

# Overseas Business Insights

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## Brazilian Investors Buzzing about Fintech in Sao Paulo

The Brazilian Association of Fintechs (ABFintechs), created just last year, reports its membership increasing from nothing to 216 members, reflecting the growing number of financial services startups or “fintechs.” It considers any technology startup offering financial services with the intent of scaling

up quickly to be a “fintech.” The group identifies nine business segments among its members, with payment facilitation the most popular segment for startups. Other active areas include blockchain technology, which is the underlying technology behind many virtual cur-

rencies like Bitcoin, and lending operations, including peer-to-peer lending and virtual credit cards. An estimated 70 percent of fintech startups are in the city of Sao Paulo because of its proximity to investors, financial markets, and universities. Another hub has emerged in northeast-

ern Brazil around the Center for Studies and Advanced Systems of Recife.

According to many of the startups, Brazil’s financial conditions create an ideal market for fintechs because of the high margins in the financial sector and the large size and sophis-

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## Brewing Up More U.S. Grains Exports to Baja California, Mexico

While U.S. domestic craft brewing grain demand has plateaued, Mexico's importation has skyrocketed and drives growth in U.S. farming in the inner mountain west and northern plains, where five states (Idaho, Montana, North Dakota, Colorado and Wyoming) produce

85 percent of U.S. barley. Mexican imports of barley in 2016 accounted for 33,000 metric tons, worth around \$10 million. A U.S. delegation to Mexico helped Baja brewers learn more about malting barley and highlighted the steady, high-quality U.S. supply of

grains for the expansion of their breweries.

Drought conditions in the western U.S. and Baja California raised ongoing supply concerns about the top ingredient in beer—water. Several brewers in Tijuana and Ensenada reiterated, "Baja has a water problem; sustainability



## Mexico (continued)

isn't an option, it is necessary." Two brewers inquired about purchasing state of the art, U.S.-made water reuse equip-

ment and solar energy panels to allow them to manage their own resources better. The program uncovered poten-

tial markets for U.S. exporters of manufactured goods.



## U.S. Entrepreneurs Riding Startup Wave in Sao Paulo

With a strong financial sector, talented young workforce, and high internet penetration, the city of Sao Paulo's startup segment is the most significant in Brazil. According to Compass' 2015 Global Startup Ecosystem Ranking, Sao Paulo was the most favorable economic and business environment for technology startups in Latin America and the third fastest growing tech ecosystem worldwide, behind only Bangalore and Berlin. As of 2017, Sao Paulo is estimated to have between 1,600 – 2,900 active tech startups, which generated over \$3 billion in 2016 (Global Startup Ecosystem Report). Private banks

and American companies sponsor startup incubators and "co-working spaces" which have proliferated and now provide fertile grounds for innovation.

The Brazilian startup scene was strongly impacted by the country's 2014-2016 historic economic recession. A local credit management firm with a background in venture capital (VC) said that in 2011, startup "accelerators" appeared and attracted foreign investors with the ripe potential of a large domestic market, untapped by tech firms, with the prospect of sustained growth. In 2013, however, optimism waned as Brazil's economic recession hit and many early investors in local startups lost money and quickly downgraded expectations for the Brazil-

ian market. Still, AB-Startups, a Brazilian startup association, reported that Brazilian startups numbered at least 4,200 by early 2016 – a 30 percent rise from the year before. The startups that survived the worst of the economic crisis emerged emboldened and savvy according to local experts, with leaner business models and aggressively-priced products aimed at appealing to a cash-strapped populace.

Brazilian consumers, beleaguered by high prices, are particularly receptive to e-commerce. Mobile phone usage continues to rise throughout Brazil and consumers are increasingly comfortable making mobile purchases. According to the Mo-

bile Ecosystem Forum, Brazil's smartphone user base is estimated at 90 million and is growing at an annual rate of around 22 percent. One startup, a retailer of maternity and children's clothing, noted that 60 percent of company sales last year were made via cell phone. Another startup, a provider of cell phone insurance, said the company is able to offer high quality products at competitive prices due to e-commerce streamlining product/service distribution channels.



## Brazil (continued from page 1)

tication of the economic participants. Interest rates in Brazil are high, with the base lending rate still in double digits at 11.25 percent despite recent cuts and credit card interest rates approaching 500 percent on an average annual basis. One home equity and car loan platform startup said they could offer interest rates on car loans of around 30 percent—roughly 10 times higher than rates in the United States—earn a high profit margin, and still be more competitive than Brazilian banks. Another said the economic recession provides a unique opportunity for companies willing to arrange riskier loans because the traditional banks are is-

suing less credit and are slow to approve new loans. Moreover, once a fintech navigates through regulatory restrictions, it can market its services to a large market (total population of 205 million), of whom 60 percent have internet access and 57 percent have a cell phone with internet access. Finally, because of Brazil's long history of inflation, traditional banks have already developed a strong base in payment technology and practices that entrepreneurs can build upon.

Several startups said that partnering with traditional banks was a better initial strategy than competing against them directly. The

Brazilian banking sector is concentrated, with three banks accounting for 70 percent of the private sector by assets. Multiple startups described using bank partners to comply with government regulation. In addition, traditional banks often invest in fintechs in Brazil, although principally for auxiliary services that do not compete directly against their main revenue sources, such as credit cards.

ABFintech and fintech startups are eager to connect with Silicon Valley veterans and American venture capitalists to finance new and expand existing startup opportunities. ABFintech will organize its first fintech expo in August in Sao Paulo.

## Canada Significant Hydroelectric Producer

A May 2 report by the National Energy Board showed Canada generated 66 percent of its electricity from renewable sources in 2015, with hydroelectric power accounting for roughly 60 percent of total electricity supply. The generating capacity of hydroelectricity in Canada is 79,000 megawatts (MW) (by comparison, China leads all countries in hydroelectric production with 320,000 MW). The Canadian Hydropower Association estimates Canada could in-



still additional generation facilities and add 160,000MW worth of capacity—tripling hydroelectricity production to 240,000 MW. A January University of Ottawa report found building high-voltage connections between hydro-rich

provinces (British Columbia) and solar and wind-rich provinces (Alberta) can help achieve emission reductions at a low cost.



## Other resources for anyone interested in overseas business news:

For **Caribbean and Latin American Markets**, the Department of Commerce has many resources to assist U.S. firms including market research, trade show calendars, trade delegation calendars, etc. Check out their “Trade Americas” and “Look South” websites:

<http://export.gov/tradeamericas/index.asp>

<http://export.gov/tradeamericas/looksouth/index.asp>



The U.S. Government’s main website to assist U.S. businesses at home and abroad. URL at <http://business.usa.gov/>



The Business Information Database System (BIDS) is a portal built to help U.S. businesses learn about significant international commercial opportunities. The site connects U.S. business to detailed information about each project as well as information to contact U.S. embassies overseas. URL at <http://bids.state.gov/>



The Direct Line program provides a unique opportunity for American businesses, particularly small- and medium-sized enterprises, to engage directly via webcast with U.S. Ambassadors overseas. The program is open to U.S. companies – whether they are already in the country where the Ambassador serves or if they are interested in expanding their businesses there. Webcasts will vary in topic according to the specific needs for business in a given country. URL at <http://www.state.gov/directline/>

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