

Brazil Entrepreneurial Ecosystem of Startups

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Business Ecosystem Overview

In the fourth quarter of 2017, Brazil's GDP shows sign of recovery for the first time after suffering from the longest recession in its history.

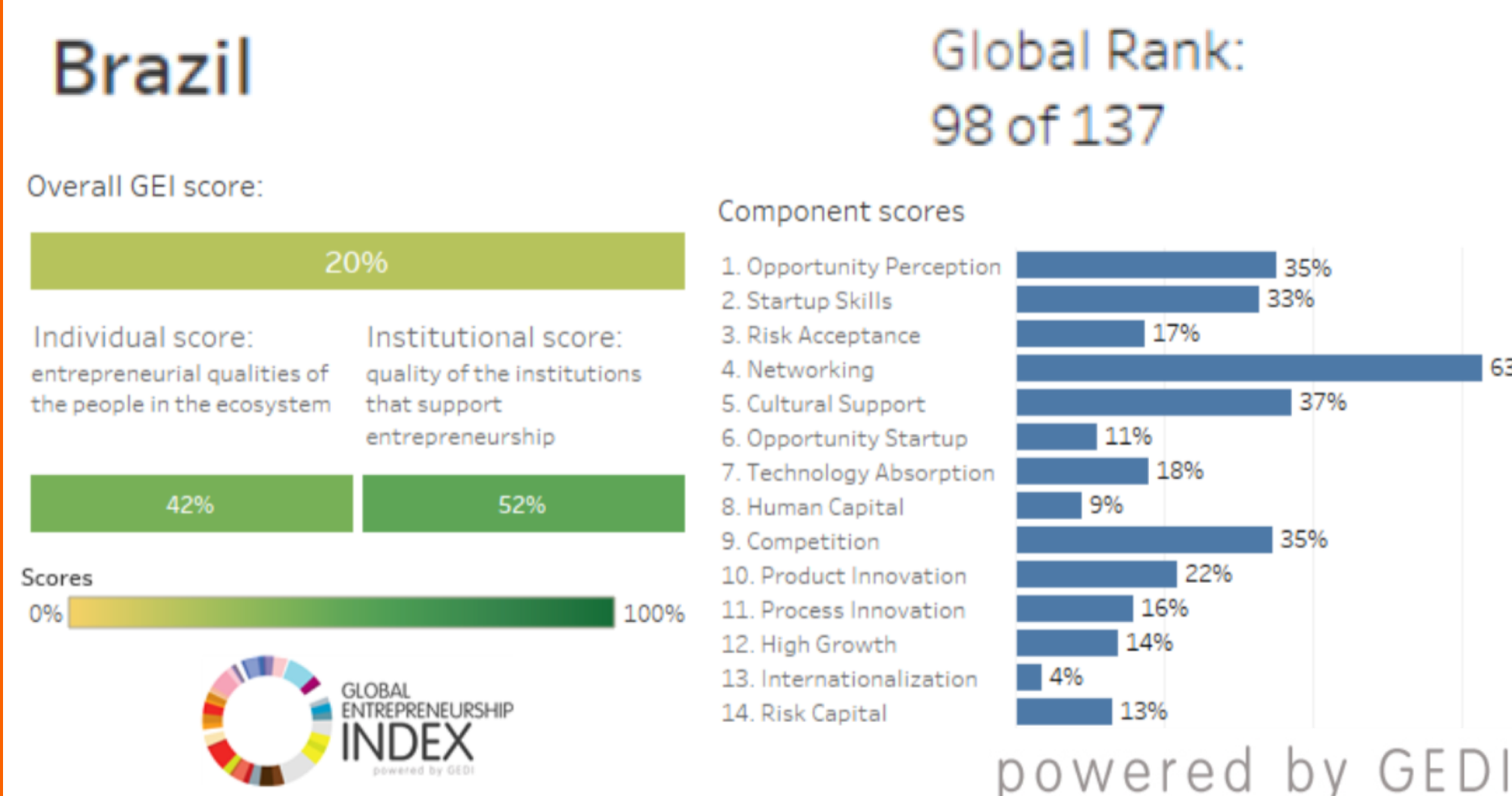
The following 3 months, Brazil produces three new startup unicorns:

- 99 (acquired by Didi in China for rumored US\$1B)
- PagSeguro (hit US\$2.7B - the largest IPO in NYSE since Snap Inc in March 2017), and
- Nubank (raised a US\$150M Series E Round in March 2018).

From 2011-2016, the Brazilian entrepreneurial sector was estimated to have grown by 30 percent annually even as the rest of the country was struggling with political crises and an unemployment rate of 13.6 percent (14 million people). Each year, over 300,000 companies are created. Moreover, international investment coming into Brazil from China, Japan, Europe, Silicon Valley and beyond has risen more than double since 2013.

Although facing challenges such as unwieldy bureaucracy and administrative struggles, Brazil entrepreneurial ecosystem is full of potential with 4 main cities leading the trend – São Paulo, Rio De Janeiro, Belo Horizonte and Florianópolis.

Brazil Global Entrepreneurship Index



GEI is a composite indicator of the health of the entrepreneurship in a given country, measuring both the quality of entrepreneurship and the supporting entrepreneurial ecosystem in a country.

In the 2018 GEI, Brazil ranks 98 out of 137 economies that are being studied with a score of 20. It scores 42 in individual score and 52 in the institutional score given the prevalence of business accelerators and incubators. When we break down the component scores into the 12 pillars of the index, Brazil aces in networking and cultural support while lagging in internationalization and human capital.

Regional Analysis

São Paulo - Hub of Innovation

São Paulo, the financial capital of Brazil, holds more people than the entire country of Chile, ranked 12th for startup innovation worldwide and is home to 2,700 active startups. World leading tech companies such as Google, Uber and AirBnB build their headquarters in this city. Latest news reveal that Facebook will be establishing their very first world's innovation center – Hack Station in São Paulo later this year.

Startups in São Paulo

Founded in 2013, the leading FinTech company in Latin America offers 3 main products – NuBank credit cards, NuBank Rewards and NuConta digital accounts. Nearly 3M Brazilians have signed up for the card. Aiming at the over 60 unbanked Brazilians, the company expanded into digital banks account late last year.

Designed to house up to 50 startups, CUBO coworking Itaú, aims to foster Brazil's startup ecosystem and support the innovators by creating a dynamic community with access to investors, mentors and connections. Over years, the startups that work here have raised over R\$100M (US\$32M).

Rio De Janeiro - Center for Social Entrepreneurship



Being the second largest city in Brazil, Rio does not only stands out as a renowned tourist spot, it is also a city filled with developers and innovators. The city is transforming into a tech hub that utilize technology innovation to address lingering social issues. It is also the home to the most downloaded taxi app in the world – Easy Taxi and host regular events such as Geeks on Beer, Circuito Startup and Rio Info that aim to foster the startup scene in the city.

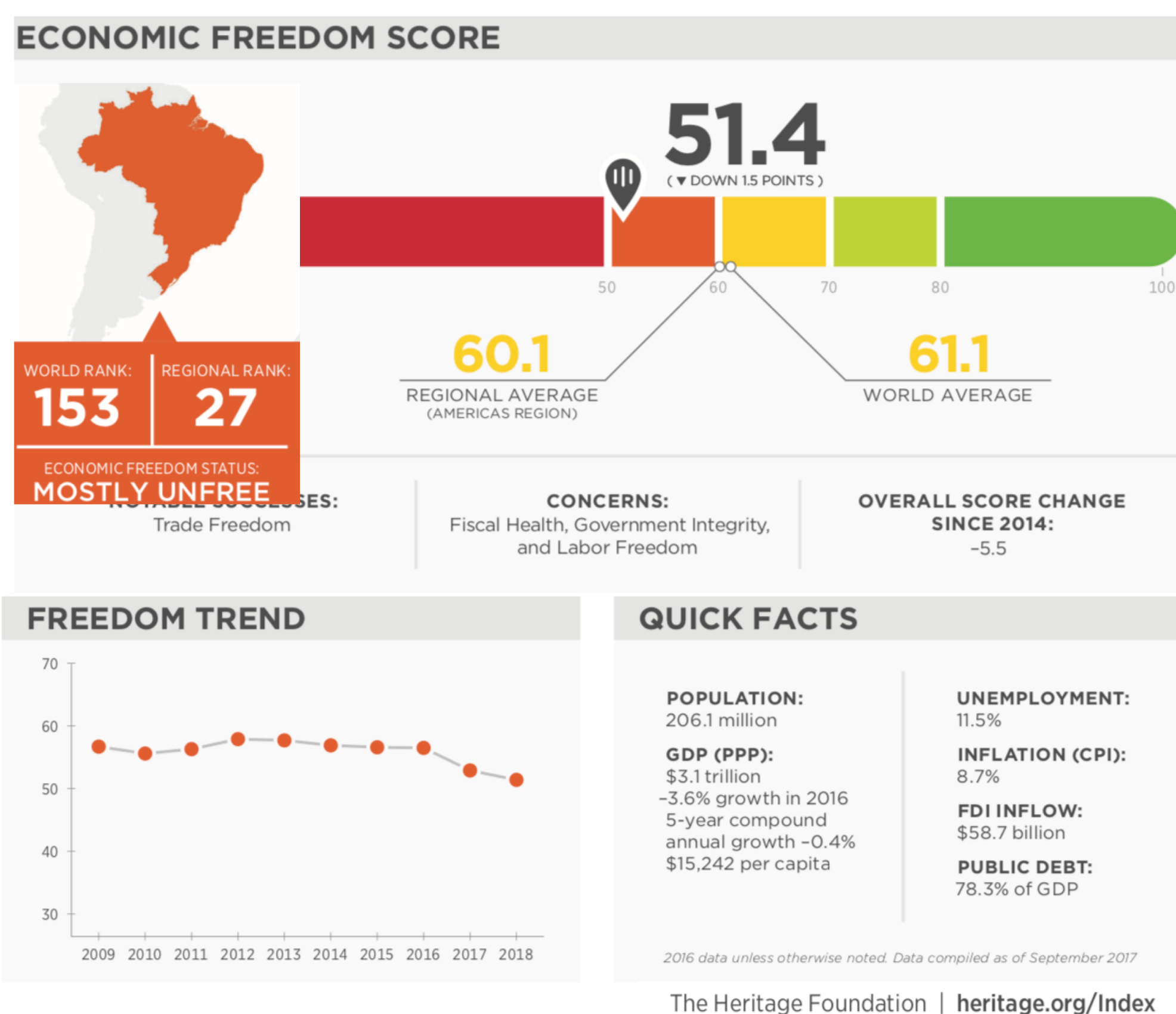
Utilizing technology to promote democracy and inclusivity in public policy, Meu Rio has successfully campaigned for greater transparency by analyzing public policy proposals and connecting the users to city officials for email petitions.

Startups in Rio De Janeiro

Unlike its competitors that works only with magnetic stripe cards and requires card-reading dongle, Zoop, a secure mobile payment platform, supports wireless mobile point-of-sales (MPOS) and card-less transactions through its mobile app.

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Brazil Economic Freedom Index



Economic freedom is closely related to entrepreneurial activities in a country. In the 2018 index, Brazil ranks 153rd freest economy with a moderate score of 51.4. The decreased overall score is mainly driven by declines in labor freedom, business freedom, government spending, government integrity and fiscal health. It is said that Brazil needs more economic freedom by eliminating the barriers to entrepreneurial activity such as burdensome taxes and regulations.

Summary

Brazil start-up scene is on the rise although the country's economy is yet to recover from the disastrous economic downturn. In fact, the recent recession that drives up inflation might have open up opportunities for the Brazilians and investors to expand their businesses into e-commerce that offers lower prices and better customer experience. Looking at the current trend, tech company will remain to dominate the entrepreneurial ecosystem in Brazil.

Some said that most start-ups in Brazil is merely a clone of what have been done overseas; if they aim to penetrate into the global market, genuine innovations are needed. Yet, we couldn't deny that some business models in Brazil are entirely original. A recent rise of Brazilian start-ups being exported to the international market should speak volume in this scenario.

Nonetheless, the power of business and technology is yet to transform Brazil. With local start-ups set out to address challenges that long plagued the country, we could witness more local innovations in online lending, banking, logistic and mobility before long.

In addition to that, the country's new president has promised business-friendly reforms that could unleash the immense latent potential in the start-up sector. Hence, it is fair to say that a strong Brazilian start-up ecosystem is brewing.

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Opportunities

- Huge market (8th economy, 5th most populous country)
- Brazil E-commerce industry is growing by 11.5% in 2017 and is projected to expand by 10% in 2018
- One of the biggest and most active social media audiences in the world (over 90M users)
- Second largest electronic gaming market in Latin America (expected growth: US\$844M by 2018)
- Easy access to accelerators; abundance of coworking spaces and conferences
- Permanent residence visa for investors investing from USD\$60,000 in initial investment

Challenges

- Strongly bureaucratic system (takes 84 days on average to create a company; ranks 10th worst in the world)
- Complex tax legislations (WB estimated Brazilian businesses spent 2,600 hours filing taxes on average, which is 15 times the average in European countries)
- Restrictive labor market regulations
- Traffic and crime scene (average traffic jam on Friday evenings is 180km (112miles) in São Paulo)