

# The Brazilian Experience in Support of Small Firms: the promotion of local productive systems

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## INTRODUCTION

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In the last decades of the twentieth century, important transformations have brought about new opportunities and challenges for world economic development. Amongst these, we highlight the emergence of a new pattern of accumulation and productive restructuring. Two consequences of these transformations are of particular relevance to the discussion developed in this paper: the wider attention that has been given by policy makers to the potential contributions of small businesses to social and economic development and the concern in formulating new, stimulating policies for their promotion.

However, doubts concerning the value of promoting these firms have been expressed mainly because, according to one perspective, small businesses constitute an unstable, temporary unit of analysis, one that is doomed to extinction. It is undeniable that the birth and mortality rates of these firms are high world-wide. In fact, many analysts consider that their main contribution is the creation of employment, operating as a mere palliative to unemployment. According to this view, promoting these firms would not bring any other advantages in terms of economic development.

While it is important to consider these points, it is also essential to highlight relevant aspects of micro, small and medium enterprises (MSMEs). Firstly, there is an important parallel in the development of new (usually small and medium) businesses and new forms of innovation, production and commercialisation of goods and services. These firms have the potential and the flexibility required to capitalise on emerging technological and other opportunities for growth, as well as the fact that they do not offer the usual resistance to their incorporation, mainly because they are not tied down by patterns that are being superseded. In the second place, the challenge faced by most countries in

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achieving economic growth and dealing with higher unemployment rates, difficulties that increased significantly in the transition to the millennium, intensified the search for the means to strengthen the economic tissue and generate employment and income, particularly through the promotion of the creation and development of MSMEs. In the third place, the increase in economic and social inequalities between countries and regions, both more and less developed, shifted the policy focus towards the promotion of less favoured regions, including the promotion of the small firms that in many cases comprise the basis of local economies.

These facts, considered *in tandem* with positive experiences in many localities, contributed to the shift in focus and for the search for alternatives based on the promotion of MSMEs, particularly focusing on those that co-operate between themselves. The privileged position conferred to the promotion of small enterprises, in the policy agenda during the 1990s, was reflected in their status in the strategic priorities established by many countries and economic blocs. There is a clear tendency for these policies to become a central part of the permanent actions of governments, creating new institutional designs with an important insertion in the executive structure, through the creation of specific agencies, such as Secretariats, Interministerial Councils and even Ministries.

One of the main tendencies of the new policies refers to the collective treatment of MSMEs, involving actions that support productive territorial agglomerations, such as industrial districts and local productive systems. Concurrently, it is possible to see the emergence of specific organisational apparatus, including the restructuring and adaptation of traditional development agencies, with a view to policy implementation that is more in line with this reorientation.

Policies adopted in Brazil reflect, to a large extent, initiatives implemented world-wide in response to the transformations brought about by the new accumulation regime and processes of productive restructuring. Thus, in Brazil there is also a convergence of policy actions and analysis along two major, non-exclusive, conceptual lines. On the one hand, there is an emphasis on the positive economic outcomes expected to result from policies that support small firms; these analysts focus mainly on the opportunities to associate the development of MSMEs with productive modernisation and the generation and diffusion of new technologies, systems and organisational formats. On the other hand, there is the assemblage of actions that stress aspects such as the possibility created by these firms of generating social initiatives to address, and redress, the negative effects of economic recession, decrease regional disparities and promote the inclusion of marginalized social segments.

This paper considers this debate in the light of the analytical approach, empirical studies and policies proposed by researchers associated with RedeSist.<sup>4</sup> The aim is twofold. In the first place to examine the Brazilian experience in the formulation and implementation of policies for MSMEs in order to highlight potential opportunities, and also important pitfalls, that must be considered in future policy initiatives. A second goal is to bring to the forefront crucial issues, alerts and guidance that are being discussed and examine their applicability in relation to the Brazilian experience.

<sup>4</sup> RedeSist is research network on local productive arrangements that was formalized in 1997. For details see: [www.ie.ufrj.br/redesist](http://www.ie.ufrj.br/redesist).

## 2. MSME POLICIES IN BRAZIL

### 2.1 Historical Context

The number of small firms in the country is significant. Official statistics suggest that in 2000 there were around 4,12 million formal establishments in Brazil (IBGE, 2002). As shown in Table 1, micro businesses represent 99,4% of the total, contributing to 47,8% of total employment in the country and 36,2% of total wages in the Brazilian economy. Table 1 also shows that small firms contribute relatively less to the economy considering both employment and wages, and this also holds true in comparison to medium and large firms.

**TABLE 1: DISTRIBUTION OF FIRMS, OCCUPIED PERSONNEL, WAGES AND OTHER REMUNERATION, AND MEDIUM MONTHLY SALARY ACCORDING TO NUMBER OF PERSONNEL EMPLOYED, BRAZIL, 2000**

Personnel employed	Number of firms (%)	personnel employed (%)	wages and other remuneration (%)	medium monthly salary *
0 to 4	82,1	17,1	4,5	2,8
5 to 9	10,2	8,7	7,5	2,3
10 to 29	5,6	11,7	12,2	2,7
30 to 49	0,9	4,5	5,2	3,3
50 to 99	0,6	5,8	6,8	3,8
100 to 499	0,5	14,7	18,2	4,6
Above 500	0,1	37,5	45,6	6,9

**Medium value during the year: R\$ 146,38 (US\$ 76.86).**

SOURCE: IBGE (2002).

The process of creation of new firms is intense. Between the years 1990 and 1999, for example, 4,9 million new businesses were constituted of which 54% were micro firms. However, while new firms race to open each year, simultaneously a significant number of businesses close down in the same year. Between the years 1997 and 2000, the annual average birth and mortality rate was 19,4% and 12,9% respectively, and these rates increase inversely to the size of the firm. The turnover rate is particularly significant in firms with 4 or less personnel employed. It is also likely that the mortality rate has been underestimated. Other research has pointed to a much higher rate of micro and small firm closure, per state of the federation, varying from 30% in Rio de Janeiro to 35% in São Paulo, 46% in the north-eastern state of Pernambuco, 49% in Rio Grande do Norte, in the north, and as high as 57% in the southern state of Paraná (Sebrae, 1999).

In addition, it has been recognised that the Brazilian economy is characterised by an increasing level of informality. Going beyond official statistics, that point to the existence of almost five million firms officially established, there are an estimated 20 million small informal business units, involving around 60 million individuals, operating in Brazil (Sebrae, 2002). A wide variety of activities are developed in these informal businesses and these have proliferated mainly as a result of economic recession and the high unemployment rate in the country in the last decades.<sup>5</sup>

<sup>5</sup> According to the official economic statistic institution, IBGE, unemployment figures remained relatively stable and very high throughout the 1990s and early years of the millennium (1997 – 5,7%; 1998 – 7,6%; 2000 – 7,1%; 2002 – 7,1%). See [www.ibge.gov.br](http://www.ibge.gov.br).

The activities developed by a large majority of micro and small firms in the country are characterised by low technological complexity, with intense use of unqualified labour, developing activities in traditional industries, such as food and beverages, clothing and footwear, in which barriers to entry are low. As a result of these traits and of the difficulties faced, many small firms limit their activities to local or regional markets where the quality requirements and levels of competition are considered to be smaller.

The evidence confirms that the survival of a large part of the Brazilian population is dictated by the performance of small, formal and informal, businesses and that the survival and maintenance of their activities is one of the main difficulties faced by micro and small firms. The limited availability of financial, human, technical, technological and management resources and the weaker capability and bargaining power possessed by small businesses when it comes to dealing with actors in their external environment, including suppliers, clients, labour market, development agencies and banks, are amongst the many obstacles that must be overcome. As a corollary to this tableau, it was only in the last decades of the XX<sup>th</sup> century that specific initiatives and policies to support small firms began to be implemented in Brazil, as discussed in the following section.

## 2.2 MSME policies in Brazil

The formulation and implementations of policies for the promotion of MSME is a relatively recent experience in the context of Brazil's industrialisation process. During the XX<sup>th</sup> century, industrialisation was strongly based on state support for the development of the productive structure pertaining to large enterprise, both national and foreign capital. Initiatives in support of the universe of small businesses were a very small item on the governmental agenda. Consequently, despite the existence of large number of MSMEs, it was only in the last decades of the XX<sup>th</sup> century that specific policies for their development were formulated.

Two important institutional and legal milestones stand out in the official process of recognising MSMEs in the country. The first is the creation, in the beginning of the 1970s, of a centre to provide managerial assistance to MSMEs, which was transformed, in the beginning of the 1990s, into the *Brazilian Micro and Small Business Support Service, Sebrae*, a non-governmental organisation, financed with para-fiscal resources.<sup>6</sup> It is present in all regions and 27 states of the Federation. Due to this significant capillarity it is the main organism for direct initiatives with micro and small producers and for the intermediation between these producers and the governmental instruments that were created to support them.

The second landmark refers to the establishment of specific legislation, during the 1990s, for the legal treatment of small businesses, consubstantiated in the SME Statute and in the "SIMPLES Law" (Law of Micro and Small Firms). This legislation confers deferential treatment to small enterprise in various fields, including administrative, taxation, social security and welfare, labourite, credit and entrepreneurial development, and enables tax exemptions, simplification of bureaucratic procedures,

<sup>6</sup> Sebrae's main goal is the promotion of micro and small enterprises. It intermediates the articulation between government organisations in charge of industrial and technological policies and also between other organisations in public and private sectors, establishing partnership programs for the promotion of managerial, productive and technological capacity for micro and small firms.

specific credit lines, participation in governmental acquisitions, foreign commerce, public R&D investments and development of technological capabilities. These advances in legislation correspond to the official recognition of the relevance of MSMEs as important agents in the development of the Brazilian economy, pointing to more adequate forms for their treatment and promotion.

Nonetheless, the translation of this recognition into effective policy mechanisms and instruments occurred in a much slower fashion. It is only in the 1990s that the introduction of initiatives for the promotion of small enterprise begins to take hold, as well as the introduction of efforts to strengthen the institutional structure to support them, both at the various government levels and in private institutions.

It is important to highlight, however, that in this period, governmental activity was characterised by a strong orientation towards macroeconomic policies, in detriment of industrial and technological policies, and this strongly contributed to increase the difficulties in the implementation of policies to promote small firms. Instead of implementing strategies to promote industrial and technological development, as occurred in the experience of other countries,<sup>7</sup> the absence of these policies denotes an enormous difficulty as regards the inclusion of these issues in government planning and within the scope of governmental priorities. These limitations must be included in any analysis of the Brazilian experience in the formulation and implementation of MSME policies, as they comprise an important pitfall that may condition the potential for success or failure that results from the implementation of actions and instruments for the promotion and development of firms.

Obviously, even while industrial and technological policies were not considered a priority in the governmental agenda and in the strategic objectives of entrepreneurial promotion, they remained present in the executive sphere of government, consubstantiated in the actions and instruments made available by specific Ministries. However, their efficiency is questionable mainly because their objectives collided with the goals of macroeconomic policies developed in the 1990s. This can be illustrated, for example, in the interest rates established in the country. In the last decade of the XX<sup>th</sup> century, Brazil achieved one of the highest interest rates in the world. In such a scenario, entrepreneurs have had difficulties in financing their businesses; and some decided to close down their firms and to invest (speculate) in the financial market. It is important to stress that macroeconomic constraints like this have contributed to invalidate any attempt to implement industrial and technological policies, as well as to reformulate the arsenal of credit instruments available to firms, besides making them worthless.

Thus, in this period, not only was there an absence of consensus amongst policy makers and executors in regard to the priority to be given to these issues, as well as an increasing recognition of the existence of a reduced convergence in relation to the role of industrial, technological and innovation policies and the development strategies adopted in the country. In practice, the policy orientation of the federal government was focused on market opening and incentives for foreign investment. Above all, these governmental policies targeted monetary stabilisation, liberalisation, privatisation and re-regulation of the economy, following the neo-liberal script in vogue during the 1990s. Topics related to industrial and technological policy all but disappeared from the agenda of governmental priorities (Lemos and Lastres, 1999).

<sup>7</sup> For details see Lastres, Arroio and Lemos, 2003.

At the end of the 1990s, it was recognised that the reforms had generated strong negative impacts along diverse economic segments and adjustment difficulties, particularly for small enterprises. Specific initiatives were proposed to redress the effects of recession, including actions to increase production and employment, eliminate the balance of payment deficit, increase investments and intensify the rhythm of technological innovations (MDIC, 1999).

Initiatives favouring MSMEs were gradually added on to the agenda of priorities. The promotion of small firms became a crucial issue mainly due to their role as employment creators and labour assimilators, this became an important factor to counterbalance the high number of unemployed arising from the closing of factories and productive units across the country. A few - new credit and programmes lines for the promotion of small firms, including measures to foster exports as a means to reduce the balance of payments deficit - were implemented during the late 1990s.

However, these initiatives were short-lived. There was weak articulation among the diverse initiatives and the agencies in charge of their execution. Thus, the efforts undertaken were insufficient to ensure that the results would satisfy expectations. There was an expansion of the number of MSMEs that were able to export, particularly those in the traditional sectors of the economy and mainly based on natural resources, but the promotion measures were insufficient to deeply alter the scenario and the results, in terms of value exported, were not significantly changed. Thus, the increase of small exporting firms provoked only small aggregate impacts on the export performance, a reflex of the absence of initiatives and consequently of more concrete results in the sense of aggregating more value to exported goods.<sup>8</sup>

### **2.3 - Financing small firms – the Brazilian experience in the 1990s**

Many credit lines traditionally available in the portfolio of public banks for financing production, floating capital, equipment, exports and technological capability building, pertaining to the main banks and development agencies in the country were available, at least in thesis, for use by small firms. However two enormous obstacles contributed to the relative failure of the financing programmes directed towards small enterprise. The first is the traditional and immense difficulties felt by small firms in adapting to existing rules, considering that the structure of credit instruments was conceived to meet the requirements of large firms.

A second obstacle refers to the clear conflict between the commercial and political logic inherent in the activities developed by public banks. Even though it is increasingly being demanded that development banks invest public resources to finance MSMEs, these banks, due to specific traits and to the context in which they are embedded, have, in reality, many difficulties in dealing with small firms.

An important example is the Brazilian Development Bank, BNDES that has traditionally invested in the financing of projects with major economic impacts. Although the bank has never prioritised the promotion of small firms, since the 1960s it has made available programmes for these businesses and accredited a network of financial agents that are enabled to invest BNDES resources in small

<sup>8</sup> It was only from the year 2002 that the Brazilian balance of payments began to show superavits, mainly because of the devaluation of the national currency, the Real.

firms. In the 1990s, new credit lines were created in order to meet MSME demand in a more customised manner, in accord with government efforts to strengthen this segment. However, the results were not significant (Finame/Derem, 2000).

The availability of more resources and new credit lines were not enough to ensure expanded use by small firms, due to a variety of factors related to, amongst others, the model for the operationalization of credits and a clear preference expressed by financial agents when dealing with credit lines favouring larger businesses; these factors hampered small firms' access to the resources for the financing of investments. To attenuate these problems, additional instrument were created, and applied from 1999, such as the establishment of credit rating funds to encourage the offering of credit to MSMEs by accredited financial agents.

Other federal banks were also dealing in credit lines for MSMEs, focusing on regional and local development and in the intensification of the promotion of small firms, particularly in less favoured regions. In addition to the traditional credit lines oriented towards small, formal and informal, producers, micro-credit and income generation programmes were implemented and these were specifically oriented towards small informal producers operating within a familiar structure.

Nonetheless, MSMEs still had immense difficulties in complying with the diverse pre-requisites for their access to credit schemes, including the many bureaucratic phases that were necessary to process the applications, the warrant requirements and, of course, the high interest rates. Furthermore, the development banks faced many difficulties in adapting operational processes to meet the particularities of MSMEs, as the main operational logic had traditionally focused on loans for the financing of large enterprise.<sup>9</sup>

The focus on MSMEs was principally guided by the aim of extending the volume of credit and opening new credit lines. However, this was not preceded by a phase of customisation of instruments to their specific requirements. International experience shows that it is indeed very difficult to make the credit available reach MSMEs<sup>10</sup>. Research shows that the main problem is that most financial schemes are designed to big firms, and, therefore, are not at all adequate to small enterprises. This confirms the urgent need to establish effective priorities for policies to promote the creation of instruments that are based on a starting point that consider new foundations that are sensitive to the particularities of small firms, their characteristics and surrounding conditions.

9 In the case of BNDES, this is illustrated by difficulties arising from the criteria used for the conformity of businesses for official credit guideline purposes. The criteria used by the bank for determining credit limit is based on an evaluation of firm invoices. As there were insufficient mechanisms and instruments for dealing satisfactorily with MSMEs, frequently the value of firm billings was artificially increased. This allowed the Bank to comply with annual pre-established targets, and extend the universe of beneficiaries, and therefore disbursement of resources for MSMEs.

10 For a discussion of international themes, policy recommendations and proposal of new policy instruments, see Mytelka, (2003), Lastres, Arroio and Lemos (2003); Lemos (2003).

## A new policy focus

Existing literature points to many reasons for the inadequacy of initiatives implemented in Brazil in the second half of the 1990s, amongst these it is important to highlight the following: i) difficulties in the convergence of macro and microeconomic governmental policies; ii) the inadequacy of the instruments used to promote MSMEs, mainly based on large firm requirements; and (ii) the lack of practice in dealing with small firms that was experienced by most financial agents. To make matters worse, there was no articulation and co-ordination amongst the many initiatives and government organisations, leading to a pulverisation of efforts.

From the first years of the XXI<sup>st</sup> century, there emerged a new formulation of instruments, designed both by the federal government and by private institutions. These are more in line with fundamental characteristics of small businesses. New efforts were undertaken to formulate proposals more explicitly in tune with the Globalized Learning Society, specifically with a view to a more comprehensive inclusion of MSMEs. Nonetheless, right up to the end of the Cardoso government, there was a clear absence of co-ordination and consensus between policy formulators and executors as regards the role of small firms in relation to the development strategies adopted by the government and the maintenance of the results of the first term in office.<sup>11</sup>

In a gradual process of incorporating more consistent elements for small firm support, government policies did improve, with a restructuring of focus and formats. Nonetheless, the need to strengthen the interaction, articulation and co-ordination between existing initiatives and the many institutions responsible for the formulation and implementation of innovation and competitiveness policies, as well as the need to decentralise such policies, still remained.<sup>12</sup>

Another important limitation of policies implemented during the 1990s, was the fact that these were based on traditional models that recommend the promotion of individual firms or projects. At the end of the millennium, reflecting an international move towards recognising the need to develop a systemic approach to the promotion of innovation and competitiveness of firms and individual agents, policies have more clearly focused on clusters of firms. This approach has led to the adoption of new strategies of which the most important are official initiatives for the promotion of agglomerations of MSME, in addition to individual firm support.

In gradual moves, existing programmes began to prioritise support to groups of small firms, employing varying conceptual definitions and terminologies, such as firm networks; technological parks; incubators, co-operative projects; clusters; productive, regional, sectoral or export zones; local productive nucleus; and finally, local productive arrangements and systems. This was particularly applicable within the domains of the Ministry of Development, Industry and Commerce and of the Ministry of Science and Technology, where there was a strengthening of initiatives guided by the conceptual framework and methodology in which the collective treatment of groups of businesses is embedded. In addition, specific departments were added on to the organisational structure of various federal organisms with a clear cut policy directive towards the treatment of MSMEs and of productive agglomerations, including initiatives such as the financing of studies, the establishment of ventures

11 The two Cardoso administrations occurred during the periods: 1995 to 1998 and 1999 to 2002.

12 An early attempt to redress this was the “Entrepreneurial Brazil Program” (Programa Brasil Empreendedor), implemented in 1999. The program was short-lived and did not meet its objectives.



and partnerships with individual local state governments and private organisations for the evaluation of the potential of engaging in joint initiatives.<sup>13</sup>

As an immediate result of public and private initiatives for the collective treatment of MSMEs, there was a multiplication of actions and programs with varying terminologies, which led to difficulties in the harmonisation of definitions, concepts and goals, contributing to an increase in the pulverisation and duplicity of efforts.

In addition, despite the proliferation of programmes, the Cardoso government did not design or implement industrial and technological policy directives for the development and strengthening of the competitiveness of the productive sector, and their absence had a negative impact on the effectiveness of existing MSME programmes.

A positive move was the creation of new instruments within the scope of the science and technology system that contributed to a significant strengthening of the funding capacity for R&D, technological development and innovation in the country. Programs oriented towards the funding of the development of new products and processes and the establishment of venture capital funds for new businesses were structured. A total of fourteen “Sectoral Funds” were created to finance the S&T system, and within one of these funds, the “Green and Yellow Fund” (Fundo Verde e Amarelo), a specific program to support innovation within local productive arrangements was implemented.<sup>14</sup> Since its inception (2001-2002), 105 technological development projects, in 60 local arrangements in all states of the federation have been supported. The local governments participated in the process of project selection, and total investment until the year 2002 was around US\$ 20 million (FINEP, 2003).

In 2003 a new government was empowered. The Luis Inácio Lula da Silva government is distinguished by a strong political commitment towards the abatement of social inequalities and the development of the Brazilian economy. A privileged position has been granted to policies for small firms with a view to decreasing the local and regional disparities that are so blatant in Brazil. In addition, the focus on territorial productive arrangements has become the preferred approach to dealing with small firms and the concept of local productive arrangements has been incorporated into government directives. The concept is embedded, for example, within the Federal Government Pluriannual Plan for the period 2004-2007. This action Plan, known as the PPA, is the central directive governing the actions of the federal Ministries, agencies and development banks, as well as many non-governmental organisations. Another ingredient that bodes well for the future is the fact that the Ministry of Development, Industry and Commerce, has been made responsible for the co-ordination of all initiatives related to Local Productive Arrangements at the federal level<sup>15</sup>.

13 RedeSist is an appropriate example; it is financed by federal organisations, including the Ministry of Science and Technology - MCT; the National Council for Scientific and Technological Development - CNPq; The National Development Bank - BNDES; the federal agency that finances technological development, called Studies and Projects Financing Entity - FINEP; the Institute of Applied Economic Research - IPEA; and the Brazilian Micro and Small Business Support Service – Sebrae, and has inspired government initiatives focused on local productive arrangements.

14 The sectoral funds are based on resources drawn from various sources, mainly from the productive sector. The sources include *royalties* from the exploration of goods and services and other financial sources, and they have led to an increase in the resources available for the development of scientific, technological and innovative activities in the country. There are funds available for sectors such as: Oil and Gas; Energy; Transports; Mineral Resources; Telecommunications; Health; Biotechnology, Agribusiness and others.

15 The ministries involved in initiatives for LPAs are: the Ministry of Development, Industry and Commerce; Ministry of Planning and Budget; Finance; Science and Technology; Education; Labour and Employment; National Integration; Mining and Energy; Agrarian Development; and Agriculture.

This section reviews approaches that have sought to provide an understanding of the potential, the scope and limits of policies for small firms, focusing particularly on analyses which consider the promotion of agglomerations of small enterprise and their social and economic contexts.

The starting point is the recognition that the current scenario in Brazil certainly includes many difficulties, but that there are also many opportunities that can be harnessed, mainly through the mobilisation of important synergies. One of the main analytical convergences is that the agglomeration of small firms does in fact bring about concrete advantages. The insertion and participation in networks, particularly for micro and smaller firms, is a topic that is very much in vogue and that has garnered much support. The concept of “local productive arrangements” (LPA), for example, is closely linked to that of “networks”, stressing the relevance of close articulation amongst firms and with partners of varying institutional forms and sizes, engaging in distinct activities, as well as deriving maximum benefits from the surrounding environment. It is in this sense that both the forms of integration and co-operation between local actors and the socio-politic-economic component linked to the territory condition learning and innovation capabilities and, therefore, the potential for sustainable local development.

From such a point of view, while it is of central importance to understand local particularities, it is also essential to examine local productive arrangements within the broader national and international context. Many factors will have a strong influence on the performance and cannot be neglected. While investigating the dynamics of specific arrangements in the State of Minas Gerais, Santos, Crocco and Lemos (2003), for example, stress that the negative impact of the changes of 1990s, as well as the increased difficulties in building endogenous technological capabilities faced particularly by the MSMEs studied by them.

Similar concerns have been raised by Suzigan, Furtado and Garcia (2003). They analysed forms of governance in various LPAs in São Paulo state, and arrived at two main conclusions. Firstly, they identify significant limitations to the development of innovative activities in the LPAs dominated by large international firms, with negative impacts on the potential of success of policies for the development of local productive capabilities and innovation. Secondly, and as a result, they suggest that the potential for development, and the room for policy implementation, are larger in cases where the LPA is *not inserted* in global supply chains. In the same vein, Bernardes and Pinho (2003), discuss the reason for the precarious insertion of MSMEs in the Embraer supply chain, and confirm the link between the weakening of the local arrangement – that began to supply materials of low technological complexity – and the parallel growth of exports. These authors also stress the need for a more appropriate match between government policies in support of MSMEs and small firm requirements.

Elaborating on these findings, it is suggested that although it may be harder to implement policies in LPAs that are led by big multinational corporations, inserted in global chains or, in a broader interpretation, that present a strong degree of internal or external governance, the evidence shows that these policies are essential. In these cases, usually the complexity of the initiatives required to promote local productive and innovative capabilities is higher than in other cases. This argument corresponds to one of the main tenants of RedeSist, that is, the need for the promotion of LPAs to be closely articulated with national and local development policies and also the importance of considering the international structure in which the LPA is inserted. In order to succeed, initiatives

to mobilise arrangements with a high degree of governance require guidance and negotiations intermediated by the main political bodies, not only in national but also in international fora. In any case, the greater complexity of designing and implementing policies should not be considered an insurmountable obstacle.

Amongst the factors that contribute to making the successful implementation of policies for the promotion of MSMEs a very difficult objective, many analysts point to the crystallisation of a policy framework comprising inadequate initiatives in addition to the superposition and lack of co-ordination and continuity of initiatives. These observations corroborate the findings for the Brazilian experience discussed previously.

Souza et. al. (2003), confirm that despite the existence of a relatively large institutional apparatus for the promotion of MSMEs, in Brazil difficulties associated with macroeconomic policies and the absence of co-ordinated development policies are reflected in the discontinuous, intermittent and indiscriminate nature of initiatives begun during the 1990s and in a regulatory environment that is not at all attuned to the requirements of small enterprise. In contrast, Villaschi (2003) stresses the important results achieved in Finland, a country that has consistently implemented stable, flexible and adaptable policies to promote MSME, particularly in the electronic and telecommunication sectors. These policies sought to make explicit and enable firms to face in a pro-competitive manner the challenges and opportunities to the sustained growth of the capabilities and competitiveness of the enterprises and other agents engaged in the productive and innovative system.

The inadequacy of the mechanisms and instruments to support small firms is a verifiable fact both in the Brazilian experience, as well as in that of many other countries. The main underlying cause of this mis-match is that the existing apparatus in the development agencies, as well as the systems for promotion and funding, were structured to meet the demands of larger firms, which obviously do not produce the required effect when dealing with small firms. This is also a conclusion reached by Azevedo (2003), when considering the results of the process of the decentralisation of public support for small firms in the United Kingdom He shows that new forms of support correspond to methods that have proved to be demonstrably efficient in the management of the finances, human resources and growth strategies in the case of large enterprise, but which are, indeed, very distant from the reality of small firms.

It is therefore necessary to modify the prevailing culture in the environment where policies are formulated and operationalised, with a view to effectively changing the promotion and funding paradigm in order to tailor-made it to the MSME profile. This will probably bring about important transformations. On the one hand, by revealing and making possible to evaluate potential mismatches between the new policies designed specifically for small firms and their demands, an analysis that is essential for the improvement of such policies. On the other hand, by creating conditions to end all arguments that seek to blame (and punish) MSMEs for not presenting conditions that are propitious for the use of promotion policies and instruments that were designed for other businesses. Assuredly, it is not the particularities of these firms that are inadequate, but rather the initiatives and instruments that are unable to meet their development requirements.

The inadequacies are even more marked in the case of policies that seek to stimulate entrepreneurship that is favourable to the insertion of excluded social and regional segments. Particularly because, in these case, there is a double challenge in the adaptation of promotion instruments. As suggested by Fauré and Labazée, the access of women to credit programmes and support services requires specialised structures and specific conditions that take into account the

particularities of small women owned businesses. This is particularly important given the fact that the female participation in the labour marketplace tends to grow mainly via insertion in MSMEs. Melo and Di Sabbato (2003) confirm that Brazil follows this trend, the marketplace dynamics was favourable to the incorporation of women and one of the categories that experienced the most growth in the last decade was that of female employer in micro-businesses, especially in service activities.<sup>16</sup>

This brings the argument back to the discussion about the advantages of focusing on the group of agents that interact to produce any good or service; and of implementing policies that stimulate these agents and their surrounding social and economic environment. Attempts to turn small firms into one large collective actor is one of the reasons that are used to justify the support given by many countries and international development agencies to productive arrangements and other aggregate blocs of production. However, the advantages of doing so go beyond economies of scale and include the development of robust opportunities to benefit from other important synergies.

As observed in a previous work, new policies to promote technological and industrial development recognise that the agglomeration of enterprises and the good use of the collective advantages generated by their interactions, and also by their interactions with the surrounding environment, have effectively contributed to the strengthening of their chances of survival and growth, and represent an effective source for sustainable competitive advantages. The various contexts, cognitive and regulatory systems; forms of articulation and interactive learning between agents are considered fundamental for the generation, acquisition and diffusion of knowledge, particularly tacit knowledge. Thus, collective learning processes, co-operation and the innovation dynamics of groups of firms have acquired an even more fundamental importance in the process of facing the challenges posed by the diffusion of the Information Society and the Knowledge Era (Lastres, Arroio, Lemos, 2003).

In sum, the main conclusions to be drawn from this analysis point to the opportunities that may be harnessed by policies for the mobilisation of MSMEs, but also provide an important warning concerning the relevance of understanding and adequately treating the challenges posed both to the development of these enterprises and to the policies for their promotion. The main challenges include problems arising from the fact that MSMEs are *too numerous; heterogeneous, dispersed and small* and also the inadequacies, superpositions; lack of co-ordination and discontinuity of policy initiatives.

The analyses indicates that these challenges are mainly derived from factors such as i) the existence of a vicious circle including the low political power and low economic contribution offered by MSMEs associated with the predominance of an economic paradigm according to which only large structures are competitive in the present stage of capitalism; ii) the international division of labour and the mode of insertion of Brazil and other developing countries in the global scenario and iii) the deepening of the tendency whereby global supply chains control strategic activities, distributing less complex activities to less developed countries and regions and allowing only a very small margin for the insertion and growth of local SMEs.

<sup>16</sup> Of course this trend reflects other dimensions not always positive. For details see the reference.

## CONCLUSIONS

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Amongst the opportunities to implement policies for the promotion of local productive arrangements of MSMEs, it is important to highlight those associated with the need to find new pathways for Brazilian social and economic development and its repositioning in the international scenario. In this sense, it is necessary to direct the reconstruction of the productive structure along new lines that enable a broader articulation of national, regional and local interests and priorities, as well as increasing:

- existing positive synergies in order to mobilise productive agents and other partners;
- the conditions for survival, competitiveness and innovative active of MSMEs, that comprise the basis of reconstruction;
- the use and diffusion of new technologies, equipment and systems, logistics and organisational formats;
- the use of, mobilisation and irradiation of local and national synergies, such as the development of consumer markets, also contributing to the reduction of social and regional inequalities;
- the solution to problems such as: insertion of excluded social segments, balance of payment deficits, energy crisis, etc.

In addition, there are robust opportunities associated with the tendency towards policy decentralisation and the need to improve existing, and also formulate new industrial and science and technology policies to promote the dynamic and sustainable development of productive structures. The discussion of these factors and the formulation of new policy measures will greatly contribute to the development of a broader vision by firms, promotion agencies and other actors concerning the reality of the processes that face them, and thus to the definition of strategies that are more in tune with new challenges.

It is important to highlight that the focus on local productive arrangements should not be considered a policy priority, but rather as a policy format that may strengthen development initiatives by focusing on collective agents and their environment, their particularities and requirements. The articulation and co-ordination of policies at the local, regional, national and even supra-national levels are fundamental for their success.

In conclusion, we particularly stress the need and advantages of designing programmes that are tailored to the requirements of small firms, taking into account not only their particular characteristics and constraints, but also the specificities of the environment where they operate. Our main argument relates to the need to do this within a perspective which targets their sustainable development. Therefore the importance to deal with them and the local productive systems where they are embedded, as well as to promote the knowledge flows which contribute to add value to the goods and services produced.

It is in this sense that we hope that this paper may help to call attention to the need to overcome the scenario of inadequacies and lack of co-ordination that comprise important features of current policies dedicated to small firm development and thus, contribute in a positive fashion to the reflection processes and initiatives designed to enable the full engagement of MSMEs as crucial actors in the social and economic development of Brazil and its many varied regions.

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