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# Expert Group Meeting on the Promotion of SME Export Consortia

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## COUNTRY PAPER BRAZIL

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## **A. INFORMATION ON THE COUNTRY'S EXPERIENCE**

### ***A.1 Country policy to promote exports***

#### **The institutional framework**

In Brazil, export growth is an important part of the strategy to develop the economy and strengthen the competitiveness of firms. Many governmental programmes and a number of institutions were created to help industries increase their sales abroad.

At present, the main governmental organizations related to exports in Brazil are:

#### *Ministry of Development, Industry and Foreign Trade (MDIC)*

MDIC is in charge of (i) the development of policies for industry and trade; (ii) the transfer of technology; (iii) foreign trade policies; (iv) the development of policies for SMEs, (v) the consolidation of information regarding foreign trade statistics (Brazilian imports and exports).

#### *Trade and Investment Promotion Agency (APEX-Brasil)*

APEX-Brasil is a private and independent agency linked to MDIC whose main goal is to increase the number of Brazilian firms that export and to enhance the value of their exports through the diversification of markets and export products. While MIDC plays a key role in foreign trade, APEX-Brasil is responsible for the development of export strategies, the execution of Brazilian Export Promotion Strategy and the strengthening of relevant institutions. To this end, financial support is provided, market analyses are made, products with export potential are identified, design and innovation are stimulated, the development of brands is promoted, business meetings in Brazil and abroad are supported and foreign trade capabilities are built up.

APEX-Brasil particularly supports SMEs in achieving and maintaining a competitive edge in the global market. The specific major activities in this context are:

1. Financial and technical support for SMEs through sectoral Projects, in the following areas:
  - 1.1. Market research;
  - 1.2. Development of promotional material;
  - 1.3. Participation in trade fairs;
  - 1.4. Other actions related to exports promotion.
2. Organization of SME participation in trade missions, as well as in international exhibitions, round tables and events in cooperation with retail stores;
3. Business intelligence;
4. Distribution centres ;
5. Attraction of investments .

The agency works in partnership with other public and private organizations. Most of the activities are developed in partnership with the private sector. According to rules of the agency, its projects must be carried out only with non-profit organizations, and not directly with the firms.

#### **Brazil's export performance**

As Tables 1 and 2 show, Brazil's exports have grown strongly in recent years, especially those of certain manufactured goods. However, export earnings are still to a large extent derived from agricultural products. APEX-Brasil and other government-related organizations

are therefore striving to help Brazilian firms increase value added and are promoting more technology-intensive production processes. They also encourage efforts to further diversify the range of products exported by Brazil and to target non-traditional markets, such as African, Asian and East European countries.

*Table 1 Brazil's main exports (2003-2004)*

PRODUCTS	2004 (US\$)	2003 (US\$)	INCREASE (%)
Transport material (vehicles, aircraft, etc)	13,076,951,516	8,149,692,384	60.46%
Electrical machinery and equipment	11,090,108,574	8,784,668,458	26.24%
Food and beverages	10,937,223,114	8,841,469,970	23.70%
Metal products	10,724,277,503	7,692,604,437	39.41%
Mineral products	10,134,703,963	7,848,829,803	29.12%
Others	40,511,955,583	31,766,874,466	27.53%
TOTAL	96,475,220,253	73,084,139,518	32.01%

Source: Ministry of Development, Industry and Trade (2005) [www.mdic.gov.br]

*Table 2: Major categories of export products (2003-2004)*

SECTOR	2004 (US\$ thousand)	2003 (US\$ thousand)	INCREASE (%)
Agricultural	28,518	21,179	34.65%
Semimanufactured	13,429	10,943	22.72%
Manufactured	52,949	39,654	33.53%
Services	1,579	1,308	20.72%
TOTAL	96,475	73,084	32.01%

Source: Ministry of Development, Industry and Trade (2005) [www.mdic.gov.br]

Although exports are increasing, Brazilian enterprises still face several problems in export development:

1. Knowledge and interest in export opportunities and procedures is limited, due to the large Brazilian market;
2. Internationally recognized standards are not applied;
3. The high exchange rate Brazilian Real (BRL) in relation to the US\$, reducing the profits of the exporting companies;
4. There are difficulties in innovation and accessing new technologies;
5. Although the public and private sectors are investing in the modernization of ports, roads and services, it will take a long time before infrastructure is adequate.

### **A.2 Legal and incentive framework**

There is no specific legal form for Export Consortia in Brazil yet. The issue is being debated by the Brazilian Congress. Most of the consortia in Brazil use existing legal forms. One of the most common is the non-profit civil association, which allows consortia to receive support from development agencies such as APEX-Brasil and SEBRAE (see below). Consortia do not qualify for specific fiscal incentives as they are not recognized legal entities.

APEX-Brasil's financial and technical support is given through 'Consortium Export Projects'. These are one-year projects with many activities: participation in international events, market research, preparation of promotional material, etc. APEX-Brasil only assists consortia if there is no relevant Government project that they can benefit from or if a group of companies has

specific needs and needs special support, such as the regional clusters which are found everywhere in Brazil.

There are no rules for the number of companies in a consortium. For APEX-Brasil projects, the consortium must have at least 6 companies.

The financial support provided by APEX-Brasil covers many aspects of export trade, as Table 3 shows:

*Table 3: Financial support for export activities*

TYPE OF ACTIVITY	FUNDED BY	
	APEX-BRASIL	ASSOCIATIONS AND COMPANIES
Market research	100%	-
Promotional material	100%	-
Trade fairs	50%	50%
Trade missions	50%	50%
Certification (ISO)	-	100%
Training for foreign trade	-	100%
Home page	100%	-
Marketing	100%	-

### **A.3 Role of support institutions**

Apart from APEX-Brasil, other directly or indirectly important Government initiatives are:

- The Brazilian Micro and Small Business Support Service (SEBRAE), which supports projects for SMEs and also works with Brazilian clusters to build export capabilities, providing training and consultancy.
- The Research and Projects Financing Agency (FINEP) financially supports technological innovation projects of firms and consortia.
- The Brazilian Development Bank (BNDES) lends money to SMEs.
- The Fundação Centro de Estudos do Comércio Exterior (Foreign Trade Studies Center Foundation, FUNCEX) among others prepares studies related to consortia and foreign trade.
- The Permanent SME Forum, which supports entrepreneurs and public institutions in the development of a national policy for SMEs, including the creation of a legal form for consortia.

#### A.4 Number and typology of operational export consortia

NAME	SECTOR	LOCATION	TYPE	MEMBERS	MAIN MARKETS	EXPORT PRODUCTS
HTA – High Technology Aeronautics	Aeronautics	São José dos Campos - SP	Promotion	12	Canada, Rep of Korea, China, Europe	Aircraft parts; engines, components for aircraft
ATA – Autoparts Technologies Alliance	Car parts and services	São Caetano do Sul - SP	Promotion	10	USA, Mexico, Germany	Rubber components, electronic components, metal stampings, aluminum castings, rolled metals, wire products, machinery
FLOR BRASIL	Clothing	Brasília - DF	Promotion	8	Italy, Germany	Swimsuits and bikinis
PANTANAL FASHION	Clothing	Campo Grande - MS	Promotion	21	Japan, France, England, Italy	Beachwear and jeanswear
D'ELEGANCE	Clothing	Nova Friburgo - RJ	Promotion	10	Germany, France, South Africa, USA, Chile	Lingerie
FULÔ	Clothing	Nova Friburgo - RJ	Promotion	12	Italy, Germany, France, England, Switzerland, Spain.	Beachwear and lingerie
TROPICAL SPICE	Clothing	Bom Retiro - SP	Promotion	20	Chile, Venezuela, Mexico, Panama, France, Italy, Spain, Portugal, USA, Russia, Japan.	Beachwear, street wear, children's wear and classic wear
TWO COLORS	Clothing	São Paulo - SP	Promotion	9	Chile, USA, Italy, Spain.	Suits, coats and pants; day lingerie; night lingerie; women's and men's socks; wrist bands; hair bands; special clothes; uniforms
APEMEBI	Footwear and accessories	Birigui - SP	Promotion	10	Germany, United Arab Emirates	Shoes for babies, children, teens and adults; handbags and socks
BHP	Health Products	Ribeirão Preto - SP	Promotion	13	South America, Mexico and Europe	Medical and dental products and equipment
UNION TRADING	Ice-cream Industrial Machines	São Paulo - SP	Promotion	11	Mexico, Africa	Machines, materials, trolleys, refrigeration containers, freezers, displays, refrigeration chambers and moulds for ice-cream production
MOLDEXPORT	Moulds	Joinville - SC	Promotion	6	Mexico, Argentina, Venezuela, Colombia, USA, Italy, Germany, France.	
ACT MINDS	Software	Campinas -SP	Promotion	10	USA	High-quality products and customized services to key value chains, including banking and finance, telecom, manufacturing and healthcare.

Since 1998, APEX-Brasil has supported more than 70 consortia. The consortia listed above are the ones supported by the agency in 2005.



## ***A.5 Main obstacles to the creation of export consortia and proposals for improvement***

### **Obstacles**

Most of the problems listed below are problems that exist in many countries.

- There is no specific legal form for export consortia in Brazil;
- Creating an export consortium using other legal forms, such as civil associations, makes financing and bank loans more difficult, because of legal problems with regard to guarantees;
- Companies compete and lack confidence in one another, which among others expresses itself in a reluctance to share information;
- Many entrepreneurs are not fully committed to the consortium (in terms of time or money);
- Many companies in Brazil with export potential do not export yet, thinking the procedures are difficult and bureaucratic.

### **Proposals for improvement**

- Raise the awareness of the benefits of exports among Brazilian companies, and of the advantages of export consortia;
- Make agreements with financial institutions and Brazilian banks to help export consortia get loans more easily for investments and export financing;
- Make companies understand that competition in the domestic market does not necessarily mean competition in the international market (in the last one, they can help each other and share experiences, knowledge on foreign trade and - especially - the high costs of working in foreign markets);
- Support the development of a better legal framework for the creation of new consortia.



## B. CASE STUDIES ON EXPORT CONSORTIA

CONSORTIUM NAME	Brazilian Health Products (BHP)	Flor Brasil
<b>Sector</b>	Medical and dental products and equipment	Beachwear, swimwear and fitness clothing
<b>Typology</b>	Promotional	Promotional
<b>Legal form and capital</b>	Non-profit organization; capital US\$ 100,000.00	Non-profit organization
<b>Number of firms and their size</b>	13 firms (12 SMEs and 1 large size company)	12 small companies
<b>Year of incorporation</b>	2001	2000
<b>Organizational structure</b>	President Directors Consortium Manager Assistant	President International Manager Commercial Manager Administrative Manager Quality Manager Assistants
<b>Main type of services provided</b>	Market studies International Fairs Trade missions Organizing meetings with foreign buyers in Brazil Procurement services	Market Studies International Fairs Commercial Missions Collection Planning Adaptation of Products Pricelist Quality Control Technical Information Design
<b>Main markets targeted</b>	South America, Mexico and Europe	Italy, France and United Kingdom
<b>Yearly operational and promotional costs</b>	Yearly operation costs (US\$): 83,000 Yearly promotional costs (US\$): 490,000	Yearly operation costs (US\$): 59,000 Yearly promotional costs (US\$): 340,000
<b>Funding of the consortium</b>	Annual quota US\$ 5,000 per company	Annual quota US\$ 88,500 per company
<b>Cost of incorporation of the consortium</b>	Same as for other non-profit organizations	Approximately US\$ 4,000
<b>History of the consortium</b>	Brazilian Health Products (BHP) is an export consortium supported by the Brazilian government and formed by medical and dental product companies with internationally recognized quality standards. Excellence in quality, advanced technology. Can adjust their products according to each country's technical standards. Competitive pricing and business flexibility enable the consortium members to meet the demands of global markets.	Flor Brasil is a consortium formed five years ago by a group of 12 small companies, focused on exports of women's beachwear. Located in Brasilia, the federal capital. Supported by APEX-Brasil, FIBRA - Industrial Federation of the Federal District, SENAI - Industrial Learning National Service, and SEBRAE.
<b>Performance</b>	<i>Main activities and results:</i>	<i>Main activities and results:</i>

	<p><u>Activities</u></p> <ul style="list-style-type: none"> <li>▪ Website of the group and promotional material</li> <li>▪ Market studies</li> <li>▪ Coordination of 4-6 international trade fairs a year</li> <li>▪ Trade missions abroad</li> <li>▪ Support to the companies to find partners for certifications</li> </ul> <p><u>Results</u></p> <ul style="list-style-type: none"> <li>▪ Exports (2004) – US\$ 5,305,000</li> <li>▪ New employees (2001-2004) – 377 employees</li> </ul>	<p><u>Activities</u></p> <ul style="list-style-type: none"> <li>▪ International fair participation</li> <li>▪ Market studies</li> <li>▪ Trade missions abroad</li> </ul> <p><u>Results</u></p> <ul style="list-style-type: none"> <li>▪ Exports (2004) – US\$ 188,000</li> <li>▪ New employees (2001-2004) – 68 direct and 400 indirect jobs</li> </ul>
<b>Main challenges ahead</b>	<ul style="list-style-type: none"> <li>▪ Creation of commercial office abroad</li> <li>▪ Participation in international tenders</li> <li>▪ Finish the strategic plan for the next years</li> <li>▪ Establish rules and a handbook of procedures</li> <li>▪ Restructuring the consortium</li> </ul>	Exports 2006 to reach US\$ 350,000 Increase exports to Italy, Denmark, Portugal, Spain and USA.
<b>Changes in membership</b>	Number of members (2001): 10 companies Number of members (2004): 13 companies	Number of members (2001): 12 companies Number of members (2004): 12 companies
<b>Change in type of services</b>	No changes occurred	No changes occurred