

Innovation Systems and Development Strategies for the Third
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*The Brazilian Experience in Support of
small firms:
the promotion of local productive systems*

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Brazilian MSE - context

- around **four million formal firms** in 2000
- an estimated **total of 20 million small business units**, involving around 60 million individuals - strong level of informality
- activities: traditional industries, low technological complexity, intense use of unqualified labour, local or regional markets where the quality requirements and levels of competition are smaller
- limited availability of human, financial, technological and management resources leading to weak capabilities and bargaining power

Distribution of firms, occupied personnel, wages and other remuneration, and medium monthly salary according to number of personnel employed, Brazil, 2000

Occupied personnel	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

During the XXth century

- Industrialisation process was strongly based on large enterprise
- Formulation and implementation of policies for the promotion of MSE - a relatively recent experience
- It was only in the last years of the XXth century that specific policies for their development were formulated
- Creation of institutional and legal milestones in the process of recognising MSMEs in the country (laws, statute, support service)

Policies in the early to mid 90s

- Increasing the number of small exporting firms
- Increase in the availability of credit and financing
- This was not preceded by analysis and **customisation** of instruments to their specific requirements
- Instruments based on traditional models focused on promotion of individual firms or projects
 - SMEs had difficulties in adapting to existing rules, prerequisites for their access to credit schemes, bureaucracies, and high interest rates
- Initiatives were insufficient to redress the effects of recession

The Mid 90s - beginning of a new focus

- Brazilian S&T system - a significant strengthening of R&D funding, technological development and innovation.
- Programmes focused on groups of small firms, employing varying conceptual definitions and terminologies: firm networks; *clusters*; *productive, regional, sectoral or export poles*; *local productive arrangements and systems*.
- Creation of specific federal initiative to support innovation, called **Local Productive Arrangements Program**:
 - 105 projects
 - 60 local arrangements in the 27 Brazilian states
 - investment of US\$ 20 million (2001/2002)

Obstacles

- Discontinuous and indiscriminate nature of initiatives
- Credit lines based on traditional *modus operandi* and without policy orientation
- Inadequacy of instruments
- Predominance of private organization considerations over the traditional activities of public development agencies
- Absence of consensus, articulation and co-ordination among initiatives and agencies

➡ weak results

Beginning of a new government

- Policy focus on small firms with a view to decreasing local and regional disparities
- Territorial productive agglomerations become the preferred approach
- Incorporation of **local productive arrangements** concept into government directives
 - Concept included in the PPA 2004-2007
 - Creation of an inter-ministerial committee

Challenges to MSEs

- Predominance of a paradigm in which only large structures are competitive
- Existence of a vicious circle including the low political power and low economic contribution offered by MSEs
- Global supply chains
 - controlling strategic activities
 - distributing less complex activities to less developed countries and regions
 - allowing only a very small margin for the insertion and growth of local MSEs

Opportunities: focus on MSEs

Need and advantages of designing programmes tailored to the requirements of small firms

Taking into account:

- their particular characteristics and constraints
- specificities of networks and environments in which they operate
- perspective which targets their sustainable development
- promotion of the knowledge flows which contribute to add value to the goods and services produced
- local productive arrangements and systems where they are embedded

Conclusions

Reconstruction of the productive structure along new lines that enable a broader articulation of national, regional and local interests and priorities

This reconstruction should aim to increase:

- conditions for survival, competitiveness and innovation of MSEs
- existing synergies to mobilise firms and other agents
- use and diffusion of new technologies, equipment and systems, logistics and organisational formats
- solution to problems such as: regional inequalities, insertion of excluded social segments, balance of payment deficits, energy crisis, etc.

Reasons that justify the support of LPAs

- Transformation of small firms into one large collective actor
- Advantages go beyond economies of scale
 - Incentives for the articulation, co-operation, interactive learning and innovation
 - development of opportunities for generation, acquisition, use and diffusion of knowledge, particularly tacit knowledge

⇒ *Chances of survival and growth and source for sustainable competitive advantages*

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