Opportunities for the Internationalisation of SMEs: The Case of Brazil

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List of Abbreviations

AD Diper	Pernambuco Economic Development Agency (*Agência de Desenvolvimento Económico de Pernambuco*)
ANVISA	Brazilian Agency for Health Protection, a federal agency (*Agência Nacional de Vigilância Sanitária*)
APEX Brazil	Exports and Investment Promotion Agency (*Agência de Promoção de Exportações e Investimentos*)
BNDES	National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Económico e Social*)
CCI	Chamber of Commerce and Industry
CEN	European Committee for Standardisation
CENELEC	European Committee for Electrotechnical Standardisation
CIATEC	Campinas Technopole Development Corporation (*Companhia de Desenvolvimento do Polo de Alta Tecnologia de Campinas*)
CNA	Confederation of Brazilian Agriculture , a private employer's organisation (*Confederação da Agricultura e Pecuária do Brasil*)
CNC	Confederation of Brazilian Commerce, Services and Tourism industries, a private employer's organisation (*Confederação Nacional do Comércio de Bens, Serviços e Turismo*)
CNI	Confederation of Brazilian Mining and Manufacturing industries, a private employer's organisation (*Confederação Nacional da Indústria*)
CNT	Confederation of Brazilan Transportation industry (*Confederação Nacional do Transporte*)
CODIN	Industrial Development Corporation of the State of Rio de Janeiro (*Companhia de Desenvolvimento Industrial do Estado do Rio de Janeiro*)
COFIDES	Spanish Corporation for Development Financing (*Compañía Española de Financiación del Desarrollo*)
COFINS	Social security contribution (*Contribuição para o Financiamento da Seguridade Social*)
DPC	Directorate of Ports and Coast of the Brazilian Navy (*Diretoria de Portos e Costas*), which runs the FDEPM
ECQA	European Certification and Qualification Association
EIB	European Investment Bank
EPO	European Patent Office
ERDF	European Regional Development Fund
ETSI	European Telecommunications Standards Institute
EU	European Union
FDEPM	Fund for the Development of the Maritime Training of DCP (*Fundo de Desenvolvimento do Ensino Profissional Marítimo*)
FDI	Foreign Direct Investment
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
IBAMA	Brazilian Environmental Protection Institute, a federal agency (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*)
ICEX	Spanish Institute for Foreign Trade (*Instituto Español de Comercio Exterior*)
ICMS	Services and Merchandise Circulation Tax, a state tax similar to VAT (*Imposto de Circulação de Mercadorias e*

	Serviços)
ICO	Spanish Offcial Credit Institute (*Instituto de Crédito Oficial*)
INCRA	National Institute for Colonisation and Agrarian Reform, a federal agency (*Instituto Nacional de Colonização e Reforma Agrária*)
INDI	Industrial Development Institute of Minas Gerais (*Instituto de Desenvolvimento Industrial de Minas Gerais*)
INPI	Brazilian Institute of Industrial Property, a federal agency (*Instituto Nacional de Propriedade Industrial*)
OCB	Organisation of Brazilian Co-operatives (*Organização das Cooperativas Brasileiras*)
OECD	Organisation for Economic Co-operation and Development
NTBF	New Technology Based Firm
PAC	Growth Acceleration Programme (*Programa de Aceleração do Crescimento*)
PIS	Social security tax (*Programa de Integração Social*)
PISA	Programme for International Student Assessment (OECD)
PPP	Purchasing power parity
R$	Real, the currency of Brazil
SEBRAE	Brazilian Small Business Institute, a private autonomous institution (*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas*)
SELIC	Special System of Clearance and Custody (*Sistema Especial de Liquidação e Custodia*).
SELIC rate	Overnight lending rate of the Brazilian Central Bank (*Banco Central do Brasil*)
SENAC	National Service for Commercial Training of CNC (*Serviço Nacional de Aprendizagem Comercial*)
SENAI	National Service for Industrial Training of CNI (*Serviço Nacional de Aprendizagem Industrial*)
SENAR	National Service for Agricultural Training of CNA (*Serviço Nacional de Aprendizagem Rural*)
SENAT	National Service for Transport Training of CNT (*Serviço Nacional de Aprendizagem do Transporte*)
SESC	Social Service for Commerce of CNC (*Serviço Social do Comércio*)
SESCOOP	National Service for Co-operatives Training of OCB (*Serviço Nacional de Aprendizagem do Cooperativismo*)
SESI	Social Service for Industry of CNI (*Serviço Social da Indústria*)
SEST	Social Service for Transport of CNT (*Serviço Social do Transporte*)
SMEs	Small and Medium sized Enterprises
SUFRAMA	Manaus Free Trade Zone Authority (Superintendência da Zona Franca de Manaus)
UKTI	United Kingdom Trade & Investment
VAT	Value Added Tax
WAIPA	World Association of Investment Promotion Agencies

Table of Contents

1. Introduction

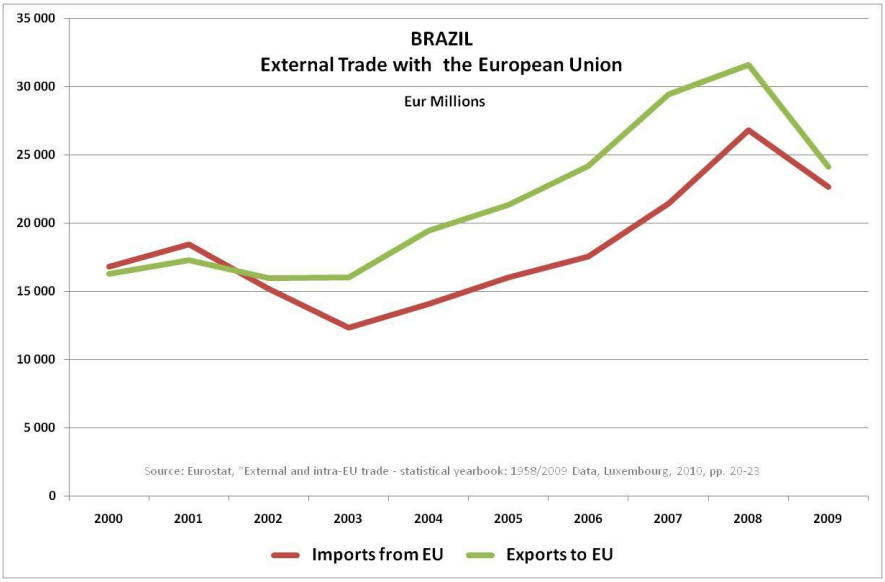
1.1 Background Information of Brazil1

- Population: 201,103,330 (2010) [ranks 5th in the world]
- Area: 8,514,877 km^2 [5th]
- GDP: $2.194 trillion (2010, estimate) [8th]
- GDP per capita (PPP): $10,900 (2010, estimate) [104th]
- Currency: Real ($R); Exchange rate $R per EUR: 2.25 (2011), 2.33 (2010), 2.01 (2009), 1.84 (2008), 1.95 (2007), 2.18 (2006) and 2.44 (2005)

1.2 Trends in Trade with and Investment from the European Union

Exhibit 1: External Trade of Brazil with the European Union (27). EUR millions.[2]

Year	Imports	Exports
2000	16 826	16 308
2001	18 462	17 312
2002	15 201	15 984
2003	12 338	16 035
2004	14 082	19 459
2005	16 044	21 342
2006	17 582	24 181
2007	21 469	29 435
2008	26 795	31 588
2009	22 655	24 132



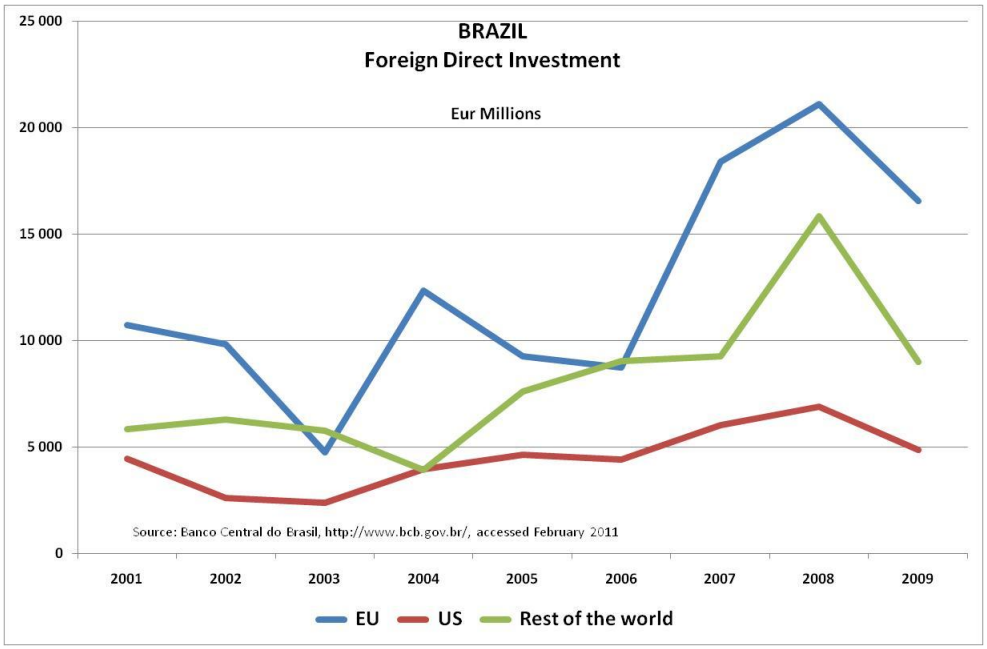
Brazil ranks 9th & 12th in the world as a **trade** partner of the EU (respectively for imports from and exports to Brazil) and 4th & 8th of the countries outside the European continent. The EU is Brazil's biggest trading partner, accounting for 22.5% of its total trade (2009). Since 2003, the external trade between Brazil and the EU increased steadily, except for 2009 when the effects of the international financial and economic crisis were felt. After the first years of the millennium, Brazilian trade balance has kept a surplus ranging from 15 to 30% of the EU exports.

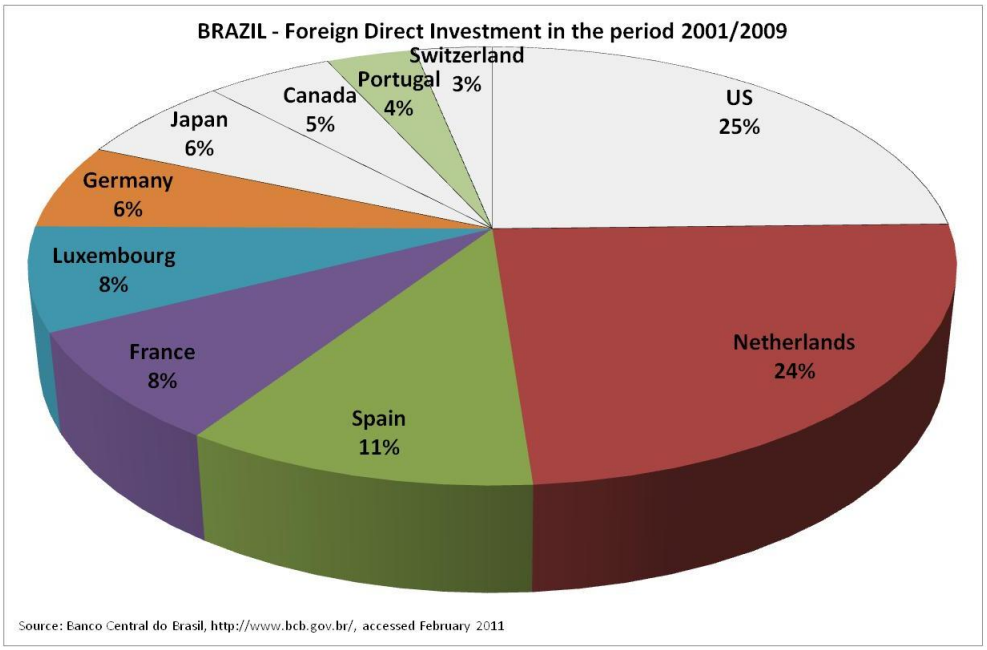
[1] Source: CIA, The World Factbook, https://www.cia.gov/library/publications/the-world-factbook/index.html, accessed February 2011. Except exchange rates that were compiled from other sources: http://www.x-rates.com, http://www.exchange-rates.org/history/BRL/EUR/G, accessed February 2011

[2] Source: Eurostat, "External and intra-EU trade - statistical yearbook: 1958/2009 Data, Luxembourg, 2010, pp. 20-23

The EU is the largest foreign **direct investor** in Brazil with an annual average of about EUR 12.4 billion in the last 5 years. The annual FDI from EU member states underwent a fast growth trend in this period. As to individual countries, 6 out of the 10 largest direct investors in Brazil are from the European Union and account for about 61% of the aggregate investment of this group.

Exhibit 2: Foreign Direct Investment in Brazil. EUR millions, EU 27[3].



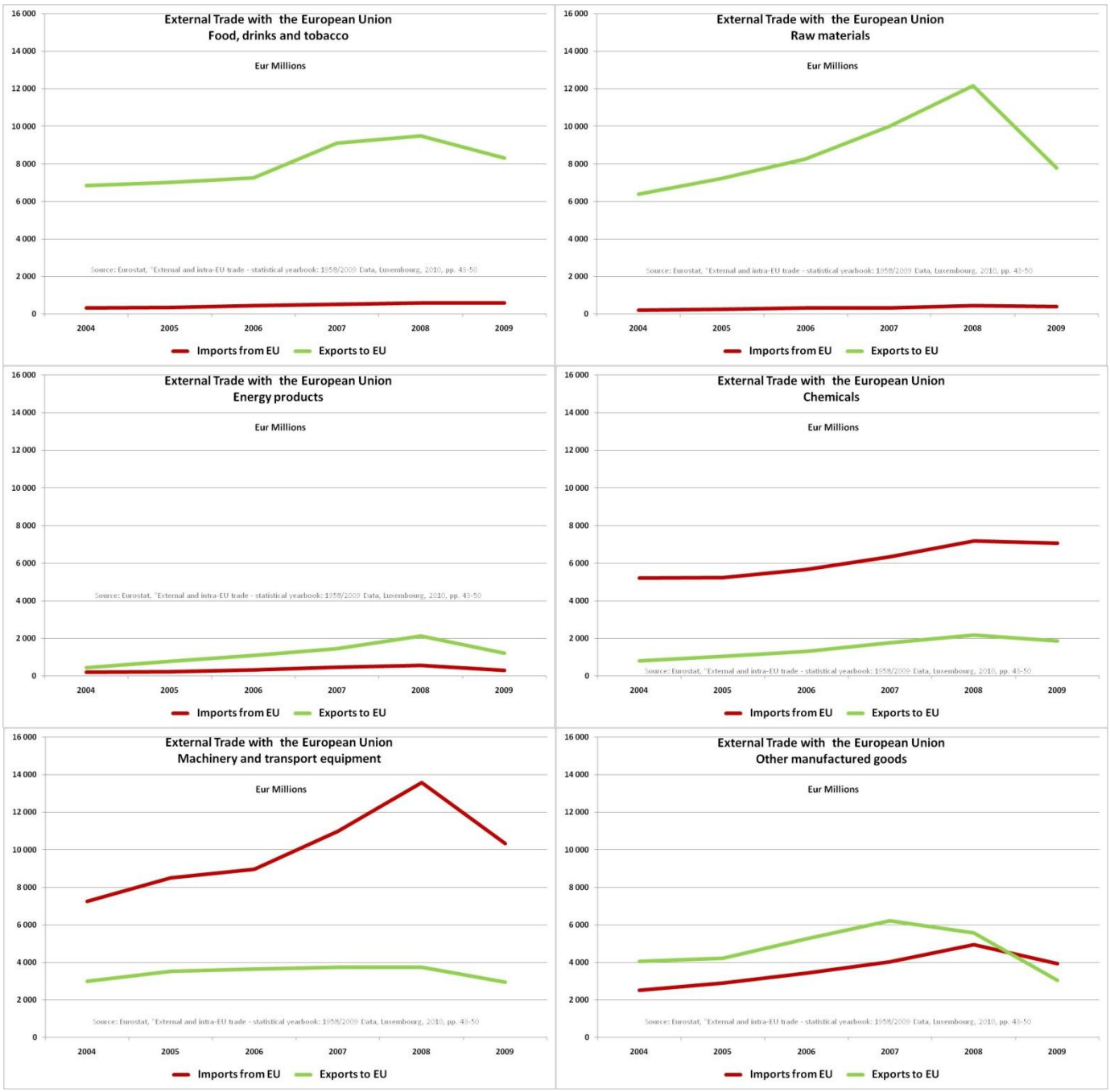


[3] Source: Banco Central do Brasil, http://www.bcb.gov.br/, accessed February 2011

2. Orientation of EU exports

Viewed across products (using the sections of the SITC - Standard International Trade Classification, Rev. 4), Brazilian external trade with Europe is still showing a specialisation typical of a relationship between developing and developed economies.

Exhibit 3: External Trade of Brazil with the EU (27) by product groups. EUR millions. [4]



[4] Source: Eurostat, "External and intra-EU trade - statistical yearbook: 1958/2009 Data, Luxembourg, 2010, pp. 45-52

Brazilian surpluses occur in commodities (food and raw materials), while EU surpluses arise in semi-processed (chemicals) and manufactured goods (machinery and transport equipment).

The Brazilian market is quite protected with an applied customs averaging tariff of 12%. EU tries to encourage Brazil to reduce tariff and non-tariff barriers, and to maintain a stable regulatory environment for European investors and traders. The basis of the EU's bilateral trade relations with Brazil will be a wide-ranging EU-Mercosul[5] Association Agreement which will also result in the creation of a vast free trade area. This agreement has been in negotiations since long. Until summer 2004 there was gradual but substantial progress in the negotiation which, however, stalled in September 2004. Since then, regular contacts have taken place both at ministerial and technical level in order to explore ways on how to re-engage the process. Recently (Madrid Summit, May 2010) it was decided to resume negotiations.

[5] Mercosul (Portuguese) or Mercosur (Spanish) is an economic and political agreement between Argentina, Brazil, Paraguay and Uruguay, founded in 1991 by the Treaty of Asunción. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. The official languages are Portuguese and Spanish. It has been updated, amended, and changed many times since. It is now a full customs union. In 2004, Mercosul concluded free trade agreements with Colombia, Ecuador, Venezuela, and Peru, adding to its existing agreements with Chile and Bolivia to establish a commercial base for the newly-launched South American Community of Nations. In 2008 Mercosul concluded a free trade arrangement with Israel, and another arrangement with Egypt was signed in 2010. Mercosul is pursuing free trade negotiations with Mexico and Canada. The trade bloc also plans to launch trilateral free trade negotiations with India and South Africa, building on partial trade liberalization agreements concluded with these countries in 2004. In July 2006, Venezuela officially joined the Mercosul trade bloc; its full membership is pending ratification by the Paraguayan congress.

3. Opportunities for SMEs

According to interviewees there is a wide range of opportunities in Brazil for European SMEs to invest. Some of such opportunities arise in connection with known Brazilian shortcomings (e.g.: poor or insufficient infrastructure, mainly in the transportation sector)[6], abundance of natural resources (e.g.: oil and gas industries), the needs of the burgeoning middle class of the country and the sheer size of the internal market. With the award to Rio de Janeiro of two of the highest profile sports events in the world, the 2014 World Cup and the 2016 Summer Olympics, additional opportunities were generated.

The following table shows areas where investment opportunities in Brazil are available as indicated by the interviewees[7].

Exhibit 4: Opportunities for EU SMEs

Industries (*and their supply chain*)	Service industries
• **Agriculture and agro-industry**	• **Services for the public Works industry**
• **Pharmaceutical and health industries**	• **Transport and logistics**
• **New construction materials**	• **Environmental services**
• **Oil and gas**	• **ICTs**
• **Renewable energies, including bio fuels**	• **Real estate & allied services**
• **Machinery and equipment**	• **Industrial design**
• **Automotive**	• **Fashion and fragrance**
• **Aviation industries**	• **Hospitality and leisure**
• **High Tech (biotech, nanotech, etc.)**	• **Education and training**

Many large companies in Brazil are government owned or are *de facto* controlled by government. For instance, government insisted that Petrobras[8] should be the sole

[6] Former Brazilian President Lula da Silva announced in March 2010 a USD550 billion long-term infrastructure investment plan called the PAC II (the second installment of the government's 'accelerated growth program', PAC or PAC I, a major investment plan of the government announced in 2007. When combined with the USD504 billion in budget allocations outlined by PAC I in 2007, Brazil's targeted infrastructural investments should eventually total more than USD1 trillion over a 10-year period. "BRAZIL – Fantastic Opportunities…Spectacular Potential", The Address Magazine, issue 7, November 2010, http://www.theaddressmagazine.com/2010/10/brazil/, accessed February 2011.

[7] While Brazil is known to possess rich mineral deposits (48 billion tonnes of iron ore, 208 million tonnes of manganese, 2 billion tonnes of bauxite, and 53 million tonnes of nickel, reserves of potassium, phosphate, uranium, cassiterite, lead, graphite, chrome, gold, zirconium, thorium and other, as well as gems, such as diamonds, aquamarines, topazes, amethysts, tourmalines, and emeralds), none of the interviewees mentioned the mining industry as a field offering opportunities to European SMEs.

[8] Petrobras is a semi-public Brazilian multinational energy company headquartered in Rio de Janeiro. It is the largest company in Latin America by market capitalization and revenue, and the largest company headquartered in the Southern Hemisphere by market value. While the company ceased to be Brazil's legal monopolist in the oil industry in 1997, it remains a significant oil producer, with output of more than 2 million barrels of oil equivalent per day, as well as a major distributor of oil products. The company also owns oil refineries and oil tankers. Petrobras is a world leader in development of advanced technology from deep-water

"pre-salt" oil & gas fields[9] operator in Brazil, make up at least 30% of any consortium applying to oil exploration or exploitation concessions, and source most goods and services within Brazil[10]. As Petrobras capital expenditures currently accounts for around 2% of Brazilian GDP and its overall supply chain makes up a total of 7-8% of GDP[11], this is creating many opportunities for direct investment in the country in all industries and services of the oil and gas supply chain, particularly in high technology areas.

Brazil fast economic development benefits of a rapid domestic consumer growth, due to an easing of credit, improvement of inner city slum conditions, and huge growth in domestic manufacturing, particularly in the automotive and technology industries. This has led to increased employment and to the rise of a new, wealthier middle class, which increased from 29% in 1980 to 47% of the population in 2010. Between 2003 and 2009 only, 29 million Brazilians got out of poverty. This trend, which is expected to go on in the future[12], is creating many opportunities for investing in local businesses to manufacture consumer products or to provide consumer services.

and ultra-deep water oil production. Wikipedia, "Petrobras", http://en.wikipedia.org/wiki/Petrobras, accessed February 2011.

9 The Pre-Salt layer is a geological formation on the continental shelves off the coasts of Africa and Brazil.

10 The Economist, "In deep waters: Brazil's offshore oil", February 3rd 2011, http://www.economist.com/node/18065645, accessed February 2011.

11 Tony D'Altorio, "Brazil is Set to Become a Top Oil Producer", Investment U Research, February 11th, 2011, http://www.investmentu.com/2011/February/brazil-petrobras-top-oil-producer.html, accessed February 2011.

12 By 2050, Brazil will rank as the fourth-largest economy in the world. Its economy, Latin America's largest, is set to pass the economies of France this year and the United Kingdom in 2013. It will also overtake Germany in 2025 and Japan in 2039, according to projections in purchasing power parity terms. The projections foresee an average annual GDP real growth of 4.4 percent for Brazil in the 2009-2050 period. By comparison, the traditional Big Three economies will likely grow by 2.4 percent (US), 1.3 percent (Germany) and 1.0 percent (Japan). Alejandro J. del Corro, "Brazil – General Report – 02/2011", GTSA – Gateway South America, 30 January 2011, http://www.gatewaytosouthamerica-newsblog.com/2011/01/30/brazil-general-report-022011/, accessed February 2011

4. Bottlenecks of doing business in Brazil

Brazil ranks 58th in the ordered list of 139 countries (median rank: 70) participating in the last Global Competitiveness Index 2010/2011 (GCI)[13]. According to this benchmarking study, "Brazil is fairly stable at 58th, with a slight improvement in score (4.3 vs. 4.2 in 2009), after following an impressive upward trend for the last couple of years (up 16 positions between 2007 and 2009)."

From the 3 sub-indexes that contribute to the global index, it is in first one ("Basic Requirements") that Brazil performs worst, particularly in what concerns the pillars "health & primary education" (87), "institutions" (93) and "macroeconomic environment" (111). Other pillars contributing to other sub-indices that are clearly above the median rank (i.e.: worst than the median) are "Goods market efficiency" (114) and "Labour market efficiency" (99), both contributing to the sub-index "Efficiency Enhancers. In the last sub-index ("Innovation and sophistication factors"), Brazil has a reasonable ranking: 38th.

The results from the interviewing programme of public and private executives and entrepreneurs in Brazil, between November 2010 and February 2011, generally corroborate the assessment of the factors made in the 2010/2011 version of the GCI benchmarking study. In the following sections these results are discussed.

4.1 Major obstructions

More than 50% of interviewees concurred in mentioning 4 major obstructions that are impairing the starting up and development of businesses in Brazil, particularly of direct investment projects in productive facilities by foreign SMEs, notably from the EU.

a) Bureaucracy

Excessive bureaucracy is quite pervasive in Brazil, harming significantly the business dealings of private companies with the public administration, absorbing effort and time of their specialized staff. Bureaucracy is present in all governmental layers (federal, state and municipal) and in the public agencies. Some quotes:

- More than 50 certificates are needed to establish a company, costing in time and money more than 200% of what was previously and reasonably planned.
- To change the registered office address of a company it is required to make more than a dozen official registries and spend an amount of money in excess of R$ 2,000 (or about EUR 900).

[13] Klaus Schwab, "The Global Competitiveness Report 2010–2011", World Economic Forum, Geneva, Switzerland 2010. In this benchmarking study, competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country.

- Bureaucracy it is a major drawback especially in areas where regulatory agencies, such as ANVISA (the Brazilian Agency for Health Protection) or IBAMA (the Brazilian Environmental Protection Agency), must be consulted. EU companies are mentally unprepared to deal with this amount of bureaucracy and many give up trying.
- Huge bureaucracy in Brazil is due to overregulation and an excessive number of organizations overlapping each other.

The GCI ranks "inefficient government bureaucracy" as the 5th of the most problematic factors for doing business in Brazil[14].

b) Complexity of regulations

As a major contributor to the bureaucratic hurdles of Brazil, the complexity of existing regulations is quite exuberant and affects all important transactions (informational, financial, and other) companies must have with their stakeholders. Complexity exists, inter alia, in tax codes and regulations, in labour laws, external trade rules, company law, industrial licensing, and foreign worker permits. Quotes:

- To start importing goods, a firm needs to obtain a document named "Radar"; a pre-requisite for issuing such document is the submission of balance sheets and income statements from previous fiscal years of the applying firm; starting-up firms cannot comply with this requirement because they don't have a financial past; then, a bottleneck arises.
- Work permits to foreign individuals can only be issued for specialised jobs that no Brazilian citizen possess; as it is always possible to find Brazilians holding practically all specialisations, this creates barriers to contracting expatriate staff, making it a lengthy and cumbersome process.
- Labour law is complicated, outdated (approved in 1943) and paternalistic. For instance, once a benefit has been implemented by a firm, it will be impossible to change or eliminate it.
- Trade unions are too strong and authoritarian: initiatives on the part of the employers are often turned away, such as compensation programmes based o performance and competence. Trade unions prefer not engaging in collective negotiations at industry level favouring direct negotiations on a company by company basis, thus undermining the power of the employers.
- There is a multiplicity of taxes, contributions and other mandatory dues (which are, actually taxes in disguise). They are sometimes cumulative and difficult to comply with.
- The tax system comprises many different authorities levying taxes and entailing many and complex procedures which are burdening enterprises[15].

[14] Klaus Schwab, ibid., p. 106

[15] Reportedly, the existing inefficient tax system is preferred to a "streamlined and more efficient system" because "it is capable of generating high levels of revenue". Carlos Pereira and Marcus Andre Melo, Tax Policy in Brazil: The Reform That Never Was, The Brookings Institution, 2011, http://www.brookings.edu/opinions/2010/0908_tax_policy_pereira.aspx, accessed February, 2011.

Several states don´t want to collaborate to resolve differences in tax regulations fearing to lose tax receipts.

The GCI report ranks tax regulations as the 1st, labour regulations as the 4th, and foreign currency regulations as 10th most problematic factors for doing business in Brazil[16].

c) High Taxes

High level of taxation was the next bottleneck mentioned by the respondents. In Brazil there is a high level of taxation, the overall tax burden is already 36.4% of GDP, which compares with an average of 37% for OECD countries[17]. VAT tax (ICMS), which is levied by each state and may be different from state to state, contributes with about 25% of the aggregate tax amount in the country. It also happens that, among much inefficiency, the fiscal administration is pretty effective in collecting taxes. Some quotes:

- High taxes are particularly unfavourable for exporters: under the current VAT (ICMS) system the exporter accumulates huge credits of taxes over exports, without a smooth mechanism to quickly compensate these credits when the company doesn´t have domestic sales; to repossess such credits takes a long time, exerting a financial burden on the company.
- The exporter is exempt of social contributions (COFINS and PIS), but it is difficult to get refunds of taxes paid to suppliers.
- There are many taxes[18], taxes over taxes, and a relatively high overall taxation.

Tax rates were also selected for the list of the most problematic factors for doing business in the GCI report. It was ranked in second place in this list[19].

Some analysts[20] feel that Brazilian industry representative bodies appear to accept with passivity these high taxes. Their explanation is that BNDES, the Brazilian Development Bank, is providing "relatively easy loans" thus pumping money into the national economy during the financial crisis (see below the paragraph on the Investment Sustaining Programme). Behind these "massive loans for manufacturing and infrastructure national industries, is a mechanism of subsidies from the national treasury that in fact is paying for the difference (about $6 billion a year) between the

[16] Klaus Schwab, ibid., p. 106

[17] Since the mid-1980s there has been a "massive increase in tax revenues". The tax burden (percent of GDP) rose from 25 in 1993 to 37% in 2007. In Latin America, Brazil's tax has been twice the average and it is greater than developed economies, such as Japan, USA, Switzerland, Canada, Ireland, and Spain. Carlos Pereira and Marcus Andre Melo, ibid.

[18] Some sources blame the Brazilian Constitution to be prodigal in distributing rights and quite modest in indicating which income sources will pay for sustaining these rights. Marcos Lobo de Freitas Levy, "Pharmaceutical Patents and Access: A Little Transparency Please", Executive View, 17 March 2010, http://www.executiveview.com/knowledge_centre.php?id=11242, accessed February 2010.

[19] Klaus Schwab, ibid., p. 106

[20] Carlos Pereira and Marcus Lobo de Freitas, ibid.

rates BNDES lends (6 percent) and the yield on the ten-year government bonds of around 12 percent".

Brazil has a special component of its tax structure, the "S system", that was created following the Brazilian Constitution of 1988. This system operates at the federal level and encompasses a number of individual taxes, most of which are levied on the payroll of all enterprises, and are earmarked for several organisations, most of them sectoral employer's organisations, such as agriculture (SENAR), industry (SENAI and SESI), wholesale and retail trade (SENAC and SESC), transport (SEST and SENAT), co-operatives (SESCOOP), or autonomous private organisation, such as SEBRAE (the Brazilian small business institute), as well as federal agencies such as INCRA (Institute for the Agrarian Reform), DCP (Federal Directorate of Coast and Ports of the Ministry of Maritime Affairs) and FA - Fundo Aeroviário (a fund managed by the Ministry of Aeronautics).

d) High interest rates and difficult access to debt financing

Bank financing is very expensive and difficult to obtain, notably for a foreign firm entering into the Brazilian market, as compared to bank financing in the EU. The Brazil banks are more conservative, charging interest rates of 3% or more per month dependent upon the type of collateral. Special financing programmes at lower interest rates (e.g.: investment financing for acquiring machinery and equipment of Brazilian origin) are not available for foreign SMEs in the starting-up phase, because typically the financial institutions require that the applying firm shows a financial track record of at least 3 years so they can perform an assessment of the credit risk[21]. Quotes:

- The interest rates are very high. Short term loans cost around 18/20% per year.
- Bank financing is difficult and very expensive. Banks require substantial collaterals and interest rates for short term loans are of 20% or more. The reference interest rate (SELIC) is currently 10.75%.
- Investment financing by bank credit for SMEs is virtually non-existent.
- Bank credit is not available to foreign firms.
- Bank financing for SMEs is very difficult to obtain and very expensive.

Also the GCI report acknowledges the "access to financing" factor as one of the most problematic for doing business in Brazil, ranking it 7th in the listing[22].

[21] These constraints are reportedly made mandatory by the regulator, the Central Bank of Brazil (Banco Central do Brasil). To circumvent them, some suggest that an entrant foreign SME, willing to benefit from some special credit line from a Brazilian development institution, may buyout an existing Brazilian company and conduct the financing negotiations through that local company. The credit risk analysis will take into account the past financial performance of the local company, as well as the expected performance of the new project (the former may be entirely irrelevant as the new project may concern an industry that is completely different from the industry of the local company). No success stories of such awkward approach were reported during the interviewing programme or the workshop.

[22] Klaus Schwab, ibid., p. 106

BNDES, the Brazilian Development Bank is the main development financing agent in Brazil established on 1952 as a government agency. Subsequently it was converted into a federal public company associated with the Ministry of Development, Industry and Foreign Trade. BNDES is the second largest development bank in the world. In July 2009 BNDES launched PIS, or the Investment Sustaining Programme (*Programa de Sustentação do Investimento*), to fight the financial crisis. This programme, which started with a budget of R$ 134 billion (Eur 66.5 billion) and is now being expanded, is dedicated to provide medium/long term loans to Brazilian companies, at reduced interest rates (5,5% to 8,5% per year), to finance the acquisition of machinery and transport equipment, as well as tangible assets in general for export or innovation oriented projects[23]. Imported assets are not supported by the programme. The programme has a discriminatory provision[24], as Brazilian companies "under the control of foreign capital" are not eligible, except for a white list of "high national interest" activities: energy generation, telecommunications, ports and transportation systems, environmental services, chemical, mining, metallurgical, automotive, agro-forestry, electronic industries, tourist resorts, and the leasing industry[25].

4.2 Other obstructions

e) Poor infrastructure

Brazil has an underdeveloped infrastructure, mainly in the transport sector, but also in the energy sector. Telecom infrastructure has improved in the last years. This situation brings on extra costs and unnecessary delays to the operations of enterprises. Quotes:

- Inefficient logistics (infrastructure) is an important part of the high "custo Brasil"[26]

[23] Azelma Rodrigues, Government may extend the the Investment Sustaining Programme (*Governo deve prorrogar Programa de Sustentação do Investimento*), Valor on line, São Paulo, 02 February 2011, http://www.valoronline.com.br/online/brasil/1/378235/governo-deve-prorrogar-programa-de-sustentacao-do-investimento, accessed February 2011.

[24] PSI Programme (*Programa BNDES de Sustentação do Investimento - BNDES PSI*), BNDES Web site, http://www.bndes.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/Programas_e_Fundos/Psi/index.html, accessed February 2011.

[25] Decree no. 2233, President of the Republic, of 23 May 1997, http://www.planalto.gov.br/ccivil_03/decreto/1997/D2233.htm, accessed February 2011.

[26] "Custo Brasil" or "Brazil cost" is usually defined as the extra cost of doing business in Brazil, which compromises competitiveness and industrial productivity due to typical Brazilian deficiencies. Typical and widely acknowledge deficiencies are: (1) costs of infrastructure: excessive freights, bad roads, lack of storage, bad functioning of ports, (2) high fiscal charges and high indirect labour costs, (3) burden of corruption, (4) high interest rates and huge bank spreads, (5) bureaucracy while starting up a company and related to export and import activities. ABIMAQ (the Brazilian Association of the Machinery and Equipment Industries) recently compared production costs in Brazil and Germany and calculated that this extra cost is more than 36% of the total production costs. Marcelo Rehder, "Custo Brasil, uma sobrecarga de 36%" (*Brazil cost, a 36% burden*), O Estado de S. Paulo, March 7, 2010, http://economia.estadao.com.br/noticias/not_7898.htm, accessed February 2011.

- Infrastructure: roads and railways, ports, facilities of storage, all in bad shape and needing urgent rehabilitation or upgrading.

In the 2010/2011 edition of the GCI report, which ranked the "inadequate supply of infrastructure" 3rd in the list of the most problematic factors for doing business in Brazil[27], a special section was dedicated to the infrastructure problems in Latin America with special emphasis on Brazil[28].

After stressing that public investment in infrastructure was the "main victim of the stabilisation programmes implemented in the 1990s"[29] because it was easier to cut this type of investment than current expenditures with public salaries and pensions, and acknowledging that the idea that the private sector could step in and fill the financing gap did not fully materialise, the report points out that the "infrastructure development in the region has lagged behind that of the East Asian tigers or even China over the last two decades, with severe implications in terms of economic growth and poverty reduction". This is "particularly relevant for large emerging markets such as Brazil, which are increasingly playing a key role in the global economy and for which poor infrastructure quality results in higher logistics costs and inefficient patterns of interregional and international trade."

f) Insufficient protection of IP

In Brazil the protection of intellectual and industrial property is weak due a legislation that does not conform to OECD standards. Some quotes:

- Protection of intellectual or industrial property is more difficult than in Europe. Legislation is not adequate and the intervention of INPI (the IP protection office) is not effective.
- The poor protection of IP is a manifestation of the fact that Brazil practically does not have international treaties, and, from a European perspective, the possibility of making new treaties for IP protection is hindered by the obligation Brazil has to extend all facilities and privileges conceded to EU to the other members of Mercosul.

The GCI report does not list this weakness of Brazil as a major problematic factor for doing business in the country.

g) Lack of skilled labour

Some references were made to the lack of skilled labour, particularly in high technology areas such as engineering, and to the fact that Brazilian workforce has a low qualification. This is corroborated by the assessment made by the GCI report,

[27] Klaus Schwab, ibid., p. 106
[28] Klaus Schwab, ibid., pp. 33-35
[29] Public investment in infrastructure in Latin America fell from 3 percent of GDP in 1988 to 1 percent of GDP in 1998. This adjustment was particularly dramatic in Brazil, which had increased its current expenditures, and therefore needed to make even deeper cuts in long-term investment.

which ranks the "inadequately educated workforce" as the 8th most problematic factor for doing business in Brazil[30].

This deficiency is directly linked to the quality of the Brazilian educational system at all levels (ranked in the GCI report 106th for primary education and 97th for the higher education) and to disparities in educational access and attainment. Brazil ranked 52nd out of 57 countries in the 2006 OECD PISA test, which is an indicator of the relative performance of the educational systems[31]. In the 2009 test Brazil did not improve significantly (53rd out of 67)[32]. Some respondents also pointed out that many government officials are not well prepared to deal with their responsibilities, which may be a consequence of their insufficient skills.

h) Cultural differences

This encompasses a set of beliefs, attitudes and behaviours supposed to be shared by the Brazilian population that are usually mentioned in national and international press and other sources, but may be difficult to identify in detail. In the context of the interviewing programme the following citations illustrate some specific factors and traits of the touted Brazilian culture:

- The Brazilian culture is more subtle then foreigners think, it is frequently underestimated leading to unpleasant surprises. It is required professionalism to deal with it.
- It is required patience to deal with Brazilians, notably public officials. They tend to hesitate a lot in making decisions. They are afraid of making mistakes and be held accountable for them.
- There are cultural differences, such as punctuality.
- Brazilians have difficulties with foreign languages, especially English.
- Brazilians are complacent with the prevalence of the informality in the business setting, which includes a large proportion of non-structured non-taxed businesses[33].
- It is frequent foreign SMEs failing in Brazil because of the lack of reliability of their Brazilian partners.

While the GCI report does not place cultural factors in the top of the most problematic issues impairing the competitiveness of Brazil (the only factor related to cultural idiosyncrasies, "poor work ethics in national workforce", was ranked 14th and mentioned by only 0.5% of participants in the GCI survey), a recent survey conducted

[30] Klaus Schwab, ibid., p. 106

[31] Irene Mia et al., "The Brazil Competitiveness Report 2009", World Economic Forum and Fundação Dom Cabral, 2009, pp. 59-60.

[32] OECD, "PISA 2009 Results", http://www.pisa.oecd.org/dataoecd/54/12/46643496.pdf, accessed February 2011

[33] According to a World Bank research, the high proportion of informality of the labour market (35% in 1980) rose 10 percentage points from 1990 to 2000. Mariano Bosch et al., "The Determinants of Rising Informality in Brazil: Evidence from Gross Worker Flows", The World Bank, Policy Research Working Paper 4375, October 2007

by an international consultant[34] found, amid the barriers and challenges impacting international expansion in the Brazilian market, two concerns that can be associated to cultural factors: poor ethics and lack of trustworthy local partners. Other negative factors mentioned in this study were already discussed above: difficult to find the right local management and staff (see above 'lack of skilled labour') and state protectionism or trade barriers (sea section 'Orientation of EU exports').

Finally, none of the interviewees mentioned corruption as a barrier or challenge affecting foreign SMEs when starting or expanding their operations in Brazil. This was somewhat surprising as both benchmarking studies cited above acknowledge corruption as negative feature of the country: GCI ranks corruption 6th in the most problematic factors in attracting foreign investment and the BDO survey lists corruption next to state protectionism/trade barriers as a major barrie for foreign companies to enter or expand in the Brazilian market.

This matter was brought up during the workshop that followed the interviewing programme. Though it was not possible to arrive to an agreement on why respondents missed to refer corruption during the interviews, there was a wide consensus that corruption exists and that it is a sizable problem in Brazil[35]. Several explanations are possible: it was not mentioned because it affects equally both foreign and national companies (though many of the obstructions mentioned before also do), corruption is a socially undesirable citation, and corruption is so insidious that "it goes without saying".

4.3 Other challenges

There are other facets that may signify difficulties for EU SMEs to start doing business in Brazil but do not qualify as obstructions or bottlenecks of the country *per se*. Some are features typical of Brazil, which actually are positive elements such as the large size of the domestic market, its diversity and continuing evolution, or problems that are pegged to the European SMEs themselves. In general these are challenges SMEs should take into serious consideration when preparing their dealings in the country to avoid bad consequences when rolling out their business plans. Some of such features that were mentioned by the respondents follow:

- The size of the country, the size of its market[36], the size of the competition.
- Considerable differences between the various regions of Brazil.

[34] BDO, "REPORT - BDO Ambition Survey 2010: Global opportunities", International Executive Office, Brussels, Belgium, 2010.

[35] Transparency International (TI) indices, which rank countries based on public sector corruption risk, are widely respected and used as a sound basis for identifying high risk countries. In the last edition, Corruption Perceptions Index 2009, Brazil is ranked 75th, next to Greece and Romania, out of 180 countries. In a scale from 0 (perceived to be highly corrupt) to 10 (perceived to have low levels of corruption), Brazil is placed on the 4th group, with a score of 3.7. Transparency International, Annual Report 2009, Berlin, Germany, 2010, p. 49.

[36] Brazil is the 3rd world market for cell phones, cosmetics, and drinks and the 5th market for personal computers and automobiles.

- Brazil has a huge and diversified market, which is unexpected for most EU SMEs.
- The lack of information and preparation of the Europeans SMEs may engender a long learning curve for them to master the competences needed to deal with the local business environment, particularly in what concerns the relations with public departments and agencies. Frequently SMEs give up their plans in Brazil.
- EU SMEs frequently neglect collecting extensive and specifically prepared information to match their particular needs (general information of the standard type "how to do business in ..." is not enough). This may prove fatal.
- Poorly selected partners and wrong structured partnerships.
- Sometimes SMEs select inadequate partners.

Finally, there are other difficulties that are industry or situation specific. Two examples:

- Distribution channels that do not operate as efficiently as in Europe.
- In some industries foreign SMEs are experiencing difficulties to place their production due to strong competition from Chinese products. This is the case of 1st and 2nd tier suppliers of the automotive industry (components, spares, etc.) that were brought to the Brazilian market by European car manufacturers.

5. Overcoming Bottlenecks

Most of the bottlenecks identified in the preceding sections can only be changed by Brazilian authorities, notably the congress and the government (federal, state and municipal levels). Any improvement in **public bureaucracy** and the reduction of the **excess and complexity of regulations** depends on reforms of the public administration, aiming at making the functioning of public services and agencies more friendly to companies and entrepreneurs. Besides calling for advancements in the qualification of public officials, these reforms should reduce the routine administrative burdens, minimise start-up requirements, improve the quality of regulations, simplify the tax system, and increase the efficiency of the legal system in general. Furthermore, the other 2 major bottlenecks, **high taxes** (including import duties) and **high interest rates** and **access to finance** (particularly by foreign SMEs), entail also complex economic governance problems, notably reducing domestic protectionism, fighting the decline of the manufacturing industry's contribution to GDP threaten by cheap China imports, managing the budget deficit, and keeping inflation at bay.

Resolving deficiencies of **public infrastructure** calls for complex projects and substantial financial resources; the international sports events planned to 2014 and 2016 (World Cup and Summer Olympics) offer good opportunities to open the economy internationally, by selecting the most effective suppliers, increasing the efficiency of public spending at the same pace. Insufficient protection of **industrial and intellectual property**, which, together with the underdevelopment of **standardisation and certification** policies in the country, are main hurdles to economic progress, are also in need of public reforms. Still plagued by many deficiencies and social and regional disparities, the Brazilian **educational system** has a long way to go before it arrives where it needs to be, to improve the competitive qualification of future generations.

Depending on many demanding reforms to improve the currently existing hurdles, it is not likely that the situation will get better significantly in the short and medium term. Thus, meanwhile, what can be done is to help EU SMEs to anticipate and be prepared to deal with the bottlenecks and to influence and help Brazilian authorities to take the necessary steps to introduce the reforms needed to change the *status quo*.

Some of the interviewees emphasised the obvious recognition of the binding responsibility of the Brazilian authorities in solving most of the existing hurdles that are obstructing foreign investment in Brazil, particularly by SMEs, and specifically by the European ones. Some quotes:

- The federal government is making some efforts to better some of the bottlenecks. There are some legislation in the Congress geared towards making administrative procedures more flexible and swift, notably through

the use information technologies and internet. So far, its results are insufficient.

- It will never be resolved without the attention and cooperation of the Brazilian Government.
- Only possible with firm determination of the Government to implement administrative reforms.
- Government should undertake programmes to overcome the bottlenecks. Furthermore, employer's trade associations should be strengthened.

When questioned about what should be done to this respect, respondents offered some solutions or ways to better deal with the obstructions and hurdles. These recommendations can be categorised into 2 broader classes, according to the addressees: SMEs and EU institutions.

5.1 Recommendations to SMEs

The recommendations to SMEs were basically of 3 types.

a) Get local help from trustworthy professionals.

This type of advice was put forward by more than a third of the interviewees. Some quotes:

- Any SME aiming at developing its business dealings in Brazil should get the appropriate local expertise by engaging lawyers, auditors and other Brazilian professionals.
- To resort to trustworthy professional support in the country (lawyers, accountants, auditors, etc.)
- Companies should select and engage good lawyers, accountants, and other local professionals.

b) Contact free local supporting bodies.

The respondents mentioned also the support of existing chambers of commerce, consulates, trade offices and other home country representations in Brazil. Such sources of help were cited with the same frequency than the first one (local professionals), sometimes with the proviso that these bodies are not as well prepared as the private professionals to provide the required support. In some interviews, local public agencies and/or industry associations were also recommended, as sources of vital information for EU SMEs plan their business plans.

In some circles (notably, federal and state agencies) it was expressed the belief that Brazilian government became recently more aware of difficulties that foreign SMEs face in entering in the market, which, combined with the perceived need of attracting foreign investment in specific sectors where domestic technology and experience are more faulty, induced some efforts to ease the requirements or to help in overcoming them, notably through the informative functions. One of such examples is the federal agency APEX that, after starting focused solely in the promotion of exports, recently

developed capabilities in the FDI promotion area. Some states (e.g.: São Paulo, Rio) are also developing investment promotion agencies and trying to extend more favourable development loans to SMEs, through state economic development financial institutions.

Some excerpts of the recommendations from interviewees:

- With the help of the Chambers of Commerce and Industry[37].
- Consulates and Chambers of Commerce may provide valuable support to EU SMEs by promoting direct contacts and investment missions to Brazil.
- A platform such as the incubator currently run by the Danish consulate in São Paulo should be considered as an ideal measure, offering space, facilities and customised advice to SMEs willing to enter the Brazilian market.
- Brazilian organizations are all fragmented[38]. For this reason the large industry federations (e.g.: FIESP, at São Paulo, and FIRJAN, at Rio) work together with SEBRAE and some CCIs combining efforts to offer more consistent and focused sources of information and networking. CIN, the federal confederation of industries, also has an important role in conducting and lining up all employers' activities referring to internationalisation.
- SMEs should also get in touch with SEBRAE (the small business institute) and BNDES (the national development bank) to investigate which support these institutions can provide.
- What EU SMEs need is the unified approach, the transfer of good information and the type of personal coaching SEBRAE is providing to Brazilian micro and small enterprises.
- The financing bottlenecks could be reduced by enhancing the activities of SEBRAE. Actually, as SEBRAE also has a role in the protection of IP, it could also help in easing the difficulties in this area.

c) Do your home work

Respondents ascribe most of the reasons that lead many SMEs to make gross mistakes in approaching the Brazilian market to their own unpreparedness and unadjusted mind set. SMEs must collect and consider thoroughly the relevant information on the country, their institutional essentials, business customs and protocols, together with the information concerning the specific product/market they are aiming at (demand, competition, distribution channels, industry rivalry, etc.). Additionally, they must get mentally prepared to endure difficulties, delays, and the idiosyncrasies of the Brazilian public sector.

[37] European CCI's active in Brazil banded in the local branch of Eurochambers, the Association of European CCIs, are from the following 9 member states: Belgium, France, Italy, Germany, Luxembourg, the Netherlands, Portugal, Spain, and Sweden.

[38] This is one of the expressions of Brazilian excessive "federalism".

Some interviewees, particularly the consultants that have 'hands-on' experience in following up foreign SMEs investing in Brazil, recommended recruiting reliable local partners as a good alternative for easing and shortening the initial learning phase of gaining the competence to conduct business in Brazil.

Some citations:

- Foreign SMEs should obtain and incorporate in their planning process more information on the Brazilian institutional settings and business customs.
- European SMEs should collect extensive and specifically prepared information to match their particular needs (standardised general information is not enough).
- They must have the predisposition to take a long time to initiate their businesses in Brazil.
- They can open the share capital of their local subsidiary to Brazilian trustworthy partners, knowledgeable of the intricacies of the Brazilian systems (tax, licensing, and regulations in general) or buy a majority stake in a local company active in the same business area, keeping the old owners in the company during a learning period of, say 2 to 5 years.

5.2 Recommendations to the EU institutions

Two base recommendations emerged: (1) to influence and exert pressure on Brazilian authorities to reduce or remove the bottlenecks and (2) to provide opportunities for professional development of Brazilian public officials and agents and build up the public administration capacity to deal in a more efficient and effective fashion with the regulations and other sources of bureaucracy and administrative burden. Excerpts:

- EU institutions should exert more political influence on the Brazilian government to reform existing legislation and regulations.
- Should make available opportunities to train government officials through bilateral co-operation mechanisms.
- Should provide direct support to existing Brazilian companies (which includes local operations and joint ventures of EU SMEs) helping them to deal with the above bottlenecks.
- It was mentioned an institutional co-operation between the Ministry of Planning (*Ministério do Planejamento*) aiming at helping Brazil dealing with public administration red tape. It is the "Euro Brasil 2000"[39] project that seems to be already closed. It aimed at developing the capabilities and skills of public servants via video courses and distance learning. This approach could be re-enacted.

[39] This project provided support to the modernization of the federal public service in Brazil in the areas of training, planning, human resource management, ethics and public participation. It was implemented by an international consortium of European public administration organisations.

- To expand the existing co-operation platform between the European Commission and the Brazilian government dedicated to improve administrative procedures and to reduce governmental red tape and the regulation burden over private businesses.
- The European Commission might also help in developing the national system for protecting intellectual and industrial property, as well as the standardisation and certifications systems, capitalising in the vast experience Europe has on these matters.

6. Policy support offered to EU SMEs

There is no programme sponsored by the EU offering support to SMEs specifically targeted to the Brazilian market. Direct support to EU SMEs provided by the EU delegation is very limited. Most visible initiatives concern the promotion of international co-operation in technology areas through the Enterprise Europe Network[40] and in some promotional activities within the context of its general responsibilities of nurturing and enhancing bilateral relations.

There are a few support services funded by EU member states[41], focused in Brazil and deployed in its territory. These services are offered exclusively to home country SMEs by consulates, export and investment promotion agencies of various European countries. During the interviewing programme 3 institutions offering such type of programmes were contacted (the incubator of the Consulate General of Denmark, the United Kingdom Trade and Investment, and the Spanish ICEX). Typically these organisations make available to individual SMEs general market information, signpost to further sources of information, recommend on local professional services, counselling & guidance, among other services. They are also active in organising trade and investment missions and may collaborate in Brazilian missions to Europe seeking to recruit direct investors.

The Consulate General of Denmark is running a 'business centre' or incubator dedicated to provide lodging to a few Danish SMEs (4/5), starting their investment projects in Brazil. This business centre also makes available other services incubators usually offer to start-ups (secretarial/communication, information, bespoke consultancy and coaching on demand, etc.). The Spanish ICEX and the British UKTI are also considering launching similar incubator initiatives.

Federal and state organisations are offering support services geared to attract investment to Brazil or to their individual states. These organisations may play a role

[40] THE Enterprise Europe Network is an information and consultancy network aiming at assisting SMEs in developing their innovative potential and to raise awareness for the policies of the European Commission. It is a focal point network consisting of 600 organizations - chambers of commerce, regional development agencies, university technology centres, where about 3 000 professionals are working in over 40 countries worldwide.

[41] Some of these programmes are co-funded by EU structural finds, such as the ERDF. This is the case of ICEX that offers, besides in kind support or subsidised professional services, a wide range of financial support to Spanish SMEs willing to export or start direct investment projects in Brazil. The latter include concessionaire loans and grants, as well as equity finance by means of venture capital operations. Some of this financial assistance is also available from other Spanish institutions, such as COFIDES (which also handles export credit insurance) and ICO (Central state owned institution) and other organisations, including financial institutions of the autonomic regions of Spain.

in supporting EU SMEs, at least the ones that match their priority criteria, notably as regards priority industries, job creation, volume of exports, etc..

At federal level the relevant agency is APEX, which promotes exports of Brazilian products and services, supports the internationalisation of Brazilian companies and attracts foreign direct investments into the country. It is attached to the Ministry for Development, Industry and External Trade (*Ministério do Desenvolvimento, Indústria e Comércio Exterior*). Headquartered in Brasilia, the Agency also has desks in ten Brazilian states (Amazonas, Ceará, Goiás, Minas Gerais, Mato Grosso do Sul, Pernambuco, Paraná, Rio Grande do Sul, Santa Catarina and São Paulo) and has external offices in the following places: EU (Brussels and Poland), USA (Miami), Cuba, Dubai, Russia (Moscow) and China (Peking). These offices are dealing primarily with Brazilian exports and the internationalization of Brazilian firms.

The agency was incorporated as a spin-off of SEBRAE (the Brazilian small business institute) to take up the export promotion functions, which were assigned to this institute but not structured as an individual organisational unit. The agency added a new function concerning investment promotion in mid 2008. Currently about 90% of the agency resources are dedicated to the promotion of exports and the internationalisation, the investment promotion actions taking up only 10% of the agency staff and activities. It is expected the latter to be expanded in the future.

Apex has a list of priority industries, which are its main theme for seeking foreign investment projects because they are considered to be gaps the Brazilian economy needs to fill. The priority industries currently depicted in Apex web site are: tourism, oil and gas, biotechnology, electronics, information technology and private equity/venture capital.

The fact that other industries are not listed in the APEX priority sectors does not mean that there is official opposition to FDI projects in those industries; it only means that Apex will not consider such investments suitable to receive its free support services, besides the mere provision of generic information.

As already mentioned, there are state initiatives to attract investment to their territory, irrespective of the investor coming from Brazil or from a foreign country. There are 7 Brazilian institutions listed at the WAIPA – World Association of Investment Promotion Agencies:

- AD Diper - Pernambuco Economic Development Agency (*Agência de Desenvolvimento Económico de Pernambuco*)
- APEX Brazil (Exports and Investment Promotion Agency (*Agência de Promoção de Exportações e Investimentos*)
- Banco do Nordeste
- CODIN – Industril Development Corporation of the State of Rio de Janeiro (*Companhia de Desenvolvimento Industrial do Estado do Rio de Janeiro*)

- INDI – Industrial Development Institute of Minas Gerais (*Instituto de Desenvolvimento Industrial de Minas Gerais*)
- SUFRAMA – Manaus Free Trade Zone Authority (*Superintendência da Zona Franca de Manaus*)
- Invest São Paulo

This list includes quite different institutions as regards their statuary purposes (one is a development bank, a few are state investment promotion agencies, one is a federal promotion agency), territorial reach (federal, multi-state, state), dynamics (some have a proactive stance trying to recruit foreign investment and offering special tracks to get financial and fiscal incentives at state and municipal level, other are more conservative bureaucratic institutions).

One example of other type of public institutions that are seeking FDI is CIATEC, a technology incubator. Majority owned by the Campinas Town Council (99%), and specialising in NTBFs, this company operates 2 technology parks in the Campinas[42] municipality. CIATEC is actively seeking new technology foreign firms (notably in Europe) that may be willing to locate their operations in one of their science and technology parks.

[42] Campinas is a city and municipality located in the interior of the state of São Paulo. It has a population of about 1 million (the metropolitan area has some 19 cities and a population of 2.8 million). Campinas is also the administrative centre of the meso-region of the same name, with 3.8 million inhabitants. It is the third largest city in the state, after São Paulo and Guarulhos. The Viracopos International Airport connects Campinas with many Brazilian cities and also operates some international flights. The city is home to the State University of Campinas or Unicamp, which is responsible for around 15% of all Brazilian research and, according to the Times Higher Education 2007 World University Rankings, is the 177th best university in the world, and the 2nd best in Latin America (after the University of São Paulo in 176th place).

7. Policy support used by EU SMEs

Despite the fact that the number of interviews does not give a sufficient basis for quantitative inferences, it seems that the support most used by European SMEs when starting their business in Brazil are from trade & investment offices, consulates, and CCIs of their home country. This is because such support services are considered more trustworthy, more culturally familiar to the SMEs and are free of charge in most cases. In this context, incubators from home country organisations seem to be in high demand lately.

Professional services from local firms and specialised government agencies are seemingly the next sources of support and specialised information.

Investment agencies, either federal (APEX), or state owned, tend to look for larger projects than SMEs can assure, thus directing their contacts to larger companies. It is not clear whether these institutions can offer the type of integrated approach, customised information and personal coaching that foreign SMEs need and SEBRAE, the Brazilian small business institute, is said to provide to the Brazilian micro and small enterprises.

For instance, the state investment agency of São Paulo, Invest SP, which seems to be the most dynamic of the set[43], claims to have attracted in 2010 over R$ 1.7 billion (about EUR 790 million) in FDI. This investment is composed by greenfield and expansion projects of 5 large firms only: the Chinese 'Chery International' (automaker) and 'Sany Heavy Industry Co., Ltd' (civil construction machinery and equipment), 'CEBRACE' (joint-venture of the 2 larger flat glass manufacturers in the world: NSG/Pilkington, Japan and Saint-Gobain, France), 'Penido Construtora e Pavimentadora' (a large Brazilian construction and real estate firm that is building an aerospace business centre), and 'Gestamp Automoción' (a large Spanish manufacturer of components for the automotive industry). Invest SP also mentions that it was responsible for "the arrival of the Japanese 'Toyota' and the South-Korean 'Hyundai' to the state of São Paulo".

[43] According to its president, Luciano Almeida, Invest SP aims at expanding substantially its activity in third countries: "We want reach mainly Asian and European countries and USA, attracting companies in the aerospace, oil & gas, R&D fiels, among other", Invest SP, "Investment sector of the agency attracts R$ 1.7 bn. (*Sector de investimentos da agência capta R$ 1,7 bi*)", Últimas Notícias, 20/01/11, accessed February 2011.

8. What support is missing

Assuming that in general the business environment in Brazil stays as it is now, persisting the main hurdles that were indentified in previous sections of this report, and looking at this issue the other way around, the main mistake that EU SMEs make when investing in Brazil is the poor preparation of their investment projects, (1) by not dedicating sufficient time and resources to collect and internalise information on administration practices, business customs, country peculiarities and other cultural factors and (2) by not approaching the market with an open mentality without pre-conceived mind-sets and stereotypes, thinking that they can simply adopt their home country business model to their operations in Brazil.

This mistake frequently leads to unexpected delays, cost overruns and other unpleasant surprises that may ruin the original plans and make the promoter give up its project. Often, this same lack of preparation is also responsible for SMEs embarking into partnerships with badly chosen local companies or individuals and/or to engage into inadequately structured joint ventures (e.g.: 50:50 partnerships) heading them to expensive and unsolvable deadlocks. Other common consequence of the poor preparation maybe also financial: as seen, financial markets in Brazil are not very friendly to foreign SMEs and the lack of awareness to this vital factor may completely jeopardise the development of an investment project in the country.

9. EU Role in stimulating SMEs to do more business in Brazil

According to the results of the survey, EU could play a decisive role in helping EU SMEs to increase their operations in Brazil along 2 modes: (1) influencing and helping Brazilian authorities to reduce or remove the current hurdles that are affecting European investment and trade in Brazil and (2) creating new or strengthening existing mechanisms that encourage projects in these areas, reducing the risks and costs of preparing and rolling out business development projects in the country.

Some of the respondents offered ideas to operationalise the 2 above roles:

a) To help removing current hurdles under direct control of the Brazilian public administration, besides general political influence, EU could consider the following:

- To expand bilateral arrangements in the context of the recently resumed trade negotiations between Brazil and the EU. Some respondents consider that bilateral arrangements (EU – Brazil) are the best way to provide impetus to trade and investment operations between Brazil and Europe (thus favouring EU SMEs) in a way similar to what is happening with Mexico. In general they are aware that the major obstacle to such possibility is Brazil being a member of Mercosul, which implies that any special facilities would have to be extended to the remaining members of this regional association. The problem resides more with Brazil than with the EU.
- To promote and part finance the setting up of a higher education institute or university organised in co-operation between Europeans institutions, such as universities and business schools, and Brazilian organizations, such as SEBRAE, specialising in re-training public officers and servants in modern administrative techniques, thus helping in reducing the national bureaucracy.
- To review and assess the results of the "Euro-Brazil 2000" programme and, depending on the results of such assessment, re-enact or redefine a new co-operation programme aiming at developing the capabilities and skills of Brazilian public servants. Other respondents worded this recommendation as follows: "To expand the existing co-operation platform between the European Commission and the Brazilian government dedicated to improve administrative procedures and to reduce governmental red tape and the regulation burden over private businesses."
- To enter into negotiations with Brazilian authorities to prepare and implement a full fledge programme (or programmes) to reform the existing regulations and institutions in the country dealing with IP, standardisation and certification matters. Such initiative should involve and have the support of the appropriate European institutions such as EPO, the European Patent Office, the European Standards Organisations (CEN, CENELEC and ETSI), ECQA, the European Certification and Qualification Association, among other to allow the transfer of their extensive experience of best practices and policies.

- To increase the co-operation with APEX and state investment promotion agencies in order to enhance their capabilities to support EU SMEs business in Brazil and, possibly, to part-finance their operations, provided that such funds would be earmarked to support EU SMEs and subject to independent evaluation. This could be materialised through setting up a special department to handle, on a preferential fashion, the needs of European SMEs when establishing in Brazil.
- To enter into agreements with top enterprise association bodies, either at federal or state levels, such as CNI and FIESP, aiming at encouraging and facilitating the investment of EU SMEs in Brazil.
- A respondent mentioned a credit facility provided by the EIB to BNDES dedicated to fund medium/long term credit to companies incorporated in Brazil without discriminating on the basis of the nationality of their ownership. EIB could consider a credit facility exclusively dedicated to long term financing of small investment projects developed by EU owned SMEs in Brazil

b) To offer direct support to EU SMEs considering developing their business in Brazil.

The possibility of launching a European business centre conceived as a one-stop-shop for EU SMEs and including an incubating facility for some types of SMEs newly expanding to Brazil was tested with the interviewees. The opinions were divided.

Respondents linked to EU member states that already have a national facility in Brazil tended to disagree with the need of such possibility[44], while the ones attached to Brazilian organisations, tended to agree with it.

In the first cases, the reasons given for disagreeing is that SMEs feel more "at home" (language, personal connections) contacting national facilities (consulates, CCIs, trade offices) and believe that they are more trustworthy than a European central facility[45]. They mention, in addition, as SMEs from different countries are competitors[46], so they feel more reassured with national organisations when it comes to disclose some of their purposes in a foreign country. One respondent was of the opinion that this type of services should be offered by a national organisation so to be rendered as close to the SMEs as possible, as the subsidiarity principle suggests.

The reasons given for agreeing with the Europe-wide approach is that a concentration of resources could be more effective and have more visibility. One

[44] Though one conceded that "when no such [national] institution exists, it seems to be efficient to create a central supporting system.

[45] Obviously, this applies only to the member states that have investment/trade promotion facilities in Brazil.

[46] For SMEs, this competition is neither unexpected nor undesirable. Actually, it happens that competition exists among SMEs within the same member state and this does not preclude national governments to set up their national facilities.

respondent expressed that "[A European business centre] would help to create an 'image of Europe', concept with which Brazilians have no experience at all."

The pace at which the European integration is evolving was also mentioned as an important factor in the way the direct support to EU SMEs should be deployed in Brazil. This was recalled mostly by the respondents that were disagreeing with the European business centre, having some of them qualified their disagreement as referring to the short/medium term, because they felt that such a possibility would be feasible in the long run. One respondent addressed this matter under a more political and programmatic way: EU approach is better because would allow banding together the individual CCIs, creating an unified image of Europe, exploiting synergy amongst CCIs and consulates and should be accompanied by accelerating the European diplomatic integration (at consulate level) and following a model of regional integration in Latin America.

On the other hand, it is quite apparent that there is a need to increase awareness of the Brazilian market, among European SMEs in general and the ones not supported by national facilities in Brazil in particular, promoting awareness campaigns in their home countries. National organisations, such as CCIs and industry associations could play a major role to this respect.

Other possible initiatives that may help in increasing the presence of EU SMEs in Brazil are:

- To promote the delocalisation of small European industries that are facing severe competition pressures in Europe but are sophisticated enough to succeed in the Brazilian market.
- Bearing in mind that Europe has a strong and qualified 'army' of retired professionals who are idle but many of them would like to continue or resume professional activities, the EU could design an incentive mechanism and a Europe-wide recruitment system, aiming at selecting retired professionals, executives and businessmen to start their businesses in Brazil or to provide badly needed services as senior consultants in the country.

10. Appendices

10.1 Participants in the survey

Organisation	Interviewees
ApexBrazil – Brazilian Trade and Investment Promotion Agency	1. Paulo Morais, Investment Manager
Association of the European Chambers of Commerce and Industry in Brazil	2. Yves Jadoul, Vice-president
BIOTEE	3. João A. Mariano, Commercial and Administration Manager 4. Gerard van Lieshout, Owner (50%)
British Chamber of Commerce and Industry in Brazil	5. Rodrigo Alberto Correia da Silva, President São Paulo
Chamber of Commerce and Industry Brazil – Germany	6. Eckart Michael Pohl, Director of Social Communication Mercosul
CIATEC – Campinas Technopole Development Corporation	7. Décio Sirbone Júnior, Director
CNI - National Confederation of Industry	8. Thiago Mendes Lima, Coordinator for AL-INVEST of Mercosul, Chile and Venezuela
European Union Delegation to Brazil	9. José Mouta, Project Manager (economic co-operation)
FIESP – Federation of the Industries of the São Paulo State	10. Fabrizio Sardelli Panzini, Analyst, Foreign Trade 11. José Luiz Pimenta Júnior, Coordinator of International Negotiations - DEREX
FIRJAN - Federation of the Industries of the State of Rio de Janeiro	12. Claudia Teixeira dos Santos, Foreign Trade Analyst CNI 13. Fernando Saboia de Castro, Consultant CNI 14. Laila Bozza Mendes, Project Manager SEBRAE 15. Bruno Solis, Consultant SEBRAE
G&E – Strategy and Business Consultants	16. Carlos Matavelli, Partner, Strategy and Administration 17. Artur Heitzmann, Director, Quality and Lean Manufacturing, Environment
General Consulate of Denmark	18. Nicolai Prytz, Consul General
ICEX - Economic and Foreign Trade Office of Spain in São Paulo	19. Inés Menéndez de Luarca Bellido, Economic and Commercial Consultant
'Nossa Caixa' São Paulo Development Bank	20. Julio Themes Neto, Superintendent 21. Flavio de Almeida Marques, Superintendent Business and Operations
PP&C	22. Paulo José de Carvalho, Partner 23. E. Camilo Pachikoski, Partner
Renz of Brazil	24. Mario R. Hinrichsen, General Manager
São Paulo State Investment Promotion Agency	25. José Roberto de Araújo Cunha Jr., Director
SEBRAE-SP – Service Center for support to Micro and Small Enterprises in the State of São Paulo	26. Ricardo Luiz Tortorella, Superintendent 27. Rose Mary Estácio, Consultant International Affairs 28. Gilberto Alvaro Campião, Consultant International Affairs
UK Trade and Investment	29. Martin Whalley, Head of Trade for the State São Paulo

10.2 Participants in the final workshop

Representatives	Organisation
Angel Landabaso	EU Delegation in Brazil
António Coimbra	Tecninvest
Artur Heitzmann	G&E Consultants
Carlos Matavelli	ANEFAC – Association Professionals of Finance, Economics and Administration
Décio Wertzner	G&E Consultants
Gilberto A. Campeão	SEBRAE SP
Jan van Uden	Interconsult
José R.V. Scharlack	Chamber of Commerce and Industry Belgalux
Martin Whalley	General Consulate UK
Nicolai Prytz	General Consulate Denmark
Rafael Murgi	INVESTE SP – Investment Promotion Agency
Rodolpho Borelli	SP Development Bank
Rose Mary Estácio	SEBRAE SP
Tatiana Lemos	Chamber of Commerce and Industry Brazil - Germany
Yves Jadoul	Eurochambers