



Small Business

The Case of Brazil

By Lyal White

Series editor: Elizabeth Sidiropoulos

**The South African Institute
of International Affairs**

Global Best Practice

**Small Business
The Case of Brazil**

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Elizabeth Sidiropoulos
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Introduction

In January 2005 a national initiative to drive the development of a shared assessment standard (one of whose aims was to boost procurement from small business) was launched in South Africa by Ernst & Young, one of a number of cross-industry players involved in the conceptualisation of the Lumus project. The project provides various buyer organisations with information on supplier performance measured by the quality of total supply chain. The better assessed the chain of companies under the umbrella of a 'multinational', the more likely the supplier is to be outsourced by a global community buyer. By capturing the requirements of the various buyer organisations on its knowledge base, Lumus also provides the supplier with the ability to identify gaps and enables the subsequent mobilisation of consulting and development organisations around these requirements. The benefits include improved supply chain management, reduction of risk and, in step with the priorities of the South African government, the development of black economic empowerment (BEE) suppliers. The project's greater value though is in how it opens up market opportunities for the supplier, the product of which is credited not only to the big company but also to the hundreds of small, medium and micro enterprises (SMMEs) that constitute the total supply chain. The result is, as Lumus Project leader Herman Potgieter writes, 'not a single initiative trying to fight for critical mass against everyone else, but a platform that gives South African industries the opportunity to drive global competitiveness and sustainability on a collaborative basis'.¹

In this study of the Global Best Practice series, Lyal White explains the need for 'government involvement' in 'helping the SMME sector to evolve'. 'The Brazilian model', he writes, 'illustrates the importance of developing a healthy partnership between the government and the

¹ Ernst & Young, *Supplier performance as a national competitive strength*, 25 January 2005; http://www.ey.com/global/Content.nsf/South_Africa/25_Jan_05_Supplier_performan ce_as_a_national_competitive_strength.

private sector'. The creation of SEBRAE in Brazil is used by White to illustrate how the Brazilian government helped bring small business into the mainstream by fostering a 'self-help' attitude in entrepreneurs. Rather than providing finances, the Brazilian government set up SEBRAE to offer logistical support in four primary areas of operation: training, credit and capital, entrepreneurial culture and local and sectoral development. This flew in the face of initiatives using finance as a medium for enterprise, the practice in most developing countries.

The problem of limited access to loan finance has been identified repeatedly by developing country governments as the top impediment to business. However, this emphasis distorts the picture. Jako Volschenk, researcher at the Africa Centre for Investment Analysis, makes the point that while attracting finance *is* a major obstacle for SMMEs in Africa, 'the biggest challenge for SMMEs in Africa is actually markets'.² Project initiatives like Lumus provide markets. By establishing 'smart partnerships'³ a government can assimilate these projects into a national SMME policy, retaining ownership while contracting out the private sector to address two of the bigger impediments to the success of SMMEs in Africa: poor infrastructure and scanty regulation of the enterprise market. More often than not though, writes White, developing countries 'lack a decisive strategy for SMME development'. This is often a very significant constraint.

Similarly, South Africa's floundering on an SMME strategy has unnecessarily stratified its enterprise support services. Rather than serving to create wealth, support for entrepreneurs has been used as a vehicle for state-led relief. The problem is essentially one of definition. Part of the success of the SMME strategy in Brazil was that it both defined and categorised its SMMEs. In characterising what exactly constitutes small business — specific of course to Brazil — the government was better equipped to develop SEBRAE. South Africa still

² See Volschenk in Benton, *S. Africa's top 5 SMMEs*, 26 November 2004; <http://www.businessinafrica.net/economy/393580.htm>.

³ Bernstein A & S Johnston, 'State fails enterprise challenge', *Business Day*, 12 July 2004; <http://www.businessday.co.za/>.

needs to define the parameters of SMMEs operating in the country. Whether or not it succeeds will depend on whether the SMME development strategy of the Department of Trade and Industry is approved, a decision still pending after a presentation to the cabinet on 21 September 2005. The objectives are broad: creating partnerships with the private sector; streamlining the regulatory framework; rationalising support structures; determining what precisely an 'enabling environment' is; improving business and technical skills, and, of course, education. The specifics deal mostly with the logistics of implementation, i.e., how best to make business development service providers more efficient and less likely to fold.⁴

Should the strategy get the go-ahead, it will revamp SMME incentive programmes and have the roles of state-owned 'development agencies' re-defined. Presently, the Small Enterprise Development Agency (Seda), the product of the incorporation of small business support institutions,⁵ is one of five public agencies in South Africa to provide non-financial, business advisory services to SMMEs.⁶ The other four are finance-centred, the inverse of SEBRAE in Brazil. The National Empowerment Fund Trust (NEF) was established in 1998 for the purposes of promoting and facilitating economic equality and transformation. In 2003 it reformulated its objectives to line up with the government 'formalisation' of BEE transformation across industry sectors.⁷ The Industrial Development Corporation (IDC) is a self-financing, national development finance institution (DFI) that was established in 1940 to promote economic growth and industrial development in South Africa. Though its mandate has expanded, the development of South African SMEs remains one of the IDCs primary objectives.⁸ Khula Enterprise is a wholesale finance institution

⁴ Northern Cape Provincial Growth and Development Strategy 2004-2014, *SMME Development Strategy*; <http://www.northern-cape.gov.za/ncpgds/smme/>.

⁵ Ntsika Enterprise Promotion Agency and the Namac Trust.

⁶ Ntingi A, 'SMME reform in cabinet's hands', *Business Report*, 21 September 2005; <http://www.busrep.co.za/>.

⁷ National Empowerment Fund, *Introduction*, <http://www.nefcorp.co.za/>.

⁸ IDC, *An Overview of the IDC*, <http://www.idc.co.za/>.

established in 1996 to facilitate access to finance through various delivery channels. These include commercial banks, retail financial intermediaries (RFIs) and micro credit outlets (MCOs).⁹ Finally, there is the SA Micro-Finance Apex Fund (Samaf); The Fund was established in 2004 to provide sustained affordable access to financial services for the poor and/or survivalists. It has only been operating since May 2005 but has already set up pro-poor micro-finance institutions in all nine provinces.¹⁰ A fund established almost exclusively for survivalists is the outcome of a DTI initiative to 'legislate' the distinction between businesses.

A clearer definition of a small or medium business helps governments distinguish between SMMEs that are 'survivalist' versus those that have been 'commercialised'. The distinction is vital but in South Africa confused. The *welfare* objective of supporting income generation in the survivalist sector is sometimes muddled with the *economic* objective of small business promotion. By 'graduating' survivalist sectors, the government assumed it was promoting small business while concurrently tackling poverty. But substantive graduation can only be sustainable when survivalists hope to be entrepreneurs, not perceiving their involvement in the survivalist sector as a stop-gap measure until they find formal employment. Only a handful of the vast majority of survivalists are equipped with the skill required to sustain a business. The DTI's SMME development strategy recognises the distinction: to differentiate between survivalist and formal small businesses, the DTI is working on a separate strategy for each category.

There are two ways of dealing with survivalists. South Africa's Community Public-Private Partnerships (CPPP) programme is one way of tackling the problem. The programme was launched in 1999 by the DTI to facilitate an environment for marginalised communities to enter the formal economy using methodologies and resources *specific to the*

⁹ Khula Enterprise, Overview, <http://www.khula.org.za/main.html>.

¹⁰ The DTI, South African Micro-finance Apex Fund (Samaf), <http://www.dti.gov.za/samaf/samaf.htm>.

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majority of stakeholders. The Indigenous Goats Project for example was the product of research done by the CPPP on indigenous agricultural 'capital' in the North West province, the capital in this case was found to be the Mokqalwana goat. The project is now registered as a private company in Brits and employs over 20 people.

Alternatively, government can promote 'mutual upliftment', best illustrated by projects like Lumus. Companies are increasingly competing as an integrated supply chain, rather than as single organisations. With sufficient exposure, even survivalist SMMEs can be part of the chain. And not to say they should be limited to retail. In 2002 11.2% of those employed in the manufacturing sector were in survivalist enterprises, compared with the 9.3% in 'small' businesses. Some 18.7% of those 'employed' in construction were also survivalists, as were the 7.9% in wholesale trade.¹¹ SMME Breathe Tex is a good example of how survivalists can be assimilated into the fold, depending on what product and/or skill they offer business. Breathe Tex a small Port Elizabeth-based black-empowerment company that exports high-tech protective fabrics. In 2004 it won the Africa SMME of the Year Award for its yearly turnover of about US\$ 6 million. Its success can be attributed to what Volschenk calls the 'flying geese' model:¹² the realisation that the sustainable development of an economy cannot happen in a vacuum. Rather than import materials, Breathe Tex sponsored local companies to research and then develop the material. The supply chain helped win the company the second largest tender ever awarded in the industry. Local textile mills and printers benefited the most from Breathe Tex's success.

Reducing the problem of SMMEs to the issue of finance is misleading and, from a policy point of view, counterproductive. SMMEs merit a well-considered and systemically coherent strategic framework; they do after all contribute between 39% and 42% of GDP, 52% to 57% if

¹¹ SAIRR, 'Business and Employment', *South Africa Survey 2003/04*, Johannesburg: South African Institute of Race Relations, 2004.

¹² Benton S, *op. cit.*

survivalists are included.¹³ Ultimately perhaps the lesson here is one of facilitation. Private service providers play a critical role in the facilitation of market access, technology transfer and systematic provision of business information. The challenge is to develop a market for these services, encouraging SMMEs to utilise what's available to them, provided the services are made affordable. Government's role then is to enable the market of service providers to develop, facilitating the access of especially rural enterprises to private sector service provision.

The development of the domestic private sector throughout the African continent is widely recognised as a significant factor in the developmental imperative. The private sector is generally weak in many African countries. Yet small businesses exist and can form the foundation for building up the domestic private sector. This report includes a mini case study on Lesotho. Clearly, the challenges of small business development in less developed countries like Lesotho are even greater than in countries like South Africa. The need for a government policy framework is even more important because of the absence of even basic infrastructure. Such frameworks should encourage entrepreneurship and innovation, providing for support but not creating perpetual entitlement.

*Analisa Bala is completing a KAS-sponsored
research internship at SAIIA*

¹³ National Treasury, *Access to Finance in South Africa — A Supply-Side Regulatory Review*, http://www.treasury.gov.za/documents/sme/p25_56.pdf.

Small Enterprise Development in Brazil

Lyal White

Small, medium and micro enterprises (SMMEs) have been variously described as the lifeblood of a country and as the pistons of the economic engine. In most developing countries they constitute a large portion of existing businesses, provide the majority of employment opportunities and represent more than 90% of business operations and transactions. However, their contribution to gross domestic product (GDP) output remains minimal.

Brazil is no exception. The opening statements above provide an exact depiction of the SMME situation in Brazil. While SMMEs represent a large sector of the Brazilian economy, big business still dominates. SMME participation in international trade and investment flows, which essentially represents the future of the Brazilian economy, is minimal. Therefore, although it is the larger sector, the SMME component is unable to take advantage of similar opportunities or reap the subsequent benefits. Brazil's situation is not very different from that in the rest of the world, except that the country has realised the importance of incorporating SMMEs into the formal commercial sector, and the part they can play in future economic growth.

This paper describes the SMME strategy undertaken in Brazil. It looks at various aspects of the Brazilian economy, the status of SMMEs at present and discusses the policies and initiatives that have been implemented by the Brazilian government. These include legislative and tax incentives that have encouraged a more formalised SMME structure.

The Brazilian government, together with the private sector and various institutions, has developed an SMME body (SEBRAE), to oversee and represent the growing SMME sector and add structure and regulation to these enterprises. This organisation has been central to Brazil's successful SMME campaign, and is therefore discussed in detail.

It is clear that SMMEs are a vital part of the economy of Brazil, and represent an important instrument for alleviating the socio-economic problems faced by both that country (and by many others at the same level of development). The SMME strategy adopted by Brazil provides a number of lessons that are applicable to African and other developing nations.

Understanding the Brazilian economy

Brazil is one of the largest developing countries in the world. It has a population of over 170 million people and a GDP of approximately \$500 billion. The country has a dynamic economy, based on a wealth of natural resources and a flourishing agricultural sector. It also has well-established industries and has reached impressive levels of technological development.

Large businesses tend to dominate economic performance in Brazil. This can be attributed to its national history — the economy was, for a long time, isolated from the rest of the world. Production was inward-focused as opposed to export-orientated. The country was therefore forced to develop certain industries for purposes of self-sufficiency. These were maintained by a handful of government-controlled parastatals. This situation changed slightly with the birth of democracy in 1986 and the economic reform process that followed. The privatisation of state-controlled industries ensued, and a highly competitive domestic market began to develop, using the well-established foundation that had been laid by economic protection throughout Brazil's years of industrial development. However, despite the new spirit of entrepreneurship, large companies have retained their dominance, and continue to contribute about 80% toward the Brazilian GDP today.

Small business is nevertheless a significant force in the Brazilian economy. While small and micro enterprises account for barely 20% of total GDP in Brazil, this sector currently conducts 98% of industrial,

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commercial and service operations in the country, and accounts for more than 60% of employment.¹

Basic data: social and economic indicators (2003)	
Population (million)	176.6
Labour force (1999) (million)	79.3
Unemployment (2001)(%)	6.2
Illiteracy (% age 15 and above)	13.5
Life expectancy	68.7
Estimated housing deficit (2000) (million units)	6.7
GDP (billion)	\$492.3
GDP growth (%)	-0.2
Fixed lines and mobile phones (per 1,000 people)	486.5
Personal computers (2002)(per 1,000 people)	74.8
Internet users (per 1,000 people)	82.2
Paved roads (% of total) (2000)	5.6
Trade in goods as share of GDP (%)	25.1
FDI net inflows (billion)	\$10.1
Present value of debt (billion)	\$254.1
Aid per capita	\$1.7
Source: World Bank Country Profile (www.worldbank.org) and the Brazilian Ministry of Foreign Relations.	

Brazil has embraced globalisation and has modernised its economy accordingly. The extensive reform process throughout the 1990s, which brought about one of the largest privatisation initiatives in history — congruent with Washington Consensus specifications — changed the face of the Brazilian economy. The reforms exposed a diverse number of sectors in the economy to the realities of international competition. Both large and smaller companies have had to adapt relatively quickly to the new challenges that economic restructuring and global integration have brought to Brazil.

¹ This information is based on a brochure released by SEBRAE: 'SEBRAE: The strength of small business in a continental country'.

The (almost) sudden exposure of the Brazilian economy to the international environment, coupled with unsustainable local policies introduced by a social-democratic government, have caused massive economic fluctuations in the country since the late 1990s. This has had a negative effect on foreign direct investment (FDI) and commercial operations in the country, which in turn has had repercussions for social development and other related variables. These issues are core concerns in Brazil, and they need to be addressed with urgency. The SMME sector, with its scope and depth of activities in the Brazilian economy, has been identified as an instrument that is capable of alleviating the socio-economic problems of the country.

The nature of the small, medium and micro enterprises sector in Brazil

There are currently more than 4.5 million formal small businesses in Brazil. Sixty million people are either directly or indirectly reliant on this segment for their incomes. Due to the vigorous privatisation drive in the country and the cognitive shift toward self-owned businesses — which to many appears to be the only legitimate means to individual social improvement, the sense of entrepreneurship in Brazil is extremely strong by world standards. According to the *Global Entrepreneurship Monitor Survey*, one in eight Brazilians is under constant entrepreneurial pressure. This indicates a highly innovative society that is continuously establishing and utilising small businesses in everyday activities. This contributes to widespread social upliftment initiatives.²

A strong urge towards survival has also emerged as a reason to start SMMEs. People are determined to use any small opportunity that might arise to generate an income, which is also a result of the low levels of socio-economic and human development in Brazil, as seen in the table

² This information is based on a meeting with Luciana Botafogo Brito at the SEBRAE offices in Brasilia during March 2002, and refers to a presentation by Renato Caporali, the Manager of International Affairs for SEBRAE.

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above. This has, however, led to a number of failures in this sector of the economy. While formal SMMEs are a large and influential force in the Brazilian economy, the number of informal businesses — which are largely survivalist — is far larger (9.5 million). There are an estimated 14 million employees unregistered, and 60% are not attached to any social welfare system.

The Brazilian government is faced with the daunting task of preparing its commercial sector for the challenges associated with globalisation, while simultaneously incorporating the large proportion of informal businesses into the legitimate economy. The government has recognised that, as one of the most influential sectors for the sustainable growth of the Brazilian economy, the SMME segment needs to be made aware of, and capable of benefiting from, international activities, local development initiatives, operational improvements and formal and legal practice. SMMEs represent an opportunity for growth. If such small businesses are able to capitalise on the benefits offered through alternative markets (as larger companies have done) and increase their current share (just 2%) of total Brazilian exports, a large proportion of the population will benefit, and rapidly. Such progress would also create a better environment in which SMMEs could operate.

Government initiatives to boost SMMEs

Government involvement has been instrumental in helping the SMME sector in Brazil to evolve. It has added vision, structure and clarity to a very disorganised sector, which has little or no collective strategic direction. Two initiatives in particular can be singled out having formed the basis for the successful SMME strategy in Brazil. First has been the clear definition and categorisation of the different kinds of SMMEs in the Brazilian economy, and second has been creation of an SMME body. It is clear that these two strategies are inextricably interlinked, with the fulfilment of the one serving the interests and objectives of the other.

In the first of these, in seeking a clearer definition of the sector, government was able to develop a better idea of what SMMEs are, the size of the sector relative to the rest of the Brazilian economy, the challenges they face and their specific needs. Government could therefore address the requirements of the SMMEs more accurately, with greater effectiveness and efficiency, and ensure that resources earmarked for SMMEs were allocated to registered, formal enterprises.

Classification of business in Brazil

The definition of SMMEs in developing countries such as Brazil is often a highly contentious issue. When policies are implemented in favour of SMMEs or there are other socio-economic criteria are applied, this issue of definition becomes relevant to various interest groups in the economy. The clear classification of businesses is therefore important to maintaining consistency with broader macro-economic objectives and as social planning policies, not to mention legislation and tax.

There is a clear difference between individual SMMEs in terms of size, ownership, function, level of development and the sector of operation. Each of these features provides a distinguishable characteristic and therefore a different definition.

In the case of Brazil (and most other developing nations) the distinction between micro and small businesses is, at best, vague. Many people do not recognise micro businesses, and simply lump them together with small enterprises. In the case of micro businesses there is also the problem of distinguishing between micro entrepreneurs and survivalists. Entrepreneurs are those who have made a conscious decision to pursue an innovative idea for business reasons, while a survivalist does not have an established business, but has been forced to sell some kind of commodity or service by the need to survive. Survivalists most often have informal businesses.

In Brazil there is a strong drive to formalise business practice and increase the rate of registration among SMMEs. This would make the new policies more effective, as registered SMMEs will be the direct beneficiaries of the new initiatives.

Classification of business in Brazil (continued)

Once businesses are registered in Brazil, they are generally categorised according to the following employment criteria:

- micro enterprises — industrial operations with up to 19 employees, and services employing up to nine employees;
- small enterprises — industrial operations with between 20–99 employees, and services employing between 10–49 employees;
- medium enterprises — industrial operations with between 100–499 employees, and services employing between 50–99 employees; and
- big enterprises — industrial operations with over 499 employees, and services employing over 99 employees.

In the late 1980s, in anticipation of the privatisation explosion and the reforms required by the Washington Consensus, the Brazilian government created a large organisation to oversee all SMME development issues. SEBRAE, as it was called, was later privatised. It has subsequently become one of the largest and most influential non-governmental bodies in the country.

The establishing of SEBRAE, which is generally seen as the most important achievement for SMME development in Brazil, added organisational structure and legitimacy to the sector. SEBRAE first required — and lobbied for — a clear definition of SMMEs in order to establish a credible membership base and to operate more effectively. Services provided by SEBRAE act as an incentive to the creation and formal registration of small businesses, thus putting them in the mainstream of commercial activities in Brazil. This in turn means a more formalised economy.

The Brazilian government has also implemented a number of policies and initiatives that have favoured SMME development. Brazilian legislation, through the Federal Constitution, has granted differential treatment for SMMEs which enables smaller businesses to operate in a legally friendly environment. Other programmes such as

Facil [Easy], which has improved the speed and efficiency of procedures to start and register a small business, have made the process more accessible, and again encouraged the registration of businesses. *Simples* [simple], another policy to assist SMMEs, grants a single tax to all small companies. This is an effort to reduce the tax and social security load for small businesses, in this way reducing or simplifying the bureaucratic process.³

SEBRAE: A support service for Brazilian SMMEs

SEBRAE is a non-profit private institution, comprising an equal number of private and public entities. It is therefore a successful example of a public-private partnership. SEBRAE's activities are co-ordinated by the National Deliberative Council, which is made up of representatives of 350 institutions from government, business, academia and research bodies. It is funded by a 0.3% contribution from the payroll of all companies (totalling approximately \$450 million per year). This revenue is utilised for programmes and initiatives geared toward improving various aspects of SMMEs, and creating sustainable growth conditions for small businesses and the economy in general.

SEBRAE's central headquarters are located in the capital city of Brasilia. It has individual units located in all 27 Brazilian states, 520 SMME service centres and a total of about 4,500 employees. Over 50,000 small businesses are registered as members. It therefore has the size and presence of a large public entity, but is also guided by the strong influence of the private sector, which adds to its functional effectiveness.

SEBRAE is also spread evenly across the country and is therefore able to meet the specific needs of SMMEs, as they vary from state to state. This is important, as it is in the case of other developing countries, where requirements and levels of development differ drastically from province to province within a country. For example, some companies

³ For additional information see www.sebrae.com.br.

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may need some form of rural assistance, while others may require help in technological advancement or human resource development. Therefore the nature of support offered differs vastly from one area of the country to the next, highlighting the importance of having smaller SEBRAE service centres and state units throughout the entire country.

SEBRAE is not a financial institution, and therefore does not grant credit to small businesses. It does however provide support through partnerships with banks: it helps entrepreneurs to prepare credit applications by running a number of programmes and courses on the subject. In this way SEBRAE seeks to create a more viable environment for SMMEs through fostering a 'self-help' attitude in entrepreneurs. It focuses on four primary areas of operation: training, credit and capital, entrepreneurial culture, and local and sectoral development.⁴

Training and education are central to the goals of strengthening the SMME sector. SEBRAE offers a large number of courses and seminars that help to train entrepreneurs in Brazil. It also stresses the importance of maintaining both the flow of information and of intellectual growth. These courses and consultations have helped educate more than 2.5 million companies and 3.6 million people.

SEBRAE is always seeking innovative alternatives to improve production and find new opportunities for SMMEs. One example is the possibility of cluster operations, which would build the capacity and improve the efficiency of small businesses. In the auto component sector — which is almost entirely comprised of SMMEs — SEBRAE has developed a partnership with the national component manufacturers' association, *Sindipecas*. The aim is to combine the resources of both organisations to develop the auto component sector into a cluster that is highly competitive by international standards. The idea, over the long term, is to assist auto component manufacturers and other SMMEs to gain access to foreign markets. Substantial growth in SMME exports would also boost overall Brazilian exports.

⁴ This information is based on a publication released by SEBRAE. *Ibid.*

Another area where SEBRAE has made some progress is technology, in particular e-commerce support for SMMEs. Providing technical assistance and e-commerce training to SMMEs helps to improve their capabilities and operational progress. A number of programmes to make e-commerce accessible to small businesses in Brazil have been formulated in recent years. However, the implementation has been slow and extremely difficult, as it requires a clear shift in attitude on the part of entrepreneurs. However, an e-commerce strategy for SMMEs, called ViaSebrae, which has been developed through a joint venture between a profit-making software company, Paradigma, and SEBRAE, has achieved some success.

ViaSebrae was initiated six years ago, and is currently operating in two or three states. It is an e-commerce platform for SMMEs, offering Internet content, training, information technology (IT) knowledge, and transactional tools for business-to-business and business-to-consumer dealings. This joint venture provides e-commerce services and skills that most small companies could previously not afford. It is playing an important part in narrowing the digital divide between the commercial sector and the population in general.

The success of ViaSebrae has three important aspects. First, as a joint venture between a private company and an organisation such as SEBRAE, it proves that such partnerships are useful and can play a role in social development initiatives. Second, such joint ventures between large public/private organisations and private companies help to introduce additional skills that go some way towards bridging the digital divide in developing countries. Finally, it is clear that a partnership between government organisations or agencies and the private sector is essential if SMME development strategies are to be implemented effectively.⁵

SEBRAE is clearly geared toward creating a more favourable environment for SMMEs and developing these smaller businesses into a respectable and more assertive force in the Brazilian economy. In

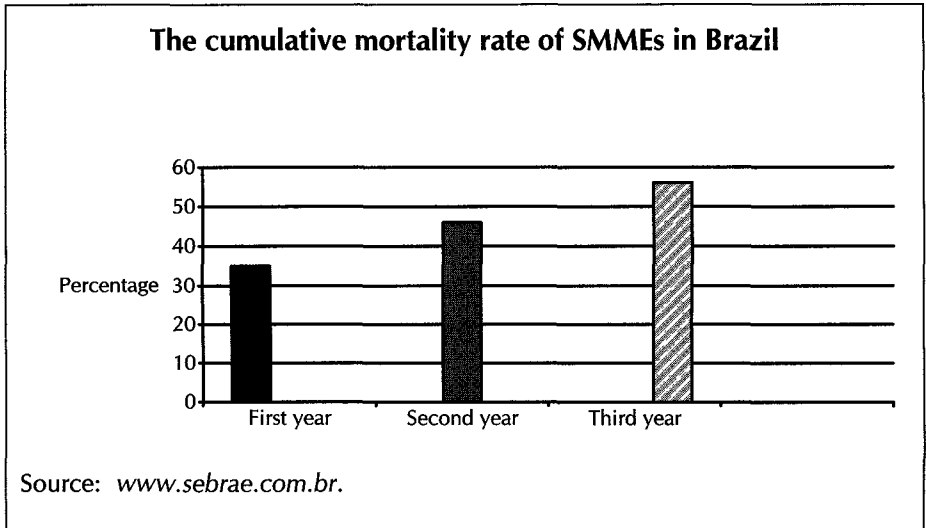
⁵ This information is based on a more comprehensive study done by Waack C & J Hekl, 'ViaSebrae: An e-commerce solution for small business in Brazil'.

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this way, their collective size and importance in society can be utilised more effectively. But this can only be done if their status is improved and the numerous challenges they face are overcome.

SEBRAE has a number of concrete objectives to ensure the economic success and sustainability of SMMEs. These are clearly stipulated in its action plan:⁶

- to multiply SEBRAE’s service delivery, ‘from thousands to millions’;
- to reduce the failure rate of SMMEs;
- to foster the participation of SMMEs in the national production system;
- to promote the formulation of associative networks with other organisations, banks and so on; and
- to reduce the number of informal businesses by offering various incentives to encourage SMMEs to register.



⁶ These objectives were highlighted in Caporali R, ‘SEBRAE: Brazilian micro and small business support service’.

SEBRAE: Successfully integrating SMMEs into the Brazilian economy

SEBRAE has been successful in providing both a service for small businesses and creating an environment conducive to the introduction and development of SMMEs as part of the formal economy. It is a large, visible organisation that is capable of meeting the diverse needs of SMMEs throughout Brazil, assisted by the body's ability to interact with organisations ranging from government agencies and development banks to small, highly skilled IT companies. SEBRAE has also formed partnerships with a number of parallel organisations, adding critical mass to its functional capabilities. It is perceived as a formidable force in the Brazilian economy. All of these factors have helped SEBRAE to become a forum and representative organisation for SMMEs.

SEBRAE's interaction with the public, particularly with regard to dissemination of information, is outstanding. It uses 13 television stations to broadcast what it calls the 'Sebrae Connection', a programme that occupies five hours of airtime a week. Various radio stations, newspapers, telephone (through an 0800 toll-free number) and service counters are also used for promotional purposes, or to provide information on courses offered and the latest business news. This public accessibility has raised SEBRAE's profile, and has also provided additional exposure to those businesses affiliated with the organisation.⁷

The next step for SMMEs is to improve current export levels and to attract both foreign and local investment. Production and efficiency levels need to increase. SEBRAE is assisting by encouraging cluster formations (already mentioned). Publicity is also of great importance. The 'SEBRAE Connection' and other forms of media exposure are excellent ways to attract investors and present a relatively untapped sector of the Brazilian economy to the local and international

⁷ This information is available from the SEBRAE website, www.sebrae.com.br.

communities, not only as investment opportunities but also as potential partners of businesses in foreign countries worldwide.

If the skills and economic potential embedded in small businesses can be accessed and effectively harnessed in developing nations like Brazil, rapid economic growth could be achieved.

Concluding remarks: Lessons for African countries

As in Brazil, SMMEs form a large and important part of the economy in developing African countries. In some of the less developed nations the imbalance between the contribution of SMMEs toward GDP and the percentage of employment this sector absorbs is more extreme than in Brazil. However, in South Africa the situation is slightly better. The small and micro enterprise sector accounts for around 55–60% of employment, and provides close to 35% of GDP. Nevertheless, this is not ideal. If international trade and investment figures are included the stark inequality between investment in large commercial companies and the relative neglect of SMMEs would be exposed.

Most developing nations in Africa and around the world lack a decisive strategy for SMME development. Organisations established to represent or assist SMMEs are ineffective, for a number of reasons. These include the absence of clear objectives, overpowering government involvement, bureaucratic battles and inadequate exposure to the public eye. SEBRAE in Brazil has managed to overcome most of these problems.

While SMMEs in African countries may differ somewhat from their counterparts in Brazil, there are a number of lessons to be learnt from the Brazilian experience. The most important of these is that the Brazilian model illustrates the importance of developing a healthy partnership between government and the private sector. Collectively, SMMEs lack organisational coherence. They also have little power to affect economic decision-making, which is normally a matter between big business and government. However, they are potentially the strongest natural force in the economy, and are a direct representation

of the society in which they exist. It is therefore in the interest of both big business and government to create a platform for SMMEs in both the commercial and broader economic environment.

While complete state control over an SMME development strategy poses a number of problems, the involvement and support of government is nevertheless fundamental. Most developing economies lack the resources or even the ability to initiate SMME development, so that government has to provide the initial 'push'. Establishing a clear definition for SMMEs is a good starting-point that provides a firm foundation on which to build a development strategy for SMMEs, simplify some of the registration procedures, and allocate resources.

The issue of survivalist SMMEs and the informal sector is of serious concern in Africa. These informal businesses need to be incorporated into the formal commercial sector. Various incentives encouraging survivalist businesses to register should be provided through legislation and the tax system. A small enterprise body like SEBRAE, which offers an abundance of services to registered SMMEs, would also serve as an incentive to formalised business practice.

The creation of SEBRAE and its influence in the Brazilian political economy indicates that a large, powerful organisation — with political and commercial leverage — is essential to represent SMMEs and provide services to entrepreneurs. While there is always the danger that the organisation will get too large and bureaucratic, it is also important not to lose the image of a large public entity that combines the influences of both government and business — government provides the required legitimacy for SMMEs and business contributes to their functional efficacy.

SEBRAE's ability to interact and develop partnerships with other organisations and associations has added to its success. This factor would also be important in other developing countries, where relations with established organisations would add legitimacy and influence to SMME operations. Such partnerships would also help to overcome functional obstacles, like geographical barriers in larger countries,

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where sparse geographical distances and poor infrastructure make it difficult to access the entire spectrum of SMMEs.

The variation in the type of SMME brings to the fore another point regarding the comparison between SMMEs in Brazil and African countries. Small businesses in Africa tend to be far less evolved and, in most parts, are survivalist in nature. In the Brazilian scenario there is a greater range of SMME development. SEBRAE was designed to deal with the requirements of certain rural SMMEs as well as those problems associated with export activities or IT which more advanced SMMEs tend to experience. This was dealt with through decentralisation: SEBRAE offices in some less developed states are better equipped to deal with agrarian or survivalist issues while others located in commercial centres such as Sao Paulo provide more technologically advanced services. A similar method could be applied in African countries.

SEBRAE's public image is impeccable, and its promotional techniques have helped it reach a broad range of interested parties. It is therefore a visible organisation with a definite presence in the Brazilian economy. SEBRAE also has clear goals; is continually improving its services; and is constantly looking for new business opportunities for its members, for example in foreign trade. SMMEs seldom have the resources available to find, research the nature of, and access international markets. SEBRAE provides that kind of service, and has established partnerships with similar SMME bodies around the world to facilitate interaction between their members. One such co-operative arrangement is with Ntsika in South Africa. While the agreement between SEBRAE and Ntsika is of recent date, it promises to offer a number of opportunities to SMMEs in both Brazil and South Africa. It will also provide a forum for the exchange of ideas and experiences between the two entities.

SMMEs are a vital part of any developing economy. It is essential that the vast number of skills and resources represented in this sector are developed and capitalised upon. To do this a clear SMME strategy is required together with a central SMME organisation. Through a similar process to that followed in Brazil, African countries can begin to realise

the benefits that the SMME sector can contribute to the economy. The active participation and development of this sector is essential for the improvement of the socio-economic situation in African countries, and the economic growth required for progress in the future.

Appendix: The Experience in Lesotho

Given the economic status of Lesotho, the advancement of SMMEs is essential. They have a significant role to play in economic development and in addressing the country's socio-economic challenges by creating employment and generating income.

Many of the SMMEs in Lesotho are at subsistence level, having been generated by the absence of more stable formal sector employment. It is difficult to obtain reliable statistical information on the exact number of these enterprises. However, it appears that the SMME sector in Lesotho attracts more women than men, with about three-quarters of enterprises headed by women, making these businesses of great importance to their economic and social empowerment.

Despite various difficulties related to a low level of infrastructure, scant resources and lack of funding, SMME development in a country like Lesotho has a key role to play in improving the efficiency of domestic markets and using scarce resources to greater advantage. However, to carry out this role, SMMEs must be supported and promoted by the government.

In 2000 the Lesotho government launched the *Lesotho Fund for Community Development* (LFCD) as the official institution responsible for financing community development nation-wide. Such an initiative opens opportunities for rural development that have not previously been available. The LFCD was gazetted in the country's community development regulations of 1999, and came into operation soon after.

The LFCD is a micro-credit institution that aims to promote people-centred and participatory community development through effective management. The fund finances community and group-based projects, each district receiving a maximum of M300,000 annually. Since its establishment, the fund has made a significant contribution to rural upliftment, mainly by promoting community participation and encouraging communities to practise rotational shifts among their members to ensure equitable access to the payment of R500 per month per participant. The fund also provides training and disseminates

information; both are intended to build competence in project participants.

In consultation with the private sector and various institutions, the government of Lesotho drew up a white paper in 2002 on ways to develop and promote the SMME sector. While it is not a comprehensive policy, the white paper provides the basic building blocks. It defines the nature of SMMEs, assesses the current situation, and identifies the constraints currently facing such enterprises in Lesotho. It outlines a number of measures that the government intends to introduce to provide more positive environment for SMMEs, and identifies priorities for immediate action.

The white paper was tabled in Parliament in 2003. Though there has been substantial pressure to push legislation through, Parliament has still not approved the white paper.

There is no government plan to assist survivalists to become entrepreneurs and thus incorporate them into the mainstream economy or convert them to SMMEs. The main difficulty is that most of the survivalist businesses are difficult to trace as they operate in rural areas, and their failure rate is high. Also helping owners of such businesses would require the provision of training and assistance with finance. However, with direct government intervention through appropriate legislation, survivalist businesses could be helped to transform into SMMEs.

The development of SMMEs in Lesotho is mainly influenced by three key factors. Firstly, it is motivated by the need for self-employment, following retrenchments in both the South African mines and the public sector in Lesotho. Many Basotho have sought profitable ways in which to invest monies received in compensation. However, while some of these ventures have succeeded, most of have not, because they have been unable to transform from survival enterprises into SMMEs.

The second factor influencing SMME operators in Lesotho is the family tradition. Parents encourage their children to learn the skills they acquired, with a view to doing the same kind of work. Therefore,

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SMME development is not only concerned with job creation and economic development, but is a way of promoting the family culture and tradition.

For other operators, however, their involvement in this sector is influenced by a strong determination to generate money and succeed in business. The SMME sector presents them with good opportunities to attain their goals.

Many of the enterprises found in Lesotho are based on the following:

- handicrafts, both traditional and modern (including sewing, knitting, crochet work, tie and dye plus batik, soap and candle making);
- vegetables and fruit production and tree planting;
- catering for workshops and seminars;
- poultry farming;
- carpentry and brick laying; and
- plumbing, welding and sheet metal work;
- manufacturing, textile and retail businesses.

There are insufficient statistical data to allow an independent determination of how much this sector contributes to the country's economy. However, the Lesotho Chamber of Commerce and Business estimates that about 43% of the country's GDP comes from the SMME sector.⁹

Case studies

The creation of two small businesses in agriculture and dressmaking sectors can be used as an exemplar of the economic benefits to be gained by promoting SMMEs in Lesotho.

⁹ Interview with Mr T Thokoa, Lesotho Chamber of Commerce and Business, Maseru, Lesotho, April 2003.

Agricultural enterprises

For decades agriculture has been important to Lesotho. Most people in rural areas rely on subsistence farming for survival. One way to make agriculture more sustainable is the transformation of survivalist enterprises into SMMEs — *Teboho Farm Centre (TFC)* for example. The centre was established in 1990 to reduce the farmers' dependence on the government. At that time, the government through Corporative Lesotho was the only distributor of crop seeds and fertilizers to farmers throughout the country. Consequently, the government had a monopoly. At the same time, the demand for crop seeds and fertilizers by farmers was increasing. Teboho Mokau, the owner and founder of TFC, realised the extent of the demand for crop seeds and fertilizers in rural areas, and started a business to meet that need.

Funding for establishing TFC was obtained from Barclays Bank and later the Standard Bank at a 12% prime rate. The centre provides three types of service, all of which are important for generating employment and economic growth in Lesotho. First, the centre is the main producer after Corporative Lesotho, of crop seeds and fertilizers, selling mainly maize, sorghum and wheat seeds to Basotho farmers at a lower price than the government supplier. The second service the centre supplies is the distribution of chickens and eggs obtained from the Eastern Cape in South Africa for selling in different parts of Lesotho. Finally, this small business provides a gas equipment service to rural farmers. Because most of the rural areas do not have electricity, the gas service is important to many Basotho living in rural areas. The equipment is provided on a rental basis. The monthly earnings of TFC amount to an average R200,000, while it produces 100 tonnes of seeds every four weeks. The centre contributes some job creation: it currently has seven employees, who have permanent jobs and earn R800 per month.

The TFC is indicative of the importance SMMEs could have in Lesotho, and presents a model of success for other developing countries. Its history also shows how determined individuals can harness entrepreneurship for self-help, and so reduce dependence on the Lesotho government.

Dressmaking enterprises

Many small business enterprises focusing on dressmaking in Lesotho have succeeded in transforming the scale of their operations. Amidst rampant poverty and unemployment throughout the country, the Tshepong Sewing enterprise has recognised the part SMMEs can play in generating income and economic growth for the country.

Tshepong Sewing and Knitting was formed for two reasons. There was a growing demand for dressmaking in Maseru and other neighborhoods. Owing to the lack of Basotho dressmakers, many Basotho, especially women, solved the problem by importing products from South Africa. The second reason was a conscious attempt to reduce the rate of unemployment. Ms Felleng Maphike, the founder and owner of the enterprise, says its objective is to utilise her own sewing skills to help unemployed women in Maseru.

The establishment of Tshepong Sewing and Knitting has already had significant benefits. As it currently stands, the enterprise offers permanent employment to eight people, who earn a monthly amount of R1,250 each. Their monthly profit earns between R18,000 and R22,000, but R2,500 is spent on rent. The enterprise operates from the Botswana Enterprises and Development Corporation (BEDCO) centre in Maseru.

Services rendered by the dressmaking enterprise include fashion design and the actual sewing of dresses. One characteristic that distinguishes the enterprise from others in Lesotho is its dressmaking style. Tshepong Sewing is widely known for designing Basotho traditional dresses, aptly known as 'Seshoeshoe'.

The market for Tshepong Knitting extends beyond Lesotho. Its goods are also sold in much of the region, including Johannesburg, Bloemfontein and Durban in South Africa and its services are also available in Gaborone, Botswana.

Enterprises like Tshepong Knitting are facing various obstacles. One of these relates to Lesotho's lack of indigenously produced fabric for dressmaking. Instead raw materials have to be imported from Durban

in South Africa, which means that increases in fabric prices can affect earnings considerably. Infrastructure is another obstacle. The owners of enterprises say that the low standard of infrastructure in Lesotho makes it difficult for them to distribute their services in rural and mountainous parts of the country. Improving the roads could do much to ensure the smooth operation of SMMEs.

These case studies provide examples of good practice, which merits attention from other African states. Notwithstanding the country's many challenges, the experience of some small businesses in Lesotho could go a long way towards providing a learning perspective for other states.

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About the Author

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