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THE BRAZILIAN EXPERIENCE - SOME CASE STUDIES ^{1/}

by

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INTRODUCTION

The cases hereby presented are not designed to cover comprehensively, either in time or space, the Brazilian programs oriented towards providing assistance to small-scale industries (S.S.I.).

In view of the meeting's specific goals, some programs were not discussed, such as financing arrangements for S.S.I. On the other hand, some programs oriented towards commercial firms were included because it was thought that the experience would be valid for industrial concerns.

Most of the cases presented refer to programs undertaken in the states of São Paulo and Guanabara. That is explained by the fact that these states possess the highest levels of industrial concentration; however, similar programs may be found in many other states in Brazil.

1 - GOVERNMENT ENCOURAGEMENT

1.1. The National Bank for Economic Development (B.N.D.E.)

is the main financial agency for the Federal Government's development policy. Organized as a public enterprise, it is BNDE's basic responsibility to meet the demand for financings on the part of private enterprises and the public sector, in order to ensure the best results for such investments, in accordance with the national development guide-lines.

Created in 1.952, B.N.D.E. is an institution specialized in promoting economic activities in the Nation by assisting priority investments for sectorial or regional development, according to selective criteria of its own. In recent years, the Bank's activities have been oriented toward the following main goals:

- furthering the economic development, with a view to stimulating the process of expansion of the national economy;

strengthening the national private sector, by stimulating and allowing the creation of the large national enterprise in the basic sectors, where the scale economy is most significant, as well as by promoting and improving the numerous group of small and medium size enterprises, in every feasible sector;

lessening the regional unbalance, by stimulating the creation of new production and accumulation centers or high significance for the regional development of the Amazon, the Northeast and the Midwestern regions, ensuring priority for initiatives centered in such locations;

promoting the joint development, through better interrelationship and integration of agricultural, industrial and service activities, having in mind that there will be a greater economic dynamism when the initiatives of such parts of the system are more compatible;

Increasing and diversifying exports, considering that it is important for a continuing development process in Brazil that the growth of the Nation's export earnings may be kept at a high annual rate and acknowledging the priority of initiatives capable of significantly contributing to such growth;

strengthening the National Development Banks System, by searching, as a leading agency in the group formed by state development banks, the improvement and strengthening of all such entities, as well as some standardization of operation methods and integration with BNDE's processes, policies and programs, in order to perfectly devise the functioning of a true national system under its leadership.

The BNDE is the main Federal Agency for development

furtherance, and operates through the following Programs:

- basic input program: (mining, steel-cast, forged and alloys, non-ferrous metalurgy, chemical and petrochemical products, fertilizers, paper pulp and paper, cement) - basic equipment production program: (capital goods on special order, other basic equipment) - infrastructure program: (railroads, waterways, ports, highways, warehouses and elevators, airports, gas (distribution), electric power, telecommunications, infrastructure of industrial districts) - basic consumption program: (food, drugs, distribution) - strengthening of the National Private Enterprise program: (modernization and reorganization of industries, financing of working capital, reinforcement of the capital of companies, financing through agents) - technological development system. (technological research, basic research, applied research without client, industry-oriented research, improvement of support technology), in developing the above-mentioned programs, BNDE makes use of the following operational methods: financing (direct or through agents), granting of guarantees (aval and security), sharing participation, underwriting, granting of guarantees to winners of international calls for bids.

1.2. Fund for the Increase of Productivity (FUNDEPRO)

In 1962, the National Economic Development Bank (BNDE) established FUNDEPRO to finance productivity increase projects within the country's industrial firms.

FUNDEPRO might finance the following types of activities.

- preliminary diagnosis as a basis for project preparation;
- preparation and implementation of manuals, administrative specifications and rules for accounting records and control, manufacture and sale;
- implementation of administrative services, referring to those required by the nationalization of management activities;
- implementation and modernization of laboratories and/or methods or processes of control and quantitative and qualitative testing of inputs and finished products;
- preparation of technical norms and specifications concerning inputs and finished products;
- implementation or upgrading of the sales and distribution arrangements, including advertising plans to describe an inform about product quality;
- implementation or modernization of maintenance and operation services, including the manpower training required;
- layout designs and studies for the introduction of new production techniques and modernization of, or additions to, machinery and equipment;
- market surveys relating to inputs and finished products;
- other related and relevant activities.

The interested company should begin by getting in touch with a consulting firm, which would prepare a productivity increase project, made up of

"... the studies, surveys, and actions necessary for identifying and eliminating bottlenecks in the country's industrial firms' operations, including a diagnosis of organizational

inefficiencies, total and/or partial organization and/or reorganization studies and programs."

The Bank received the project and asked for another private consulting firm's opinion. This consulting firm was retained for that specific function and for project follow up. This firm was not allowed to file projects for financing by the Bank.

The program was re-structured in view of difficulties in the following areas:

- adjustment of BNDE routines to the type of loan involved;
- formation of teams of analysts for that area within BNDE;
- dialogue between S.S.I. and the Bank.

The ideas that motivated the establishment of FUNDEPRO reappeared later with FMRI and CEBRAE.

1.3. Fund for Industrial modernization and Reorganization (FMRI)

The FMRI has been designed "to finance the reorganization and modernization of Brazilian industrial sectors and firms, aiming at higher efficiency levels and the consequent enhancement of the firms' competitiveness."

These activities may be financed by the FMRI:

- administrative reorganization, including expenditures with studies and the implementation of plans designed for the updating of control, information, and decision-making systems of a firm;
- the redesigning of production processes, including the civil works and the facilities and equipment required to update the production system and new product development;
- the adjustment of marketing systems, in order to provide them with the necessary pre-conditions for efficiency and aggressiveness;
- the build up of an appropriate level of working capital for

the conduction of the firm's normal operations; and
- mergers, acquisitions, combinations, or the liquidation of
companies, whenever they contribute to the achievement of the
Firm's objectives.

1.4. Brazilian Center of Managerial Assistance to Small and Medium Size Enterprises (CEBRAE)

The structure of CEBRAE, which has been based on the accumulation
of the experience of its founders, which have long been using
instruments of credit and for the protection of Small and Medium-
Sized companies, corresponds to criteria permitting an immediate
response to the policy for development and assistance to
smaller-sized companies.

CEBRAE is a system operating throughout Brazil, as a central
agency which establishes objectives and strategies for executive
entities that, in turn, through the direct action carries out
in the companies involved, collect and systematize data,
analyze sectors and provide the information needed for
continuing recycling of the process of assistance.

The field of activity involved covers the industrial, commercial
and service sectors, and the program is aimed at:

facilitating to the entrepreneur access to credit through
the following means:

- preparation of projects;
- financial advisory services;
- tie-ins between the companies and the development banks;
- following up of the application of financial resources.

- support for the entrepreneur, by making available to him the use of modern techniques, namely:
 - diagnosis, studies on location, "layout" and organization
 - accounting routines;
 - fiscal advisory services;
 - data processing;
 - recruiting, hiring, training and administration of staff.

- to provide the entrepreneur with means for obtaining better application of human resources, through basic and advanced training of:
 - executives;
 - medium-level staff members.

The instruments used by CEBRAE for the achievement of these objectives are:

- technical and managerial assistance;
- training;
- credit assistance;
- research.

2 - COLLECTIVE ACTIONS

2.1. The Institute For Technological Research (I.P.T.)

IPT is an industrial research and development institute; the Institute also acts as training center for engineers, technicians and Engineering students.

IPT started as a material testing laboratory of the " Escola Politécnica " of the University of São Paulo, becoming an autonomous institution associated with the University in 1934. Since then, IPT has been in the frontier of the Brazilian technological development.

The institute has 8 technical departments (Civil Engineering, Forest and Woods, Metallurgy, Mining and Applied Geology, Naval Architecture, Chemical Engineering and Information Research Center) and 4 support ones (Superintendency, Scientific Documentation, Administration and Accounting).

Some figures about the institute:

personnel (1.559 total) (1.221 technical), library (15.000 volumes), journal subscriptions (above 400)

2.2. National Association of Lime Producers

The increasing demand for lime complying with well defined technical standards has induced the Association of Lime Producers to establish (1975) an agreement with the IPT with regards to:

- the performance of tests and analysis of products and raw materials;
- the proposition of norms for the standardization of the use of lime in the Building, Pulp and other Industries;
- research in the field of lime production and utilization.

2.3. The National Association of Ceramic Tiles Manufacturers

The region of Mogi-Guaçu in the State of São Paulo is very rich in clay of low temperature of vitrification. This is the main reason for the high concentration of ceramic tiles manufacturers in the area.

Due to the growing number of their common problems the producers members of the National Association of Ceramic Tiles Manufacturers decided in 1972 to start a permanent research program to be carried out by IPT.

Among the several studies already completed are: testing of products of several manufacturers, pre-project of standards for tiles dimensions and quality, requirements for the installation of ceramic tiles.

3 - INDUSTRIAL ESTATES

3.1. State of Minas Gerais

The Industrial Development Company of Minas Gerais (CDI-MG) was created by the State Government em 1.971

The Industrial Districts set up by CDI-MG, in different parts of the State, have the purpose of offering industrialists ideal conditions for the location and operation of their industries, as well as that of keeping the men in the region and promoting the development of the rural parts of the region.

These Districts, representing the result of research and planning, offer the following urban services: water, sewage, electrical power, communications, collection and treatment of industrial wastes, paving, landscaping, transportation, public services (such as tax collector's offices, post-offices, health stations, professional schools, security and fire stations); and auxiliary services (the provision of areas for the installation of supporting activities for the industries: commercial center, bank agencies, restaurants, gas stations, transport companies, etc.)

CDI-MG offers as one of its services the construction of industrial buildings to meet companies specifications.

CDI-MG finances the purchase of both land and buildings and provides temporary facilities during the erection period.

CDI-MG also offers to the beneficiaries of its districts, direct and comprehensive assistance for the development of projects destined to the expansion or establishment of industries.

3.2. State of Parana

The Industrial City of Curitiba is being established with the support of the Government of the State of Paraná, through the Urbanization Company of Curitiba (URBS).

The ICC has an area of 43 square kilometers. Adequate topography, water supply, drainage facilities and favorable situation with regards to the dominant winds, helped select this site as the most indicated for the industrial sector.

But there are other advantages: Curitiba has a privileged geographical position between the States of Rio de Janeiro, São Paulo and Santa Catarina, Rio Grande do Sul, the main consumer markets in the country.

It is a big market, concentrating about 40 million consumers that hold the highest income levels in Brazil.

Curitiba is also only 90 km away from the Paranaguá Port, one of the most important in the country, equipped to operate with 45.000 ton ships and now being improved to receive 100.000 t. vessels.

It is important to point out the job stability and traditional skill of local workers.

URBS - Urbanization Company of Curitiba, responsible for the ICC undertaking, grants all the groundwork (earth movement, other needed infrastructure) and tax exemptions according to the nature and characteristics of each project.

BRBS helps towns in getting better facilities and incentives, giving businessmen adequate orientation.

The State Government in turn offers long term financial assistance for fixed investments and working capital needs, through institutions like the Banco de Desenvolvimento do Paraná S.A. - BADEP, the Banco Regional de Desenvolvimento do Extremo Sul - BRDE, Banco do Estado de Paraná (BANESTADO) and others.

2.3 State of Bahia

The Aratu Industrial Center (A.I.C.) is the first totally-planned industrial park to be built in Brazil. Which means that it will have a stable and continuous expansion.

It is located near Aratu Bay, which offers ideal conditions for the port now being constructed there.

A.I.C.'s basic aims are to offer material incentives to the industries which are being installed there, and a physical and commercial infrastructure for the use of the industrial man power.

Although only in existence for four years, it already contains 101 companies which have invested over 2,7 billion cruzeiros.

Its total area is 436 sq. km. and within the next few years it is estimated that the population will reach 1,5 million.

The Advantages A.I.C. can offer industries are: deduction of 60% of ICM (Circulation of Merchandise Tax) for five years as an incentive; asphalted road access - railway branch lines - water, sewers and electricity services - access roads from the industrial districts to the highways; efficient telecommunications system to the rest of Brazil and abroad; banks already in operation, etc.

4. - COOPERATIVES

(excerpts from COOPERATIVE COTIA - a force for development in Brazil, published by the United States Department of Agriculture, 1972)

4.1. The Agricultural Cooperative of Cotia - Central Cooperative (CAC-CC)

CAC-CC is a federated cooperative headquartered in the city and State of São Paulo. It has eight regional associations as members that operate throughout several States in Southern Brazil. Cotia was a large regional cooperative until 1966 when it was reorganized into a federation. The eight regionals were also organized at that time.

The federation is diversified and complex. It markets more than 100 commodities, provides a variety of production supplies, and performs a large number of other related services to 10,479 producer-members. Principal vegetables and fruits marketed are potatoes, tomatoes, bananas, grapes, and strawberries.

CAC-CC began in 1927 as a potato marketing cooperative. Potatoes are still one of its highest value products. Other important products marketed are eggs, broilers, peanuts and peanut products, cotton and cotton products, soybeans and soybean products, coffee and tea. The association is among the largest egg-handling cooperatives in the world. It processed and sold 1.2 million cases in 1970.

Fertilizers and mixed feeds are the most important farm supplies handled. However, it provides members with virtually all types of supplies needed in production, such as seeds and seedlings, agricultural chemicals and pesticides, veterinary products, packing materials, construction materials, petroleum products, farm implements and hardware, and a wide variety of consumer goods.

In addition to marketing and handling farm supplies, the association provides members with a number of important services needed to produce crops and poultry products - production credit, technical assistance, engineering advice and assistance in constructing farm buildings and operating farm equipment, and machinery repair.

The association operates five research farms that conduct research and produce basic stock for members - seeds and seedlings, poultry breeding stock, and hatching eggs.

Credit has been one of the most important business activities of the association and one of the greatest needs of producers. Total credit business (loans to members and deposits of members) has been almost as large as the combined total value of marketing, purchasing, and service operations. However, since 1969 the association has been unable to provide credit services because of requirements under the recent cooperative law. As a result, members have organized a separate credit cooperative.

CAC-CC had 2,054 employees in 1970. The eight regional associations had a combined total of 1,670 more employees, making a grand total of 3,724.

CAC-CC is actively engaged in exports and imports, and is one of the most experienced cooperatives in the world in agricultural foreign trade. It imported seed potatoes in 1929 and exported tomatoes in 1935. Since those early years, it has imported large quantities of seed potatoes, fertilizers, insecticides and other supplies; and has exported large volumes of bananas, coffee, cotton, peanut meal, tea, tomatoes, and other commodities.

Exports reached 17 percent of total products sold in 1970. The association has 20 sales agents or representatives in 14 foreign countries - South America, Europe, Japan, and the United States.

Members of CAC-CC have at their disposal a network of modern plants and facilities for processing, storing, and selling their

products. These include vegetable oil refineries; poultry, rice, tea, coffee, and frozen food processing plants; feed mills; fertilizer plants; hatcheries; cotton gins; wineries; warehouses, and numerous stores to receive produce and sell association products, farm supplies, and consumer goods.

The association does not own all of these facilities. Because of problems inherent in the cooperative law, inflation, and difficulties in raising capital among producers, the association was instrumental in getting a noncooperative company - CODAI (Company for Developing Agri-Industries) organized primarily to raise capital to build or invest in some of the facilities. Without this unique principle of making costly facilities available to producer-members, the association no doubt would not have been able to expand or adequately meet the growing needs of members.

Two other unique operations that have helped the association to be successful are a system of advisory committees and groups for collective transportation.

4.2. Company for Developing Agri-Industries (CODAI)

CODAI was organized in 1965. It is similar to a holding company with the primary function of raising capital to invest in its own plants and in other firms. The entire operations of CODAI, however, are to further the purpose and objectives of the CAC-CC system.

All investors of CODAI are either members or employees of the CAC-CC system. In April 1969 it had about 8,500 investors, 7,000 members and 1,500 employees. By that date CODAI had accumulated about CR\$ 5.5 million. It invested 80 percent in two large, modern vegetable oil plants and in one modern poultry processing plant. These three plants are solely owned by CODAI. The remaining 20 percent are invested in eight other commercial

firm. All of these firms do value processing or other services provided by the CAC-CC but their services are not limited to a firm.

Specialized general services offered by the right firms in which CAC-CC has investments are:

- CAC-CC - Instituto de Indústrias do Paraná - manufactures vegetable oils.
- Companhia Industrial de Matopibaiana - manufactures and distributes agricultural chemicals.
- Wine industry of large brands - produces wine.
- Rubber Farms of Brazil - improves poultry breeding stock and supplies baby chicks.
- Concordia - insurance company - serves the CAC-CC system (members and employees) as well as the general public.
- Agrofina - Reforestation and Livestock - performs reforestation and manages such farms. In Brazil any person or firm can use up to 50 percent of annual income taxes due the Government to plant or improve forests. Agrofina was organized primarily to perform and/or supervise reforestation projects and insure that most projects conducted by it would be applied to lands owned by produce members of CAC-CC.
- ICFIA - Representations, Industry and Marketing - provides many types of items to supermarkets, including products of CAC-CC that are given preference. It also has authority to build, own, buy, and operate supermarkets but as yet has not opened into full.

CAC-CC invests in these firms to insure that members of the CAC-CC system have the right to receive services offered by them at reasonable prices. For example, in years of overproduction of a certain product, noncooperatively, firms generally buy quantities only to serve their needs. But firms that CAC-CC has investments in are obligated to handle all products of CAC-CC members. Since CAC-CC is part owner, and in some instances has controlling interest, it has influence over the types, quality, and charges for services of such firms.

All products processed for CAC-CC members in such plants remain cooperative's property and are marketed by CAC-CC.

5 - MANAGERIAL TRAINING AND COUNSELLING

5. 1. Associação Comercial de São Paulo (ACSP)

The Associação Comercial de São Paulo is an entity that brings together businessmen from the commercial, industrial, agricultural and service areas.

Its main objectives are consultation with the Government and the rendering of services to its members. Among the more important of these services are legal assistance and furnishing of confidential credit information.

The Association today has a membership of 13,000, comprised for the greater part of small companies.

5. 2. The Program for Small Companies

The Program for Small Companies was begun in 1971 and includes the following subprograms:

- Seminar on International Experience in the Area of Assistance to Small Businesses (1972).
- Seminar on National Experience in the Area of Assistance to Small Businesses (1973).
- Pilot Courses for Managers of Small Businesses (1973).
- Courses for Managers of Small Businesses.

Courses for Consultants to Small Commercial Enterprises.

Making Diagnoses of Small Companies.

The last three programs are today receiving the financial support of IBRAE and are being given with the cooperation of the University of São Paulo.

5.2.1. Courses for Managers of Small Businesses.

Comprehensive courses and specific seminars are offered on a regular basis.

ACSP periodically programs seminars directed to retail merchants and their immediate assistants, taking advantage of the cooperation of its 8 district branches in the Capital and about 15) similar organizations in other cities.

These seminars are eminently practical in character, and are presented in language understandable to all participants, thus allowing immediate application of the precepts and techniques outlined therein, the sessions.

The seminars average about 8 hours each and are limited to a maximum of 20 participants.

The comprehensive course, intended for the owners and key personnel leading small and medium commercial enterprises, is designed to provide them with a basis for the rational and economical administration of their businesses through the presentation of systematic concepts and techniques

of planning, organization, management and control of the various areas or aspects of company activities.

Extending over a period of 61 lecture hours, the Course covers the administrative areas of Accounting, Inventories, Sales and Personnel, as well as giving specific treatment to General Management Principles, Company Management, Cost Reduction and Sources of Financing for the Commercial Area.

6.2.2. Courses for Training of Consultants to Small Commercial Enterprises

This course aims to train its participants for the performance of a consulting function in Small and Medium Commercial Enterprises, to develop them a consciousness of the role of the Consultant as an agent of change, both in the creation of operational standards and in the modification of the behavior of the businessman himself, and to show the participants how they can transmit the lessons they have learned and produce scientific solutions for specific problems.

The course is open to graduates in Business Management, Economics, Accounting or Engineering.

Of the 200 hours (17 weeks) covered by the course, about 100 hours are devoted to practical activities, divided in turn into 150 hours on simulated problems (laboratory) and 150 hours of field work with active companies.

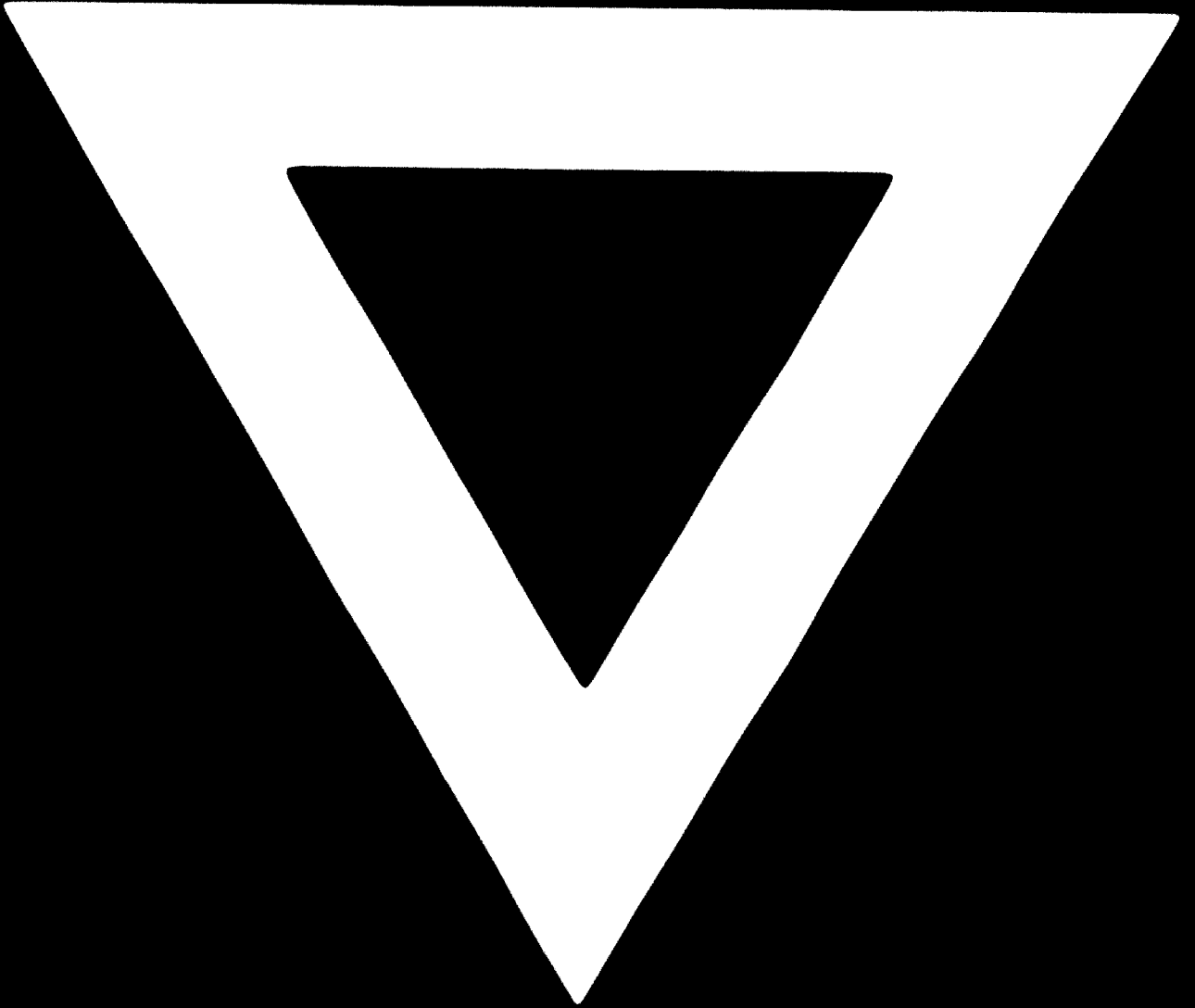
5.2.3. Direct Assistance

The program has the aid of a team of consultants who carry out diagnoses of the administration of small commercial enterprises.

The execution of each study requires about 150 hours of technical work, the cost of which is partially paid for by the beneficiary and is partly defrayed by CEBRAF subsidies.

Students taking the consultant's course participate in these activities under the direction of experienced professionals.





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