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FINAL REPORT:
NATIONAL AND STATE POLICIES FOR
MICRO, SMALL AND MEDIUM ENTERPRISES IN BRAZIL

Carlo A. Ferraro



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Opinions expressed are those of the author and do not necessarily represent the views of the Organization.

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Introduction

This research aims at analyzing the policies and institutional network supporting micro, small and medium enterprises (MSMEs) in Brazil.

It consists of three sections. The first one addresses Brazilian MSMEs support policies, individualizing programs, tools and lines related to: i) competitiveness, quality and technological innovation development; and ii) the access to financial support.

The second section briefly describes the major SMEs support institutions at the national level. It pays particular attention to those institutions that play an important role in the articulation of programs and instruments. The third section analyzes institutions providing support to SMEs at State and regional levels. In the first part of this section there is a brief description of State supporting policies throughout the country. In the second part there is a more detailed description of State policies and some of the institutions offering support to SMEs in the five Southern states: Parana, Santa Catarina, Sao Paulo, Rio de Janeiro and Rio Grande do Sul.

The annexes contain additional information on Brazil's industrialization efforts in the last decades; SMEs definitions and special treatment of micro enterprises; and the distribution of enterprises by size and activity sectors in the Brazilian economy.

- 1. Support Policies for Micro, Small and Medium Enterprises (MSMEs) in Brazil**
- A. Industrial Policies for Micro, Small and Medium Enterprises in Brazil before the nineties**

It is generally agreed that, historically, industrial policies in Brazil did not place much emphasis on MSMEs (see Suzigan and Souza, 1990; Brito Garcia, 1992; Kagami, 1993). Basically, the country's development strategies rested on three main classes of actors which did not always complement each other. They were foreign capital, state owned enterprises and national oligopolic groups.

However, there were some MSMEs support policies which are worth mentioning, since they generated important precedents in the area of instruments, programs and institutions. Concern for small and medium enterprises dates back to the sixties, when ideas were being discussed about the importance of the study on MSMEs¹, the promotion of modern management methods and training of experts to identify specific problems of this type of enterprise. In general terms, this concern for MSMEs was not always consistent with the effectiveness of the relevant policy instruments. Most MSMEs-oriented measures were of a financial nature and in many cases they lacked completion and had a short life. (Bruto Garcia, 1992)

Some pioneer programs are worth mentioning, such as the creation of the FIPEME (Program for Small and Medium Enterprise Financing)² by the BNDE (National Economic Development Bank); and the creation in the early sixties of the CEBRAE (Brazilian Center for Management Assistance to Small and Medium Enterprises) which gave rise to the present SEBRAE (Brazilian Support Service to Micro, Small and Medium Enterprises). These programs incorporated the subject of support services in management and consulting for MSMEs (Refer to the Annex I on Industrialization Efforts and MSMEs Policies in Brazil)

¹ Later on, with the creation of the Micro Enterprise Statute in 1984, the treatment of this type of enterprise was formalized. Refer to the annex on SMEs definition and differentiated treatment for micro enterprises in Brazil.

² The abbreviation used for policy and institution names are the official Brazilian ones; however, the full names were translated into English for the purpose of these report.

B. Industrial Policy in the nineties

Brazilian industrial policy at the beginning of the decade follows the guidelines set forth through the so called Industrial and Foreign Trade Policy (PICE). The PICE's objectives are the increase in goods and services production and marketing through industry modernization and restructuring.

In order to meet these objectives, the PICE intends to be active in two directions simultaneously. The first is fostering commercial and industrial modernization consistent with an increase in productivity. These improvements should follow international quality patterns to be met through growing technological training. The second direction consists in implementing modern structures for the production of goods with the spreading of new technologies.

Within this strategy, market forces and their dynamics play a central role as drivers of technological modernization in industry, to better production and work management organization methods. Government action through the PICE seeks to combine competitiveness development policies with competitiveness encouragement policies. (Erber, 1991)

Measures aimed at developing competitiveness address two fronts. In the first case, they pursue the reduction of State interference in economic life, seeking a greater role of the market forces. In this perspective, they eliminate controls and barriers which obstruct firms entry into and exit from markets, as well as mechanisms which affect competitiveness, such as price controls. Another important element in developing competitiveness is the role of State-owned enterprise privatization programs which aim at reducing the State's role as a direct producer.

In the external front, policies tend to lower barriers to foreign trade, reducing protection and tariff dispersion levels. Legislation was modified to attract foreign investments and the modification of industrial property rights was sought.

Promotion of technological innovation, productivity and quality standards was pursued as competitiveness policy. With this purpose, three programs were created according to the industrial modernization and restructuring advocated by the PICE:

- i) the Industrial Competitiveness Program (PCI);
- ii) the Brazilian Quality and Productivity Program (PBQP); and
- iii) The Support Program to Technological Training in Industry (PACTI).

These programs, which are briefly described below, are important for MSMEs because the PICE guidelines place special

emphasis on the support to technological and quality development in small and medium enterprises.

The PCI aims at extending competitiveness in industry, particularly with regard to sectors which generate and spread technological progress. With this aim, it proposes a set of measures at structural, sectoral and entrepreneurial levels oriented towards encouraging modernization and growth in industrial activities by reducing the costs of private investment.

The PBQP supports actions oriented towards the adoption of new management methods in production and the use of technologies in enterprises. It articulates and provides a framework for a large number of projects, implemented in a decentralized manner by different public and private institutions involved in technological development and quality and productivity management.

Lacking budget resources of its own, the PBQP has voluntary sponsors among the different financing agents and institutions linked to the program in diverse ways.

The goals of the PACTI are supporting, guiding and articulating actions concerning technological training and endogenous technological innovation capabilities. The PACTI defines goals for: i) resource application in Science and Technology (C&T), including the volume and allocation of public investment; ii) encouraging private enterprises to carry out technological activities through fiscal and credit incentives; and iii) giving the State a driving role in the modernization process through the use of purchasing power.

C. The PICE and the MSMEs

The PICE's proposals generically acknowledge the need to support MSMEs³. These firms account for over 30% of the GNP, which would rise to 38% if micro enterprises are included (Souza, 1992). According to SEBRAE data, micro and small enterprises absorb almost 70% of labour employed.⁴

However, it is hard to determine whether MSMEs are specifically recognized within policy design or receive a supplementary treatment at the PICE. In any case, the PICE makes some direct references to MSMEs in policy instrument treatment. The PICE mentions financing of investments in fixed capital (machinery and equipment), establishing specific ways for supporting MSMEs.

Also, the PICE seeks to strengthen the creation and consolidation of specialized, technologically dynamic small and medium enterprises dedicated to the supply of parts and industrial components. In this manner it aims at setting up a network model based on the connection of large, medium and small enterprises through subcontracting practices. For this purpose, the PICE assigns great importance to competitiveness, quality, training and technological innovation programs and defines the scope for SEBRAE, which becomes an important actor as a MSMEs support agency.

The PICE does not define exactly the types of enterprises on which it focuses. Sometimes, it states a priority for small and medium enterprises; while others, it refers to micro and small enterprises. Some research papers (Souza 1992, Brito Garcia 1992) point out the absence of more explicit references and a certain degree of ambiguity in the allocation of the PICE responsibilities as regards MSMEs. The agencies responsible for the implementation of specific programs, the SEBRAE and the development banks use different definitions for micro, small and medium enterprises. These entities, in fact, determine if the instruments are applied to micro, small and medium enterprises (according to their definition) or have a wider coverage.

Even though evaluating policies and programs is not the purpose of this report, it might be appropriate to present some comments from analysts of Brazil about their scope. Bercovich

³ Throughout this report, the term "SMEs" is used in a generic form. For further information on SMEs and micro enterprises definition, refer to the annex on SMEs definition and differentiated treatment of micro enterprises in Brazil.

⁴ For further information on MSMEs participation in the Brazilian economy, refer to the appendix on quantitative data of Brazil's MSMEs and micro enterprises.

(1993) points out that President Collor's administration backed off when some of the proposals were beginning to be executed or were depending from the approval of legislation, while others simply were not implemented. Suzigan (1991) indicates that, in general, there was progress with PICE instruments which did not depend upon public resources. However, those policies which required resource allocation had a very partial impact. Foreign trade policy reform, the privatization process and the deregulation of the economy are examples of the first case. In the second case, the most important instruments to provide financing or fiscal incentives to modernization and technological training and private investment promotion remained undefined and pending specific regulation or resource allocation.

The use of the State purchase policy to stimulate technical development and quality improvement also had little application, given the budget restrictions, the cuts in the public sector and the privatization program itself.

The following operative features of PICE are worth mentioning:

1. Several public and private institutions, both at national and state level, take part in the programs, thus generating a very rich network of institutions (multi-agency system).
2. This is the reason why there is more than one institution involved in the programs, which provides several entryways to them.
3. When the agreements among institutions reach State or local levels, the program implementation becomes more decentralized. This is highly important in a country of the size of Brazil, with strong regional diversity, which requires a modality of policy delivery that takes this feature into account.
4. The rich interweaving of national and state public and private institutions gives great permeability and flexibility to the system as a whole, which will become effective as the intervening institutions become active and respected at the local level.
5. The role of SEBRAE as coordinator of SMEs-related issues at the national level, should be emphasized, together with its activity in the different States encouraging and strengthening local institutions such as entrepreneurial associations, universities, research centers and governmental agencies.
6. The Government performs its promoting role through the design of programs. It does not participate directly in the supply of services or actions but provides the outlines for their implementation through its agencies, banks and technical institutions.

D. Programs for competitiveness, quality and technological innovation development (PBQP)

i) Industrial Competitiveness Program (PCI)

The PCI was launched in February, 1991 with the aim of giving financial support to industry, by fostering modernization and trying to reduce private investment costs. The PCI's objective is to stimulate competitiveness through measures at three levels: structural, sectoral and entrepreneurial.

As regards structural competitiveness, it was proposed to :

- i) give financial support to private investment, in order to facilitate the acquisition of capital goods,
- ii) promote exports of capital goods incorporating technology;
- iii) improve teaching and human resource training;
- iv) foster infrastructure modernization; and
- v) support technical development.

Among the measures contemplated in the PCI were the following:

i. Tax cuts on investment and ending at promotional forms, especially by the BNDES, was suggested to provide financial support to private investment. Financial support is also given to the imports of capital asset through the elimination of the previous external financing requirement for those imports, through tax exemptions, and through a 60% reduction of the domestic content required by official credit agencies and for official purchases. In general terms, the requirements for capital asset import, purchase and financing were made more flexible.

ii. To promote exports, fiscal and credit incentives as well as customs and port services deregulation were proposed. The financial support program for exports -particularly for capital goods- called PROEX joined the opening of a credit line from the BNDES to finance capital asset exports⁵.

iii. To improve training and the rise of the qualification level of human resources - a problem seen as one of the structural disadvantages of the Brazilian economy - an inter-ministry committee was created and placed in charge of proposing a plan for educational reform.

iv. As regards infrastructure modernization, the development of a public investment program and an energy price policy based on a review and projection of the Brazilian energy matrix were recommended.

⁵ In 1991, this line had 400 million dollars. (Bercovich, 1993)

v. As regards technical development, apart from mentioning specific programs (PACTI and PBQC), the PCI presented a Software Law reformulation proposal, eliminating some barriers to imports, distribution and marketing and facilitating imports and the entry of foreign enterprises. It proposed the simplification of technological transference process by redesigning the role of the National Industrial Property Institute (INPI).

As regards sector competitiveness, the PCI identified a certain number of sectors with comparative advantages defined by the exporting position and by technical progress already achieved, with the purpose of establishing priorities in the application of the industrial and technological policy. In the first group there were sectors such as: agricultural industry, leather and footwear, cellulose and paper, iron and steel and metallurgy, petrochemistry, textiles, automobile complex, naval construction and capital assets. The second group included the electronic complex, fine chemistry, new materials and the biological industry.

PCI also points out the role SEBRAE must fulfill in sectoral strategies. For example, in the textile and leather and footwear sector, SEBRAE must formulate and coordinate a support program for the division of vertically integrated enterprises, keeping in mind the formation of networks of suppliers and sub suppliers specialized in this sector⁶; in the biotechnology sector, SEBRAE must support the creation of technological parks and enterprises incubators.

As regards entrepreneurial competitiveness and in order to achieve the restructuring of the Brazilian entrepreneurial model, enterprise mergers were encouraged in scattered sectors as well as promoting deverticalization supplier development processes, privatization, etc. through the activities of credit agencies such as the BNDES and institutions such as SEBRAE.

ii) Brazilian Quality and Competitiveness Program (PBQC)

The PBQC was launched in the last years to establish a set of actions that would induce industrial and technological modernization. The goal of the PBQC is improving the competitive position of Brazilian enterprises through the induction and support of quality and productivity initiatives, particularly seeking to

⁶ The SEBRAE of Sao Paulo has a Subcontracting and Business Service (refer to SEBRAE-SP in page 60) which aims at offering business opportunities to enterprises. It has a list of approximately 20,000 enterprises, chambers and entrepreneurial associations which receive the offers of the firms. These business opportunities are spread through a) SEBRAE's State network; b) the Jornal de Negocios (Business Journal) newspaper, which is freely distributed among the 20,000 recorded firms; c) a weekly advertisement on the Folha de Sao Paulo (Sao Paulo newspaper); d) a weekly advertisement on a newspaper in Buenos Aires (El Cronista Comercial).

achieve the diffusion of new methods of production, management and organization.

The PBQC is defined as a dynamic program which takes up the task of articulating a large number of general and sectoral projects which are conducted in a decentralized manner, gathering multiple initiatives that existed before the launching of the program and trying to coordinate them, so as to magnify their impact on the economy.

According to Bercovich (1993), the decentralized nature and lack of program-owned resources of the PBQC have contributed positively to its efficiency and to its survival in the midst of the political and institutional turbulence it had to go through.

The PBQC is made up of:

- a) General subprograms aimed at eliminating institutional and infrastructure obstacles that hinder the achievement of modern productivity and competitiveness standards. There are seven general programs covering the following subjects: i) creation of awareness and motivation for quality and productivity; ii) development and circulation of management methods, iii) human resource education, industrial training; iv) technological service adaptation for quality improvement; v) procurement vi) state initiatives; vii) micro and small enterprises.
- b) Sectoral subprograms aimed at overcoming modernization and development restrictions existing in several sectors of the Brazilian economy. There are over 40 sectoral programs grouped into: i) industrial complexes; ii) agriculture; iii) trade; iv) services; v) public administration.

The PBQC is governed by a national committee (National Quality and Productivity Committee - CNPQ) whose members represent the public and private sectors⁷. The Industry and Commerce Ministry is in charge of the executive coordination of the program. The

⁷ The National Quality and Productivity Committee has the following members:

- a) Government: Industry, Trade and Tourism Ministry, Science and Technology Ministry, Education and Sports Ministry, Agriculture Ministry, Department of Planning, Federal Administration Department, Strategic Affairs Department, Civil House, INMETRO and the Industry and Commerce State Secretary Forum.
- b) Private Sector and Civil Society: National Industry Confederation and National Agrarian Confederation, National Commerce Confederation, National Quality Award Foundation, SEBRAE, five worker representatives, three entrepreneurs appointed by the President and a representative of consumers. General Subcommittees include five government agencies representatives and five private initiative representatives. Sector Subcommittees have up to a maximum of ten agencies representative of the sector, including enterprises, entrepreneurial associations, technological institutes, technical-scientific agencies and government agencies.

executive coordination of the PBQC is done through: a) General Subprograms Coordinator; b) Sectoral Subprograms Coordinator; c) Subject (or specific) Commission Coordinator; d) National Committee Representative.⁸

The treatment of specific issues of interest to the program is passed onto the Subject Commissions which, in principle, are of a temporary nature. The following commissions have been created: i) work and employment appreciation; ii) consumers; iii) against waste iv) for quality and productivity indicators.

Some examples can suggest how general and sectoral subprograms are structured, (see Bercovich (1993). The "Marketing and Motivation for Quality and Productivity" a general subprogram aims at promoting awareness of the need to improve quality and productivity standards (Q&P). A Sub Committee made up of public and private institutions⁹ guides and manages the set of actions and projects jointly with the other PBQP efforts.

The subprogram has a Reference Document which includes basic strategies and actions grouped into Projects. The projects are: i) promoting extension campaigns aimed at creating awareness as regards Q&P; ii) promoting events aimed at mobilizing enterprise officials for acting on Q&P; iii) supporting congresses, meetings, seminars and other events aimed at stimulating Q&P development; iv) creating awards as recognition to contributions to Q&P; v) supporting studies and research on the formulation and diffusion of Q&P indicators in the Brazilian economy.

As regards Sectoral Subprograms, each one designs its own activity plan, following a common methodology suggested by the PBQP. Sectoral Subprograms projects are aimed at overcoming the obstacles and deficiencies which make it difficult for the firms to meet international Q&P standards in their sector, on the basis of the subject areas defined in the general subprograms. In this way, the Sector Subprograms must develop Q&P Projects for their sector, related to awareness, management method development, technological training, and the use of the State's purchasing power.

Each subprogram follows the guidelines of a Reference Document drawn by the Subcommittee, which stresses the following aspects:

⁸ The general and sector subprograms coordinators, the Subject Commission coordinators (which will be explained in detail further on) and representatives of the National Committee members participate so as to provide a strategic orientation for general and sectoral subprograms.

⁹ Included in this subcommittee are : for the public sector, INMETRO, Roguete Pinto Foundation - Education Ministry, Infrastructure Ministry, Health Ministry, and Labour Ministry; for the private sector, Brazilian Advertising Association, Brazilian Radio and TV Broadcasting Association, Brazilian Press Association and National Trade Confederation.

- i) Q&P diagnosis: it is aimed at identifying sector strengths and weaknesses throughout the industry;
- ii) Q&P national and international trends: it is aimed at identifying opportunities and obstacles to the achievement of Q&P standards on the basis of a prospective focus;
- iii) Goals: meeting international Q&P standards and strategies to achieve them.
- iv) Strategies and actions: they are defined on the basis of a sectoral strategic analysis, comparing diagnosis and trends.
- v) Projects: they are drawn within the framework of the sector subprograms strategies and they must preferably be linked to some PBQP general subprogram.
- vi) Management: since the PBQP's efficiency is assessed by sector, each subprogram must define a small number of sectoral Q&P indicators as well as goals to be met, so that it may be periodically evaluated not only by the PBQP but also by consumers.

Even though the PBQP's financing instruments will be discussed later, it might be interesting to make a general comment on the program's operative delivery. The PBQP has no budget resources of its own either at state or federal level. Even though the program manages no specific financial instruments, it does enjoy the voluntary adherence of different sponsors and institutions linked to the program. Among them, the FINEP has a financing line with CNPQ through the PACDT (Competitiveness and Technological Extension Support Program)¹⁰. In this manner, the government keeps the articulating and catalytic role, while private initiative must contribute with its enterprising initiative and most of the necessary financial resources.

With this mode of operation, the PBQP has no possibility of assigning funds directly. However, its implementation implied explicit instructions to federal agencies to adapt and extend their credit lines according to the program's purposes. Also through the PBQP there was a great diffusion among SMEs of information about the access conditions to credit lines granted by the banks. In addition, the PBQP has the possibility of directing certain resources from the Science and Technology area to the strengthening of program-related projects.

¹⁰ The PACDT offers scholarships and donations for technical development and human resource training in the area of quality and productivity. For further information, refer to Financing Lines for Productivity and Quality Management and Industrial Technological Training and the work of FINEP chart in the section on MSMEs Support Institutions.

Many of the actions undertaken within the framework of the PBQP are not conducted directly by the program but are initiatives carried out at different levels and in an independent manner by economic agents and institutions not necessarily related among themselves.

In a study conducted by Bercovich (1993) about two years after the launching of the PBQP, he points out the difficulties in evaluating its results. First, because the elapsed time was not enough to measure the impact of the program on the increase in Q&P standards in Brazilian production. Also, elements from macroeconomics must be added, such as those connected with the recessive economic situation in the early nineties and the deregulation and privatization policies, which affect microeconomics dynamics and productivity performances.

Different studies¹¹ suggest that after a relative technological standstill during the eighties, an industrial modernization process of moderate strength has been taking place, specially among the different sectors leading enterprises. This process may be explained by the incidence of a set of factors among which the PBQP may be considered.

It seems that Q&P awareness has increased in Brazil since the implementation of the PBQP, not only in industry but also in services, commerce and the agricultural sector. Commitment to Q&P is visibly stronger in large exporting industrial enterprises which had already started their own programs in the seventies. The PBQP impact may be measured from the incipient involvement of non exporting enterprises in Q&P. For these enterprises, the PBQP is particularly functional while for large exporting firms, it is a supplement to their modernizing efforts.

The impact of the PBQP on the enterprises appears to be positive as it seems to have influenced a significant number of enterprises to consider quality and productivity improvement practices.

It is obvious that some of the subjects defined in the general subprograms have evolved in different manners. For example in the field of human resource training, no great progress seems apparent in the restructuring of the educational system, while great importance is assigned to technical training and personnel instruction efforts in enterprises, though little resources are devoted for this purposes.

No important steps have been taken either in the area of the State's purchasing power, which could be a powerful tool but which did not gain strength due to the lack of resources.

¹¹ Bercovich (1993), IPEA (1992), IEI-UFRJ (1992), CNI (1992), PBQP (1992).

According to Bercovich (1993), little progress has been made as regards technological service adaptation. There is a definite increase in the creation of standards and certification requests¹². In addition, sector certification agencies have appeared, which enjoy a favorable acceptance within their fields of activity. The PBQP is clearly encouraging this movement. However, the actions pointing to overcoming the well known deficit in basic technical infrastructure (metrology, material, testing labs) hinder the progress of the standardization and certification process. This would require strong investments outside the PBQP's possibilities.

Actually, the PBQP's greater success seems to be in fostering the implementation of Q&P standard improvement initiatives in many productive areas (Bercovich, 1993). The existence of over 40 sectoral programs which group more than 300 entrepreneurial association together in the PBQP, the thousands of technical courses given in the most diverse levels and institutions, the rise of standardization and certification in industry, the multiplication of Q&P surveys and research from academic and entrepreneurial associations and the fast activity increase in the activity of consulting firms show that modernization is indeed taking place.

iii) The Support Program to Technical Training in Industry (PACTI)

The PACTI was created in September 1990 with the aim of supporting technological innovation. This program defines resource allocation goals in science and technology and establishes fiscal and credit incentives to promote technological innovation in enterprises.

The objective of the PACTI is to support, guide and articulate technological training activities, technological initiative development and modernizing technology extension in industry. For this purpose the PACTI defines goals for:

- i. increasing spending on Science and Technology and reorienting it to the application of industrial technology¹³;
- ii. encouraging private enterprises to carry out technological activities by granting fiscal and credit incentives; and
- iii. inducing modernization through State procurement.

¹² Bercovich (1993) points out a fast acceleration in a few months, going from 36 enterprises with ISO 9000 certification in 1992 to 74 enterprises in April 1993. That number was largely surpassed lately and currently, the mentioned figure is more than 500 certified enterprises.

¹³ The PACTI defined ambitious goals for rising public spending on S & T from 0.5% of GNP in 1989 to 1.3% in 1984; at the same time it sought to reorient that spending giving priority to industrial technology applications, from 30% in 1990 to 47% in 1994. (Chudnovsky, 1995).

The government's diagnosis leads to the conclusion that there is a need to induce industry to generate its own technological innovations. For this purpose, the PACTI seeks to implement actions that give priority to the development of innovative products and processes, counting on the energy of smaller size enterprises. This is how the program becomes a specific action line to increase the development of technological innovations in micro and small enterprises.

The mode of action of the PACTI is based on the need to enhance articulation among the different actors involved in the generation and diffusion of technological innovation in micro and small enterprises. Thus, the program seeks to bring together the efforts of universities, research and development centers, public agencies related to technology and industry areas, financial support and development agencies, micro and small enterprise support organisms and entrepreneurial agencies.

For this purpose, the Government seeks to act at the federal level together with several agencies - at the national and state level - to promote awareness and motivation initiatives directed to develop and consolidate entrepreneurial favorable attitudes towards technological innovation in micro and small enterprises.

The PACTI defines a set of basic actions addressed to:

i) inducing technological research and development and technological transference programs on the basis of cooperative and associative projects ("parcerias") that ensure training in the smaller enterprises through special support conditions. These actions include participation in fairs and similar events.

ii) giving incentives to the creation of invention support services, activation of guarantee patent and right obtention processes, invention analysis and technical feasibility certification for inventions and prototypes;

iii) granting support for technical and financial development of prototypes to start up in the market;

iv) training human resources in areas related to technological innovation.

In a more detailed view, the first two sets of objective were addressed through the following actions:

i) To induce the creation of joint cooperation projects in technology transfer, the program integrates different lines of activity, such as:

- Participation in business shows, fairs and other similar events which allow enterprises to discuss and spread their

innovative ideas, with the aim of creating joint projects with other entrepreneurs. For this purpose, the program rests on SEBRAE and its wide regional and local network.

SEBRAE makes up a National Fair and Exposition Calendar which covers all industrial sectors and in some events facilitates the participation of micro and small enterprises. SEBRAE also has online or printed consultation services with newsletters on quality and productivity issues as well as stock markets and events of entrepreneurial interest.

The Program is also associated with other regional and State institutions; e.g., in the State of Sao Paulo, the SEDAI (State Service of Assistance to Inventors)¹⁴ provides support for the presentation of prototypes, inventions or products incorporating technological innovations, in fairs in Brazil or abroad.

- Diffusion of innovative technology-related projects through information networks.

The Brazilian Science and Technology Information Institute (IBICT) coordinates technological project Diffusion jointly with the Medium and Small Enterprise Assistance Department (DAMPI)¹⁵, CNI, SEBRAE and FINEP.

For entrepreneurial cooperation initiatives at the international level, there exists SIPRI, the Investment Promotion and Technological Transfer System of the Commercial Promotion Department of the Foreign Affairs Ministry. The SIPRI has a focal point network made up of agencies from the states of Brazil. In places where there is no SIPRI focal point, the contact information is provided by SEBRAE.

- Articulation among enterprises and technological Institutions. Apart from the PATME¹⁶ programs resulting from FINEP-SEBRAE agreements, enterprises may request technological support services

¹⁴ An agency of the Science, Technology and Economic Development Department of the State of Sao Paulo.

¹⁵ DAMPI: CNI's Department for Medium and Small Enterprise Assistance. There is a paragraph on page 42 describing this agency. For further information, you may contact DAMPI. DAMPI, Av. Nilo Pecanha 50 -gr 2601, Rio de Janeiro, Brasil. Tel: (21) 534-8154, Fax: (21) 2621495.

¹⁶ For a description of PATME, refer to the section on support institutions relative to FINEP and SEBRAE. A brief overview appears in the chart on Financing Lines for Productivity and Quality Management and Industrial Technological Training.

through the PETI¹⁷, Industrial Technological Extension Program. This Program is the result of a FINEP-CNI agreement to support technologically innovative product development, industrialization and marketing. Services are provided by technological centers, universities, research centers, technical schools and accredited agencies, which can provide assistance through the mentioned programs by means of non-reimbursable financing for up to 70% of the project value. There are about 180 institutions throughout the country that meet the different needs.

ii) There are different courses of action, as regards technical support to technological innovations.

- Information on patents, trademarks and technology transfer agreements.

The National Industrial Property Institute (INPI) offers to all interested people the information on patents ranging from safeguard actions, research time and cost, to technology selection. Micro and small enterprises have a 50% reduction on industrial property rates. INPI has agreements with different institutions to develop programs for patent and technological information development. Micro and small enterprises can also resort to SEBRAE, which supplies information about the different programs through its branches.

As regards trademarks and information on technology transfer agreements, the reference institution is INPI, through its regional branches or state centers. It also has an agreement with SEBRAE, which provides information through its network.

- Information on technical standards

The Brazilian Technical Standards Association (ABNT), which is a non profit private organization, offers standard and product certification services. ABNT issues different publications and has agreements with SEBRAE so that it provides information and guidance on this subject through its network.

- State Service of Assistance to Inventors

SEDAI coordinates activities to foster and aid inventive capabilities and the incorporation of inventions and innovations to national technology. SEDAÍ provides support to inventors and micro and small enterprises in the area of industrial property and technological innovation.

¹⁷ PETI: Industrial Technological Extension Program. There is a brief description on page 16 and more information on page 38 where the FINEP's programs are described. For further information, you may contact FINEP. FINEP-Financiadora de Estudos e Projetos, Praia do Flamengo, 200, Rio de Janeiro, RJ Brasil, Tel: (21) 2760330, Fax: (21) 2760402.

E. Financing for MSMEs

i) Credit Lines for Productivity and Quality Management and Industrial Technological Training

Since more than three decades, Brazil has been developing institutions and financing lines directed to technological innovation and, at present, it has a significant number of such instruments.

The objective of the developing of financing instruments in Brazil was, mainly, the creation of the infrastructure required for the regular introduction of R&D activities in universities, research institutes, and manufacturing enterprises. Even though the granting criteria include considerations about the increase in the competitive power of the enterprises and national institutions, there is no evidence of a dynamic strategy of competitiveness. The basic instruments were loans, in the case of the firms, and donation grants, in the case of universities and research institutes. The major instrument addressed to industrial firms is long term financing, which has to be complemented by the use of the firm's own resources. The financing has been provided on subsidized terms and, during some periods, with negative real interest rates.

Regarding research institutions, the basic -almost exclusive- instruments are the donations granted by public entities. The major domestic financing sources are: FINEP, the Banco do Brasil and the BNDES¹⁸. Only occasionally did private enterprises make contributions, and they represented a very small share of the total resources used by research institutions.

The FINEP is the principal financial support agency of Brazil for projects and programs regarding quality, productivity, innovation, technological development and R&D¹⁹. CNPq's spending on grants was 100 million dollars in 1991 and 280 million dollars in 1992. In the case of CAPES -aimed at financing the training of qualified personnel through postgraduate studies-, its budget amounted to 52 million dollars in 1991.

It is important to bear in mind that, since the fiscal crisis undergone by Brazil during the eighties, federal agencies financing science and technology found their capacity of financing research projects very much restrained. Most of CNPq resources are used to

¹⁸ For further information, refer to the second section of this report on "SMEs Support Institutions".

¹⁹ Refer to table on "Financing Lines for Productivity and Quality Management and Industrial Technological Training" and to the information on FINEP in the second section of this paper.

grant scholarships, while FINEP also aims at granting loans for technological projects in the private sector.

On the other hand, a series of specific financing programs have been developed. Among them are the PADCT (Scientific and Technological Development Support Program); the RHAE (Human Resources Training for Technological Development Program); the PATME (Micro and Small Enterprises Technological Support Program); etc.²⁰

In the regional area, the major sources are: the SUDENE (Superintendency for the Development of the Northeast), the BNB (Northeast Bank of Brazil), and the BASA (Bank of Amazonia). The BNB operates with the FNE/PRODETEC (Constitutional Fund for Northeast Financing/Industrial Technological Development Support Program) and the FUNDECI (Scientific and Technological Development Fund) and the BASA operates the FNO/CAPTE (National Fund for the Financing of the North/Technological Training Subprogram) and the PROCATEC (Technological Development Area Program).

Brazil is a federative republic composed by twenty-six states and a Federal District where the Capital, Brasilia, is located. Twenty-one Brazilian states have constitutional legislation assigning a fraction of their State budget to Science and Technology. These funds are granted through state funds supporting research; such as the FAPESP (Sao Paulo), the FAPERJ (Rio de Janeiro), the FAPEMIG (Minas Gerais) and the FAPERGS (Rio Grande do Sul).

The FAPESP is still today an efficient and well-known institution, having increased its share in the state fiscal budget from 0,5% to 1% with the purpose of developing new modalities of support to applied research and industrial development.

Other state sources are the CADCT (Scientific and Technological Development Support Center) in Bahia, the FLUTEC (Technological Fluminense Company) in Rio de Janeiro, the FUNTEC/BADESP (Scientific and Technological Development state Fund/Sao Paulo State Development Bank) and the State of Sao Paulo Technological Development Support Program of the BANESP (Sao Paulo State Bank).

The CADCT aims at widening and consolidating the technical-scientific competence in the universities, research centers and enterprises, stimulating the modernization and socioeconomic development of the state of Bahia. Meanwhile the FLUTEC is focused

²⁰ Refer to the chart on Financing Lines for Productivity and Quality Management and Industrial Technological Training for a summary on the above programs. For more details, refer to the corresponding financing or executing institutions's description in the second part of this report.

on promoting technological development in the State of Rio de Janeiro.

At present, there is also a unique fund, supported by municipal resources called FACETEC from Vitoria, capital of the State of Espiritu Santo. Its current financial budget amounts to approximately 2 million dollars.

Financing Lines for Productivity and Quality Management and Industrial Technological Training

National		
Institution/Program/Line	Objective	Modality
BANCO DO BRASIL		
• FBB (Banco do Brasil Founding)	Science and Technology research	Semiannual amortization after grace period, with neither inflation monetary adjustment, nor interests, according to schedules.
• FEPEMI (Special Support Fund for Industrial SMEs)	Technical and Training assistance to improve firms' administrative structure	Financing with payments to service firms. Semiannual services of up to five years terms and a two year grace period; with neither inflation monetary adjustment nor interest according to schedule.
• FINEP-OURO (with FINEP)	Technological development, equipment acquisition	Financing of up to 70% of the total project value. Annual interest from 6% to 12% plus inflation monetary adjustment. Grace period: up to two years with an amortization term of up to three years upon completion of grace period
• MIPEM-OURO (with SEBRAE)	Investment on technology, entrepreneurial management systems and incremental working capital for updating	Beneficiaries: Micro (80% of investment) and Small (70%) enterprises. Amounts up to 35.000 UFIRs, equivalent to 28,000 dollars (July '95) Terms of up to 36 months with 12 month of grace period. Guarantees for 130% of the financed value: real or endorsements.

National		
Institution/Program/Line	Objective	Modality
BNDES		
• CONTEC (Condominium of Technological Enterprises Capitalization)	Participation in shares operated by BNDESPAR in technological firms, in start-up, expansion or development stages.	Participation of up to 40% of the capital.
• FINAME	Equipment and machinery acquisition	
• Quality and Productivity	Incorporation of production managerial and organizational techniques	Annual rates of 9% plus inflation monetary adjustment. Financing of up to 80% of project value. Amortization up to 4 years with a grace period of 6 months.
CNPq		
• RHAE (Human Resources Training for Technological Development Program)	Supporting the preservation and/or improvement of human resources in areas significant to technological development	Non-reimbursable projects and scholarships. Counter part specifications

National		
Institution/Program/Line	Objective	Modality
FINEP		
<ul style="list-style-type: none"> • ACN (National Consulting Agencies Support Line) 	Increasing competitiveness of engineering consulting agencies	Up to 70% of the project value, real guarantees covering 120% of financing. Annual interest from 6% to 12% plus inflation adjustment. Grace period up to two years. Amortization up to three years upon completion of grace period.
<ul style="list-style-type: none"> • ADTEN (Technological Development Support Program for National Firms) 	Developing test lines, assembling productive processes projects, from pre-industrialization to launching	Financing up to 70% of project value. Stock participation up to 50% of capital. Annual interest of 12% plus inflation adjustment. Amortization of up to 10 years. Grace period up to three years.
<ul style="list-style-type: none"> • AUSC (Consulting Services Users Support) 	Contract of consulting firms	Financing up to 70% of project value. Annual interest of 12% plus inflation adjustment. Amortization of up to three years upon completion of grace period. Grace period up to two years.
<ul style="list-style-type: none"> • FNDCT (National Fund for Scientific and Technological Development) 	Scientific and Technological development; human resources; technological management and network methods	a) Non-reimbursable grant of up to 100% of project value. b) Reimbursable financing: every case is considered separately
<ul style="list-style-type: none"> • LAGO (Quality Management Support Line) 	Introduction of new total quality management methods	Participation of up to 70% of project total value. Annual interest from 8 to 12%. Terms of up to 6 years and grace period of two years.

National		
Institution/Program/Line	Objective	Modality
<ul style="list-style-type: none"> ● PADCT (Scientific and Technological Development Support Program) 	Improving the technical scientific competence; financing scientific and technological development projects	a) Donation of up to 100% of project value. b) Reimbursable financing of up to 70% of project value. Annual interest from 6% to 12% plus inflation adjustment. Grace period of up to three years.
<ul style="list-style-type: none"> ● PACDT (Technological Extension and Competitiveness Support Program) (with CNPq) 	Technological development and human resources formation on quality and productivity	Scholarships in the country and abroad; donations
<ul style="list-style-type: none"> ● PATME (MSEs Technological Support Program) (with SEBRAE) 	Technological assistance to facilitate access to available technologies, development of new technologies and to stimulate productivity improvements. Any industrial and service sector. Micro enterprises of up to 20 employees and Small Enterprises with national decisive control.	Grants with counterparts of 30%. More than 150 accredited institutions. Adjustable limit values depending on the project.
<ul style="list-style-type: none"> ● PROTAP (Training Program on Technological and Scientific Research Administration) 	Management of basic research activities	a) Donations of up to 100% of project value b) Reimbursable financing subject to individual negotiation
<ul style="list-style-type: none"> ● Loan Guarantee System (agreement with SEBRAE) (Implemented as test project on July 1995) 	Supporting the request of financing providing a loan guarantee fund for ADTEN lines	Up to 90% of the project value for values of up to R\$ 120.000 Terms of up to 60 months with 24 of grace period. The fund of loan guarantee supplements the deficiencies when applying for a loan

State		
Institution/Program/Line	Objective	Modality
Banco da Amazonia		
<ul style="list-style-type: none"> FNO/CAPTE (Constitutional Fund for the Financing of the North/ Technological Training Subprogram) 	Acquisition and incorporation of technology	Up to 90% of project total value for small enterprises and 100% for micro enterprises. Annual interest of 7% plus MC with a reduction of 10% (for micro and small enterprises)
Banco do Nordeste do Brasil		
<ul style="list-style-type: none"> Organizational Updating Support Program 		
<ul style="list-style-type: none"> PRODETEC (Industrial Technological Development Support Program) 	Technological development	Annual interest of 8% plus inflation adjustment. Reduction of 20 to 30% for micro and small enterprises depending on their placement (semi-arid region or other) Amortization of up to 10 years with up to four years of grace period.
<ul style="list-style-type: none"> Subprograms: 		
GERIR	Organizational updating and quality and productivity program introduction	No information available
P & D	Research and Development	No information available
Poles and park technology and incubators		No information available
PROTEC (High technologies Support)	High technology ventures (information systems, etc.)	No information available
TRANSFER	Acquisition and incorporation of technology	No information available

ii) Ordinary Credit Lines for SMEs

In broad terms, SMEs' competitiveness development implies facing economic scale problems, intensive use of non-skilled labor resources, outdated technological processes, management methods and lack of real guarantees for credit. These characteristics do not only hinder the strengthening of enterprises of smaller relative size but obstruct their access to loans under conditions adequate to their payment capacity.

As regards the difficulties in the relationship between SMEs and financial institutions, a recent research (Medeiros, 1994) shows that: i) the lack of real collaterals and guarantees, ii) systemized cadastral data, and iii) financial and commercial balances that demonstrate their serving of past obligations, are the major obstacles for SMEs to have access to loans.

The mentioned research also states that the main impediments are related to SMEs' limited diversification and reduced scale of bank movement as regards deposits, financial allocations, payroll, collecting, discounts, exchange operations, insurance, etc. Individually, SMEs do not have expectations of special treatment with banks in terms of floats and spreads.

Taking into account the current configuration of Brazilian financial system²¹, loan operations are increasingly selective, aiming preferably at larger enterprises. In this context, it is expensive and difficult to gain access to loans. SMEs are in a disadvantageous position due to their small scale levels that do not attract banks.

The problems of SMEs regarding their access to loans are also related to the demand for real collaterals and guarantees and to the reciprocities required by the banks in terms of insurance and purchases of bank deposit certificates. For working capital loans, sometimes banks demand discounts of commercial papers or real state guarantees. Given the reduced availability of commercial papers and real state guarantees in smaller relative size enterprises, these loan credits are concentrated mainly in medium enterprises. (Medeiros, 1994)

In the following chart (Ordinary Financing Lines for SMEs) there is a summary of national public financial institutions, such as the Banco do Brazil (BB) and the Federal Savings Bank (CEF), which may have maximum terms of up to one to two years, with real guarantees, bonds and endorsement demands.

²¹ Brazilian financial system is characterized by a high level of banking concentration, where the 10 major banks conduct more than 80% of the operations. Medeiros (1994).

Ordinary Financing Lines for SMEs

Institution/Program/Line	Objective	Modality	Guarantees
BANCO DO BRASIL			
• BB Vendor	Discount of documents	30-days contract, renewable	Bond and endorsement
• Entrepreneurial Gold Check	Eventual Financial Necessity	Terms from 1 to 3 months	Real and personal
• Hot money	Working capital	Up to 10 days. Interests at day rate	Endorsement
• MIPEM-OURO Custeio	Working capital	Terms up to 180 days with months of grace period. Monthly interest of 1% plus MC	Real and personal
• Quick loan	Working capital	Terms up to 120 days. Interest upon consultation	Bond or endorsement
• Title discounts	Working capital	Undeterminate terms and day interests	Personal
• Working Capital (Resolution 63)	Working capital	Terms from 12 to 24 months. Interests upon consultation	Banking bonds and other real and personal guarantees
• Working Capital	Reinforcing working capital	Terms up to 15 days, day interests prepaid	Endorsements and bonds
• Working Capital PASEP Resources	Working capital	Minimum term of 120 days with a maximum of 18 months. Grace period: 6 months Annual interests 12, 68% plus MC	Real and personal

Institution/Program/Line	Objective	Modality	Guarantees
CEF - Federal Savings Bank			
• Blue Check	Reinforcement of working capital	Terms between 30-90 days, renewable. Day interests paid upon usage	Endorsements and bonds
• CEF-CRED	Reinforcement of working capital	Terms from 30 to 45 days with no extension, interest at current rate upon average usage value	Paper and deposit bond, banking bonds, endorsement
• GIRO - CEF (Agreement with SEBRAE)	Reinforcement of working capital	Credits up to 10,000 \$R with terms of up to 12 months. Monthly interest 1% plus MC	Endorsement plus credit insurance
• Hot Money	Reinforcement of working capital	Terms up to 15 days, prepaid day interests	Endorsement and bonds
• Mutual CEF	Reinforcement of working capital	Terms from 5 to 12 months with monthly amortization	Bonds, banking bonds and mortgages
• Title discounts	Reinforcement of working capital	Terms from 20 to 30 days, prepaid day interests	Paper bonds and endorsement

Note: MC = Monetary Correction

Sources: FIESP/CIESP - DEMPI Departamento da Micro, Pequena e Media Industria
FIESP/CIESP, Suplemento de Noticias, Nº 82, October 1994.

2. SMEs Support Institutions in Brazil

The objective of this section of the report is to provide elements for the analysis of SMEs support institutions and policies in three main areas. The first one is related to quality and productivity, the second one with technological innovation and development, and the third area which has to do with financing, both of quality, productivity and technological innovation and development programs, and to ordinary financing to micro, small and medium enterprises.

The analysis shows that the studied programs involve national, State and local public and private institutions, which form a fruitful institutional framework. These institutions reach agreements to operate on a joint and supplementary basis on quality, technology and financing projects.

The following are some of the major institutions at national level²². There are:

- a) governmental agencies, responsible for industrial policies outlines, such as the Industrial Policy Secretariat of the Ministry of Economy, Commerce and Tourism and its Micro, Small and Medium Enterprises Coordination Office;
- b) financing institutions such as Banco do Brasil, BNDES, CEF, FINEP;
- c) technical organisms such as ABNT, IBICT, INMETRO, INPI, SIPRI and SEDAI; and
- d) entrepreneurial institutions such as CNI and SEBRAE, which provide support to MSMEs.

²² Refer to Annex on Institutions Addresses.

This chart summarizes the activities of the mentioned institutions in the areas of quality, productivity, technological innovation and development and financing. Universities and research centers, which are not dealt with specifically in the section on institutions have been included to make the description more syntectic.

	Financial Institutions						Entrepreneurial Institutions		
	Government	BB	BNDES	CEF	FINEP	Technical Instit.	CNI	SEBRAE	University Research Centers
Quality	Policy Design and Implementation	Financing of projects	Financing of projects	—	Financing of projects	Services and consulting services	Support services	Support services	Participation in Quality Programs
Technology	Policy Design and Implementation	Financing of projects	Financing of projects	—	Financing of projects	Services and consulting services	Support services	Support services	Participation in Technological Programs
Financing	Policy Design and Implementation	Ordinary financing lines	—	Ordinary financing lines	—	—	Information on financing lines	Information and supplying of financing	—

A. Government and Industrial Policy Area

The general outlines of the industrial policy during the 1990s are included in the Industrial and Foreign Trade Policy (PICE) and they have been analyzed in the first part of this report. In some of the reviewed studies and interviews there appeared critics over the lack of a specific policy for micro, small and medium enterprises. On the other hand, the experience developed in the last years through the different programs and the support institution network provide a series of elements upon which a specific policy for that sector may be designed.

The present National Administration of President Cardoso has created a proposal (white paper) on "Industrial, Technological and Foreign Trade Policy" including the main outlines of his program for the 1995-1999 period. This proposal has not been implemented yet. A series of regional seminars are scheduled to be held in different areas of the country to debate the proposal with public agencies, entrepreneurs, private institutions and the community. Governmental officials look forward implementing the proposed program by the last quarter of 1995 or next year. It should be noted that the presentation for this proposal's debate coincides with fiscal and labor reforms and a process of constitutional review taking place in the country.

Simultaneously, a Parliamentary Commission has been created for the analysis of the legislation and problems related to MSMs.

The program's proposals aim at increasing the industrial system and competitiveness. The objective of this program are:

- expansion of production and goods and services consumption, ensuring the increasing of the people's life pattern, based on the growth and improvement of foreign interchange;
- geographical dispersion of industrial production through supporting and encouraging existing industrial poles and profiting from new regional investment opportunities;
- quality increase and enhancement, supporting industrial activity dynamism, manual labor formation and training, as well as the corrections of labor market deficiencies.

The strategic lines are articulated through three basic axis, namely:

- i) the increase of investment level;
- ii) the speed up of technological training; and

iii) the reinforcing of institutional reforms and the updating of public administration.

The policy for MSMEs aims at the geographical dispersion of the economic activity, based on the local production of goods and services and technology-based ventures. The proposal is oriented to the maintenance and generation of employment; the emergence of new agents and the achievement of the quality and competitiveness levels required by the domestic and foreign market.

The designing and implementation of policies will be articulated with a joint action between the private sector and the coordination of governmental activities. The proposal includes the implementation of two programs: Small Scale Production Support Program and Brazilian Craftsmanship Program.

The Small Scale Production Support Program intends to articulate the actions of the Federal Government, State governments, municipalities, private initiatives and civil society in order to maximize their effects. This modality should allow giving priority to actions aiming at: a) stimulating the formation of new enterprises and the modernization of the existing ones; b) a simplified and differentiated fiscal and legal treatment for micro and small enterprises; c) promoting training and technological innovation; d) stimulating the integration between large and medium enterprises and micro and small enterprises through subcontracting and tertiary support programs; e) access to loans and institutionalizing of endorsement and guarantees mechanisms; f) stimulating the formation of consortiums and associative cooperation; g) supporting entrepreneur formation, training and development programs.

The Brazilian Craftsmanship Program aims at structuring a legal and normative basis for the sector, creating instruments to make it effective. Its objectives are the creation of specific credit lines, technical assistance to craftsmen production and the organization of information systems for the sector.

B. Financing Institutions

i) BB - BANCO DO BRASIL

The Banco do Brasil is a bank related to the Federal Government servicing enterprises, independently of their size. Among these services, there are current account systems, loans, hot money, working capital and discounts of IOU and credit cards sale receipts.

It seeks at providing assistance to enterprises of relatively smaller size through more than 5000 subsidiary establishments (agencies, offices, mobile assistance points, etc.) in almost all the country. It has agreements with other institutions, with which it operates on a joint basis -in the spreading of information on lines and programs-, and supplementarily, financing some of them. The Banco do Brasil finances projects on S&T research, technological development, and technology and management system investment. For instance, it has agreements with SEBRAE for the promotion of regional and municipal development programs through the wide network of branch offices both institutions have in the different States, regions and municipalities.

MIPEM-OURO (Support Program to Micro and Small Enterprises) is BB's specific support program to SMEs. It is the outcome of an agreement signed with SEBRAE. It aims at supporting investment projects, basically related to technology and expenses of introduction of entrepreneurial management systems and incremental working capital, providing a fixed loan which focuses on the updating of enterprises belonging to the traditional sector.

The items MIPEM OURO finances on technology and introduction of entrepreneurial management systems are extensive and involve investments on technology transference, acquisition of machinery, equipment, furniture and technical manuals; training; patent registration; consulting services; catalogues; and promotional material. SEBRAE participates in the identification of other items that could be subject to financing.

The limits of the granted financing are: 80% of the project value for micro enterprises and 70% for small enterprises with grace period of one year and amortization of up to two years. For entrepreneurial management projects, the limits are similar to the mentioned one with grace period of 6 months and an amortization of one year.

ii) BNDES - National Bank for Economic and Social Development

The BNDES is a public enterprise related to the Ministry of Economy. It was created in 1952 as BNDE (National Bank for

Economic Development). Its present denomination appears in 1982 when it was designated as administrator of part of the resources of FINSOCIAL (Social Investment Fund).

BNDES basically supports major projects for the development of Brazilian economy, stimulating national private initiative. The financial action of BNDES aims at applying resources to boost the goods and services production growth, the technological updating and training, the generation of employment and the widening of the competitive product supply abroad.

The BNDES system consists of the National Bank for Economic and Social Development and two subsidiaries, namely: FINAME (Special Agency for Industrial Financing); and BNDESPAR (Shares BNDES S.A.).

BNDESPAR performs high technology implementation and development, updating and expansion of industrial productive capacity, strengthening of the firms' financial and investment structure and the reorganization of the industrial structure (merges and associations) aiming at improving competitiveness. BNDESPAR provides financial support through the acquisition of movable values.

FINAME has the objective of promoting development and updating of machinery manufacturing Brazilian industry. It operates, basically, through other financial institutions. Thus, the machinery and equipment purchaser, regardless of the size of his firm, directs his proposal to the bank he has selected.

The actions and projects of the BNDES system are aimed at financially supporting national private enterprises, public entities and physical individuals among others. However, BNDES and its system (FINAME and BNDESPAR) have the following programs to serve Micro, Small and Medium Enterprises in a specific and differentiated way:

BNDESPAR operates the CONTEC -Condominium of Technological Small Enterprises Capitalization. Its objective is to supply risk capital to emerging SMEs of technological base which productive capacity is based on the development of new products or processes applying scientific and technological knowledge. This stock sharing is limited to a maximum of 40% of the firm's total capital.

The model foresees the existence of a risk capital regional firm which operates as if it were an investment fund. The stockholders make the commitment of supplying a contribution in a fixed term. The control of the stock must be in private hands, while the share of the public sector should not exceed 40% of the total capital. (Medeiros, 1994).

FINAME has two programs specifically aimed at MSMEs:

- The Automatic Program supporting the acquisition of machinery and serial production equipment with financing conditions favorable to MSMEs.
- The Financing Program for Machinery and Equipment Exports - FINAME, destined to exporting industries with pre-shipping financing.

As financial support organism, FINAME only finances operations of registered manufacturers. The payment terms vary from 12 to 60 months with grace period ranging from 3 month to one year. The participation oscillates between 40% and 70% of the project value.

The BNDES operates with a POC-Automatic Program financing expansion, introduction, updating, automatization and relocation projects belonging to the industry, infrastructure, environmental preservation, agriculture, commerce and service sectors.

The amortization terms extends to up to five years with grace period of up to two years. The interests are determined according to the firm's size, the type of investment and the sector. For example, a micro enterprise belonging to the industry and infrastructure sector has 8% interests plus monetary correction and a its share may reach 70% of the project value. In the environmental preservation sector, the participation may reach 85% of the project value.

iii) CEF - Federal Savings Bank

It is an autarchic entity related to the Ministry of Economy, composed of a Social Bank and a Commercial Bank. The former finances social activities and the latter operates with credit lines and ordinary financing services²³.

The CEF has a specific program for MSMEs: the CEF-GIRO which operates on the basis of an agreement with SEBRAE. It is currently operating (August 1995) and provides amounts of up to R\$ 10.000 (around US\$ 10,000) with maximum amortization terms of one year without grace period. It requires endorsement plus credit insurance.

Besides, there are benefits for micro enterprises consisting of exemption of certain expenses, reduction of bureaucratic procedures and simplified operations.

²³ For further information refer to the chart on SMEs Ordinary Financing Lines.

iv) FINEP - Projects and Studies Financing Agency

The FINEP is a public enterprise related to the Secretariat of Science and Technology of the National Presidency. It has been working for more than 25 years as an organism dedicated to the promotion, support and financing of researches related to the S&T, from basic research, technology transfer and infrastructure projects to commercialization, pre-investment and planning.

The FINEP is characterized by being the only public agent in Brazil -and one of the few in the world- having instruments capable of operating in any of the stages of the knowledge creation and incorporation process (Chudnovski, 1995). Thus, it operates at technology demanding enterprise level, and at university, research centers; technological institutes; technology, technical knowledge and services suppliers level.

Its resources come from different sources, among them, the National Treasury, special development funds, banks and other financial agencies with which FINEP reaches agreements; besides international banks and multi and bilateral technical cooperation entities.

The outlays granted by FINEP for financing programs and projects in 1993 amounted to 175,6 million dollars. That amount was assigned as follows: 43,7% was destined to technological development projects, 25,6% to equipment acquisition, 18,1% to administrative and financial training, 6,7% to industrial assembling projects and 3,2% to basic and applied research. Additionally, in FINEP's budget for 1993 a credit line destined to Brazilian enterprises participating in the Mercosur Technological Cooperation Program was opened, in the amount of 50 million dollars.

Some of FINEP's financing resources come from abroad. The IDB (Inter American Development Bank) assigned that institution 12,6 million dollars in 1992 and 35,9 million dollars in 1993; the World Bank is considering resources of approximately 150 million dollars.

The following are some of the operational instruments of FINEP:

- ACN - National Consulting Agencies Support Line
It aims at training and strengthening consulting and engineering enterprises from the technological, instrumental, human and financial point of view. It assists projects related to the introduction of new managerial methods, methods for the acquisition of systems for production automatization and control and proposal's prospecting to be submitted to foreign bidding.

- **ADTEN - Technological Development Support Program for National Firms**

Its objective is financing and investing on projects of technologies development or improvement of technologies and processes. These projects may be implemented by the firms' technical teams or by engineering firms, national consulting agencies, universities and research institutions in general.

- **AUSC - Support to Consulting Services Users**

It provides public and private entities with the financial resources necessary to hire national consulting agencies for the development of studies and projects of economic and social interest.

- **Credit Guarantee System**

It was recently incorporated -jointly with the SEBRAE- and aims at supporting MSMEs access to financing with a guarantee fund. It is limited to 90% of the total project's cost (up to R\$ 120.000); with terms of up to 5 years with 3 years of grace period; guarantees of 120% the financed value in the case of real state and 135% in the case of machinery.

- **FNDCT - National Fund for Scientific and Technological Development** It finances specific projects through credit lines supporting programs and researches coordinated or executed by nonprofit institutions such as postgraduate centers, universities, research institutes and scientific associations.

- **LAGQ - Quality Management Support Line**

It finances expenses with third parties deriving from the implementation of total quality systems, such as hiring consulting services, personnel training, software acquisition and the development of the necessary data to control work processes.

- **PADCT - Competitiveness and Technological Development Support Program**

It was created to extend the support opportunities to technological and scientific development. It aims at supporting major sectors and services conventional mechanisms do not serve. The program covers the activities of the FINEP, THE CNPq and the CAPES.

- **PATME - MSEs Technological Support Program**

It operates through an agreement with SEBRAE and its objective is to provide donations to quality improvement and productivity increase projects. Financing may reach 70% of the total cost of the project. FINEP and SEBRAE²⁴ agreed that the entities implementing the technological assistance services provided by

²⁴ For further information, refer to "Regulamento e procedimentos operacionais, SEBRAE/FINEP". Programa de Apoio Tecnológico as Micro e Pequenas Empresas-PATME. Brasília, 1994.

PATME are: i) technological centers, ii) universities, iii) research centers, technical schools, iv) other non-profitable entities endorsed by FINEP and SEBRAE.

- PETI - Industrial Technological Extension Program for Micro and Small enterprises

It works through an agreement with the CNI. Its objective is to provide technological assistance to micro and SMEs to facilitate the access to available technologies and the development of new technologies stimulating productivity growth. The technical monitoring is conducted by the DAMPI of the CNI, and the entities implementing the technical assistance services are the universities, research institutes, technological center and other accredited institutions. Industries receiving this benefit must supply an amount of at least 20% of the service value.

C. Technical Support Institutions

i) ABNT - Brazilian Technical Standards Association

The ABNT is a civil public nonprofit entity. It is a national forum, responsible for the normalization and technical specification, which describes standards, orientation lines and minimum characteristics that a certain product or service must follow. It also provides the ABNT certify mark. In Brazil, it is also the representative, together with the international normalization organisms (ISO, IEC).

The ABNT supplies services related to production, imports and sales of technical norms, quality certification, consulting services on standardization, information and training, among others. It has an agreement with SEBRAE for training and consulting services on technical and ISO 9000 norms.

For some services, it provides special discounts for micro enterprises.

ii) IBICT - Brazilian Science and Technology Information Institute

It coordinates technological project Diffusion jointly with the Medium and Small Enterprise Assistance Department (DAMPI), CNI, SEBRAE and FINEP.

iii) INMETRO - National Institute for Metrology, Standardization and Industrial Quality

The INMETRO is an autarchic organism related to the Ministry of Justice and was created in 1973. Its main objective is implement at national level the policy of legal, scientific and industrial metrology, of industrial standardization and of industrial products quality certification, according to the regulations of the National Council of Metrology, Standardization and Industrial Quality - CONAN. It does not have any activity sector orientated towards micro, small and medium enterprises.

iv) INPI - National Institute for Industrial Property

It is an federal autarchic entity related to the Ministry of Industry and Commerce. It aims at implementing, at national level, the norms regulating industrial property (marks and patents) and the technology transference, meeting the needs resulting from the industrial development of the country.

The activities of IMPI are based on the following three systems: industrial property involving marks and patents; technological transference and technological information.

The latter supplies information on development and research activities and offers some services for easing the access to national and international information, on line or through a manual data base to solve technical problems.

The INPI provides all kind of patent information, ranging from security actions, research cost and time reduction, to technology selection. Micro and Small enterprises have a discount of 50% over industrial property fees. The INPI has agreements with different institutions to develop patent and technological information promotion programs. Micro and small enterprises can also resort to SEBRAE, which -through its branch offices- provides information on the different programs.

As regards brands and information on technology transference contracts, the INPI is the institution of reference, through its regional or State branch offices.

v) SEDAI - State Service of Assistance to Inventors

SEDAI coordinates activities to foster and aid inventive capabilities and incorporation of inventions and innovations to national technology. SEDAII provides support to inventors and micro and small enterprises in the area of industrial property and technological innovation.

vi) SIPRI - Investment Promotion and Technological Transference System

The SIPRI, the Investment Promotion and Technological Transference System of the Commercial Promotion Department of the Foreign Affairs Ministry. The SIPRI has a focal point network made up of agencies from the state area.

D. Major National Private Sector Institutions

Entrepreneurial associations and trade unions did not play a formal and direct role in SMEs policies planning and implementation. However, the Brazilian Program for the Restructuring and Competitive Expansion of the Industrial System proposed by Cardoso's Administration through its Industrial, Technological and Foreign Trade Policy²⁵ is expected to be presented at regional meetings with the presence of entrepreneurial associations and trade unions. The Parliament is establishing a Micro Enterprise Commission to assist legislators on that particular subject. The SEBRAE participates in the inquiries of technicians from the public sector and, in some cases, it is the executive organ at national and state level.

i) CNI - National Confederation of Industries

The CNI is a national private organism. It is the entity holding the greatest entrepreneurial trade union representation. Its main objective is to promote, the use of norms and regulations aimed at favoring and improving manufacturing systems, technological processes and commercial methods, together with the employees' physical, spiritual, hygienical and cultural well-being.

In the field of social assistance and professional formation, it operates through the SESI (Social Service for the Industry) and the SENAI (National Service for Industrial Apprenticeship). For SMEs technical assistance it has the DAMPI (Department for Small and Medium Industries Assistance).

The DAMPI was created in 1972, absorbing and extending the tasks of the late CEMPI (National Center of Industrial Productivity). Its major objective is the introduction of a national assistance system for the small and medium industry. It designs basic national programs and cooperates with regional programs. It promotes experiences exchange, conducts studies and researches on SMEs problems. DAMPI's activities are based on three basic areas: training, technological information and industrial technology.

The CNI also develops projects through cooperation agreements with other institutions such as INMETRO, INPI, IBICIT, BNDES, FINEP and SEBRAE.

ii) SEBRAE - Brazilian Support Service to Micro, Small and Medium Enterprises

The SEBRAE is defined as an autonomous and private social service, created in January 1991, which substitutes or succeeds the

²⁵ This is a proposal that has not been implemented to date.

previous state CEBRAE²⁶. Together with the change in the denomination, there was a change in its legal status since it became a private entity. Simultaneously, some changes were introduced in its mandates to assist micro and small enterprises of all economy sectors: industry, services, agriculture and commerce.

With its transformation SEBRAE increased its involvement which, in some cases, includes financial contribution of entrepreneurial associations, state support agencies and technical cooperation relations with international organisms.

The collection of resources is achieved by the contribution of firms through a retention of 0,3% of the commercial and industrial enterprise salaries throughout the country. This amount is transferred to the national SEBRAE which, in turn, transfers it to the regional SEBRAEs according to the distribution of the per capita income and the population of each state.

The objective of SEBRAE is to help with the technological updating and improvement of the micro and small enterprises. For this purpose, its major activity fields are defined as follows:

- i) cooperation in the deregularization process and general support to micro and small enterprises;
- ii) micro and small enterprises managerial development support;
- iii) support to technologically dynamic micro and small enterprises and to those enterprises located in technological sites.

SEBRAE is not only an executing, but a linking institution as well. To achieve its goals, SEBRAE keeps agreements with different other institutions such as universities, technological centers, entrepreneurial entities, governmental organisms and companies.

When referring to the scope of SEBRAE's activities at national level and their application to the different states in Brazil, we are actually referring to the SEBRAE system composed of the national SEBRAE with its headquarters in Brasília, and the different SEBRAEs operating in every state of Brazil. The national SEBRAE sets the strategic outlines and conveys the general and national initiatives to the state SEBRAEs, thus performing its task as system coordinator. In operational terms, each state SEBRAE defines its own actions according to the regional specificities and the different level of managerial skills.

²⁶ Through Law Nº 8029 dated 12/4/90, the Government authorized the separation of CEBRAE (Brazilian SMEs Support Center) from the federal public administration in what became known as the "privatization" of the organism.

3. MSMEs Support Policies and Institutions at the State Level

A. State Industrial Support Policies

An analysis carried out by the CNI (1994) presents the different types of industrial support provided by each State. The review of these types of incentives led to their classification into four categories. The support modalities supplied by the States are:

- i) fiscal benefits
- ii) differentiated financial concessions
- iii) incentives for infrastructure
- iv) other incentives

The following is a summary of the major mechanisms and the States using them according to the information of the above CNI study (1994). It should be noted that at the date of this report (August 1995) some of these stimulus are not operating due to different reasons. For instance, in the fiscal area a series of measures are being discussed; also, in the financial area, the crisis some State banks are facing is leading to the discontinuance of financing lines.

i) Fiscal Benefits

The main incentives are related to:

- (1) Exemption of the ICMS for new enterprises, if there is no similar product in the State and during a certain period
- (2) Exemption or reduction of the ICMS for micro and small enterprises
- (3) Reduction of ICMS aliquot in specific situations and for specific products
- (4) Prorogation of ICMS payment terms
- (5) Mechanism of ICMS deferred payment
- (6) Use of credit deduced by ICMS estimation

Chart on Fiscal Benefits and States using Them

Fiscal Benefits	AC	AL	AM	AP	BA	CE	DF	ES	GO	MA	MT	MS	MG	PA	PB	PE	PI	PR	RJ	RN	RS	RO	RR	SC	SP	SE	TO
(1)																											
(2)																											
(3)																											
(4)																											
(5)																											
(6)																											

Notes: ICMS: Merchandise and Services Circulation Tax. It differs by type of product. The continuity of the application modalities are subject to the fiscal measures in discussion at the moment this report was being prepared.

Refer to Annex III for Abbreviations of the States of Brazil

Source: CNI (1994).

ii) Financial Concessions

The mentioned CNI study shows that, in general, State banks operate with financing lines which resources come from investment State funds or development programs destined to:

- (1) Acquisition of fixed assets
- (2) Formation or recomposition of working capital
- (3) ICMS payment
- (4) Stock share composition. Discount documents

Chart on Financing Concessions and States using Them

Financing Concess.	AC	AL	AM	AP	BA	CE	DF	ES	GO	MA	MT	MS	MG	PA	PB	PE	PI	PR	RJ	RN	RS	RO	RR	SC	SP	SE	TO
(1)																											
(2)																											
(3)																											
(4)																											

Notes: ICMS: Merchandise and Services Circulation Tax
Refer to Annex III for Abbreviations of the States of Brazil

Source: CNI (1994).

iii) Incentives for Infrastructure

State development enterprises and other governmental agencies administrate industrial areas, poles and parks providing support to:

- (1) Sale of lots and industrial sheds at reduced prices
- (2) Rent of lots and industrial sheds for undetermined terms
- (3) Exchange of plots for enterprises relocation
- (4) Rent of machinery and equipment
- (5) Donation of areas and industrial lots, depending on the nature and manual labor absorption of the project

Chart on Incentives for Infrastructure and States using Them

Incent. Infrastr	AC	AL	AM	AP	BA	CE	DF	ES	GO	MA	MT	MS	MG	PA	PB	PE	PI	PR	RJ	RN	RS	RO	RR	SC	SP	SE	TO
(1)																											
(2)																											
(3)																											
(4)																											
(5)																											

Notes: ICMS: Merchandise and Services Circulation Tax
Refer to Annex III for Abbreviations of the States of Brazil

Source: CNI (1994).

iv) Other Incentives

Some States adopt other incentives aiming at:

- (1) Simplifying the enterprises registration process
- (2) Simplifying the bid process, easing the access to small enterprises
- (3) Providing technical assistance in the designing of projects
- (4) Human resources formation and training programs

Chart on Other Incentives and States using Them

Other Incent.	AC	AL	AM	AP	BA	CE	DF	ES	GO	MA	MT	MS	MG	PA	PB	PE	PI	PR	RJ	RN	RS	RO	RR	SC	SP	SE	TO
(1)																											
(2)																											
(3)																											
(4)																											

Notes: ICMS: Merchandise and Services Circulation Tax
Refer to Annex III for Abbreviations of the States of Brazil

Source: CNI (1994).

B. Industrial Support Policies and Institutions in the Southern States

The following is a summary of some of the State industrial support policies in the five States of the South of Brazil: Parana, Rio de Janeiro, Rio Grande do Sul, Sao Paulo and Santa Catarina. Institutions providing support to MSMEs are included for each of these States. The gathered information is not exhaustive and provides a partial notion of the wide institutional range existing in each State. For further information on these institutions, refer to the Annex of Institution Addresses.

• Parana

a) State Policies

i) Fiscal Benefits

The Bom Emprego Fiscal Program establishes the payment of part of the ICMS²⁷ in differentiated terms under certain conditions, namely:

- according to the municipality where they are located, the industrial establishments obtain payment terms of part of the ICMS (which may range from 40% to 80%) for periods of up to three years with a grace period of up to three years;
- industrial establishments with a minimum of 50% of its manufacture production having no similar one in the State may defer the incremental ICMS payment by 36 months with up to 36 months of grace period;
- industrial establishments belonging to the mechanical, transportation material, electric and telecommunication material group may receive a bonus of 12 to 24 months, if they acquire, at least, between 40% and 60% of parts and particles produced by manufacturers of the Parana State.

ii) Financial Concessions

The *Bom Emprego Industrial Urbano* and *Bom Emprego Agro Industrial* programs offer financial incentives for micro and small enterprises.

²⁷ ICMS: Merchandise Tax.

Bom Emprego Industrial Program

Objective	Financing the introduction, expansion and updating of industrial micro and small enterprises
Modality	Financial support for working capital and investments up to 80% of the project value
Terms	Working capital: 15 months with 3 months of grace Investments: Up to 5 years, including 2 years of grace
Guarantees	Real

Bom Emprego Agro Industrial Program

Objective	Financing the introduction, expansion and updating of industrial micro and small enterprises processing raw agriculture material
Modality	Financial support for working capital and investments up to 80% of the project value
Terms	Working capital: 15 months with 3 months of grace Investments: Up to 5 years, including 2 years of grace
Guarantees	Real

- **Rio de Janeiro**

a) State Policies

i) Fiscal Benefits

- Special terms of up to 5 years (with decreasing aliquot) for ICMS payments, for industries and agroindustries using innovative technology in projects which increase the productive capacity and supply the introduction or relocation of ventures in certain areas of the State;
- reduction of the ICMS aliquot in the acquisition of machinery and equipment which introduce new technology;
- differentiated treatment for micro and small industries for ICMS payment under certain conditions:

ii) Financial Concessions

BANERJ - Rio de Janeiro State Bank

Objective	Financing working capital and investment for micro and small enterprises registered in the <i>Paraiso Project</i>
Terms	Up to 18 months with a 6 months grace period
Guarantees	Real

iii) Incentives for Infrastructure

- Donation of plots under specific legal forms.

iv) Other Incentives

- Simplification of bid requirements
- Entrepreneurial formation courses
- Assignment of 30% of Governmental purchases to micro and small enterprises
- Promotion of business and events for opening new markets to micro and small enterprises.

b) Institutions

- SEBRAE-RJ (Rio de Janeiro State's Brazilian Support Service to MSMEs)

The SEBRAE-RJ has a series of sectoral or multisectoral programs which are mostly created, developed and diffused thorough a joint work with a wide network of excellence entities and centers located in the State of Rio de Janeiro.

SEBRAE-RJ support programs and activities are diffused by a Teleassistance Central Office and by a network of information windows (*balcoes*). These *balcoes* total 108 and cover all State municipalities. They were established through a regime of association with entrepreneurial representative entities and, in many cases, they function in Commercial, Industrial and Agriculture Associations. The network of SEBRAE's information windows has the function of stimulating the entrepreneurs with the purpose of promoting SEBRAE's services and programs, and identify local demands and necessities. Simultaneously, it seeks to encourage its local partners, boosting the development of projects.

Its main activity and program lines may be summarized as follows:

i) Enterprises creation. It offers training such as entrepreneurial initiation courses, publications and events (i.e. fairs and regional meetings with entrepreneurs and enterprising people). SEBRAE has a program related to enterprises incubators and provides technological consulting services.

ii) Entrepreneurial Development. It provides entrepreneurial management, information, energy preservation, total quality, productivity and rural production industrialization training.

iii) Business Promotion. It has a data base with national and international supplies and demands which form part of a business exchange.

iv) Financing Support. It provides information on loan lines available for micro and small enterprises, supplied by financing institutions such as the Banco do Brasil, CEF, and FINEP.

v) Information. The data bases of SEBRAE's information windows comprise areas such as technical services and technological laboratories, technical norms, legislation and tax payment, consumer defense code, loan lines and others.

vi) Simplification and deregulation. Together with municipal and State agencies, it develops actions to simplify bureaucratic demands through a differentiated legislation for micro and small enterprises.

Taking into account the importance of the MERCOSUR and the commercial relationships and entrepreneurial cooperation with Argentina, SEBRAE-RJ -with the support of other Brazilian institutions- has established the RIO TRADE CENTER in Buenos Aires. Through this Office, it has organized commercial missions and sectoral and multisectoral business rounds, with the participation of entrepreneurs from the State of Rio de Janeiro which meet Argentine entrepreneurs to promote business and entrepreneurial cooperation²⁸. SEBRAE-RJ has organized the MERCOTRADE - First MERCOSUR's Business Entrepreneurial Meeting in October 1994, with the participation of 1200 entrepreneurs.

- FLUPEME - Micro, Small and Medium Enterprises *Fluminense* Federation

This is an entrepreneurial representative institution. Its objective is to promote MSMEs activities and promote their sales. The FLUPEME provides legal, fiscal and technical consulting services. It produces publications which it diffuses among associate enterprises and promotes the organization of multisectoral fairs such as RIO NEGOCIOS.

- IEI - Institute of Industrial Economy, Federal University of Rio de Janeiro

It carries out competitiveness studies on micro and small industries through the development of a series of indicators. It has an agreement with SEBRAE.

²⁸ In the first three business rounds held in 1993, 60 Brazilian enterprises participated. They interviewed 550 Argentine entrepreneurs (Ferraro and Gatto, CEPAL 1994). In 1994 there were ten business rounds in Argentina, in which participated more than 80 Brazilian enterprises, which conducted more than 1000 interviews with Argentine entrepreneurs.

• **Rio Grande do Sul**

a) State Policies

i) Financial Concessions

FUNDOPEM - Enterprise Operation Fund

Objective	Stimulating the introduction and expansion of industrial projects
Modality	With part of the ICMS payment, it finances the implementation of projects or current account loans for projects carried out with owned resources or share subscription
Limits	Up to 60%
Terms	8 years
Guarantees	Real

FUNGAPEM - Small Enterprises Guarantee Fund

Objective	Supplementing guarantees for loans of development banks
Beneficiaries	Small enterprises
Limits and Terms	Depending on the project
Guarantees	Bonds and directors' endorsement

PROPLAST - Rio Grande do Sul State Program for the Development of the Petrochemical and Chemical Product Transformation Industry

Objective	Stimulating the introduction of industrial projects in the petrochemical and chemical sector
Modality	Assisting the financing amortization with the return of part of the ICMS contracted for the implementation of the project

Beneficiaries	New industries establishing in the State petrochemical pole Enterprises belonging to the sector using raw material from the petrochemical pole and chemical industries of the State
Limits	Up to 50% of the investment
Terms	Up to 8 years

PRIN/RS - Industrial Recovery Program

Objective	Reducing the idle capacity of the State industry
Modality	Financing investment with a return of up to 75% of the ICMS
Terms	1 year
Guarantees	Depending on the project

ii) Incentives for Infrastructure

The PROEDI - State Industrial Development Program sells land plots belonging to the State or other Administration agencies at reduced prices.

The SEADAP - State Productive Activities Action and Development System sharply reduces (90%) the price of the area at industrial parks in Bage, Rio Grande and Santa Maria and concedes a payment term of up to 12 months.

iii) Other Incentives

State Government directs resources and support tools to the updating, diversification, expansion and establishment of productive activities in some State regions.

b) Institutions

• Trade Point

The Trade Point is a non-profitable organism merging public and private initiative with the objective of promoting the commercialization of goods and services at international level.

It is oriented towards small, medium and large enterprises interested in foreign trade and provides services in: a) consulting services on foreign trade; b) opportunities and businesses exchange; c) market research and d) events, missions and business rounds.

- **SEBRAE-RS (Rio Grande Do Sul State's Brazilian Support Service to MSMEs)**

The SEBRAE-RS provides services to micro and small enterprises through its network of 16 regional office distributed throughout the State. It has a structure of approximately 150 officials who, together the associated institutions, offer a series of support programs and services. Their major activity areas are related to information, consulting services, financial lines, technology, suppliers training, enterprises incubators, events, business rounds and missions.

In the area of technological development, through agreements with universities, technological center, trade unions and national industrial and rural apprenticeship services, and entrepreneurial associations, SEBRAE-RS provides technological consulting services to enterprises belonging to different sectors (for example: leather products and footwear). It supplies Total Quality Training courses and consulting services on certification according to ISO norms.

The program of training of suppliers has reached 17 agreements, through which approximately 750 enterprises belonging to the footwear, refrigerating, furniture and metalmechanic sector.

The SEBRAE-RS organizes on a periodic basis the MERCOPAR Fair of spare parts and particles for the industry with a strong participation of autoparts and metalmechanic enterprises. With the increasing importance of trade with Argentina and the MERCOSUR, the SEBRAE-RS has designated a representative in Argentina.

- **IETEC - Technological Entrepreneurial Incubator**

The IETEC aims at supporting innovative projects developed by micro and small enterprises of technological base. Through agreements with academic institutions, technological centers, the municipality, the SEBRAE-RS and the State support bank it seeks to create the conditions and boost the creation of enterprises, supplying services and physical space for new firms.

- **CIENTEC - Science and Technology Foundation**

The CIENTEC of the State Secretariat of Science and Technology aims at offering the entrepreneurs its structure and technological know-how to contribute to industry updating.

Its objective is to promote technological innovation in processes and products. It conducts analysis for the identification of new technological opportunities and industrial investments and offers specialized technological assistance.

The CIENTEC carries out activities such as analysis and tests, consulting services, research and studies, process development, material review, machinery and equipment development. Its activity sectors are related to the areas of civil building, mineral, engineering, chemistry, electronic, food and metalmechanic.

- SEDES - Secretariat of Economic and Social Development

Public agency providing consulting services to entrepreneurial institutions to improve their organization systems through entrepreneurial qualification training.

- **Sao Paulo²⁹**

a) State Policies

i) Fiscal Benefits

Prorogation of the ICMS payment term for small industries.

ii) Financial concessions

Sao Paulo State Development Program

Objective	Supporting the introduction and expansion of productive capacity
Modality	Financing based on the ICMS value through a State investment fund. It is oriented at industry in general, with limits of up to 40% and 50% of the ICMS payment according to the location of the project, in Great Sao Paulo or outside it.
Terms	Up to 3 years
Guarantees	Up to date ICMS payment

BANESPA-Franchising Franchising Support Program

Objective	Supporting financially the establishment and expansion of enterprises
Modality	Financing franchising, investment and working capital. For legal individuals with franchising projects. It finances up to 80% of the project value.
Terms	4 years, including 1 year of grace
Guarantees	Real, minimum of 160% of the loan value

²⁹ For the State of Sao Paulo, Massei W. (1989) made a detailed analysis of MSMEs support policies and programs during the 1970-1986 period, unluckily that study was not updated.

State Scientific and Technological Fund

Objective	Industrial scientific and technological development
Modality	Research, scientific analysis, know-how transference, human resources formation and finishing, technological training and entrepreneurial management updating.
Limits and Terms	There are lines for micro and small enterprises with up to 90% and 80% of the project value and terms of up to 10 years including 3 of grace

iii) Incentives for Infrastructure

Some municipalities sell areas and industrial lots at reduced prices and in installments. Others donate land plots and provide free services of infrastructure. In some cases, they grant exemption of municipal taxes for 10 years.

b) Institutions

• FIESP - Sao Paulo State Industry Federation

The FIESP represents the industrial entrepreneurs of the State of Sao Paulo. The weight of this State in the economic development of the country, together with its institutional history, makes this entrepreneurial organism important also at national level.

The FIESP is consulted during the meetings of the Group of Seven on Industrial Policy at the MERCOSUR's Common Market Group.

It has created the DEMPI - Department of the Micro, Small and Medium Industry- with the objective of supporting the development of that sector of firms in the State of Sao Paulo. It contributes to the growth of their quality and productivity, through the diffusion of entrepreneurial management methods and modern technological, administrative and operational processes.

For that purpose, the DEMPI develops activities on:

- a) training, supplying courses and seminars;
- b) consulting services and entrepreneurial diagnosis for addressing firms's operational and technical problems;

c) diffusion of information on business development through data bases containing from specialized consultants to project analysis, sectoral activities development, partners search, entrepreneurial profile setting, etc.

In order to support the generation of new projects, the DEMPI has created the Nuclei of Entrepreneurial Initiation, which provides technical and managerial support to new enterprises. These nuclei, called Enterprises Incubators or Incubator Project, supply assistance for the conception, development and consolidation of new enterprises both at training and at technical and managerial support level.

- SEBRAE-SP (Sao Paulo State's Brazilian Support Service to MSMEs)

The SEBRAE-SP has a network of 17 regional offices distributed in the approximately 500 municipalities of that State from where it meets the information and services demands of SMEs.³⁰

Its major action lines are articulated in the following areas:

1) Education. In this area it develops training activities both of entrepreneurial management methods and on subjects related to the incorporation and handling of new technologies.

2) Entrepreneurial Business. It aims at drawing nearer business opportunities for enterprises. For that purpose, SEBRAE-SP has created a subcontracting and business exchange that has already 20,000 enterprises recorded.

This area promotes the holding of events of entrepreneurial interest, business rounds, meeting and commercial missions. Some of them have national and international scope and SEBRAE supplies a subsidy for the participation of entrepreneurs. With the advance of the MERCOSUR's integration process, SEBRAE-SP has designated a representative in Argentina through whom commercial missions of Argentine enterprises to the State of Sao Paulo were organized, and entrepreneurs from that State visited enterprises in Argentina.

3) Useful information to SMEs through an entrepreneurial assistance service. The "windows" of SEBRAE are the entrance to the system. From that first contact, the entrepreneur gets acquainted with the different areas and services supplied by the

³⁰ The SEBRAE-SP has an structure of approximately 300 employees and its work modality is the subcontracting of services and sites for different activities. Sometimes it does so through agreements and association with local entrepreneurial institutions (Commerce and Industry chambers, entrepreneurial associations, etc.), Municipalities, banks, universities, etc.

SEBRAE, from requirements to create an enterprise to information on financial lines or consulting services.

The technological consulting services directed towards the diffusion of new technologies and improvements have the SEBRAETEC Program. It finances the first two hours of consulting service and, later on, has a decreasing subsidy.

Together with the ABNT (Brazilian Technical Standards Association), the SEBRAE-SP conducted activities for the introduction of the ISO 9000 standards.³¹ Based on the suppliers policy of some large enterprises, the SEBRAE -and other institutions- has developed a suppliers training program³² organized in groups of 15 enterprises and up to 99 employees.

Recently, a service called Disque Licitacion (Dial Bid) has been created. By means of an agreement reached with the different municipalities, it provides, through a telephone call, information on bids classified by items, to facilitate the access of MSMEs to these business opportunities.

³¹ In 1993, approximately 500 enterprises participated in this program.

³² This program has been developed for suppliers of Antartica, Autolatina and Rhodia, and also for the Commercial Sector of Credicard.

- **Santa Catarina**

- i) **Financial Concessions**

- **PRODEC - Santa Catarina's Entrepreneurial Development Program**

Objective	Stimulating the socio-economic development of Santa Catarina
Modality	Financial support for the purchase of private industrial enterprises' shares and titles, up to 50% of the investment.
Terms	Up to 10 years, including 5 years of grace
Guarantees	Real

- **PROMIC - Santa Catarina's Industrial Updating Program**

Objective	Stimulating the industrial introduction and expansion
Modality	Financing for investments, share subscription, supplementary guarantees, and machinery and equipment import for industrial enterprises of some regions and municipalities
Terms	Up to 14 years, including 7 of grace
Guarantees	Real

- ii) **Incentives for Infrastructure**

Donation of land plots in some internal region municipality with definite possession as from the 2nd to 5th year of the project's introduction, depending on the municipality.

- iii) **Other Incentives**

Some municipalities lend machinery and equipment, manual labor and supply services such as electricity, telephone, water and industrial warehouses.

A N N E X E S

ANNEX I

Brazil's Industrialization Efforts and SME's Policies

Period	Identification	Main Objectives	Comments
1952	BNDE National Economic Development Bank	Initially oriented to channeling resources for infrastructure	Afterwards it acquire a fundamental role in the development of basic industries and the diversification of transformation industries
1953	PETROBRAS	Creation of a firm for the development of oil refinery, production and prospection activities	
1956-1960	Target Plan Intensive Industrialization Period	Development of basic industries (steel, petro-chemicals and mining) as well as infrastructure.	At the same time, the import substitution of capital goods promoted the initiation of the automobile industry with great influence in Brazil's industrial structure. With the introduction of the auto industry, a new type of small enterprise was born, that supported the autoassemblers as suppliers of parts and components.
1960	GEAMPE Executive Group of Assistance for SME's	Working papers included ideas such as study of SME's, the diffusion of modern management methods and the training of diagnostic experts.	It was the first significant approach to SMEs. This plan never materialized.
1963-1967	Recessive crisis and institutional reorganization of industrial policy		
1964	CDI Industrial Development Council	Designing the industrial policy for the country and administrating the industrial incentives	
1964	BNDE-FINAME	A special fund for the purchase of domestic machinery and equipment helped SMEs as well as LE to finance fixed capital expenditures.	
1965	BNDE-FIPEME Fund for SME Credit	They provided fund for fixed assets purchases.	The first loan designated specifically for SME's.

Period	Identification	Main Objectives	Comments
1966-1968	SUDENE Northeast Development Superintendency	In collaboration with the BNB Banco del Nordeste de Brasil (Bank of the Northeast of Brazil) set up a network of NAI's Nucleos de Asistencia Industrial (Nuclei for Industrial Assistance). The purpose was to diffuse management technology through the North East of Brazil.	
1967	CACEX Foreign Trade Portfolio	Organism of the Banco do Brasil, responsible for administrating the foreign trade.	
1967	PED Strategic Development Program	It expresses the need and advantages of a small enterprises' promotion policy	It supports encouraging SMEs growth. The program is considered as paternalistic and poorly articulated.
1968	A period of subsidy to industrial capital formation and supplementing industrial infrastructure starts.		
The Seventy's: The Golden Age for SME's as for SME policies are concerned			
1970	Document from the President on "Goals and Basis for Governmental Action"	It recommends the support to SMEs and the action in areas of lesser impact on scale economies as a tool for the democratization of wealth.	
1970	Banco de Brasil Resolution 130	Creating better conditions for the formation of working capital	Commercial banks must supply loan lines to SMEs based on part of the deposit.
1972	CEBRAE Brazilian Management Support Center for SME's	Management training and consulting.	Its branches were gradually extended to other areas of the country.
1972-1974	I PND - First National Development Plan	Among other proposals, it supported the maintainance of loan <u>fajas</u> to assist the SMEs' necessities ensuring their economic feasibility and competitiveness.	

Period	Identification	Main Objectives	Comments
1975-1979	II PND-II National Development Plan	Completing the industrial structure and creating exports capacity. New stage of public and private investment on base industry, capital goods and infrastructure	The Plan explicitly outlined the development of SME through the strengthening of CEBRAE and the expansion of BNDE financing. Two important instruments were designed when CEBRAE was reinforced: 1) subcontracting exchange services (bolsa system) between SME's and LE's; 2) export consortium to assist SME's with exports.
1976	Banco do Brasil	Resolution 388/76 of the Banco Central. In finance Banco do Brasil was forced to lend at least 12% of its demand deposits to SME's.	
1977	PROGIRO The Special Program of Support to Brazilian SME's	Initiated by CEF (Caja Ec East region.	
1979	National De-bureaucratiza-tion Program	Reducing, in the sphere of the Public Administration, the excess of bureaucratic demands and fiscal charges posed on small enterprises	
1979	PRONAEX National Small and Medium Exporting Enterprises Support Program	Promoting MSEs exports	
1979	I Brazilian SMEs Congress	In this ocassion, the insufficiency and high cost of loans was remarked	
The Eighties': Industrial development planning was abandoned			
	Most Brazil industrialization plans were either abandoned or dropped. The 2nd oil shock, the external debt crisis plus succeeding heterodox-type stabilisation policies created a vulnerable economy. SMEs were seriously affected by the credit crunch and recession.		
1980	III PND III National Development Plan	Specific support measures for micro enterprises	Technical support <u>generalcy crediticio</u> with differentiated terms and interests on the part of State development banks. The available volumes were insufficient given the national range of the program

Period	Identification	Main Objectives	Comments
1984	Law Nº 7256: The Micro Enterprise Statute	Facing increases of informal sector activity se impulsan medidas simplificadoras y diferenciadas para micro empresas en lo que hace a condiciones de registro, credito, ogligaciones fiscales y laborales.	The paternalistic nature of the statute was criticized.
1985	I PND-NR First National Development Plan of the New Republic	It stated that the role of SMEs was to be as follows: a) complementary to LEs; b) for strenghtening brasilians firms; c) contributing to regional development.	The weak foundation of the Sarney administration coupled with scarcity of founds.
1988	Constitution included two articles on micro enterprises.		
The Ninety's: The emphasis is on quality and productivity with collaboration from all related institutions particularly SEBRAE and the restructured BNDES System, Finep and Bank of BRAZIL. ¹			
1990	SEBRAE Brazilian Support Service for SME's		
1990	PICE Industrial and Foreign Trade Policy	Stressed international competitiveness and quality/productivity in industrialisation policies.	The role of SME as supporting or complementary industries was once again accentuated.

¹ The policy direction was established in such a fashion that a sudden change in the Brazilian presidency or a similar major event will not alter its course.

ANNEX II

Addresses of Institutions which Support SMEs

1. Institutions supporting SMEs at National level

Ministry of Industry, Commerce and Tourism
Secretariat of Industrial Policy
Micro, Small and Medium Enterprises Coordination Office
Esplanada dos Ministerios
Bloco J - 5 Andar
CEP 70056-900 Brasilia DF
Telephone (61) 325 2103; Fax 325-2094

Banco do Brasil
SBS Edificio Sede I - 11 Andar
70070-100 Brasilia DF
Ph. (61) 310-3250. Fax 225-6490

BNDES - National Bank for Economic and Social Development
Av. República do Chile 100
2002-970 Rio de Janeiro - RJ
Ph. (21) 277 7447/7152. Fax 533-0866

FINEP - Projects and Studies Financing Agency
Praia do Flamengo 200
22212-030 Brasil
Ph. (21) 276-0330. Fax 276-0402

CNI - National Confederation of Industries
DAMPI - Medium and Small Enterprise Assistance Department
Av. Nilo Peçanha 50 Gr 2601
24044 Rio de Janeiro RJ
Ph. (21) 532-1384; 292-7766. Fax 262-1495

SEBRAE - Brazilian Support Service to MSMEs
SEPN - Quadra 515, Loja 32, Bloco C
CEP 70770-530 Brasilia DF
Ph. (61) 348 7203; Fax 349 3839

SEBRAE RJ Rio de Janeiro - Brazilian Support Service to MSMEs
Av. Calógeras 15/ Andar 6-9
Castelo - Centro
Rio de Janeiro 20030-070 RJ
Telefone (21) 210 2163 Fax 262 1316

Representation of SEBRAE RJ in Argentina:

RIO TRADE CENTER
Corrientes 222 piso 7
Buenos Aires
Telefax (54-1) 312 3618; 313 0257

FLUPEME

Rua G. Argolo 60 - Sao Cristovao
Rio de Janeiro
Tel (21) 580 5390

Industrial Economy Institute (IEI) Federal University of Rio de Janeiro

Av. Pasteur 250
22.290 Rio de Janeiro RJ
tel (21) 295 4295

Federação das Indústrias do Estado do Rio do Janeiro

Av. Graça Aranha, no 01
20020-070 - Rio de Janeiro - RJ
Tel.: (021) 292 3939
Fax: (021) 21 296

Serviço de Apoio às Micro e Pequenas Empresas-Sebrae/RJ

Rua Santa Luzia, 685 - 7o andar
20030-040-Rio de Janeiro - RJ
Tel.: (021) 210 2175
Fax: (021) 262 1316

Secretaria da Fazenda

Rua da Alfâbdega, 42
20070-000-Rio de Janeiro - RJ
Tel.: (021) 296 3993
Fax: (021) 233 2566

Banco do Estado do Rio de Janeiro - Banerj

Av Nilo Peçanha, 175
20020-100 - Rio de Janeiro - RJ
Tel. : (021) 224 2552

Codin

Av. Nilo Peçanha, 11 - 10 andar
20010-120 - Rio de Janeiro RJ
Tel.: (021) 210 1375
Fax: (021) 262 0001

2. Institutions supporting SMEs at State level

Sao Paulo State

FIESP Sao Paulo State Industry Federation
DEMPI Departamento da Micro, Pequena y Mediana Industria.
Av. Paulista 1313 - 01311 Sao Paulo
SP BRASIL
Ph. (11) 251 3522; Fax 284 3971

SEBRAE SP

Av. Liberdade 683 - Liberdade
01503-001 Sao Paulo - SP

Ph. 242 0477; Fax 279-3698

UNIEMP Institute
Fórum Permanente das Relacoes Universidade-Empresa
Rua Conego Eugenio Leite 282
05414-000 Sao Paulo SP
Ph. (11) 881-8878; Fax 881-8838

Serviço de Apoio às Micro e Pequenas Empresas - Sebrae/SP
Rua José Getúlio, 89
01509-001 - São Paulo - SP
Tel.: (011) 236 3922/ 232 0442
Fax: (011) 239 1494

Secretaria de Ciência, Tecnologia e Desenvolvimento Econômico
Av. Rio Branco, 1.269
01205-001 - São Paulo - SP
Tel.: (011) 259 6622
Fax: (011) 239 2414

Universidade de Campinas
Cidade Universitaria Zeferino Vaz
CP 6173-13081-970 Campinas SP
(192) 35 5948; 39 3260
Fax 39 3679

Parana

FIEP - Parana State Industry Federation
Av. Candido de Abreu, 200, 6º Andar
80530-000 - Curitiba - PR
Ph. (041) 252-0767; Fax: (041) 254-8321
Telex: (041) 222 6312

SEBRAE - PR
Rua Monsenhor Celso, 256 - 11º Andar
80010-150 - Curitiba - PR
Ph. (041) 322-4749; Fax: (041) 222-6312

State Secretariat of Economy
Rua Vicent Machado, 445
80420-101 - Curitiba - PR
Ph. (041) 322-1071; Fax: (041) 252-4820

Secretaria de Estado da Indústria e Comércio, Ensino Superior,
Ciencia e Tecnologia
Rua Marechal Hermes, 751
80530-230 Curitiba - PR
Ph. (041) 254-7612; Fax: (041) 252-4820

Banco do Estado do Parana S/A - Banestado
Rua Máximo Joao Kopp, 254
82630-000 - Curitiba - PR

Ph. (041) 251-8311; (041) 251-7127

Cia. de Desenvolvimento do Paraná - Codapar
Rua Vicente Machado, 130 Apt. 203
80420-010 - Curitiba - PR
Ph. (041) 224-1406

Rio Grande

SEBRAE RS Rio Grande do Sul - Brazilian Support Service to MSMEs
Av Protasio Alves 2750
90410-006 Porto Alegre
Tel (51) 334 3866

SEDES Secretariat of Economic and Social Development
Av. Borges de Medeiros 1501` Andar 16
90110-900 Porto Alegre RS
Tel (51) 228 2980
Fax 228 6638

IETEC Technological Entrepreneurial Incubator
Osvaldo Aranha 308
Porto Alegre RS
CEP 90035-030
Telefax (51) 224 2900

CIENTEC - Foundation for Science and Technology
Rua Washington Luiz 675
CEP 90010-460 Porto Alegre RS
Tel (51) 221 4688
Fax 226 0202

Federação das Indústrias do Estado do Rio Grande do Sul - Fiergs
Av. Assis Brasil, 8,787
91140-001 - Rio Grande do Sul - RS
Tel.: (051) 334 9736 / 3866
Fax: (051)334 2728

Secretaria da Fazenda
Av. Mauá, 1.155
90030-080 - Rio Grande do Sul - RS
Tel.: (051) 224 2024 / 227 3778
Fax: (051) 227 3967

Secretaria da Indústria e Comércio
Av. Borges de Medeiros, 1.501 - 16 andar
90020-025 - Rio Grande do Sul - RS
Tel.: (051) 228 6504 / 225 9142
Fax: (051) 228 6638

Banco do Estado do Rio Grande do Sul S/A. - Banrisul
Rua Capitão Montanha, 177
90010-040 - Rio Grande do Sul - RS
Tel.: (051) 228 3956

Fax: (051) 228 4255

CEDIC

Av. Borges de Medeiros, 1.501 - 17 andar

90020-025 - Rio Grande do Sul - RS

Tel.: (051) 225 9617

Fax: (051) 228 4241

Santa Catarina

SEBRAE SC Santa Catarina - Brazilian Support Service to MSMEs

Rua Tenente Silveira 35 - Edifício Apolo - Andar 9 - Centro

88010-300 Florianópolis - SC

Tel.: (482) 224 9022

Fax: (048) 222 7569

Federação das Indústrias do Estado de Santa Catarina - Fiesc

Rodocia SC 404, km 2,7, nro. 2.765 - Itacorubi

88010-970 - Florianópolis - SC

Tel.: (048) 231 4330

Fax: (048) 234 5623

Secretaria de Estado do Planejamento e Fazenda

Rua Tenente Silveira, 60 - Centro

88010-300 - Florianópolis - SC

TEL.: (048) 224 6655

Fax: (048) 222 2831

Secretaria de Estado da Tecnologia, Energia e Meio Ambiente

Rua Tenente Silveira, 94 - 12 andar - Centro

88010-300 - Florianópolis - SC

Tel.: (048) 224 8000

Fax: (048) 223 3161

Banco de Desenvolvimento do Estado de Santa Catarina - Badesc

Av. Mauro Ramos, 1.277 - 6 andar - Centro

88020-302 - Florianópolis - SC

Tel.: (048) 224 4100

Fax: (048) 223 4981

Banco Regional de Desenvolvimento do Extremo-Sul - BRDE

Av. Hecílio Luz, 617 - Edifício Acácia - Centro

88020-000 - Florianópolis - SC

Tel.: (048) 224 7722

Fax: (048) 222 4683

ANNEX III**Abbreviations of the States**

AC	Acre
AL	Alagoas
AM	Amazonas
AP	Amapá
BA	Bahía
CE	Ceará
DF	Distrito Federal
ES	Espírito Santo
GO	Goiás
MA	Maranhao
MG	Minas Gerais
MS	Mato Grosso do Sul
MT	Mato Grosso
PA	Pará
PB	Paraíba
PE	Pernambuco
PI	Piauí
PR	Paraná
RJ	Río de Janeiro
RN	Río Grande do Norte
RS	Río Grande do Sul
RO	Rondonia
RR	Roraima
SC	Santa Catarina
SE	Sergipe
SP	Sao Paulo
TO	Tocantins

ANNEX IV

Differentiated treatment for micro enterprises and SMEs definitions in Brazil

Due to the problems to establish homogeneous dimensional patterns to characterize micro, small and medium enterprises, there is not a unique, general and uniform definition for the MSMEs in the country, but a series of different criteria. This diversity responds to the geographical dimensions of the country, to the regional disparities which make possible that firms that are small in a region may be large in others, and to the criteria used depending on the necessities and objectives of the application organisms.

For instance, in order to grant financial support, the loan agencies take into account mainly the capital value, assets and invoicing. The number of employees is another criterium used to define the size of the enterprises; its advantage being that it is easy to collect and it does not need indexes. However, it may hide sectoral differences or trade off among number of employees, capital and technology in intensive-capital activities.

As basis for the number of employees, the Foundation of the Brazilian Institute of Geography and Statistics (IBGE) adopted the following classification by size of the enterprises, which was used as the basis in the last economic census held in Brazil in 1985; that is the available census information to measure the universe of enterprises in Brazil.

IBGE: Number of Employees and Size of the Enterprise

Classification	Employees
Small	0 - 99
Medium	100 - 499
Large	500 or more

The SEBRAE, using also the number of employees makes another division to distinguish micro enterprises and differentiates between industry, and commerce and services in the following way:

Classification	Industry	Commerce and Services
Micro enterprises	Up to 19	Up to 19
Small	20 - 99	10 - 49
Medium	100 - 499	50 - 99
Large	more than 500	more than 100

The Law 7.256 dated November 11 1994, was a pioneer regarding the differentiated treatment to micro enterprises. According to the mentioned law there must be a "differentiated, simplified and favorable treatment in the administrative, fiscal, social, labor, loan and entrepreneurial development areas." (SEBRAE, 1995)

The Law 7.256 defined as micro enterprise the legal individual or individual firms with a gross annual revenue equal or inferior to 10.000 ORTN (National Treasury Readjustable Obligations). This limit was modified by Law 8.383 (1991) the increase it to 96.000 UFIR.²

It should be noted that some states fixed a lower limit and others differentiate among micro enterprises belonging to the service and commerce sector. Thus, the adoption is not uniform, and so is the way of calculating the annual income.

With the constitutional determination of providing a differentiated legal treatment to micro and small enterprises, the rules of the Article 179 of the Constitution, according to the Law Nº 8864, dated 28-3-94, defines them in this way:

Micro enterprise: legal individual or individual firm having annual gross incomes equal or inferior to the nominal value of 250.000 UFIR or any other MC index substituting it.

Small enterprise: legal individual or individual firm that, not entering the category of micro enterprises, have an annual gross income equal or inferior to 700.000 UFIR or any other MC index substituting it.

Then, the real classification by gross income measured in UFIR and expressed in its equivalent in dollars of 1-8-95 es the following:

Classification	UFIR	US\$
Micro enterprise	Up to 250.000	Up to 170.000
Small enterprise	250.000 - 700.000	170.000 - 475.000

² The UFIR is an indexer that got to change daily befor the Plan Real. At preent, its value changes quarterly and could be eliminated if the Congress passes the desindexation of the economy. As of August 1st., the UFIR was equal to R\$ 0,7564. The exchange rate of the R\$ was 0,934 dollars as of August 1st., 1995.

ANNEX V

Glossary of Abbreviations

ABIPTI	Brazilian Association of Industrial Technological Research Institutions*
ABNT	Brazilian Technical Standards Association
ADTEN	Technological Development Support Program for National Firms*
ANPEI	National Association of Research and Development*
BANESPA	Sao Paulo State Bank
BASA	Bank of Amazonia
BB	Bank of Brazil
BNB	Bank of the Northeast of Brazil
BNDES	National Bank for Economic and Social Development
CADCT	Scientific and Technological Development Support Center
CAE	Client Assistance Center*
CAPES	High Level Personnel Training Coordinator
CEF	Federal Savings Bank
CENPES	Leopoldo A. Migue de Mello-Petrobras, Research and Development Center*
CEPEL	Electrobras-Electric Energy Research Center*
CNI/DAMPI	National Confederation of Industries/Medium and Small Enterprise Assistance Department
CNPq	National Quality and Productivity Committee
CODETREC	Technological Development Company*
CPqD	Telebras-Research and Development Center*
CTI	Information Technological Center*
FAPEMIG	Foundation for Research Support of Minas Gerais State
FAPERGS	Foundation for Research Support of Rio Grande do

Sul State

FAPERJ	Foundation for Research Support of Rio de Janeiro State
FAPESP	Foundation for Research Support of Sao Paulo State
FBB	Banco do Brasil Foundation
FIESP	Sao Paulo State Industry Federation
FINEP	Projects and Studies Financing Agency
FIOCRUZ	Oswaldo Cruz Foundation*
FLUTEC	Technological Fluminense Company
FNDCT	National Fund for Scientific and Technological Development
FNE/PRODETEC	Constitutional Fund for Northeast Financing/Industrial Technological Development Support Program
FNO/CAPTE	National Fund for the Financing of the North/Technological Training Subprogram
FUNDECI	Scientific and Technological Development Fund
FUNTEC/BADESP	Scientific and Technological Development state Fund/Sao Paulo State Development Bank
IBICT	Brazilian Science and Technology Information Institute
INETI	Laboratories Network at Regional Level*
INMETRO	National Institute for Metrology, Standardization and Industrial Quality
INPI	National Institute for Industrial Property
INT	National Institute of Technology*
MCT	Ministry of Science and Technology*
PACTI	Support Program to Technical Training in Industry
PADCT	Scientific and Technological Development Support Program
PATME	Micro and Small Enterprises Technological Support Program

PBqP	Brazilian Quality and Productivity Program
PCI	Industrial Competitiveness Program
PDTA	Industrial Technological Development Program*
POR-INT	Program for Support of the University-Enterprise Integration*
PROCAP	Program of Technological Training on Deep Water Exploration System - Petrobras*
PROCATEC	Technological Development Area Program
RHAE	Program of Human Resources Training for Technological Development
SCTDE	Secretariat of Science, Technology and Economic Development of the State of Sao Paulo*
SEBRAE	Brazilian Support Service to MSMEs
SENAI	National Service for Industrial Apprenticeship
SUDENE	Superintendency for the Development of the Northeast
TECPAR	Institute of Technology of Parana*
TROPICO	Telebras-Telephone Conmutation Program

* Not mentioned in the report

ANNEX VI

Distribution of Enterprises by Size and Sector: by number of firms, income and employment (in percentage)

		Size of the Enterprises			
Sector	Share	Micro	Small	Medium	Large
Number of Enterprises					
Industry	15.0	82.85	12.77	3.82	0.46
Commerce	52.5	90.92	7.79	0.56	0.27
Services	32.5	93.56	5.42	0.48	0.44
Total	100.0	90.60	7.70	1.03	0.35
Income/Gross Production Value					
Industry ^a	57.4	5.77	17.29	41.90	33.05
Commerce ^b	37.2	29.58	42.62	12.48	14.78
Services ^b	5.4	34.36	22.12	9.86	33.22
Total	100.0	16.11	26.96	29.23	26.25
Employment					
Industry	44.0	17.88	23.69	36.61	21.82
Commerce	33.0	51.13	29.12	7.77	11.98
Services	23.0	45.49	18.09	6.03	30.39
Total	100.0	35.19	24.19	20.07	20.55

Source: SEBRAE, based on data from the IBGE Census of 1985 .

Note: For definition of firms's size, refer to SEBRAE's criterium in Annex IV.

a) Gross Production Value

b) Income

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CNI Confederacao Nacional da Indústria. *Políticas Estaduais de Apoio a Indústria*. CNI, Rio de Janeiro, 1994.

CNPQ Conselho Nacional de Desenvolvimento Científico e Tecnológico, *Fontes de Financiamento para a Capacitacao Tecnológica da Indústria*. CNPQ/IBICT; FINEP; SEBRAE; CNI/DAMPI; Brasília, 1992.

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SERE *Serviços e Estudos de Realização Empresarial Social. Instituições de apoio as micro e pequenas empresas. Perfil de atuação*. Friedrich Ebert Stiftung, Rio de Janeiro, 1993.

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