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# ***Fast Growth of Start-up Ecosystem in Brazil***

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# Fast Growth of Start-up Ecosystem in Brazil

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*Brazil is the top player in Latin America when it comes to start-ups. Investments in start-ups grew to a record amount of US\$ 9.4 billion in 2021 (nearly triple the amount of the year before and a tenfold growth over the past decade). The ecosystem is expanding rapidly in the region's largest market. Brazil has an estimated 14,000 start-ups and about 20 so-called unicorns (i.e. privately held start-ups valued at over US\$ 1 billion). A Legal Framework for Start-ups was recently approved by Parliament to further boost the Brazilian start-up landscape.*

## Start-ups in Brazil, a snapshot

Looking at the record investments of US\$ 9.4 billion in Brazil in 2021, the main start-up segments are fintech, retailtech, real estate, healthtech and mobility. Fintech<sup>1</sup> is the best funded segment, receiving about 40% of the total investments in 2021. Fintechs also dominate the list of start-ups that were acquired in 2021 (247 in total).

In 2021, there were nearly 600 different investors active in the Brazilian market, a 50% increase compared to the year before. The largest investments were mostly done by venture capital funds of foreign origin such as Softbank, Tiger Global Management, Tencent, Accel and Ribbit Capital. A managing partner of Softbank's US\$ 5 billion Latin America **fund, characterized technology in the region as "more related to inclusion than to disruption"**. But also Brazilian venture capital firms are picking up the pace like Monashees which raised US\$ 700 million last year.

Almost half of the Brazilian start-ups are active in the Business-2-Business market. And the main business model is software-as-a-service (41%) followed by marketplace (19%). The hotspots in Brazil are the states of São Paulo (29% of the start-ups are located here), followed by Minas Gerais (9%), Rio Grande do Sul (7%) and Rio de Janeiro (6%).

The appearance of unicorns is relatively recent in Brazil but it seems to be accelerating, with 10 new unicorns appearing just last year. NUBank, a digital bank, is currently the most valuable start-up (if you can still call it that) in Brazil and went public in New York in late 2021 with a market value of US\$ 41.5 billion. NUBank and other Brazilian start-ups have already expanded to other countries, including the Netherlands. For example, foodtech company Fazenda Futuro choose the Netherlands as its first European market. And the Brazilian unicorn Hotmart, an edtech company, has even based its headquarters in Amsterdam.

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<sup>1</sup> This interest in fintechs could be linked to the fact that Brazil's Central Bank started to implement Open Banking last year, which is considered a big step towards innovation in the financial sector.

## New Legal Framework for Start-ups

In 2021, Brazil approved a new law, known as the Legal Framework for Start-ups, aimed at creating a favourable regulatory environment for innovative companies in general (not just for start-ups). This law, in conjunction with several other laws, provides among others:

- A legal definition of start-ups (with criteria such as period of existence, gross revenues and officially stated purpose of the company) and of different ways to contribute capital, like angel investments or options to buy shares.
- Capital contribution from new funding sources, most notably companies that already have a legal obligation to invest in R&D, such as concession holders in the Brazilian oil, gas and electricity sector (e.g. Shell Brazil and Petrobras).
- Legal security for (angel) investors, e.g. by offering the option to invest without being involved in and liable for actions of the company, and by guaranteeing access to information on the performance of the company.
- The so-called regulatory sandbox, allowing innovations to be implemented in a live but controlled environment, with temporary suspension of certain rules and norms, supervised by regulatory bodies.
- A differentiated public procurement process, where government bodies can procure innovative products or services for a maximum trial period of 24 months, after which the product or service can be acquired for a longer period without the need of a new procurement process. The procurement, in this case, can be defined in terms of problems to be solved and expected results, instead of a pre-selected technological solution with pre-defined specifications.
- The introduction of a new corporation form, called Inova Simples, with benefits such as an easier procedure to establish or close a company, and a simplified regime for tax compliance and for trademark and patent procedures at the National Institute for Intellectual Property (INPI).

The law is a relevant step towards reducing bureaucracy and attracting investors, however several measures, which went even further, were vetoed from the original law proposal. Examples of vetoed items are revision of how investments are taxed, taking into consideration the risky nature of such investments, and regulation of using stock options to attract and retain employees. It is unclear what the exact effect of these vetoes will be. It is clear however that this year, so far, start-up investments have dropped worldwide (44% in Brazil), in response to increasing inflation and interest rates. Nevertheless, Brazilian innovation platform Distrito composed a list of 16 Brazilian start-ups that could potentially become a unicorn in 2022, among which aforementioned foodtech company Fazenda Futuro.

## **More information**

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For more details on start-ups in agriculture, see our article Mapping AgTech in Brazil. Source and further reading: the [Retrospectiva 2021](#) report from the Brazilian innovation platform Distrito.

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