

**The City Government of Rio de Janeiro's  
policy to support self-employed and micro enterprises**

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## **1 – Introduction**

More than any other large Brazilian city, Rio de Janeiro embodies a true vocation for micro entrepreneurship and self-employment. To a certain extent averse to fordist style jobs, the Carioca worker has the overwhelming ability to find his way through difficult situations, of exploring market flaws, and is imparted with an extraordinary creativity in his struggle to survive. This ability some what explains why the city's unemployment rate has been the lowest among all other large cities in the country for over more than a decade, and still remains so in spite of the macroeconomic ups and downs of the Brazilian economy.

This nature may be much more than an outgate for the economic crisis. As long as emplaced in the proper ambiance, it may be the driving force for a new model of development. One more democratic and with a lower level of exclusion than the one that has elevated Brazil to its position as the eighth economy in the world, and with one of the highest levels of inequality.

It is in the creation of this ambiance, that the City Department of Labor of Rio de Janeiro, established in January 1997, has focused its efforts. It has done so by building an array of integrated public goods and services, in a close partnership with other spheres of government and with a broad succession of actors of civil society. The basis for this policy is the diagnosis that micro enterprise is, and will ever more be the driving motor for the creation of jobs in the city, and that what really matters is that these jobs be not only plentiful, but of quality.

### **1.1 - Back ground**

The rate of unemployment in Rio de Janeiro is lower then in any other Brazilian Metropolitan Area since the mid-1980's for at least three reasons:

- a) Demographic growth has been lower than in any other Metropolitan Area;
- b) The participation rate is declining since the early 1990's – thanks to the fact that the younger are delaying their entry into the labor market; and
- c) The informal sector acts as a better buffer than it does elsewhere.

From the beginning of this decade, in fact, while the big companies are laying off, small companies are employing more and more and self-employment has risen by 22%. One in every four Cariocas is self-employed.

If quantity is not a problem, the quality of jobs in the so-called “informal sector” is a major concern. Therefore, the Department of Labor of the City Government - created in January of 1997 - has as a priority the establishment of an integrated policy to support micro-entrepreneurs and the self-employed.

## **1.2 - An integrated approach**

The Department of Labor understands its role not as the sole policymaker and executive, but as the coordinator and mediator of the public and private actors in this area. The ultimate goal is to build a comprehensive institutional framework focused on the promotion of a long run, micro-firm based local economic development model.

The Department aims to achieve, simultaneously, a path to sustainable economic growth, job creation and continuous decline of income inequality.

Integration among different public goods and services is also pursued. An array of integrated programs is being, progressively, created through the continuous interaction among public and private actors:

- Bureaucracy simplification;
- Training and retraining;
- Technical assistance;
- Trade support;
- Micro-credit;
- Incentives to clusters and entrepreneurial associativism; and
- Popular cooperatives incubation.

This policy has also an important intersection with a broader effort by the City Government to integrate the slums to the “formal city” - through the *Favela-Bairro* Program, which is led by the Department of Housing and sponsored by the IDB, the European Community and the Federal Government. The communities urbanized by this program are the first beneficiaries of the set of public services mentioned above.

## **2 – The programs**

### **2.1 – Socioeconomic surveys in low-income communities**

The purposes of this program, centered in the communities benefited by the *Favela-Bairro* program, are twofold:

- a) To obtain knowledge of local specificities, either in what concerns employment, income generation, associativism and citizenship of the inhabitants, or the characteristics of the businesses in the different communities; and
- b) To offer a broad access to databases to both the academic community and, specially, to the leaders of the communities reached by the survey.

The Department of Labor, in straight collaboration with the Scientific Society of the National School of Statistical Sciences (SCIENCE), has developed the methodology an arm of the census bureau (IBGE), which is also responsible for the fieldwork and statistical analysis.

The survey is divided into two blocks:

- a) A household survey, by sampling, which pursues describing housing conditions, labor supply and employment, etc.
- b) An economic census, to study in detail community entrepreneurial potential and the obstacles to its development.

The project started in December 1997. Micro-data and standardized tabulation of the results are available for 25 communities. They show, among other results, that:

- a) Infrastructure creation by the City Government through the *Favela-Bairro* program induced an important crowding-in effect, stimulating private investment in housing improvement and in the creation of new businesses;
- b) Living conditions in communities are still, however, precarious. Income is insufficient, informality levels high, illiteracy and unemployment rates higher than those for the city as a whole, confirming the

hypothesis that implementing specific employment and income generation programs in these communities is essential.

## **2.2 – Simplification of bureaucracy**

Formalizing is not a good in itself, but for most small entrepreneurs it still symbolizes a passport to citizenship and can represent an important source of fiscal income.

Nevertheless, in Brazil - and particularly in Rio de Janeiro - it is an extremely difficult task: almost 40 different documents and forms for the 3 levels of government are required in order to legalize a small business. Businesses located in slums are, in effect, deemed totally illegal.

The Department of Labor created, in mid-1998, a permanent Forum, composed of representatives of the Federal, state and local governments, NGOs and entrepreneurial associations (and coordinated by SEBRAE-RJ<sup>1</sup>). These institutions are now working together in an effort to unify the required procedures to legalize small businesses. Their recommendations will be implemented in early 1999.

## **2.3 – Training, retraining and technical assistance**

The lack of both general and specific human capital is still a central obstacle to the development of small businesses in Brazil. Not only for what concerns micro-entrepreneurs themselves, but also regarding the typical workers they hire.

The Department of Labor, in a joint-venture with a broad set of public and private educational entities and with several NGOs is offering, since the end of 1997, training and retraining courses - mainly (but not only) in areas benefited by the *Favela-Bairro* Program and to the victims of structural and institutional reforms. The goals are threefold:

- Increase employability

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<sup>1</sup> *Serviço de Apoio a Micro e Pequenas Empresas do Estado do Rio de Janeiro*: an entrepreneurial association that has as its mission to support small businesses.

- Improve specific and managing skills of micro entrepreneurs and of the self-employed
- Enhance community leader capacity to formulate diagnosis, in order to elaborate, negotiate (at different levels) and manage social programs in their communities, to increase efficiency and to ensure social control over these programs

Most of the courses are of short duration and given by a succession of public and private entities – coordinated by the City Department of Labor. The ones directed to the self-employed and micro-entrepreneurs are complemented by on-going technical assistance packages.

Targets, methodologies and executive entities are defined in strict agreement with the City Labor Commission, which is tripartite and paritarian. A voucher system will be adopted in 1999; it is presently being designed in collaboration with the Gamma Institute (Uruguay).<sup>2</sup>

The only long-term course (1-year) is the one directed to community leaders, which is given by the City Department of Labor staff itself.

The program was launched in July 1997. During 1998, the following results were attained:

- 8.000 people were benefited by employability-increasing courses. As shown by an external evaluation,<sup>3</sup> the overall level of employment in this group increased by 70%, and formal employment by 87%;
- 4.500 self-employed workers and micro-entrepreneurs were trained; and
- 20 community leaders were capacitated.

The targets for the next two years are described in table 2.2.1 below:

Table 2.2.1  
Targets for the training program (number of beneficiaries); 1999/2000

	<b>1.999</b>	<b>2.000</b>
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<sup>2</sup> Training Vouchers will be available in both:

- the Labor Network agencies that the Department is structuring with trade unions and entrepreneurial associations; and
- The ATA agencies (support for the self-employed program) that the Department is opening in recently urbanized slums.

<sup>3</sup> Elaborated by Neise de Luiz, from UNITRABALHO.

Employability increasing	30.000	60.000
Self-employed and micro-entrepreneurs	20.000	40.000
Community leaders	100	200

Short courses, however, are far to be enough to guarantee a consistent and sustainable improvement of the small entrepreneurs' capacity to manage their businesses. Thus, training and retraining courses must be complemented by effective and continuous technical assistance packages, both to support legalization efforts and to promote technological innovations.

The Department of Labor, in a joint venture with SEBRAE-RJ and with several Universities and NGOs, has started to put in place at least two major projects in this area during 1998. In 1999, a voucher system will also be adopted for the Technical Assistance program.

## **2.4 – Access to technology**

This program has two main objectives:

- a) Furnish state-of-the-art technology to micro entrepreneurs and the self-employed, by means of partnerships with public and private universities, companies, Brazilian and foreign non-governmental organizations. The first technology transfer program will be in place by the end of the first half of 1999; and
- b) Provide democratic access to information and computer technology to low-income communities. Installing computer centers – Project *Rio Online: Information Technology for Labor* - provides democratic access to information and computer technology to low-income neighborhoods reached by the *Favela-Bairro* Program. The City Department of Labor supplies computer and network equipment to community organizations, which then have the responsibility to make them accessible to the community. The centers are private entities that must be self-sustainable, rendering to the local community services such as desktop publishing, computer training programs, leasing computers by

the hour to micro entrepreneurs, etc. So as to guarantee an adequate management of the centers, the City Department of Labor offers, through its job-training program, training to local managers and instructors. Since mid 1998, ten Computer Centers have been implemented, training 1.183 people. Fourteen other centers will be working by the end of March. Seventy-six other centers are planned for 1999 - 900 for 2000, providing computer and information technology for all low-income communities of the city.

## **2.5 – Trade Support**

In qualitative surveys, the difficulty to place products and services on the market is systematically mentioned by the self-employed and small entrepreneurs as the major obstacle to develop their businesses.

The goal of the Department of Labor in this area is to encourage horizontal and vertical network building, in order to broaden and consolidate market perspectives for micro entrepreneurs and the self-employed.

The program has three blocks:

- Personal Services: this is the market segment that has attracted most of the workforce, particularly the self-employed, as an answer to the diminishing formal labor market in the last decade. Workers that are victim of this transition are not likely to maintain the standards of living they had for a number of reasons, but mostly for the lack of capacity to build an adequate customer base. The program, in partnership with SENAI-RJ,<sup>4</sup> selects and certifies painters, carpenters, and repairpersons, among other professionals. The workers are given access to job training courses, schooling, microcredit, technical assistance and other services, in the Support Services for the self-employed.<sup>5</sup> The consumers, on the other hand, benefit from a service

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<sup>4</sup> *Serviço Nacional de Aprendizagem Industrial do Estado do Rio de Janeiro*: an institution directed by the entrepreneurial sector, which has the original scope to train and retrain workers for the manufacturing sector.

<sup>5</sup> ATA: *Apoio ao Trabalhador Autônomo*.



that offers to the public – through a call-center, in a fast and efficient manner, professionals that safely provide quality services;

- Commercial Space Availability in communities that have benefited from the Favela-Bairro Program; and
- Trade Agencies: private enterprises, with a minority City Government partnership, that have the purpose to lower acquisition costs and to broaden markets for micro entrepreneurs.<sup>6</sup>

The personal service brokerage agency is in its experimental phase since August 1998. In its first six months of operation 340 workers have been enrolled, and 900 consumers have been attended. Through the end of the year 2000 the program intends to have approx. 30,000 workers enrolled and 300,000 customers attended.

Commercial out-lets built by the City Department of Housing have been rented to community residents in the neighborhood benefited by the *Favela-Bairro* program.

The first Trade Agency will begin its activities in the first half of 1999. Focusing on the apparel industry it will be located in the heart of the now de-industrialized garment district of the city – still the home of thousands of laid-off workers, most of which have opened their own businesses – generally, in a precarious manner.

## **2.6 – Microcredit**

The Department of Labor understands that micro-credit in Brazil will only become strong when the private financial sector realizes that lending to the poor is good business. Our purpose is to stimulate both the up scaling of NGOs that work exclusively with micro-credit and the downscaling of private financial institutions.

The first step to be reached was the Municipal Economic and Labor Development Fund, established by law and approved by the City Council in unanimous voting. A quadripartite board manages the fund, with representatives

of government, labor, business and non-governmental sectors of the city, to ensure social control over the financial resources. These funds may come from the city budget, other Brazilian, foreign or multilateral agencies, be they governmental or private, or even from private for-profit companies willing to invest in this niche of the financial market.

The Fund was established to provide financial resources for non-profit enterprises that work exclusively with micro financial instruments for the development of micro businesses, and for public and private, for-profit and non-profit, businesses interested in providing guarantees, or retro-guarantees, to micro finance institutions. The resources are funneled for institution building or capitalization in the form of real positive interest rate loans, though relatively low if compared to current market rates.

The fund was established in November 1997 and regulated in the first half of 1998. The initial funding, which total R\$ 700.000,00, were provided by the City Government budget (approx. US\$ 585.00,00 – Dec. 1998 dollars) and was totally funneled to RioCred. Other institutions chose not use the fund in its first phase. For 1999 the City government budget has pledged R\$ 2.000.000,00 to the fund (approx. US\$ 1.100.000,00 in January 1999 dollars).

An arrangement with BNDES,<sup>7</sup> has guaranteed that for each real invested by the “Carioca Fund” in a non-profit micro finance enterprise, the bank would invest another one – through its “BNDES-Solidário” Fund.

Another approach was to work at the bottom-line in an alliance among a private financial institution (Fininvest), a private German consulting company – IPC (Internationale Projekt Consult GmbH) – a public economic research institution (IPEA – *Instituto de Pesquisa Econômica Aplicada*), the Rio de Janeiro Center of Industry, and the City Government, which, through the implementation of an adequate credit assessment method for the micro enterprise target group, launched a non-profit micro financial institution – RioCred – that offers micro entrepreneurs loans for fixed investments, cash flow and installation reform.

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<sup>6</sup> This program is a joint-venture with SERE, which is the representative in Rio de Janeiro of the *Friedrich Ebert Stiftung*, a German foundation linked to the SPD (Social Democratic Party).

<sup>7</sup> Brazil's Social and Economic Development Bank.

Loans range from R\$ 100,00 (approx. US\$ 55.00 – January 1998 dollars) to R\$ 5.000,00 (approx. US\$ 2,750.00 – January 1998 dollars).

RioCred started its activities in late September 1998 – in an impoverished area of the city (Pilares). Through January 1999 it has made approx. one hundred loans with an average worth of R\$ 2.390,00 (approx. US\$ 1.313,00 – January 1999 dollars). Any default has yet to be registered.

Two other agencies will be opened by the end of 1999 in order to accomplish 5,000 loans, and five other by the end of 2000, to reach the target of 20,000 loans.

## **2.7 – Employee selection**

More than any other, the Brazilian micro enterprise incurs in inefficient methods when selecting its workforce. This is a major obstacle in becoming competitive. Hiring an employee with a different profile from that of the position he is to hold in the company leads to high turnovers, precarious jobs, low productivity, low wages and high training costs.

That is one of the main reasons for the Department of Labor of the City of Rio de Janeiro to embark in the effort of building a job matching system – the Labor Network.

The Labor Network consists of a number of branches throughout the city, combining a territorial and a sectorial rationale. It is the fruit of an active partnership of the city government with labor unions and business associations. The latter, whose subsistence is linked to rendering services to the associative body, has the strategic responsibility of identifying and offering job vacancies to the system. The unions are drawn towards the system because it minimizes the costs of job searching and offers an array of other integrated services, such as unemployment benefits enlistment and job training programs. The City Government, through the Department of Labor, contributes to the process by offering technical assistance and by covering a part that will vary from case to case, of the investment and current costs of the branches.

The first branch is opened, in an experimental manner, since May 1998 – having attended nearly 20,000 workers and one hundred businesses through

January 1999. Six more branches are on the drawing board and should be working until the end of the third quarter of 1999. The Network will consist of at least 25 branches through the year 2000, a total investment of US\$ 12,345,678.00.

## **2.8 – Support to the self-employed**

Self-employment in Rio is more than a buffer: it is a way-of-life. 1,1 million Cariocas (over  $\frac{1}{4}$  of the overall labor force) are self-employed in a broad set of activities; according to household surveys, 70% would not like to work in a formal job. Nevertheless, they face all kind of difficulties to develop their businesses. The City Department of Labor believes that by removing these obstacles, through an integrated public policy framework, it can contribute to the creation of a new model of economic development – with less inequality and focused on the genuine comparative advantages of Rio's economy.

Our methodology consists in building a network of agencies to support the self-employed, where the following services are available:

- Information on how regularize its own business;
- Enrollment in professional capacitation courses;
- Continuous technical assistance;
- Technology;
- Trade support;
- Microcredit;
- Local producer networks or associations; etc.

These agencies can either be autonomous or integrated to the Labor Network – so as to be directly available also to the unemployed workers that do not wish to, or do not have a chance to, return to a formal job but still need to work.

Two support agencies for the self-employed were established in the second half of 1998, and two other will be opened in the first half of 1999 – all of them in communities that were benefited by the Favela-Bairro program. All Labor Network agencies have a support to the self-employed counter.

## **2.9 – Popular cooperative incubation**

Cooperative organization support is a key element of our strategy to enhance work opportunity for workers in low-income communities.

The cooperatives that are being incubated in this program are mostly multidisciplinary, offering simultaneously an array of different services, such as construction, hospital cleaning, among others. The process is a result of a partnership with the Federal University of Rio de Janeiro (COPPETEC-UFRJ), which is the responsible for the incubation. The stages to be trailed in the two years of the program are:

- Capacitation and job training of the workers for cooperative work;
- Support for self-management through technical, administrative and legal assistance;
- Support in machinery or equipment acquisition – to consolidate the cooperative's market presence;
- Monitoring the cooperative in the market.
- A popular cooperative center is being designed reaching for the synergy and gains of scale among the different cooperatives that will be functioning there.

The program started in March 1997. Until 1998, 15 cooperatives were formed with 1,314 associates – 776 of which were working. In 1998, the total sales summed approximately R\$ 3 million (US\$ 2,4 million in December 1998 dollars – R\$1.25/US\$1.00). It should reach 5,000 workers by the end of 1999 and 10000 in 2000.

## **2.10 – Local economic development (LED)**

The ultimate goal of this set of programs is to establish a comprehensive framework to promote local economic development and the reduction of income inequality, by articulating – at the local level – an array of integrated public goods and services (e.g., job-training, technical assistance, transfer of technology, trade support, microcredit, etc.), so as to leverage the competitiveness and the productivity of the firms.

In order to consolidate this framework, the Department of Labor is building an integrated network of Local Economic Development Agencies (LEDAs) throughout the city. Each LEDA is autonomous and the product of the voluntary association of the Department of Labor with other levels of government, business and labor union organizations, local representatives and non-governmental organizations in a non profit enterprise.

Identifying market failures, business opportunities and local potentials, the development agents (LEDA employees) should be able to coordinate the efforts of the various players capable of offering public goods and services, so as to correct these failures and/or to explore in a more efficient manner the area's productive potentials.

LEDA location may vary for many reasons, from the rehabilitation of de-industrialized areas to the need to leverage comparative advantages of certain territories, or even the need to integrate the economies of communities reached by urbanization programs. Likewise, institutional building may also vary depending on local interests and necessities - minority government presence, nonetheless, is essential so as to guarantee impermeability to political cycles.

The program started in June 1998 with development agent fieldwork in two areas of the city:

- a) The Southern District, where comparative advantages in leisure, tourism, cultural activities and modern services are clear; and
- b) The Northern District, which was especially hard hit by the diminishing elan of the traditional industrial sector, target of recent initiatives of territorial rehabilitation.

The development agent is the bridge between local actors and the Local Economic Development Program projects, establishing a continuous and direct relation with the community, researching and understanding local needs, contributing in the building of a local information system, and mediating discussions in local forums, entrepreneurial groups and other organizations in the area.<sup>8</sup>

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<sup>8</sup> As it is well known, the constitution of networks is at the root of the best performances of micro and small business (the clusters in Northeastern Italy are an outstanding example).

This effort will lead to the opening of two development agencies in the first half of 1999.

## **2.11 – Knowledge**

Last but not least, it is important to stress that the City Department of Labor has formulated this policy based on an extensive diagnostic of the Rio de Janeiro's economy and labor market natures and trends. Nonetheless, the stock of knowledge in these fields is still incipient and badly known by those who are (or should be) the leading actors in the policy-making; this is the reason that led the Department of Labor to invest in this area.

The scope is twofold:

- To encourage the development of research on the Rio de Janeiro labor market, so as to provide a solid base for implementing and monitoring the city's income and job creation policies; and
- Broaden the access to labor market information for the public or private actors that may benefit from it.

A continuous flow of information on Rio's labor market is therefore guaranteed through:

- a systematic financial support of original multidisciplinary research projects, which has already culminated in four books;<sup>9</sup> and
- A periodical publication produced by the City Department of Labor's Information System, established in August 1997: "*O Mercado de Trabalho do Rio de Janeiro – Conjuntura e Análise*", which is already at its fifth issue.

This effort will be crowned, in March 1999, with the close participation of the Department of Labor in the constitution of a private research institute (*Instituto de Estudos Sociais e do Trabalho do Rio de Janeiro*), in a joint-venture with SENAI-RJ, entirely devoted to the production of new applied research on the labor market, micro-enterprises, poverty, income inequality, etc.

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<sup>9</sup> "The Labor Market of Rio de Janeiro: Trends and Policies 1991-1996"; "Rio 97 – The Rio de Janeiro's Labor Market"; "New productive territories and public policies: the case of Northeastern Italy" and "The economy and the labor market of Rio de Janeiro: nature and trends".

### **3 – Conclusion**

The City Department of Labor of Rio de Janeiro, during its two years of existence, has prioritized the constitution of a comprehensive menu of public services directed to the micro-enterprise because we are convinced that this is crucial in order to create more and better jobs and to combine economic development with social integration.

We believe that this strategy – especially when it is combined to an extensive urban integration program (like *Favela-Bairro*) is appropriate not only for the city of Rio de Janeiro, but for most Metropolitan Areas throughout Brazil and Latin America.

All the programs described in this paper already exist or are about to exist. Their relevance, in terms of the standard of living of the Cariocas, will depend on the scale that they will be able to reach; i.e., on the capacity of the Department of Labor to consolidate and expand the partnerships' network that is already in place.