundary between ownership and control, is fundamental to the success of the business, but, on the other hand, requires a commitment to safeguard the rights of the member as to the certainty that the cooperative is being administered according to the will of the majority and effectively (Annals of the XI Brazilian Congress of Cooperativism, 1997).

Another point to highlight is the difficulty that cooperatives face in making decisions. Second Rocha (1999):The functioning of cooperative democracy and the participation of associates tend to slow down the decision-making process.This is a difficulty that the cooperative faces and is due to the specificity of the democratic principle that regulates cooperative institutions. In the current economic context, the speed of decisions is an important element, not only of effectiveness, but also of the company's own survival.

The voting principle puts pressure on the decision-making process. The cost, quality and time of the decision-making process exceed the capacity and competence of the cooperative board. The larger the membership, the more it can be said that the need for communication of future visions, strategies, new investment plans, new procedures and new actions is worse or more challenging. An alternative found by large cooperatives was to maintain the decision-making structure at a certain distance from the operational units. The restructuring of traditional cooperatives has been implemented in most of Europe's large milk-producing cooperatives. The result in all cases is a separation between ownership at the strategic level and administration at the operational level (Zuurbier, 1997).

In this sense, Rocha (1999) believes that cooperatives, in order to meet market conditions, impose on their associates production conditions increasingly distant from cooperative principles. Cooperative solidarity (cohesion between the cooperative and the cooperative) finds limits increasingly difficult to transposed. The complexity of the new cooperative groups that are forming hinders the participation of members, gradually distancing them from activities and strategic decisions. As the pyramid rises, the risk of losing contact with the base also grows.

Jager (1992) pointed out several problems in Brazilian agricultural cooperatives, calling them "four dangers", namely: political interference, the opportunism of the cooperative members, the interference of competitors and paternalism.

Specifically, with regard to the opportunism of the cooperative members, Zylbersztajn (1994, p. 31) explains it as follows:as the cooperative is also a client of the cooperative, there is a strong tendency to define business positions that benefit him, to the detriment of the corporation. Because access to leftovers is less important than the income from the sale of the product, the behavior of the cooperative reflects opportunistic action, a presupposition of the Transaction Cost Savings. The assumption that this assumption ceases to exist is not correct because it is a cooperative company. The impossibility of leaving the business without losses, different from non-cooperative companies, also creates a condition of little attractiveness for the cooperative member to invest in companies within the cooperative structure. Finally, the high negotiation costs, which characterize the decision-making process in cooperatives, generate less competitive situation for this type of corporation. Small and large cooperatives tend to reorganize their structures to address such challenges. Complete separation between ownership and control is demanded by the growing presence of contracted professionals in the market, with experience in managing non-cooperative corporations.

Still on the separation of property and control, Jank (1997) points out that cooperatives have faced many difficulties to manage this conflict, which has frequently led to populist attitudes that result in decisions that please the majority in the short term, but strongly undermine their future competitive insertion in the market.

The cooperative must orient itself to the market, changing the focus of selling everything that the cooperative produces, to produce what the market is really demanding. It is essential, therefore, for the cooperative to know how to identify its *core business* (essential business) and focus exclusively on it.

It is necessary to definitively break with myths and taboos that still prevail in the cooperative environment, presenting cooperatives as welfare entities that must provide social services at any cost, instead of seeking effective economic management.

Meireles (1981) analyzes the problems of cooperativism by the theoretical model proposed by Henri Desroche, which distinguishes four groups of people in the cooperative and their forms of rupture: the cooperative, the managers, the professional managers and the employees.

The ruptures happen metaphorically through centrifugal and centripetal forces that lead each group to divide between cooperative solidarity and other types of external solidarity, defined below:Coalition of leaders against the grassroots;Break between farmers and industries;Isolation of leaders and members of the world;Disruption of the four groups.

In this way, the cooperative members will be able to support the cooperative or the demands of other producers organized in trade unions (solidarity of producers).

Leaders may claim mandates in the maximum representative bodies of cooperativism, or seek local notability (political solidarity). Professional managers will maintain links with their technocratic class and defend the predominant ideology of their training school (technocratic solidarity). Finally, employees, in defense of their interests, will be protected by their unions (union solidarity).

In large part, the rupture processes are due to the lack of information, which has contributed to the low participation of members in the General Assemblies. Cruz Filho (1995) researching the importance of accounting information as a factor to stimulate the participation of the cooperative member in the decision-making process of cooperatives, reached the following conclusions: (i) the participation of the members in the ordinary and extraordinary general meetings presented indexes lower than 10%; (ii) in the most important decisions in which members should be consulted, 50% declare that they should not be consulted; (iii) for the members interviewed, 62% stated that there was no independence and autonomy of the members of the fiscal council; (iv) it is difficult for the supervisory board to develop its functions, since its members do not have adequate techniques and mainly basic knowledge of accounting and administration; (v) asking the interviewed associates what kind of information they would like to receive from the cooperative, it was found that 31.30% would like to know the value of their capital and how to increase it; (vi) 28.60%, the situation of the cooperative and its balance sheet;26.80% would like to know in advance the price and how to improve milk quality; and 14.30% would like to know what the value of the board's salary is; (vii) it was observed that there is no concern on the part of cooperatives to inform the farmer, when associated, the importance of capital for the cooperative. This aspect is manifested by 75% of the members interviewed, as well as 83% do not have information on how the capital increase takes place, and 88% would like to know how it is processed.

The biggest challenge of cooperatives is to discover the original and pure sense of cooperation to try to overcome the limits and restrictions imposed by the globalized environment, transforming threats into opportunities through an efficient system of managerial information. The ability to anticipate the market will undoubtedly be the main competitive differential of agricultural cooperatives.

It is concluded by borrowing the words of Rodrigues (1997, p. 12):without cooperatives there is no cooperative and without solid cooperative there is no future for the cooperative. It is undoubtedly the great current challenge of cooperativism, reconciling its doctrinal principles (based on solidarity, equality, fraternity and freedom) with the fierce competitive spirit of free competition, in which cooperatives are inserted in their relations with the external environment. The challenge of this balance is far from trivial and, increasingly, will be placed in greater or lesser dimension for all branches of cooperativism.

IX. CAPITALIZATION AND FINANCING OF AGRICULTURAL COOPERATIVES

Lauschner (1984), in a research conducted on the different forms of capitalization of agricultural cooperatives, observed that initially the capitalization occurs through admission of members, by the subscription of share-shares of capital, paid in the same year or over a certain period.

Another form used by the cooperative company is the raising of own resources by the appropriation of the net leftovers earned in the year that were not distributed to the members by decision of the General Assembly.

The author points out that the most efficient way of training own resources in cooperatives is that carried out by the creation of indivisible funds, supported by the retention of a percentage on the volume of operations of associates.

In agricultural activity, this whole process is more complex, since, in addition to the imperfections in the market, its activity is subject to climatic factors (unpredictable and uncontrollable).In addition to the uncertainties arising from climate factors, cooperatives working in the agricultural sector finance their membership with their scarce own resources.

This decision increases the operational risk of cooperatives, because, in periods when producers' crops are not able to generate a sufficient level of revenue to cover their obligations to the cooperative, the default rate increases sharply.

Delinquency decreases the cooperative's liquidity, increasing its level of indebtedness, in which the need to zero its cash deficit leads the organization to raise funds from third parties in the financial market, usually at a very high cost.

Without equity, the cooperative loses autonomy and independence. In many cases, in Brazil, the members of the board of directors need to grant endorsements to the cooperative's loans, because it does not have its own resources, that is, the equity is insufficient to finance its operational investments (Masy, 1982).

Gava (1972) came to the same conclusion when, analyzing the patrimonial structure of agricultural cooperatives, he concluded that insufficient capital formation (self-financing) is the main obstacle to the economic and social development of cooperatives. Thus, dependence on external resources is a relevant source of financing for its growth.

The capital structure of cooperative companies presents some particularities that are not present in capital firms. The cooperatives are controlled by the members, who own them and receive the benefits generated by the cooperatives according to their use.

For Barton and Gordon (1988), these basic principles indicate differences in the organization and in its ownership and control structure. Property rights in cooperatives are defined equally, that is, by the principle of each man, a single vote, which makes the decision-making process much more costly than in capital firms where this right derives from the proportional participation of capital.

The main consequences of the incomplete division of property and control rights for cooperative societies stand out:In a cooperative the associate is at the same time "agent" and "principal" of the same contractual

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relationship. That is, the associate has the possibility to "self-contract" for the next phases of the production process, administrative, or service provision, ultimately determining through participation and management, the prices, costs, and the structure of services that this same associate will enjoy. This situation is due to the non-division between ownership and control in cooperative societies, that is, the same economic "actor" is not only the one who makes the managerial decision but will also exercise later control over the consequences of this same decision, allowing the occurrence of deviations in the company's management process. Since, in principle, contractual relations between actors in the economy are always subject to "opportunism", they will always tend to maximize their individual earnings, even if these short-term gains negatively interfere with the long-term performance of their company. It is also often possible to identify the contractual "opportunistic" behavior in business relations between the associate and his/her cooperative. When the conditions of the cooperative are better than the market the associate trades with the cooperative, but when for some reason this stimulus does not exist, the cooperative soon begins to transact with the competing companies, either buying, selling, or providing services, even if this will occur to the detriment of their cooperative, and ultimately, at their own loss in the medium and long term. A cooperative will only be an efficient company if, among other factors, it is also formed of economic agents, whether producers and / or professionals, efficient and with some level of cooperative education and loyalty to your company (The XI Brazilian Congress of Cooperativism, 1997, p. 73).

Fulton (1995) states that property rights, defined as the right and power to obtain income, consume or dispose of a particular asset in a cooperative, are not separated from the control of the organization, in which associates cannot appropriate residual profit.The author believes that the future of the cooperative organization depends on a new institutional architecture that establishes a different relationship between ownership and control, a greater incentive to efficiency, the monitoring of the actions of agents and principals of the contractual relationship, more stable contractual relationships and, finally, lower costs of coordination, transaction and corporate governance.

In fact, members may have ownership of the share-shares of the capital they paid into the cooperative, only at the time of their departure and with the consent of the cooperative's board of directors. It is observed that there is no possibility of transaction of these papers, due to the fact that each quota entitles to a single vote and the results are distributed proportionally to the operations and not according to the participation of the capital in the cooperative (Bialoskorski Neto, 1998c).

Another factor discouraging the commercialization of quotas is their remuneration. By doctrinal principles, it will be corrected by a flat rate of 12% per year, if the statutes are determined, not mirroring the growth of the capital invested by the cooperative over the years. This last factor, coupled with non-bankruptcy, can make it difficult to obtain loans in financial institutions.

With regard to non-bankruptcy, it is worth remembering that cooperatives can be extinguished by a process called "dissolution", which can be judicial or extrajudicial and which obeys a series of legal formalities called "liquidation" (Menegário, 2000).

It is noticed that there are still no incentives, so that cooperatives can capitalize, grow and seek a situation of economic efficiency, in which its associate can invest in the business and have guarantees of return on the waste of operations.

Agricultural cooperatives, because they have strong limitations on the contribution of equity, have a tendency to present a capital structure based on the intensive use of third-party capital.In addition to the lack of flexibility in generating or raising own resources, agricultural cooperatives have a structure of high financial risk, due to the existence of specific assets.

A particular asset is specific, when value loss occurs, when it is targeted at alternative uses or users. Agricultural cooperatives have a high level of locational specificity of the assets, because their investments are usually directed to a certain group of regionally defined cooperativemembers.

There are other types of asset specificity, such as physical specificity, when a given quality attribute is required, temporal specificity, when products used as raw material or finished product are perishable, and human and dedicated specificity, when a plant or production process serves only one or one particular group of customers (Williamson, 1988).

The specificity of the assets has an influence on financing decisions, because specific investments require greater participation of sources of resources that ensure greater control and greater power of adaptability to crises and various setbacks that may occur in the market. Own resources have this characteristic, since third-party resource providers are little tolerant of market instability and will therefore demand a certain return according to

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pre-established contractual clauses (Bialoskorski Neto and Marques, 1998).

When the agricultural cooperative grows and demands a better performance of this company and its members in the pursuit of survival in a competitive market, the external environment and the decisions of the managers lead the cooperative to a greater specialization of its activities, increasing the transaction costs, which will be embedded in the interest rates charged by bank loans in the financial market.

The theory of the New Institutional Economy through its aspect, the Economy of Transaction Costs, whose greatest contribution was given by Williamson (1985) proposes the opening of the capital of cooperatives as a form of alternative capitalization, which would reduce transaction costs.

The process of demobilization of part of the assets of agricultural cooperatives, as well as the studies to open their capital, can be explained by this new economic theory, which visualizes the cooperative society with high specificity of assets, high transaction costs and high agency costs between its owners and managers.

This is due to the necessary structure of participation by the general meetings and the high costs of financial governance that occur in their capitalization process. All these factors make the adaptation of cooperative societies to the market is slow and costly (Bialoskorski Neto and Marques, 1998).

The theory of agency (Jensen and Meckling, 1976) ends up complementing the theory of the New Institutional Economy, when it explains how the opening of the capital of cooperatives promotes the monitoring of their leaders by the financial market. The financial market is attentive to the decisions of the managers by the neoclassical price mechanism, warning the organization, when its performance is different from what was hired, producing greater economic efficiency in the whole system.

Agricultural cooperatives, because they have assets with strong specificity and difficulties in financing their expansion process with their own resources, are in extreme dependence on bank loans, presenting high transaction and agency costs.

Bialoskorski Neto (1998a, p. 17-35), in a text on governance and perspectives of cooperativism, proposes the following aspects to be considered in the study of the modification of the governance standards of agricultural cooperativism: (i) it is necessary to intensify the separation between ownership and control through the professionalization of management; (ii) the board of directors shall ensure compliance with the strategic planning and social functions of the cooperative; (iii) the supervisory board shall assume monitoring and guide periodic auditing in the cooperative with the help of experienced professionals; (iv) contractual relations between members and the cooperative should be adjusted in order to enable new standards of fidelity and cooperation; (v) allow transactions and transfer of ownership rights (share), making the right to the leftovers of the cooperative, by the cooperative members, clear and transparent; (vi) modify the institutional environment in order to provide a distinct form of organization of auditing and monitoring of the system itself to ensure the economic efficiency and social effectiveness of cooperatives; (vii) adjust the legislation to allow a new relationship between the productive factors, allowing the opening of capital of the cooperatives.

Even before the issues of financial governance, Brazilian agricultural cooperatives have enormous difficulties in raising funds from third parties due to the failure of several cooperatives.

The insolvency situation signals to the market that the cooperative company is a client with high credit risk and consequently the financial agent will charge the resources a higher interest rate, in addition to demanding a higher level of guarantees and, at the limit, not lending the resources (Zylbersztajn, 1999).

The situation can get even worse, when the cooperative, in addition to seeking the resources for its financing, is often obliged by the principles that constitute it to finance the associate in the acquisition of its products or in the sale of agricultural inputs. As the default in this activity is high, the liquidity situation deteriorates and the image of the organization is compromised before the market.

Although equity is the most interesting for agricultural cooperatives from the point of view of transaction costs, as the organization grows, this resource becomes scarcer, in addition to the pressures arising from financial governance, aggravated by the increase in size, generally increasing inefficiencies and reducing the leftovers generated by operations.

Parliament and Lerman (1993),analyzing the capital structure of agricultural cooperatives, observed that when cooperatives grow, there is a decrease in the proportion of equity in relation to third-party capital and a greater difficulty in the relationship with financial agents to contract new loans.

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The relationship between the size of the cooperative and its financial difficulties was also proven by Moller, Feathostone and Barton (1996), when they discovered in empirical research that in small cooperatives, the main difficulty is the low returns of their operating assets and, in large ones, the high level of indebtedness and the high interest rates charged on bank loans.

When analyzing the alternative sources of capitalization and financing for agricultural cooperatives, the cost of each source should also be measured, especially those related to attracting new investors and the loss of tax benefits.

Regarding the calculation of the cost of capital sources of agricultural cooperatives, Gimenes (1999) found that 70.73% do not. Generally the cost of equity is underestimated by managers, which facilitates the approval of investment projects with low rates of return, besides causing an excess of investments.

A feasible alternative for agricultural cooperatives would be to let the market itself determine the cost of its own equity. This would be due to changes in cooperative legislation, allowing the negotiation of share shares and the definition of a policy of distribution of leftovers that would restore the share capital invested. To remunerate the invested capital, the allocation of leftovers to so-called indivisible funds should be avoided, as this decision renders null the cost of equity and stimulates investments in projects whose rate of return are below the weighted average cost of capital, since it is undervalued. These measures contradict the principles of cooperativism, but should be considered when seeking efficiency gains in the whole system (Lazzarini and Bialoskorski, 1998).

It is a challenge for agricultural cooperatives to seek ways to raise their own resources to finance their expansion projects and, if applicable, reduce obstacles to the raising of funds from third parties.

It would greatly contribute to overcoming this challenge by promoting organizational incentives that would allow a more efficient exchange of property rights over waste.

Because they do not have shares traded on the stock exchange and receive pressure from members to distribute the leftovers, agricultural cooperatives depend on the operating generation of cash and resources of third parties to finance their working capital and immobilization needs. However, when the pressure of members is not so great managers prefer to use the internal resources in the funds and reserves.

Share capital, besides being a source of operational resources, is also a measure of interest to members by their cooperatives. The associates, like any investor, compare the marginal rate of return of additional investments in the cooperative with other alternative sources of investments, defining an opportunity cost for their capital (Requejo, 1997).

When the agricultural cooperative does not have a program of restitution of the share capital, the marginal return of the capital invested by the cooperative is low, hindering any attempt to raise additional capital, especially of the new members.

The lack of capital restitution programs has led several U.S. states to include in their legislation maximum periods to repay social capital. The plans for the restitution of the share capital ensure the return of the resources invested by the members who invested in the cooperative and provided capital according to its use in previous years. In the case of Brazil, however, most cooperatives do not have specific plans for the restitution of share capital (Requejo, 1997).

The problem of the restitution of social capital is an obstacle to the growth of cooperatives. When the share capital is repaid in order to remunerate the member, the cooperative has lower cash inflows and this can change its capital structure (Requejo, 1997).

There is no valid justification for a cooperative to retain any form of its result in indivisible funds and reserves. The leftovers must belong to the cooperative members, because they are the owners of the cooperative. Moreover, the argument that the cooperative must retain part of the results in funds and reserves to protect itself against possible liquidity crises is not justified, because one can achieve this same protection by a long-term plan of restitution of the share capital, even because the funds and reserves required by law already offer part of these resources (Fisher ,1989).

Also with regard to the allocation of net leftovers, part of them must capitalize the FATES (Technical and Educational Assistance Fund) and the Legal Reserve, in accordance with the cooperative legislation and recommendation of the ACI - International Cooperative Alliance.

After the allocation of net leftovers to funds and reserves determined by law, the rest of the funds have allocated at a general meeting, which usually decides to capitalize the cooperative, which means appropriating the capital of the members.

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Even though the decision to allocate the net leftovers is voted in the assembly, it is questioned how it is organized. It is common for decisions to be made in advance, and the associate only ratifies the vote, signing a minutes, which he often believes is the best decision for the cooperative. With this, managers have almost unlimited powers to invest internal resources, which, in reality, via social capital account should be returned to the cooperative members (Requejo, 1997).

Another form of capitalization begins to be used by Brazilian agricultural cooperatives. This strategy is used when the main objective is to have access to external capital. The agricultural cooperative opens its capital indirectly, establishing strategic alliances with other non-cooperative companies.

Rodrigues (1997, p. 12)calls the strategy of the *holding*structureas a way for agricultural cooperatives to create capitalist companies, noting that:the cooperative defines what is its business, its specialty, and acts predominantly or exclusively in this area, together with its base. The cooperative does not leave its area of action and acts firmly in services that it knows how to do well. Instead of verticalizing cooperatively, or even complementary to this form of integration, it associates with other cooperatives of the same branch and other specialties to create capitalist competitive companies. These companies, run by professionals, will operate in the market in search of profits and advantages of interest of their proprietary cooperatives, without being a cooperative model. This is the case of the creation of *trading*,banks and insurance companies already in progress, or even the deployment of large singular or central cooperatives together with associated and independent companies. A holding company is created owned by one or more cooperatives.

In the formation of the *holding*structure, the cooperative company may sell part of its assets to pay its capital in the new non-cooperative company. In this structure the cooperative represents its members in the new company, it is it that saves the shares of the capital firm for the associates.

A negotiation of this nature took place in Brazil, when the Central Dairy Cooperative of Paraná (CCLPL), whose best known brand is *"Batavo"*,sold 51% of its assets to Parmalat S.A., constituting a new company, BATAVIA S.A., whose focus is the processing and distribution of milk products.The most important thing is that, with the creation of the new company, Parmalat ceases to be a fearsome competitor to CCLPL and becomes an ally in the search for greater market share of milk products.

Brandão (1998, p. 21) reports the following statement by the main leader of the Batavo Agricultural Cooperative on the partnership with Parmalat:The situation has changed a lot due to the opening up of the Brazilian economy and globalization.The competition intensified strongly, and we were affected. The food area needs investments for value-added production. as an industrialized cooperative, we had to quickly leverage our growth, and in a cooperative this is extremely difficult. Even worse, we suffer losses. We then looked for ways to leverage growth, and the best way would be to find a partner, make a strategic alliance. There were about 10 interested companies, and we ended up closing this strategic alliance with Parmalat. Everything was indicating and indicates that the food industry will be in the hands of large companies, basically multinationals. We then seek this partner to seek synergies and the capital needed for investment. *core business'* Parmalat and Batavo's core business is milk. We have a meat activity that Parmalat was interested in, too, unlike the others.

The new company increased Batavo's competition power and facilitated the trading of its liabilities. It also allowed the raising of funds in the financial market by issuing securities, with the prospect of directly opening its capital in the future by issuing shares.Thus, strategic alliances are viable alternatives to recompose the capital structure of agricultural cooperatives, enabling new investments to be made at a lower cost of capital.

Bialoskorski Neto (1998a, p. 181), concludes that:at the level of the processing industry, it is clear the increase in asset specificity due to plants increasingly oriented to an entire agro-industrial system in which the quality, brand and product must have defined characteristics to meet the requirements of consumers, and thus calls for certain processes, technologies, investments, stable contractual relationships, in order to ensure the supply and quality of the product. Thus, financial governance based on a specialization process dependent only on third-party capital becomes unfeasible to sustain long-term growth at competitive costs for the company. This was the reason why Batavo realized that it should open up to the capital market, trying to adapt its cost structure, that is, its financial governance and equate its liabilities. The agency costs associated with the company's structure as a Central Cooperative also show the inability to continue in the same direction and sustain a continuous process of growth. The interests of associates to the detriment of markets, or vice versa are a conflict in the cooperative system.

Strategic alliances are also not always feasible at all, and it is necessary to evaluate what synergies are necessary for partners and what agricultural cooperatives can offer in this partnership (Lazzarini, 1998).

The capitalization and financing of agricultural cooperatives are basically concentrated in three forms: external financing, internal financing and strategic alliances. External financing, in turn, is due to the subscription and payment of quotas by new members and/or by loans and financing with financial institutions. Loans and financing raised in the financial market may have short- or long-term maturities, thus constituting the onerous liability, which generates financial burdens.On the other hand, internal financing can occur: by the disposal of assets of the permanent asset, by the retention of part of the result of the operations with the associates for the formation of reserves (indivisible funds) and by the retention of net leftovers (self-financing).The third form is strategic alliances, where the cooperative and a capital firm come together, for the formation of a new non-cooperative entity. The results of this new company, when they return to the cooperative, are mandatorily destined to indivisible funds.

One of the topics where there is consensus is the growing need for capital to finance the expansion of agricultural cooperatives towards agro-industrial complexes. This mainly occurs, due to the smaller rural population, which reflects in the smaller number of cooperative members and, on the other hand, in the greater need for investments to add value to basic raw materials (agricultural products), through industrial plants.

This mismatch between the limitation of funding sources and the increase in capital needs, has led to the search for new forms of capitalization for agricultural cooperatives. Currently, it is observed that these capitalization alternatives are concentrated in the opening of its capital.

Following the strategy of agricultural cooperatives in other countries, Brazilian cooperatives could also have the right to open their capital, remunerating the financial risk by interest, obtaining a longer maturity and, certainly, at lower costs than the capital from bank loans.

In the case of smaller cooperatives, the law could allow securities to be traded on the over-the-counter market, safeguarding the benefit of having them valued by the market, thereby improving governance and reducing agency costs. This process could be regulated and supervised by CVM, a body in Brazil responsible for the inspection of public limited companies and that, in the case of agricultural cooperatives, many of their practices could already be used, such as, for example, the publication of its balance sheets, the relative transparency of its management and the decision-making process taken at the shareholders' meeting.The cooperative bankscould carry out, in this process of going public for agricultural cooperatives, all financial engineering to make the issuance of debt securities viable, monitoring and helping to control economic efficiencycooperatives. To ensure better corporate governance, the issuance of debt securities should be accompanied by the requirement by regulatory bodies, the opinion of independent audits, which would provide greater security for investors (BIALOSKORSKI NETO, 1998b, 1998c, 1998d, 1998f).

Therefore, it is necessary to make the capitalization of agricultural cooperatives viable through the issuance of debt securities, in order to allow an allocation of costs and risks between this and its potential investors, in order to minimize its cost of capital and extend the profile of its indebtedness. This alternative is based on the advantages that fundraising through debt securities has over other financing modalities. The main advantage is that the issue can be tailored to meet the needs of the cooperatives, allowing greater flexibility in terms of terms, guarantees and payment terms of the contracted debt.

Despite the advantages linked to flexibility, the cooperative should only raise funds through issuance, if the return provided by the use of these resources is higher than its issuance cost, otherwise, the operation would be damaging its members. Debt securities have a lower cost of borrowing than short-term bank loans, thus, covering their financial charges by operating results, would result in a lower level of risk for cooperatives.

From the analysis carried out, it was found that the direct opening of capital by the issuance of debentures cannot be carried out by any agricultural cooperative. It is necessary that preliminary studies identify their economic-financial balance, their ability to create economic value and the transparency of their management (cooperative corporate governance).

Good governance should also be guaranteed by the creation of monitoring structures, such as an independent audit system, which guarantees the rights of associates and investors, enabling the construction of a serious image of cooperative management with its main stakeholders.

Another important prerequisite is the definitive separation between ownership and control of the cooperative by the professionalization of managers, ensuring that associates and investors strictly comply with a strategic business plan, the objectives of which must be effectively achieved.

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X. CONCLUSIONS

The new scenario of the world economy presents itself to cooperative societies in the form of a permanent contradiction, that is, to remain a competitive company, capable of facing large multinationals that conquer their markets and, at the same time, meet the needs of its members, not always being able to do it with any result.

This contradiction imposes limits on the financing of its expansion process with its own resources (self-financing), especially in developing economies, where the capital factor is generally scarce and expensive, and its need is apparently infinite. There is a consensus that the development of the capital market can supply this shortage of long-term private credit, just look at the international experience, in which this market captures the necessary resources to finance the expansion process of companies, promoting gains in competitiveness. and productivity across the economic system.

The potential of the capital market to assume this role depends on the growth of voluntary institutional savings (investment funds, pension funds and open pension funds), as well as the persistent reduction in the interest rate on government bonds that will be possible, if there is a clear government intention to consolidate the long-term fiscal adjustment, reducing the vulnerability of the Brazilian economy to international financial capital.

The expectation regarding the strengthening of this market is what justifies the proposal of this research, given the scarcity of credit permeating all the decisions of the agricultural cooperatives, when, from a certain stage of their growth process, a new relationship between own and third party resources, which, in some cases, compromises their financial balance.

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