FANCY FOOTWORK:
Policies to support Small Scale Footwear Enterprises in Ceará, Brazil,
in the light of best-practice firms' strategies

by

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in partial fulfillment of the requirements for the Degree of

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at the

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May 1993

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Abstract

This paper is based on the experience of 17 footwear firms in Ceará. These firms, which I call best-practice firms, managed to grow out of backyard workshops. Suggestions for improvement of the programs supporting Small Scale Enterprises (SSEs) emerge from the histories of these firms.

From these histories, I derived three areas in which the state could improve its programs: (i) Most of the firms grew by targeting the Brazilian Northeast/North market. Although many of the SSEs were targeting this market, neither the producers' associations nor the state government's marketing programs reflected this. (ii) The government promoted subsidized credit programs for SSEs, but most firms prefer not to borrow from them. (iii) The rubber-sandal sector was spontaneously growing in the state through backward linkages. The state, instead of supporting this already dynamic sector, focused on promoting almost from the growth of the leather-shoe sector through forward linkages.

Finally, Ceará's policy-makers, as those of many other countries, address separately the large and the small firms in each sector. Furthermore, their programs for SSEs do not consider sector differences among the SSEs. In contrast, a training program implemented by SENAI, a nation-wide training agency, provides an example of a successful program applied to both large and small footwear firms.

Supervisor: Judith Tendler
Title: Professor
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I thank all those that made the research possible and gave practical meaning to this paper: the Governor of Ceará, Dr. Ciro Gomes; Dr. Antônio Rocha Magalhães; Dr. Antônio Claudio Ferreira Lima; and the staff of IPLANCE, SEBRAE, and SIC. Much appreciation goes to Dra. Diana of the Instituto Euvaldo Lodgi and to the staff of SENAI in Juazeiro de Norte. They provided me with the logistical and moral support that allowed me to go ahead with the research.

I value all the support of the “Brazilian group”: Monica Amorín, Julia Bucknall, Octavio Damiani, Sara Friedheim, Ruth Wade, and Sandra Zarur. They were a generous group of friends that many times forgot about their own priorities to help me. Moreover, Gabrielle Watson and Eduardo Beteta provided invaluable advice in the field. We share unforgettable memories of a beautiful place called Ceará.

Special thanks to Peter Vaz and Stanley Wrzeski that helped make this paper readable. Finally, my mother, father, and friends were always there for me when I needed them.
Acronyms

BB: Bank of Brazil
   Banco do Brasil

BEC: State of Ceará Bank
   Banco do Estado do Ceará

BNB: Bank of the Northeast
   Banco do Nordeste

COELCE: Ceará Energy Company
   Companhia Energética do Ceará

FIEC: State of Ceará Industries Federation
   Federação das Indústrias do Ceará

IBGE: Brazilian Institute for Geography and Statistics
   Instituto Brasileiro de Geografia e Estatística

ILO: International Labor Organization

IPLANCE: State of Ceará Institute for Planning
   Fundação Instituto de Planejamento do Ceará

NUTEC: Ceará's Technological Development Agency
   Fundação Núcleo de Tecnologia Industrial

NTCA: Leather, Footwear, and Related Activities Technology Center
   Fundação Núcleo de Tecnologia de Couros, Calçados e Afins

SAS: Social Action Secretariat
   Secretaria de Ação Social

SEBRAE: Federal agency designed to promote SSEs
   Serviço Brasileiro de Apoio às Micro e Pequenas Empresas

SEPLAN Secretariat of Planning and Coordination
   Secretaria de Planejamento e Acompanhamento

SIC: State Industry and Commerce Secretariat
   Secretaria de Indústria y Comércio

SINE: Federal agency to promote employment
   Sistema Nacional de Emprego

SENAI: Training service dependent on the Brazilian Federation of Industries
   Servicio Nacional de Adiestramiento a la Industria
1. Introduction and Methodology

"We need to know, very simply, what works and why. Then we need to apply it."

(Michael Porter 1990)

Policy-makers all over the world are today, as twenty years ago, applying the same policy recipes for Small Scale Enterprises (SSEs) in all sectors and regions: credit, technical/production assistance, management assistance, and marketing assistance (Chuta and Liedholm 1979, Anderson 1982, Sanyal 1990, Berry and Mazumdar 1991). In the summer of 1992, I spent three months analyzing public programs to support SSEs in Ceará, a state in Northeast Brazil. I learned that policy-makers assume all SSEs share the same constraints/opportunities by virtue of their size, while these constraints/opportunities actually vary according to the firms' products, processes, and location. Policy-makers must acknowledge what the literature has already recognized as fundamental: sectoral and local peculiarities may determine the constraints/opportunities of the SSEs more than their size (Schmitz 1982, Moser 1984, Boomgard et al 1986, Harris 1990). Stemming from this judgment this paper critiques the public programs to support SSEs in Ceará, and shows how they could be improved.

The evidence for the paper comes from a selected group of 17 best-practice firms (leather-shoe and rubber-sandal)—small, medium, and large firms1—that

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1 The official publications in the state cataloge firms with less than 20 workers as microenterprises, those with 20 to 99 as small, those with 100 to 499 as medium, and those with over 500 as. I will use this classification in this paper.
grew out of the backyard. I only considered small firms that managed to survive at least 10 years. The histories of these best-practice firms provide lessons to improve the effectiveness of the programs to support other SSEs. For example, in the case of Ceará leather-shoe producers, the key to success was their ability to reach clients outside their local market. A program to help other SSEs achieve this same result may open their chances for success. These and other findings are the foundation for this thesis.

1.1. Best-practice Footwear Firms in Ceará

Ceará is a state of the Brazilian Northeast with approximately 6.4 million people earning an average annual per capita income (p.c.i.) of US$1,182—less than half of Brazil’s p.c.i., and 5% of that of United States (IPLANCE 1992, US Census bureau 1992). Located in an area of recurrent droughts, the state suffers from a continuous rural-urban exodus. Migrants try to escape not only from the drought but also from an economy where 55% of all workers earn less than the minimum wage,² compared to 30% in all of Brazil.

In the last decade, despite the state’s poor conditions, its economy has grown surprisingly rapidly compared to the overall Brazilian economy. During the 1980s, Ceará’s G.D.P. grew at an average annual rate of 6.2% versus 4% for Brazil and 5% for the Northeast. Even when the Brazilian economy contracted by 4% in 1990, Ceará still grew 0.2%. A large proportion of this growth occurred in the state’s urban centers. Its capital city, Fortaleza—where over one third of the population lives—itself generates 70% of the state’s industrial output.

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² In Brazil, the minimum wage is between US$60 and US$80, between 9% and 11% of the minimum wage of the United States (IPLANCE 1992, US Census bureau 1992).
Part of the government efforts to decentralize Ceará’s development focus on the footwear sector. The foundations of this effort rest on: (i) the state’s long history as a leather producer, and (ii) the Brazilian footwear sector’s proven international success. Brazil produced 592 million of pairs of shoes in 1987, which means that the country stands as the fourth major footwear producer in the world after China, USSR, and Taiwan (see table A.1 in Appendix A). In 1989, Ceará had capacity to produce 11 million shoes—around 2% of Brazil’s production of shoes. This capacity was concentrated in Fortaleza and Juazeiro de Norte. Table 1.1 shows the distribution of the footwear firms by size in the state.

<table>
<thead>
<tr>
<th>Footwear firms in Ceará</th>
<th>Number of firms</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Leather-shoe</td>
<td>Plastic shoes</td>
</tr>
<tr>
<td>Firms with less than 20 workers</td>
<td>232 158 71</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firms with 20 to 99</td>
<td>27</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Firms with 100 to 499</td>
<td>9</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Firms with more than 500</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>269</td>
<td>180</td>
<td>89</td>
</tr>
</tbody>
</table>

Source: 1990/91 Ceará Industrial Census and author elaboration

In recent years the sector has fallen in crisis in Ceará. Between 1988 to 1989 employment fell to 5,000 or 6,000 from 12,000 workers (estimated data by Ceará’s Footwear Industry Federation’s undated). The crisis was precipitated by lay off by the biggest firms in the state, such as Kemp, Conac, E.B.C. The smallest

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3 These firms crises was the result of the macroeconomic problems of Brazil in the latest eighties. But particular management problems within the firms are responsible to blame.
firms also suffered from the crisis, but since most of them work informally\(^4\), there are not accurate statistical data about them. My interviewing, however, confirmed that the smallest firms were also suffering from the crisis. Nevertheless, the prevailing opinion was that the sector began to recover in 1991. Figure 1.1 provides an approximation of the growth of the footwear sector in Ceará based on electric energy consumption\(^5\).

Graph 1.1(*)
Evolution of the electric energy consumed by footwear firms in Ceará

\(\text{Mwh} \)

\begin{align*}
\text{years} & \\
1975 & - \\
1976 & - \\
1977 & - \\
1978 & - \\
1979 & - \\
1980 & - \\
1981 & - \\
1982 & - \\
1983 & - \\
1984 & - \\
1985 & - \\
1986 & - \\
1987 & - \\
1988 & - \\
1989 & - \\
1990 & - \\
1991 & -
\end{align*}

\(\text{(*)} \) Graph A.1 in Appendix A shows the evolution of the electric energy consumed by footwear firms over the total industrial consumption of electric energy in Ceará.

\(\text{(**)} \) N/A
Source: COELCE (Ceará Energy Company) and author elaboration

\(^{4}\text{Ceará's Footwear Industrial Federation estimates that in 1989 there were 1.7 as many unregistered firms as registered (300/175) (Internal report of the Ceará's Footwear Industrial Federation undated).}\)

\(^{5}\text{Since there have not been major technological improvements in the sector the Figure provides an accurate picture of the sector's growth.}\)
During the 1980s and 1990s, the state’s government actively participated in supporting the footwear sector and aiding its recovery. During these years, the sector benefited from policies such as national fiscal incentives for firms to locate in the Northeast, marketing assistance, creation of training centers, and the recent implementation of a project to create a leather footwear production center in Sobral.

The active support for the sector and the large number of SSEs in the sector (see Table 1.1) were the two factors that led me to consider the footwear sector an interesting case for the purpose of this paper.

1.2. Methodology: Policies versus Best-practice Firms Strategies

My initial research goal was to evaluate public policies supporting SSEs. During the first month, I focused on the agencies designing and implementing the programs, but the interviewing raised more questions than it answered. For example, the managers and technicians in several agencies mentioned the promotion of producers associations as one of their most successful programs, but they were not able to name more than three associations actually working. Moreover, when I visited one of these “successful” associations, it was far less successful than depicted by the agencies. In order to understand the true impact of the programs, I changed my approach. Instead of evaluating government programs, I interviewed selected best-practice firms to understand how they managed to grow. This information provided the needed parameter to evaluate the effectiveness of the state’s programs in addressing the SSEs’ constraints/opportunities, specifically the Small Scale Footwear Firms (SSFF).
The Sample

I visited the three most important industrial centers in the state, Fortaleza, Juazeiro de Norte, and Sobral. I did most of the interviewing, however, in Fortaleza and Juazeiro, where around 75% of the footwear firms are located. I interviewed a total of 46 firms: 29 footwear firms of which 14 produce leather shoes and 15 produce rubber sandals; 10 in other sectors, such as garment, and machine-tool sectors; 2 micro-enterprise associations, 3 tanneries, and 2 firms producing rubber exclusively. I also talked with the major footwear wholesaler in the state and one other smaller distributor. Table 1.2 shows the distribution of the footwear firms I visited by size and location.

### TABLE 1.2
Distribution of the researched firms by size and location

<table>
<thead>
<tr>
<th>Firms visited</th>
<th>Total</th>
<th>Fortaleza</th>
<th>Juazeiro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Leather-shoe</td>
<td>Plastic shoes</td>
</tr>
<tr>
<td>Firms with less than 20 workers</td>
<td>6</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Firms with 20 to 99 workers</td>
<td>13</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Firms with 100 to 499</td>
<td>7</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Firms with more than 500</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>14</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: elaborated by the author

---

*6 In the table, micro-enterprises are those firms with less than 20 workers but the firms that belong to the micro-enterprises associations were backyard workshops, most of them with less than 5 workers.*
In the next chapter I will show how Ceará’s state programs resemble programs to support SSEs in other developing countries. Then I evaluate the adequacy of these programs to the particular sectoral and locational characteristics of Ceará’s SSFF. I conclude with policy recommendations to better target the programs directed to SSFF.
2. Mainstream Programs versus Best-practice Firms Strategies

The Ceará government actively supports SSEs. The clearest example of this support is its commitment to one of the state’s most successful programs: procurement of material and services for the state’s public institutions from SSEs, such as tables for the public schools and beds for hospitals. This program is being implemented by SEBRAE (a Federal agency specifically devoted to promote SSEs) with the support of SIC (Industry and Commerce Secretariat). While SIC and SEBRAE are the most important agencies working with SSEs, other agencies are involved: SINE (a Federal agency to promote employment), SAS (Social Action Secretariat), and NUTEC (Ceará’s Technological Development Agency). These agencies’ goals are diverse—economic development (SIC, SEBRAE, and NUTEC), generation of employment (SIC, SINE), and poverty alleviation (SAS, SINE). But, with regard to SSEs, all agencies’ programs and implementation strategies look alike.

These programs are an example of the SSEs’ program recipe book. Table 2.1 shows how Ceará’s programs fit within general practices to support SSEs as Chuta and Liedholm defined 14 years ago (Liedholm and Mead 1987). Actually, Ceará’s strategy differs from the general practice only in terms of its focus on producers associations and marketing programs.

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1 For more information see Amorim (1993).
### Table 2.1
Types of Assistance, Forms of Assistance, and Special forms in Ceará

<table>
<thead>
<tr>
<th>Types of Assistance</th>
<th>General Practice</th>
<th>Ceará Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>Loans in cash and/or kind for fixed assets and/or working capital</td>
<td>Highly subsidize loans in cash (3% to 12.5% interest rate and 70% to 80% of inflation correction).</td>
</tr>
<tr>
<td>Technical/Production Assistance</td>
<td>Advice on processes, design of products, tools, equipment machine, quality control, plan layout</td>
<td>They give all these forms of support through: Vocational training, Trade centers. Specific training program for leather-shoe producers</td>
</tr>
<tr>
<td>Management Assistance</td>
<td>Bookkeeping, Accounting, Auditing, Production planning, Inventory, Capital budgets, etc., Personnel management, Entrepreneurship development</td>
<td>Ceará has all these training programs which are performed by SEBRAE. The managerial training programs are given many times jointly with the implementation of other projects programs such as &quot;public procurement from SSEs.</td>
</tr>
<tr>
<td>Marketing Assistance</td>
<td>Advice on packaging, merchandising, product demand, Raw material procurement Emporia sales &amp; displays at home &amp; abroad, Collection centers, Sales on consignment, Export service, Credit insurance</td>
<td>Regional trading centers: Palacios da Microempresa, Local trading centers Support to the organization of local fairs, Support participation National fairs (not extended to all SSEs) Associations</td>
</tr>
<tr>
<td>Common Facilities and other general programs</td>
<td>Buildings, Roads, Engineering Workshops, Electricity and Water</td>
<td>Roads has been especially important in the state. The development of Juazeiro de Norte is related with the development of roads. Juazeiro is known as the microenterprises paradise.</td>
</tr>
</tbody>
</table>

Source: Chuta and Liedholm (1979) and author elaboration--Ceará programs is mine.

These programs benefit both SSFFs as well as SSEs in other sectors because Ceará public agencies assume that SSFFs constraints are similar to those of SSEs.

In my interviewing, technicians and managers from three different agencies (SIC, SEBRAE, and SINE) identified the same list of constraints for all SSEs: access to credit, lack of technical and managerial capacity, and trading difficulties. My
research showed, however, that the competitive conditions of the footwear sector—for example seasonality of the demand for shoes, or the relations of the footwear producers with their suppliers and clients—determined the behavior of the SSFFS so they did not always share the same constraints/opportunities as SSEs in other sectors. For example, one of the major problems that leather-shoe producers faced was supply difficulties. Yet rubber-sandal producers’ easy access to supplies was precisely one of the reasons for their success. Hence, while the leather-shoe producers found the program promoting associations important, the rubber-sandal did not.

Not only sectoral differences among SSEs separate the firms’ constraints from the list the agencies use, but also the specific conditions of Ceará. For example, a major problem of Ceará’s SSFFs, as for a SSE anywhere, is capital shortages. Yet, in the case of Ceará SSFFs, the stormy macroeconomic history of Brazil prevented the firms from asking for credit. Thus, the existing credit program had only a minor impact on the SSFFs. These and other differences are the subject of the next chapter. But, I first turn to analyzing how the organization of the agencies supporting SSEs reinforce the agencies’ lack of awareness of the competitive conditions that determine the firm’s behavior.

2.1. Missing Relevant Information

Carol Weiss (1984) and Janet Weiss (1992) point out how the organization of an agency determines its evaluation procedures and, therefore, the kind of information available to improve or design new programs. SEBRAE, SIC, SINE, and NUTEC were all organized around programs without regard to sectors².

² The only activity treated as a separate sector with different problems was handicraft.
This model of organization resulted in evaluation procedures that were based on program performance. The evaluations consider measures such as the number of associations created that year and the number of firms participating in these associations, instead of directly measuring the benefits the firms received from being associated. Since the staff technicians' were evaluated in terms of the programs, they focused on their own substantive area without looking at sectoral differences within that substantive area. For example, there were function specialists that knew about marketing, associations, or managerial training. None of them understood specific problems of the garment, the footwear, or the machine tool firms. As a result the agencies were not aware of the differences between the different sector SSEs' constraints/opportunities.

The design of a project that the state government was implementing in the summer of 1992 illustrates the potential benefits of acknowledging the sectoral conditions of the SSEs. This project tried to develop a leather footwear growth center in Sobral by taking advantage of leather produced by one of the state's major tanneries. The idea was born in the course of conversations with the tannery owners. The state, led by SIC, wanted to develop a leather-shoe production network with three sets of actors: (i) the tannery, which would provide the leather; (ii) a central workshop staffed with the members of an existing footwear association, to perform the most highly-skilled tasks—cutting the leather and assembling the shoes; and (iii) community associations, i.e. neighborhood associations, performing the intermediary task of sewing the

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3 There were, of course, technicians who, because of their years of experience, were knowledgeable in one or more sectors but the agencies did not take advantage of this experience.

4 Later on the tannery walked out of the program.
pieces. The initial product was to be boots for the state’s military police. The plan was that once people were trained in the production of shoes, larger firms might be attracted to the existing network. The project, however, had a number of problems, the most important of which was the potential lack of the leather supply. There was only one tannery in the area and Sobral has never been its major market. Instead, it has exported most of its production or sold it to a sister firm in Fortaleza which was producing boots for the police5.

This program is a typical case of development planning through forward linkages, or industrial development based on locally-available natural resources (Storper 1991, Parr 1973, Hirschman 1958). In contrast with this planned model of development, on the other side of the state, in Juazeiro de Norte, the rubber sector developed spontaneously over a 15 year period without the awareness or the support of the state. Manufacturers first produce rubber sandals using natural rubber from the Amazon region. Once synthetic rubber was discovered, the manufacturers began to produce it themselves. From here the whole sector developed through forward linkages. There are now over 35 registered firms6. Furthermore, the development of the sector has recently had led to further backward integration by the creation of a firm7 producing calcium carbonate, one of the major components for the production of rubber.

5 Its production was mainly to export to Germany, but its future strategy is extend its market in Latino America.

6 Not counting the large number of non-registered firms. There was no desegregate data about the production of rubber for shoes.

7 This company was created by a firm previously producing ceramic floors.
The case of the rubber sector suggests that a policy addressed to the development of an intermediary industry, such as rubber, can result in the development of a growth center through the development of forward and backward linkages. The agencies were not aware of the rubber sector spontaneous development. Generally, the eyes of analysts and policy-makers in the state—and this is not particular to Ceará—focus on local natural resources with potential for industrial development through forward linkages. For example, for decades the government has promoted the processing of cotton because there was cotton in the state and despite of the crisis of the sector (Damiani 1992). Another example is the recent focus on the granite industry.

In short, in the case of the Sobral project, the technicians in SIC, SEBRAE, and NUTEC were seriously committed to make the project work. The policy choice stemmed from a classical recipe, development through forward linkages, and took advantage of what the agencies knew how to do the best. They united their two most successful programs, namely the creation of associations and “public procurement from SSEs”. The lack of sectoral analysis prevented Ceará policy-makers from seeing a local development that could have been effectively supported by simply providing technical assistance to improve the quality of the rubber produced in the state.

The state promoted a leather shoe center in Sobral because of industrial decline in the area. Since there were no rubber sandal producers in the city, it

---

8 SIC also contracted the construction of the workshops from SSEs.

9 Even though some of the technicians at the bottom of the agency knew about the development of the rubber sector.
would not have helped to support the rubber sandal sector. Yet in this city there were other sectors, such as straw hats, that were spontaneously growing and even exporting, but which received little state support. The state chose to begin from scratch in leather shoes instead of exploiting local growth opportunities.
3. Policy Lessons

3.1. Associations: a blanket policy

SEBRAE began to promote the creation of associations in 1981. At the time of my research there were over 110 microenterprise associations in the State. This large number evidences that SEBRAE was rather successful in creating associations. The associations, however, were not performing as SEBRAE expected. No more than a handful of the associations were actually working, and those that did did depended on SEBRAE's continuous support and supervision.

Scholars and policy-makers often consider associations to be beneficial for two reasons. First, individual SSEs benefit from bulk buying and selling of goods, and can afford technologies that improve their productivity and the quality of their goods. Second, agencies serving SSEs often have difficulty reaching the large number of unregistered firms in the state. Microenterprise associations therefore serve as a channel through which government help is extended to these firms. In addition, associations can advocate the interests of SSEs (Sanyal 1990.)

Why then were Ceará's SSEs not taking advantage of SEBRAE's efforts? In my interviews, SEBRAE's technicians gave two common answers: the "individualistic" character of Brazilians, and the existence of free riders that milk the associations. My research pointed out a new and different reason: firms do not always benefit from being associated. In Ceará, managers in the footwear sector did not concur in the alleged benefits of association: advantages of supply, access to a common production facilities, and participation in a trading center.
With respect to supply advantages, bulk buying should allow associated firms to achieve better price and delivery conditions. This assumes that suppliers are usually large firms and not interested in providing the small orders that individual SSEs demand. In Ceará, as I explain below, while buying in bulk could be really beneficial for leather-shoe producers, it is only useful for rubber-sandal firms with less than 5 workers.

In the case of leather-shoe producers, the demand for leather-shoes is highly seasonal. It picks up from September to January, and falls afterwards for a period sometimes lasting over two months, then recovers slowly and picks up again the following September. Many of the smaller workshops close their doors during the slow season. During the high season, firms of all sizes have orders, but only those that manage to continue producing through out the year have stocks of leather. The rest of the firms must wait until they have an order, and only then can they buy leather on credit from wholesalers. With this practice, these firms’ profit margin falls radically. They may even lose money in these transactions. Thus, access to a stable source of supply that an association can provide would help the SSFFs solve part of their problems.

The seasonal demand for rubber-sandals never falls as drastically as that of the leather-shoes because rubber-sandals are cheaper and less of a “luxury” than leather-shoes. The supply of rubber is also more responsive to changes in the

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1 In Brazil the annual earnings are divided in 14 payments. In December, the workers receive 2 of these payments together. This influence the consumption behavior of the workers who tend to do their most expensive shootings at this time. This directly affect the leather shoes demand, but, since the rubber sandals price is lower their demand is not so affected by these changes in the level of earnings.
demand than the supply of leather. Additionally, the rubber producers are more willing than tanneries to sell smaller orders. For example, a 10-worker firm buys rubber exclusively from rubber producers located in their home-town (Fortaleza or Juazeiro). Only backyard firms buy from wholesalers. Hence, only backyard rubber-sandal workshops would benefit from being associated, but even they would lose this incentive as they grow. I already mentioned that rubber-sandals are a standard product. The ability of the best-practice firms’ managers to negotiate lower prices for their major input, rubber, is one of the keys for their success. They are unwilling to give up this comparative advantage by leaving supplying in the hands of an association.

On the side of production advantages, the access to a common workshop with shared machinery may not always justify participation in associations. Neither rubber-sandal nor leather-shoe producers need sophisticated machinery to be successful. But leather-shoe producers need a variety of machines--such as forming, cutting, and sewing--only part time. Access to a common workshop is therefore useful for leather-shoe producers because machines may be time-shared, and not because of the machines’ technological sophistication. The rubber-sandal producers, in turn, need only two basic machines--cutting and gluing--but on a more continuous basis. Thus, rubber-sandal producers would only be interested in a common workshop that has as many machines as firms. This would not make economic sense.

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2 The production of leather largely depend on climatic conditions and therefore can not move as, the production of rubber—which is made from a byproduct of oil.
Finally, in the trading area, SEBRAE was promoting the construction of local trading centers for the associations. I visited two, both of them in Juazeiro de Norte. One depended on the footwear microenterprises association. The other depended on the garment microenterprises association. I focus here on the footwear center which opened in 1987 with 60 shops. Six months later, only three shops remained. During my visit in the summer of 1992, the center was deserted even though it was located next to a crowded market. Why did the firms desert such a seemingly convenient trading location? The firms explained that they did not have enough working capital to stock sufficient shoes in their stores. In contrast, SEBRAE technicians blame the shoemakers’ inability to run the shops.

My research pointed an explanation more relevant than either of these two: the trading center did not fit with the firms’ selling strategy. Almost all firms sell outside of their hometown. Even the smallest firms sell to nearby states such as Piauí, Pernambuco, or Pará. Furthermore, the firms sell on the basis of orders. They prepare some models, but they do not begin to produce until they receive a demand order. In short, the local trading center was there to help the firms to sell locally and directly to the public, but most firms, especially the best-practice firms, were selling outside the local town and to retailers, sellers, or wholesalers.

In the 1970s, in Fortaleza a few leather-shoe firms achieved success by opening their own retail outlets to sell their products “directly from producer to consumer”. Kind was one such firm. Its owner told me “we introduce the

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3 A survey made by SEBRAE further proves this statement (Ceará Footwear Firms Federation undated)
system here, in Fortaleza, and it was pretty successful up until the mid-1980s”.
“The problem” he explained “was that many firms applied the same system and
the market got saturated”. In 1988, in order to survive, Kind hired the first
salesperson and currently 90% of its business comes from both in-house and
outside sales staff. The direct-sales shop is still open. It serves to balance the
firm’s working capital as well as expose its products. But, in the manager’s own
words “they would not have survived without changing to a selling-by-order
system.” This permitted them to work all year long. It also provided a more
stable market than selling directly to consumers.

In conclusion microenterprise associations are not working. They are Ceará’s
replica of the trade organizations and cooperatives that policy-makers have been
promoting in developing countries since the 1970s (Sanyal 1990, Liedholm and
Mead 1987). Scholars and policy-makers consider associations a benefit in
themselves⁴. Firm managers make no such assumption, carefully examining
their specific circumstances and what an association offers.

In the case of Ceará SSFFs, a careful evaluation of the supply, production, and
trading benefits explain why rubber-sandal producers were not interested in
microenterprise associations. Yet, even though the footwear microenterprise
association was not successful, there were some incentives for the leather-shoe
producers to associate (e.g., better supply and production conditions). The next
section presents a story of subcontracting between a large wholesale-retailer
firm and a group of small leather-shoe producers that lasted for around 15 years.
Although this is an instance where one would have expected exploitation,

⁴ For the reasons mentioned at the beginning of the section in p. 19
cooperation among the firms was the preeminent behavior. It offers important lessons about the conditions under which Ceará leather-shoe producers might cooperate.

3.2. What kind of Associations work?: Learning from Informal Experiences

Much of the development literature on small firms looks at subcontracting stories as cases of exploitation of subcontractors by the customer firms (Liedholm and Mead 1987, Schmitz 1982, Scott 1979). Another part of the literature describes some subcontracting relations that do not fit this pattern of exploitation, and in which both sides, customer and subcontractor mutually benefit from their relationship (Watanabe 1971, Kaneda 1980, Sabel 1992). This literature refers to the Japanese Keiretsu and ton-ya models. I saw in Ceará a case that mirrors the Japanese ton-ya or wholesale system of subcontracting (Berry and Mazumdar 1991:40): Arca d’Allianza case. The story of Arca d’Allianza involves a sustained collaboration among footwear firms of different sizes (large and micro and small), and types (seller and producers). Hence, while public programs to establish associations pursued collaboration among equals, this case shows that collaboration existed spontaneously among unequals.

In the summer of 1992, Arca was one of the biggest shoe wholesale-retailers in the Northeast. Yet, in 1965, it was just a leather-shoe microenterprise. It grew

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5 Schmitz’s (1982) work, “Manufacturing in the Backyard”, illustrates a case of exploitation in the hammocks sector in the same area that I performed my research, the Northeast and specifically Ceará.

6 Large scale merchants houses that have extensive networks of backyard firms to which orders are “put out” (Kaneda 1980:41)
by changing from producer to trader. In the late 1960s, Arca sold in local weekly fairs in surrounding towns where he carried his own shoes as well as those of his neighboring microenterprises. Arca's initial agreement with the other microenterprises was that it would take the shoes on consignment and then pay the producers upon sale. In the 1970s this "paying" model changed. Arca began to pay the microenterprises on delivery—a rather unusual practice in Ceará, where sales are always paid on credit. Additionally, Arca opened a supply center for the pool of 15 subcontractors in which they paid for their supplies with shoes they produced.

This relationship ended in the late 1980s, after having worked well for 15 years. The relationship was undermined by its own success. Arca pressed the pool of SSEs to reduce their prices. Meanwhile, the SSEs began to sell directly to other clients that pay them higher prices. The firms obtained these clients because Arca allowed the firms to maintain their brand names on their products which Arca marketed. Arca first reacted by closing the provision center and later by totally withdrawing support from its 15 subcontractors. Arca stopped telling them what they should produce7. During the time these firms collaborated, Arca benefited from a steady and cheap supply of the products it had defined in advance. The producers, in turn, benefited from a well-managed providing center8 and a larger, more secure market than they could have achieved on their

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7 Arca as a major wholesale-retailer knows daily what the market is demanding. This is highly relevant information for the firms. One of the ex-subcontractor mentioned this as one of his major loses when the relationship ended.

8 For around 10 years they had access to the scarce supplies that were and are the major headache for the leather shoes producers.
own. In the summer of 1992, 6 ex-subcontractor firms were still working. They still sell to Arca but it is no longer a major client.

While Ceará's SSFFs did not collaborate among themselves, collaboration is possible when the right incentives are in place. The association promoted by SEBRAE failed to provide what this subcontracting agreement offered to the microenterprises: access to new clients. The other two associations the technicians mentioned as successful were furniture makers of Sao Joao de Aruara and the federation of microenterprises of Fortaleza, mainly formed by garment producers. In both cases, the association provided access to demand. The furniture makers benefited from the "public procurement from SSEs" program\(^9\). The federation's garment firm members were the major beneficiaries of the latest program promoting the participation of microenterprises in national fairs. These examples suggest that a strategy stressing the development of new clients is feasible and strengthens the producer associations. The next section deals with the relevance of targeted trading programs.

### 3.3. Targeting marketing policies

One of the special aspects of Ceará's SSEs programs was the state's emphasis on marketing support programs, mainly by endorsing SEBRAE's programs. There were three programs: (i) construction of regional trading centers ("Palacios da Microempresa") to display and sell SSEs' products, (ii) support for the creation of specific trading centers for associations (already treated in detail in

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the previous section)\textsuperscript{10}, and (iii) financial and technical support of industrial fairs within the state and, recently, support for SSEs participating in specific national fairs.

SSEs have different marketing strategies depending on their sectoral and regional characteristics\textsuperscript{11}. SEBRAE’s programs, however, were standard for all SSEs and assumed that the difficulties of SSEs stem from the essentially two sources: First, SSEs do not have the administrative structure to reach outside markets. The owner is in charge of the production, marketing, and finance of the firm, without the support structure of larger firms. Thus, they often need to rely on distributors or wholesalers to reach outside hometown markets. The standard policy recommendation to address this management bottleneck is to create associations (Sanyal 1990). Second, SSEs often face difficulties competing with larger firms. The recommendations emerging from the management and the flexible specialization literature (IDS 1992, Porter 1986) is that small firms would be better off producing a good in which large firms have no size advantage—for instance, a customized product, or a differentiated product for a market niche or for a rapidly changing market. In short, the general belief is that SSEs should direct their products to market segments in which large firms are not interested.

Contrary to general belief, the SSFFs in Ceará were competing with large firms producing the same products. One example was J.A. Lima, a small leather-

\textsuperscript{10} These centers exist in other part of the world, for example in India where they are called “one stop shopping centers”. See Sanyal (1991) for more information about these centers.

\textsuperscript{11} For examples see Schmitz (1982b) analysis of the clothing industry in Brazil, or Rasmussen’s (1992) study of Zimbabwe’s building-related sector.
shoe producer located in Fortaleza. In 1978, this firm began producing women shoes in a backyard workshop. In 1989, J.A. Lima changed its production to moccasins, a rather more undifferentiated product. The decay of demand for women shoes caused the firm to do so. At the time of my research, Lima was producing around 3,000 pairs of moccasins a week. Its success permitted the acquisition of the workshop where the firm was located. J.A. Lima’s success can be attributed to one particular characteristic of the footwear sector not shared by other sectors. Shoe production, and especially moccasin production, does not require sophisticated technology. Hence a large firm does not have a cost advantage over a small one. In addition, since there were a large number of footwear firms in Fortaleza, the market was saturated and J.A. Lima had to go out of Fortaleza to succeed. These facts support Schmitz's (1990) argument about shortcomings in the flexible specialization literature as applied to developing countries: in developing countries, there are markets—such as the Brazilian Northeast/North—where demand for mass production products is still growing.

The J.A. Lima story mirrors a common phenomenon among the best-practice SSFFs in Ceará: they produced standard products and mainly sold in markets outside their home town. My research showed that 15 out of 17 best-practice firms sell over 50% of their products throughout the Northeast/North market. In the state, over 75% of the footwear firms are concentrated in two traditional shoe-producing towns: Fortaleza and Juazeiro de Norte. Given the large number of firms located in these two cities the local markets are easily saturated. As a result, most of the firms located in Fortaleza and Juazeiro target non-local markets in the Northeast. They find these markets more attractive because the 175 other municipalities in the state have almost any local shoemakers (SIC
leaving open ground for Fortaleza and Juazeiro's firms. Second, Ceará is a privileged location to sell in the Northeast/North regions, especially compared with locations in the South. The North is a large, almost virgin market—it has 5% of the population of Brazil and 0.5% of the value-added in the sector.

The best-practice firms based their success on selling to piecemeal markets in the Northeast/North region. The SSFFs, however, have not received adequate support from Ceará agencies to expand beyond their home-town markets. The state had in the past—specifically in 1985, 1986, and 1991—supported larger firms in the sector by helping them to participate in one of the most important footwear fairs in Brazil, i.e. FRANCAL. Yet, SSFFs never benefited from this support. Recently, SEBRAE has begun to support the participation of garment microenterprises in an equally-important national fair, FENIT\textsuperscript{12}. The novelty of the program and its success may serve as an incentive for SEBRAE to extend this program to other sectors, including footwear.

While the support for fairs is a recent, undeveloped policy, the "Palacios da Microempresa" and the local trading centers were at the center of SEBRAE's marketing support strategy. On the one hand, the Palacios program began in 1988 with the construction of the Fortaleza palace. Currently, there are three "Palacios da Microempresa" in the state. Although the Palacios are large and attractive buildings—e.g. the Fortaleza Palace has an area of 6,000 square meters—they have had a small impact on firm sales. The following figures illustrate the ineffectiveness of the Palaces: Jan.-Nov. 1991 Fortaleza Palace made 12,411 sales-

\textsuperscript{12} This program was regarded by the agency, the garment microenterprises that participate as an important success.
-around 56 sales per day, totaling US$106,535. In Jan.-Mar 1992, it made 4,362 sales—around 50 sales per day (SIC several years). On the other hand, the marketing centers depend on the producer associations. As I showed in section 3.1, marketing centers failed precisely because the SSFFs are not interested in local markets.

Among the existing programs, support to participate in fairs seems the most adjusted to the SSFFS needs. Best-practice firms showed that the Northeast/North market is key to the success of Ceará footwear firms. SEBRAE should consider programs to promote the marketing of Ceará shoes, specifically in the Northeast/North areas.

3.4. Shortages of Capital Versus Lack of Access to Credit

Most SSE programs emphasize credit, the underlying assumption being that SSEs are “eager but unable to receive credit from the established formal institutions” (Sanyal 1990:22). SEBRAE has a working program which provides technical support to SSEs, enabling them to access subsidized lines of credit. BEC (State of Ceará Bank), BNB (Bank of the Northeast), and BB (Bank of Brazil) offer special credit lines for working capital and fixed investments\textsuperscript{13} that are offered to small-scale businesses—see Table B.1 in the Appendix.

In all my interviews, the lack of working and investment capital appeared at the top of the SSEs’ list of constraints, but the firms were not willing to ask for formal financial help. For example, at the beginning of my research, I participated in an SSFFS association meeting. During the course of the meeting a

\textsuperscript{13} For example a microenterprise can receive a loan to buy a machine with pay back conditions that includes only 80% of the current inflation rate and 5% annual interest rate.
manager mentioned, at least three times, that one of these firms’ major problems was the shortage of working capital. When I asked him if he had received any kind of loan in the past, he answered “Yes, but the money is long gone”. He had bought a machine, and a month’s stock of leather, but the rest of the money was spent on improving his house. I asked what he would do if he receives another loan. "Probably the same as the last time" he answered, smiling cleverly. Then I asked him how he would repay the money. "I want one of those ABC (Brazilian Assistance Agency) credits that don't require interest payments. I could get one of those privileged credits that SEBRAE is offering now but I don’t want it" he said. At that point, everyone in the meeting joined the conversation, and they all began to tell me stories of firms that had to close because they could not repay their loans. The market was good when they asked for the credits but after the Cruzado II Stabilization Plan failed—see figure 3.1, the demand for shoes fell and many of them were not able to pay back their debts.

This story illustrates how firms want grants, rather than credit, even if they have capital shortages. Harper (1984:45) argues that very low interest rates do not encourage SSEs to ask for loans, and this is precisely the case in Ceará: In spite of the privileged credit conditions for SSEs the firms were not interested in bank credit. The reason, as I observed in Ceará, is that the managers consider other factors when asking for credit, such as the risks that they are assuming because of the instability of the currency, or, more concretely, what they know about the experience of others who asked for credit. The managers recall how,

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14 See footnote 12.
during the macroeconomic instability of the country in the late 1980s, firms failed because they could not forecast the direction of the national monetary policies—freezing of prices followed by uncontrolled hyperinflation (Graph 3.1)\(^\text{15}\).

\begin{center}
\textbf{Graph 3.1}

Consumer prices, \% increase from a month earlier
\end{center}

\begin{center}
\begin{tabular}{|c|c|c|c|c|c|}
\hline
\textbf{Year} & \textbf{Cruzado I} & \textbf{Cruzado II} & \textbf{Summer} & \textbf{Color I} & \textbf{Collor II} \\
\hline
1985 & 100 & 100 & 100 & 100 & 100 \\
1986 & 100 & 100 & 100 & 100 & 100 \\
1987 & 100 & 100 & 100 & 100 & 100 \\
1988 & 100 & 100 & 100 & 100 & 100 \\
1989 & 100 & 100 & 100 & 100 & 100 \\
1990 & 100 & 100 & 100 & 100 & 100 \\
1991 & 100 & 100 & 100 & 100 & 100 \\
1992 & 100 & 100 & 100 & 100 & 100 \\
1993 & 100 & 100 & 100 & 100 & 100 \\
\hline
\end{tabular}
\end{center}

Sources: J.P. Morgan. Quoted by the Economist (April 17th-23th 1993)

In Ceará, lack of capital was a constraint for the firms. The firms’ unwillingness to ask for credit derived from the unstable macroeconomic situation of Brazil and not the conditions under which SSEs have access to credit. Most of the research on credit programs, however, analyzes the design of the credit programs under which firms can get the formal credit (Jackelen and Rhyne 1991), instead of the sources of capital shortages. There have been advances in the design of credit programs. The Grameen Bank in Bangladesh, Bank Rakyat Indonesia (BRI), Init Desa System in Indonesia, and Prodem in Bolivia have been successful in developing new ways of providing finances to SSEs and other marginal groups. But these programs may not succeed in such a “stormy” macroeconomic environment as Brazil. The firms I visited had a new sort of

\(^{15}\) In 1987, the federal government had to intervened to avoid the bankruptcy of many firms, but this effort could not save many from failing.
proverb: “those who ask for credit sooner or later have financial problems and fail.”

The conclusion is not that privileged credit programs should cease, as McLeod (1984) and Yotopoulos & Floro (1991) suggest. SSEs do suffer from financial problems that constrain their development. Perhaps the most useful conclusion is that policy-makers should change their focus from the design of credit programs to the sources of financial difficulties that firms suffer. For example, the demand for shoes is highly seasonal, creating periods in which most of firms stop producing. These low-demand periods explain why, at the beginning of the high-demand period, many producers do not have money available to buy the leather for the production orders they are receiving. A program that helps firms get money or leather at this time will reduce their capital requirements.

The above-mentioned example offers an alternative approach to the working capital problems of SSFFs. A recent practice among some SSFFs offers another way of dealing with the lack of investment capital: purchasing machinery in consortia. A consortium resembles the solidarity groups made famous by the Grammeen Bank. A consortium is a group of firms interested in buying the same machine. For instance: 12 firms interested in buying the same machine model will be put together by the machine salesman. Each of the 12 firms pay in 12 monthly payments. The price of the machine is indexed to inflation but there are no financial charges—in contrast to the more traditional system of individual purchasing. Every month, by lottery, one of the firms receives a machine until every firm has received one. A solidarity group, in turn, is a group of firms that are jointly responsible for the repayment of all participants’ loans. Both the solidarity group and the consortia make the purchasing of a machine easier.
advantage of the consortium is that firms do not assume the risk of a failed firm payment. This places a high incentive for firms to participate in a consortium instead of a solidarity group.

3.5. When A Sectoral Program Benefits SSEs

In contrast to the divorce between programs for large and small firms, one of the most successful programs benefiting SSFFs was precisely a program directed at both large and small firms. SENAI, an agency not focused on supporting SSEs, implemented this program.

SENAI is a national agency dependent on the Brazilian Federation of Industries. It is one of the largest training organizations in Brazil. The agency is well known among the footwear firms in the South but, in Ceará, SENAI had no role in this sector until this program came along in 1990. The agency came to solve one of the major problems identified by all sizes of footwear firms: the lack of skilled workers. The traditional apprenticeship system could not provide the number of trained workers the firms needed. The state’s efforts were not successful in substituting this system.

In 1982, the state supported the creation of the NTCA (Leather, Footwear, and Related Activities Technology Center), a state agency created to provide trained workers demanded by a growing footwear sector—see graph 1.1. This program, however, only served the larger firms in the state (firms with around 300 workers). By training workers to be machine operators, these workers could not acquire adequate skills to work in the semi-automated or non-automated environment of the rest of firms. Actually, the agency was training
the workers in a technology unavailable to Ceará’s firms at the time. In 1986, NTCA finally closed its doors.

SENAC, in contrast, designed a program that suited the level of technology of Ceará’s firms. The workers were trained with the same machinery that the firms were using. The trainers were craftsmen trained in the old system and also in the new techniques. This resulted in increasing success measured by the number of students enrolled (see table B.1 in Appendix B) and the agency’s prestige among the firms.

In conclusion, table 3.1 summarizes the content of this chapter by contrasting the differences between the agencies supporting SSEs and the strategies of best-practice firms in the footwear sector. In several areas, the strategy of the best-practice firms offered lessons about how to better aid the SSFFs. First, associations are not always useful. In the case of leather-shoe producers, associations are useful but still the firms will not participate in them unless the right incentives are not in place. For the leather-shoe producers the key incentive was access to new markets. Second, marketing support is important but only if targeted to the proper market: markets out of Ceará, especially the Northeast/North region. Third, in an unstable monetary environment it is more effective to support forms of financial help other than bank credit. Finally, the needs of SSFFs are often not so different from those of larger firms, so they can benefit from common programs such as vocational training.
Table 3.1

Constraints, Type of assistance, and Best-practice Firms Strategies

<table>
<thead>
<tr>
<th>Constraints/Opportunities</th>
<th>Ceará Programs</th>
<th>Lessons from best-practice firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSOCIATIONS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The case of leather-shoe producers</td>
<td>Associations of firms with the same size and doing the same activity.</td>
<td><strong>Arca d’Allianza case:</strong> collaboration among different size, and different activities (selling and producing) firms.</td>
</tr>
</tbody>
</table>
| Supply: small order that large suppliers are not interested in. | **Benefits:**  
- Supply center managed by the association (failed because of mismanagement).  
- Production: sharing the same machinery.  
- Trading: local trading centers | **Benefits:**  
- Clients outside the home-town.  
- Instruction about what the market demands.  
- A supply center managed by Arca. |
| Production: using a variety of machines part time | | |
| Trading: finding markets outside of their home-town | | |
| **MARKETING**            |                |                                  |
| Accessing markets outside of their home-town markets. | **Support to local and regional marketing:**  
- "Palacios da Microempresa"  
- Trading centers dependent on associations. | **In three cases the success of the firms stemmed from their participation in fairs: national in one case, and the municipal weekly markets in the other two instances.** |
| **CREDIT**               |                |                                  |
| Firms are “eager for capital but not for official credit”. The reason: the “stormy” macroeconomic environment. | Provide subsidized credit and facilitate the access of the firms to the banks. | **Avoid asking for credit. Focus on strategies to overcome financial shortages, such as buying machines in consortium.** |
| **TRAINING**             |                |                                  |
| Scarcity of trained workers in leather. Rubber-sandals: no interest in training. | SENAI’s training program for large and small leather-shoe producers. | **Taking advantage of SENAI specific program of training.** |

Source: Author’s elaboration
4. Summary and Conclusions

My research in Ceará’s footwear sector uncovered some contradictions between the programs supporting SSEs advocated by most policy-makers, and the strategies of best-practice firms. These contradictions share a common characteristic: while the strategies of the firms were adjusted to the competitive conditions of the sector—such as seasonal demand, out-of-town markets, inflation trends—the public programs target all SSEs equally without regard of their products, processes, or location. These contradictions exist because policy-makers assume that all SSEs share the same problems due to their small size.

In Ceará, the organization of agencies supporting SSEs reinforced the lack of knowledge about the SSEs’ competitive conditions. The agencies supporting SSEs were organized by projects and their staff was evaluated by the performance of the projects. As a result, the agencies were missing relevant information. For example, their explanation of why the local trading center of an association did not work was the association members’ lack of capacity to manage it, and not that selling locally was inconsistent with the footwear firms’ marketing strategy. A periodic evaluation of programs by sector would have helped the managers better target their programs within the current organizational structure.

The creation of a growth pole in Sobral further illustrates the relevance of looking to local reality before assuming that textbook policies are going to work. From the existence of a leather supplier and through forward linkages, the state intended to create in Sobral a successful shoe manufacturing center. Meanwhile, at the other side of the state, in Juazeiro de Norte, the rubber sector was
spontaneously growing from the existence of an intermediary industry--rubber producers--through forward and backward linkages. Instead of fully supporting spontaneous developments such as Juazeiro rubber sector, the state tried to create a successful shoe production center from scratch.

My research stemmed from these spontaneous developments. Based on my understanding of the success of 17 best-practice footwear firms, this paper provides information that may be used to prioritize programs supporting SSEs, and suggests ways to make existing programs more effective.

4.1. Prioritizing the programs

In Ceará, best-practice leather-shoe producers’ success was determined by their ability to sell outside their local market. Their major constraints were lack of adequate supplies--leather and other accessory materials such as glue--and scarcity of skilled workers. Hence, public agencies should stress existing programs targeting these constraints/opportunities: Participation in fairs, association supply centers, vocational training.

Rubber sandals are a more standardized product than leather shoes. In this sector, the key to best-practice firms’ success was determined not only by the marketing ability of their managers but also by their capacity to negotiate with their suppliers. Their major constraints, in turn, were their competitors and not, as in the case of the leather-shoe firms, supply problems or lack of skilled workers. Up until now, the rubber-sandal firms have been successful because their market was growing. In the future, however, the SSEs have little chance to grow with or without state support. Programs such as participation in fairs, associations, or vocational training would not improve their competitiveness with larger firms.
4.2. Targeting the programs

The priority areas for the SSFFs--marketing, supply, and training--were part of the agencies' strategy to support SSEs in the state. In some cases, however, the design of the programs did not adequately address the firms' needs: associations and marketing. In other cases, the programs were missing the root of the problem: credit. There was, however, one case where the efforts seemed adequate to the needs: training.

Associations

The general literature considers associations an important element to support all SSEs. Yet the benefits associations are supposed to provide are not equally relevant for firms in different sectors. For example, rubber-sandal producers were not interested in participating in an association. The benefits of association were not of concern to them because: (i) supplies were not a major constraint for them; (ii) the trading support was focused on supporting sales to the local market in which they were not so interested, (iii) considering their full-time production needs, shared machinery was of little use to them.

Even when associations are justified, as in the case of leather-shoe producers, proper incentives need to be in place if firms are to participate. The missing incentive for the leather-shoe firms was access to new markets. The case of a 15-year collaboration agreement between a distributor and a group of microenterprises supports this argument. The microenterprises were subcontractors of the distributor who were allowed to sell with their individual brand names. Subcontractors could access new clients while avoiding dependence on the distributor. Access to new markets motivated firms to collaborate in two other cases--furniture makers of Sao Joao de Aruaru and
garment firms in the Fortaleza federation of microenterprises. The furniture makers of Sao Joao de Aruaru, perhaps the most successful association in the state, benefited from state purchases through the “public procurement from SSE” program. The garment firms participating in the Fortaleza federation of microenterprises benefited from SEBRAE’s support to participate in fairs outside of Ceará.

Considering the three cases--the distributor, the furniture maker, the federation--I conclude that access to new markets is a major incentive for associations to work in any sector. Yet the next section shows that this support should match each sector’s marketing strategy.

Marketing

SEBRAE, the most important agency supporting the development of SSEs in Ceará, stressed programs to develop the distribution channels for SSE products. SEBRAE has not, however, considered differences in the distribution needs of different sectors. For example, it has promoted programs to sell shoes locally while the footwear firms were more interested in reaching clients in outside markets, especially the Northeast/ North. Hence, supporting the firms’ participation in fairs would have been more effective.

Credit

Shortage of formal credit is one of the problems that has received most attention from researchers and policy-makers. Their research focuses on the design of credit programs but does not pay much attention to strategies to overcome capital shortages without bank credit. Ceará’s leather-shoe producers provide two examples of how to better target the firms’ limited capital by going
to the root of their problems. First, by addressing the firms’ working capital needs at the most critical time: in August, right before their high demand period. Second, by promoting machinery buying consortia. These consortia resemble the Grammeen’s solidarity groups, but in a stormy macroeconomic environment such as that of Brazil, they have the advantage of not requiring a collective commitment to pay.

**Training**

SSEs do not typically participate in any sectoral programs because all sectoral programs are designed for large firms. In Ceará, however, the most successful program supporting the leather-shoe SSEs was a training program that benefited both large and small leather-shoe producers. SENAI designed a program that suited the needs of the entire footwear sector in Ceará. It trained the workers using machinery available in the firms, and the instructors were familiar with the traditional production techniques employed in Ceará SSEs.

In short, policy-makers could significantly improve the effectiveness of the programs by improving their knowledge of the competitive conditions of SSEs within the sectors. As this paper has shown, analyzing the histories of best-practice firms can be a powerful tool to achieve this knowledge. Public agencies can use the resulting information to improve the design of their programs. SSEs, in turn, may learn from the success of firms that grew out of the backyard.
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Appendix A

TABLE A.1
Main footwear-producing countries in 1987 (all types of footwear)

<table>
<thead>
<tr>
<th>Country or areas</th>
<th>Production Mill. pairs</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,903</td>
<td>22.2</td>
</tr>
<tr>
<td>USSR</td>
<td>1,052</td>
<td>12.3</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>803</td>
<td>9.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>592</td>
<td>6.9</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>534</td>
<td>6.2</td>
</tr>
<tr>
<td>Italy</td>
<td>456</td>
<td>5.3</td>
</tr>
<tr>
<td>Japan</td>
<td>409</td>
<td>4.8</td>
</tr>
<tr>
<td>India</td>
<td>390</td>
<td>4.6</td>
</tr>
<tr>
<td>United States</td>
<td>291</td>
<td>3.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>243</td>
<td>2.9</td>
</tr>
<tr>
<td>Spain</td>
<td>190</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Graph A.1
Electric energy consumed by footwear firms over the Total Industrial Consumption of electric energy in Ceará. A historical evolution

(*) N/A
Source: COELCE (Ceará Energy Company) and author elaboration.
### Table B.1: Types of Credit Programs Available for SSEs in Ceará

<table>
<thead>
<tr>
<th>Source</th>
<th>FNE/BNB</th>
<th>FEC/BEC</th>
<th>MIPEN-OURO/BB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Beneficiary</td>
<td>Industrial firms</td>
<td>Industrial firms</td>
<td>Industrial and Services firms</td>
</tr>
<tr>
<td>2. Goal of the financing</td>
<td>Fixed investments</td>
<td>Fixed investments</td>
<td>Fixed investments</td>
</tr>
<tr>
<td></td>
<td>Fixed investments associated to working capital: 70%</td>
<td>Fixed investments associated to working capital: 50%</td>
<td>Fixed investments associated to working capital: 70%</td>
</tr>
<tr>
<td></td>
<td>Working capital: 30%</td>
<td>Working capital: 50%</td>
<td>Working capital: 30%</td>
</tr>
<tr>
<td></td>
<td>Acquisition of raw material up to Cr$34,000,000</td>
<td>Acquisitions complementary to fixed investments: 70%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Acquisitions complementary to fixed investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Financing limit</td>
<td>For firms: out of the semi-arid area Cr$250,000</td>
<td>Micro: Cr$21.0 mill</td>
<td>Micro and Small: Cr$21.7 mill.</td>
</tr>
<tr>
<td></td>
<td>For economic group: Medium: Cr$45.0 bill.</td>
<td>Small: Cr$25.0 mill</td>
<td>Small: Cr$25.0 mill</td>
</tr>
<tr>
<td></td>
<td>Other regions: Cr$5 bill.</td>
<td>Medium: Cr$40.0 mill</td>
<td>Small: Cr$40.0 mill</td>
</tr>
<tr>
<td>4. Bank share</td>
<td>Semi-arid</td>
<td>Micro: 90% Small: 60%</td>
<td>Micro: 80%</td>
</tr>
<tr>
<td></td>
<td>Other regions</td>
<td>Medium: 70% Large: 40%</td>
<td>Semi-arid: 70% Other regions: 70%</td>
</tr>
<tr>
<td></td>
<td>In the case of an already existing firm, the bank share does not consider what the firm invest in the past.</td>
<td>In the case of an already existing firm, the bank share does not consider what the firm invest in the past.</td>
<td>In the case of an already existing firm, the bank share does not consider what the firm invest in the past.</td>
</tr>
<tr>
<td>5. Interest</td>
<td>8% a year, all firms with discount of 30%</td>
<td>-3.0% year, for micro firms</td>
<td>12.8% a year, for micro and small firms.</td>
</tr>
<tr>
<td></td>
<td>for the semi-arid and 20% in the other regions</td>
<td>-5.0% year, for small firms</td>
<td>12.8% a year, for micro and small firms.</td>
</tr>
<tr>
<td>6. Monetary actualization</td>
<td>Discount of 20% for all the firms</td>
<td>(20% of inflation for all firms. Full correction.)</td>
<td>(20% of inflation for all firms. Full correction.)</td>
</tr>
<tr>
<td></td>
<td>located in the semi-arid which receive 30%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Category of firm</td>
<td>Micro: annual liquid sales up to Cr$60,368 mill.</td>
<td>Micro: annual gross revenues up to Cr$82.0 mill.</td>
<td>Existing firms: revenues of the last 12 months:</td>
</tr>
<tr>
<td></td>
<td>Small: from Cr$60,368 to Cr$603,683 mill.</td>
<td>Small: annual gross revenues up to Cr$82.0 and up to Cr$410.0 mill.</td>
<td>-Micro: annual revenue up to Cr$140.0 mill.</td>
</tr>
<tr>
<td></td>
<td>Medium: from Cr$603,683 to Cr$1,801 bill.</td>
<td>Small: annual gross revenues up to Cr$82.0 and up to Cr$410.0 mill.</td>
<td>-Small: annual revenue over Cr$140.0 mill up to 1.4 bill</td>
</tr>
<tr>
<td>8. Maximum period</td>
<td>Up to 5 years: 1 interest only payments and 4 years to amortize</td>
<td>Up to 5 years: 1 interest only payments and 4 years to amortize</td>
<td>New firms: forecasted revenues:</td>
</tr>
<tr>
<td></td>
<td>- Working Capital: 24 months (6 interest only payments, 18 amortize)</td>
<td>- Working Capital: 24 months (6 interest only payments, 18 amortize)</td>
<td>-Micro: up to 470 mill.</td>
</tr>
<tr>
<td>9. Liability</td>
<td>-1:1 for loans up to Cr$8,000</td>
<td>-1:1 and aval or other property for loans up to Cr$8,000. It has to be machinery or land.</td>
<td>Technology investments:</td>
</tr>
<tr>
<td></td>
<td>-1:1.3 (30% over the money received) for loans over Cr$8,000. It has to be machinery or land.</td>
<td>All financing 1:1.3 liability.</td>
<td>- Up to 3 years with 1 year interest only payments and up to 2 years to amortize. Mix Investment:</td>
</tr>
<tr>
<td></td>
<td>-1:1.3 (30% over the money received) for loans over Cr$10,300.</td>
<td>-Up to 18 months, with 6 months interest only payments and 1 year to amortize</td>
<td>Up to 18 months, with 6 months interest only payments and 1 year to amortize</td>
</tr>
</tbody>
</table>

Source: SEBRAE and author elaboration
# TABLE B.2
Evolution of the Number of Trainees in the Footwear Sector

<table>
<thead>
<tr>
<th>Years</th>
<th>Training Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NTCA</td>
</tr>
<tr>
<td>1982</td>
<td>54</td>
</tr>
<tr>
<td>1983</td>
<td>83</td>
</tr>
<tr>
<td>1984</td>
<td>51</td>
</tr>
<tr>
<td>1985</td>
<td>78</td>
</tr>
<tr>
<td>1986</td>
<td>145</td>
</tr>
<tr>
<td>1990</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td></td>
</tr>
</tbody>
</table>

(7 months)

Source: Internal reports from SENAI and author elaboration

SENAI began operations