

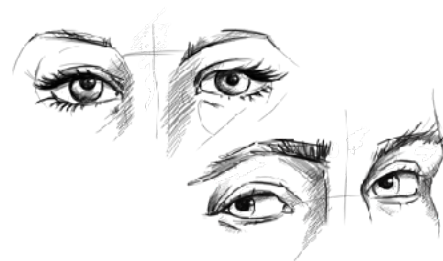
# OUTLOOK BRAZIL 2022

iMANAGEMENT BRAZIL®

January 2022



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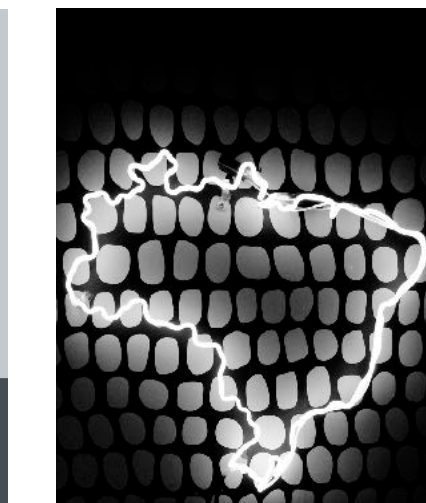
São Paulo, January 2022

*Thank You !*



# AUTHOR

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Frank P. Neuhaus



Frank P. Neuhaus is co-author of the book „Automotive: How to learn from Interim Managers“ published by Diplomatic Council in cooperation with UnitedInterim, Zurich.

**D**iplomatic Council Member Frank P. Neuhaus is Founding Partner of iManagementBrazil Ltda. iManagementBrazil is a multidisciplinary and independent interim and consulting company that combines strategy, tactics and creativity to build business success and protect the investment of our clients in a globalized world. Based in the City of São Paulo, Brazil, iManagementBrazil has been able to become one of the leading interim management and consulting boutiques among the foreign investors business community in Brazil with strong national and international cooperations within a short period of time.

The customers are Brazilian, European and North American companies from a wide range of industrial sectors, such as automotive suppliers, commodity industries such as oil and gas, mining, mechanical and plant engineering, and consumer goods.

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## INTRODUCTION

### AT EVERY TURN OF THE YEAR, WE AT IMANAGEMENTBRAZIL LTDA. TRY TO GIVE AN OUTLOOK ON THE COMING YEAR.

Of course, this does not happen by looking into a crystal ball or with a jackbooted mug. As has been the case for a good six years now, some of our former clients from reorganization and transformation projects want to use our expertise and experience in the business plan planning phase from around mid-September to mid-January for the coming economic period as a kind of sparing partner. In 2021, these were companies from the automotive supply, engineering oil & gas, mining, B2B start-up and a national coffee shop franchise chain. Among them, four companies originated in Brazil, one company is from France and another company is from North America.

The situation of the outlook for business year 2022 has for the first time the political scenario as the main component - Brazil is now definitely at a crossroads and has to decide where to go as a nation. This has consequences in any case with regard to economic growth, stability of the currency, interest rates, poverty rate, market structure, character of the economy.



Especially looking ahead to 2022, the situation has never seemed more convoluted and complex to us. Complex, therefore, because it is probably impossible to make an assessment without a historical look back.

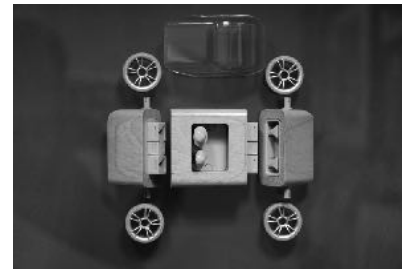
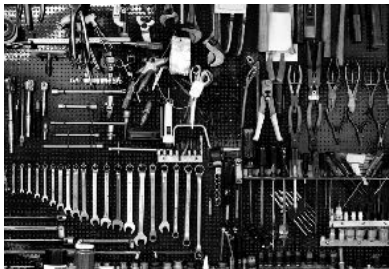
The massive uncertainty was palpable among all clients. They were also all independently convinced that there was simply too much legend-making

going on in the success/failure narrative of the last two decades in Brazil. This made it absolutely necessary to make the historical development and patterns clear to all of us. This means disentangling the massive complexity to the extent that interpretations can be convincingly derived from it in order to be able to explain the current situation with confidence.

This outlook represents a global summary of all individual discussions, the elaboration of the main historical cornerstones, and the general economic assumption for an individual 2022 budget. Outlooks for the 2023 budgets are explicitly not listed, as there was no real common ground for interpretation. But especially the outcome of the presidential elections in October 2022, which are quite open at this point, are so essential for the coming years that a fundamental reassessment will be made afterwards. What there was consensus on, however, was a basic sentiment about the most likely direction in the event of a new election of the current president.



# THE TOOLBOX AND THE DYNAMICS



In the phase as *Sparing Partner*, we are not with iManagementBrazil a second controller, or assistant to the CEO. Nor are we in any way a coach. In the context of this special situation as a sparing partner, it is not about generating a budget for or with the client. This is about a small but very essential part of strategic planning and building a compass.

It is extremely important that there is a clear understanding of where the boundaries are between strategy and tactics. Very often the mistake is made, especially strongly in German-speaking cultures, to use strategy and tactics mixed in the same context.

Thus, quite a few use the beautiful and detailed number sheet cast in *Excel* as their strategic plan. But this plan is not strategy. It is the tactical plan, the allocation of resources to implement a particular strategy.

Strategic planning is deliberate scenario planning without manifesting it in numbers and effects that can be measured at that point in time. And this is exactly the phase where we, as iManagementBrazil, are active as a sparing partner. Through open questions, cross information that we have from

other projects and industry sectors, we stimulate internal discussions as a sparing partner in the period between September and maximum January. Thereby our task is not the validation, internal adoption of a planning or any evaluations.

The translation into tactical planning, i.e. the concrete business plan with validation, evaluation and approval processes is a pure internal process without executive influence from iManagementBrazil.

The client's team also determines how far the process goes with us as a sparing partner. It is not us who determine at which point the process has been sufficiently stepped on. For this purpose we have our *dinosaur figures*. Clients of us know the symbolism. In the phase as sparing partner, the dinosaur stands in the middle of the table at every meeting. It symbolizes for all of us that we are still wandering in the past. *A meteorite may even strike and wipe us off the map*, i.e. the market.

It is up to the client's team alone to determine when the dinosaur will disappear from the table. That is when all participants in their internal discussions are

sure that they have convincingly defined the appropriate scenario for the coming fiscal year.

What is the nature of such scenarios? It is about clearly defining the current situation for everyone and having a starting point. *Why are we where we are today? How did we get here?* In the scenario planning, possible events are now worked out which could occur. This could be the failure of the most important supplier due to insolvency. Or the problem of global supply chains and the need to develop a national supplier or supplier cluster. Probably this can only be done together with competitors or other friendly companies. *What are the triggering moments for this?* Another devaluation of the real?

At this moment, these scenarios are not yet backed up with numbers by the tactical planning of the business plan. It is solely a matter of defining these possible events and defining a roadmap for the tactical steps that will then take place. In other words, it's about not missing the timing of an opportunity. It's not about a reactive view of simply avoiding risk. That can easily shape a CFO's conservative tactical planning.



# THE YEAR 2018, LAST QUARTER.

**B**olsonarism triumphed through a combination of rejection of the PT Workers' Party and its shameful corruption cases, as well as the belief that a liberal, pro-market and reformist agenda would be led by a President Bolsonaro who claimed to be the antithesis of the system, despite being firmly rooted in that very system for almost three decades.

The latter was not only incompatible with the backward-looking and corporatist course of longtime deputy congress man *Jair Messias Bolsonaro*, but was also masked with a discourse of very modest ignorance on the economy. To compensate for this shortcoming, a curtain of obfuscation was spread, which to this day has a name: *Paulo Guedes*. His ego had long been known in banking and financial market circles.

The narrative pushing the Bolsonarist project was that decades of mistakes in economic policy would be corrected. The Bolsonaro government would finally live up to the role that history had always held in store for Brazil.

This narrative included, above all, respect for fiscal responsibility, privatizations amounting to US\$1 trillion, no more public deficits, opening of trade and an administrative shock in the state administration. Also, the government would put an immediate end to corruption and shady political deals. It was a "patriotic project" to redeem a country that has lived on its knees for generations, according to Bolsonaro and his disciples. It would be the revival of the homeland.

A sad mistake of those who believed in it. Or wanted to believe, despite publicly available information what kind of a government there was to come to Brazil.



# THREE YEARS LATER - 2021



Three years later, 2021, there was neither privatization nor a zero deficit, reforms became counter-reforms and the opening of trade was forgotten. Corruption was institutionalized through completely opaque budgets. This system ensures that the current president buys the support of parliament and nips any attempt at impeachment in the bud, and corruption investigations are quickly blocked.

However, the central bank's agenda to modernize the financial system and its autonomy stand out as very positive. At this point, the Bolsonaro government has really delivered. But one swallow does not make a summer.

As time progresses, the Bolsonaro government is revealing what it never was and, more importantly, what it really is. Obsessed with higher taxes, poorly formulated reforms, and obscure ideas to circumvent the spending cap, defined in the Constitution, a federal executive increasingly hijacked by the legislature threw the last of the fiscal anchors overboard and with it much of what Brazil had conquered with painstaking and discontinuous progress since re-democratization.

What remained is the shameless populism that is now supposed to be government for all to see. There is no spending cap, no planning or budgeting. Interestingly, all negative achievements implemented by a self-declared liberal government.



# HOW CAN WE CHARACTERIZE THE POLITICAL SCENARIO AS WE APPROACH THE ELECTION YEAR OF 2022?



**T**he R\$ 90 billion in additional spending is earmarked for a wide variety of pots for the 2022 elections, not for adjusting public investment, public education, health and research budgets, or social spending. Cynically, it is claimed that Brazil will get those funds back through administrative reform. This pot of money is fed by a declared moratorium on federal payment obligations and a hijacking of budgetary sovereignty by alliance parties in Congress.

Yes, there has been privatization. Federal government budgets have been privatized and distributed to single interests for the preservation of political power. That is the truth in this directionless country at the beginning of 2022.

**Brazil is at a crossroads in 2022.** Looking back at the

experience of redemocratization, it can be said that the democratic forces created during the military regime followed a very coherent path.

First there was the great opposition to the military regime; the MDB party of Ulysses Guimarães and José Sarney, which shaped the first years of Brazil's young democracy, then PSDB under the leadership of Fernando Henrique Cardoso, which provided Brazil with an economic-social solid base through the success of the Real Plan. And finally, the last great democratic force of opposition born during the military regime, the PT Workers' Party. With the election of Luiz Inácio Lula da Silva, the basic pillars of the path taken under Fernando Henrique Cardoso were continued and expanded.

As a result, GDP grew steadily from US\$660 billion in 2000 to US\$2,170 billion in 2012. GDP per capita grew equivalently from US\$4,000.00 in 2000 to US\$13,800.00 in 2012. Since 2015, GDP as well as GDP per capita has been falling dramatically, reaching just US\$1,450 billion in 2020 and a modest US\$7,000.00 per capita.

The impeachment of Dilma Rousseff in 2016 and the election of Bolsonaro, who plunged the country into a very dangerous adventure, marked the end of this cycle.

And now the country is definitely at a crossroads. If the opposition forces of the progressive democratic spectrum, from center-right to center-left, fail to build a real, competitive candidacy, the country risks having a resurgent *Bolsonarism* in 2022.



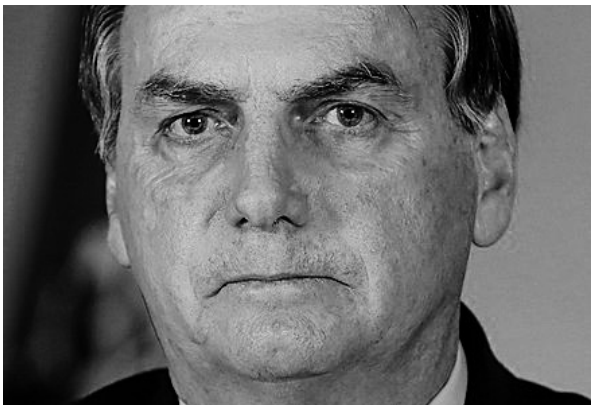
# HOW CAN WE EXPLAIN THE ELECTION OF BOLSONARO IN 2018?

THE NARRATIVE OF THE "MYTH".





From today's perspective, it seems logical that there are a number of variables that influenced the election. One important point is undoubtedly the knife attack on candidate *Jair Messias Bolsonaro* during the 2018 election campaign, on which the narrative of the "myth" was built and it exonerated the candidate from all public debates in the media.



Another and historically arguably decidedly important factor which should be considered in the democratic sphere is that the failure to work

together during re-democratization paved the way for the rise of a radical right populist candidate. In the Brazilian party spectrum, there are really only two major parties that have truly defined programs and views on the role and functioning of the state: PSDB as well as PT.

Both PSDB and PT, when in power, preferred to ally themselves with the most sinister in Brazilian politics, rather than work together and cooperatively. This is very strange, because in the programmatic core of both parties there is a strong overlap of values and proposals. Both parties, especially the founding generations, seem like two brothers united and divided in a kind of love-hate relationship.

Thus, a deep historical look into the founding history of the PT Workers' Party during the period of military dictatorship shows that the party does not have a revolutionary core like other left-leaning parties. The party is much more to be positioned in the tradition of the later social-democratic parties of Europe.



# SO WHAT IS THE MOST OMINOUS THING IN BRAZILIAN POLITICS?



**T**here are **two factors** that characterize the entire drama.

The **first factor** is the lack of a stringent minimum percentage clause to enter Congress as a party. The current parliament has 33 parties. This inevitably means that any president of Brazil has to buy his way to a majority in Congress. The majority of parties in Brazil have no defined programs; they are purely business models for selling the vote in parliament. This group is the so-called *Centrão*.

Starting with the upcoming 2022 election, a better-defined threshold clause will take effect, which holds out hope that the parties could shrink to about 10 in Congress.

The **second factor** of latent uncertainty in the Brazilian system is the poor definition of party and campaign financing. The rules on this fluctuate from private funding to state funding or the current self-serve defined by Congress and the Bolsonaro government, depending on the whim of Congress.



# ANTI-PT SENTIMENT IN 2018 - BOLSONARO'S VICTORY AN ACCIDENT OF HISTORY?



Anyone who knows Brazil's history will almost certainly define as one of the finest moments of re-democratization in Brazil the transfer of power in the transition from the second term of Fernando Henrique Cardoso to Lula. Problem-free, responsible.

In the run-up to the event, there were tremendous concerns, first and foremost in the international financial world, as well as a significant part of the entrepreneurial world in Brazil. The urban legend circulated that the new president Lula would pursue an absolutely irresponsible economic and financial policy, would destroy the stability of the real within a short period of time, and would cause inflation to skyrocket.

## What really happened?

In the field of economic policy, the government led by Lula was absolutely exemplary. One could even say, in some areas, oriented toward liberalism. For example, the then non-independent central bank and its president, Henrique Meirelles, pursued a

stringent monetarist interest rate policy. This led to a constant reduction of the national debt, which was even below 40% before the outbreak of the financial crisis. The average exchange rate US\$ vs. R\$ was 2.21. The government under Fernando Henrique Cardoso had already generated solid budget surpluses, especially in the second term. These grew constantly even under the PT government led by Lula. As a result, the external debt was completely eliminated and Brazil went from being a debtor country to a donor country, building up one of the fifth largest US\$ reserves in the world.

In December 2005, Brazil repaid its entire external debt to the International Monetary Fund IMF - two years before maturity. Brazil then received investment grade in 2008, which was lost again in 2015 as a result of the crisis from 2014.

This raised hopes that Brazil had matured and that it was indeed moving forward. The responsible expansion and integration of social programs was also a major success of Lula's first term.



**A**lso helpful was an increasing presence of business leaders in their respective fields who were not part of the closed world of the PT Workers' Party. Lula's government had adopted a statesmanlike attitude during his terms in office and positioned the country with high prestige internationally. Brazil's highly professional diplomatic service contributed to this, as did its extremely well-defined competence in international crises as a fair mediator recognized by all sides.

The corruption crisis of the so-called *Mensalão* and the precarious situation created by the threat to Lula's mandate put an end to this attitude internally. The *Mensalão* was a corrupt system that bought together majorities in the fragmented parties in the Brazilian Parliament.

There were setbacks in economic policy and a strategically misguided election of *Dilma Rousseff* as president, which turned out to be an epic debacle in economic governance. By the time the president *Dilma Rousseff* was impeached in 2016, the Brazilian electorate was already looking for an "outsider." The entire political status quo was demoralized. At this moment, the crisis of representative democracy in Brazil was visibly breaking its stride. The loss of credibility of institutionalized politics in the country is made unmistakably clear. And the anti-PT attitude manifests itself as an expression of the only evil in Brazil, without looking at the root of the problem: **unclear party funding and a completely segmented Congress.**

It wasn't just the PT Workers' Party that suffered a defeat in 2018. It was the entire progressive democratic sector and the entire representative democracy of Brazil, which suffered a resounding defeat.

In retrospect, the 2014 election campaign already gave the first clear signs of disruption. When *Marina Silva* experienced a dizzying rise after the tragic plane crash of *Eduardo Campos* and was attacked very fiercely by the Dilma government in the election campaign, her rise was already the wish of the voters for an "outsider".

Very telling in this context is the period after Dilma Rousseff's reelection. The challenger *Aécio Neves*, very narrowly defeated in the second round, did not recognize the result of the electronic ballot box. Without being able to present evidence at any point, the narrative of electoral fraud washed a climate of uncertainty into the country. Investments came to a halt, social tensions increased, and inflation began to rear its head. In December of the same year, the losing candidate tried to obtain an injunction through the Supreme Court to remove the elected government from office and install him as the legitimate president. The attempt failed, fueling distrust and street pressure to the max.

Even then, the violence in the 2014 election campaign leaves a scar on the democratic camp. The level of violence makes the possibility of cooperation and dialogue almost impossible. Anti-PT sentiment is defined in these moments and stigmatized as a symbol of the disintegration of the political "establishment".





# WHAT HAS BRAZIL LEARNED FROM THE ADVENTURE OF THE "OUTSIDER"?

**Y**ear 2018. Bolsonaro presented himself as an "outsider" after almost three decades as a backbencher in Congress. You have to manage to get voters to buy that (...). But basically, he was always the worst "insider" and eventually threw himself into the arms of the *Centrão* to prevent impeachment in mid-2020. That is, those undefined and innumerable parties of Congress that see their only destiny in selling their vote and being rewarded for it with grants from the national budget.

Apparently, however, there is now frustration and disappointment in the Bolsonaro camp over what has become known about the person and the Bolsonaro government. The incompetence and opportunism that prevail, for example, in health policy, education policy, foreign policy, security policy, environmental policy etc., showed the obscurantism, negationism and the severity and extent of the irresponsibility of the government that Brazil has unfortunately elected.

In the economic field, the disappointment is also so great because the deceptions and lies made during the electoral campaign are now evident. Paulo Guedes, Minister of Economy, said he would set the primary deficit to zero in his first year in office, privatize R\$1 trillion and implement tax and administrative reforms.

In fact, the most important measure, the reform of Social Security, is the initiative of Congress. The example of tax reform is glaring. So far, the government has not even consistently conveyed its proposal, but has only shown the suggestion of merging two federal taxes.

There is frustration, but Bolsonaro's appeal through his right-wing populism is very emotional for many Brazilians. For example, Bolsonaro conveys to his disciples the image that corruption in Brazil has been effectively eradicated. All of this has an appeal that should not be underestimated.

# OCTOBER 2022?

If you believe the current polls, the first question is whether there will be a second round of voting.

If the election were held on Sunday, Lula would have a chance of being elected as Brazil's new president in the first round.

However, we should assume that there will be a second round of voting. The most likely outcome today is a duel between Bolsonaro and Lula. The least likely is two other candidates in the second round.

On the other hand, an old saying from England should always be kept in mind:

*"A week is a long time in politics. There are stabbings, arrests, meteorites".*

Except for the meteorite, we've seen it all before in the 2018 campaign. But if you want to see the meteorite, check out *"Don't Look Up!"* on Netflix ...

To classify this dilemma, one should order the preferences.

What are the current preferences of the Brazilian electorate? What are the individual preferences? What would be best for Brazil in the runoff, weighing the pros and cons of each option?

One can currently clearly feel that the vast majority of

Brazilians prefer to avoid the polarization between Bolsonaro and Lula. That would undoubtedly be preferable. Because this polarization divides the country, and it will not be possible to manage well, let alone govern, with a divided, torn country.

Again following the latest polls, 65% of Brazilians would not support Bolsonaro's government, 70% would not believe a word the president says. But would this necessarily mean that the probability of a runoff election would be in Lula's favor?

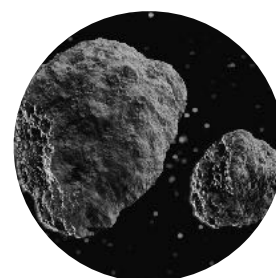
One should not assume that Brazilians who oppose Bolsonaro will vote for Lula. That's a complicated premise. But what is interesting is a deeper question that is being explored in the growing number of polls currently taking place.

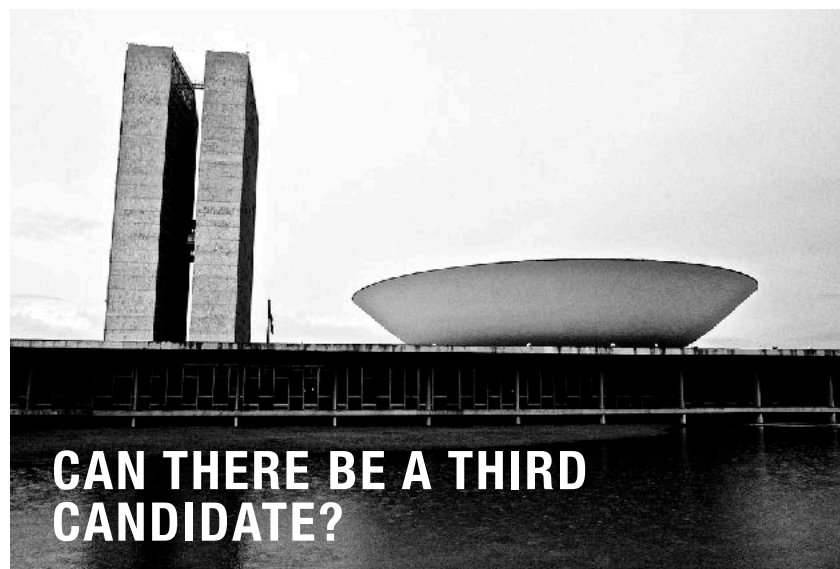
If it comes down to a runoff election of Lula and Bolsonaro, from an ethical perspective, there does not seem to be the slightest doubt that the vote will go to Lula. The reasons for this are Bolsonaro's brutal negationism, for example in the pandemic, and Brazilians' memory of Lula's demonstrated

real performance as president. It is not forgotten that Lula had an approval rating of 87% when he handed over the presidency to his successor on 01 January 2011. However, the scenario is still fluid.

With regard to candidates other than Lula and Bolsonaro, however, there are currently only these two who, when they speak, the average Brazilian perceives as if a person from their immediate environment were speaking directly to him - and that is just Lula and Bolsonaro.

The other current candidates, when they speak, sound as if they are speaking to elites in Jardins (São Paulo), in Leblon (Rio de Janeiro), or to students at private universities. The ordinary Brazilian does not listen to these candidates. They are not perceived as people who have had similar life experiences as the ordinary Brazilian.





**T**heir attitude toward life, their language, their posture pass the ordinary Brazilian by. Thus, even PSDB, in its entire historical-political trajectory, has never produced a leadership that has the gift of speaking directly to the people.

A third candidate running against Lula and Bolsonaro would have to have a strong popular appeal and access to the heart of ordinary Brazilians. This candidate could attract voters from Lula and Bolsonaro, but the difficulty is finding a leader with the talent, willingness, and ability to confront such astute figures as Bolsonaro and especially Lula and communicate with rhetoric and charisma. Particularly in the case of Lula, it is clear that no matter how one may feel about him, he is probably the most charismatic politician in Latin America in his lifetime and is without a doubt one of the most globally articulate political leaders. In assessing this scenario, it is important to be able to free oneself as much as possible from one's own political positioning.

Former judge and minister of the present Bolsonaro government, *Sergio Moro*, could possibly position himself as the candidate of a third way. So far, there have been few programmatic statements. His program to date has been based on fighting corruption. This should not really be a presidential campaign platform, since corruption is punishable by law anyway. Rather, it is about the design of laws and institutions and the tools they use to fight it. As an election campaign program and guideline for a possible government, it is probably too thin.

Publications of the conversations between him as a judge and the investigating public prosecutor's office in the cases of the corruption investigation had also made it clear with Lava-Jato that his position as a neutral judge was at least questionable. For example, as a judge he had the lawyers for Lula's defense bugged, among other things.

Remarkable in this context are statements by the globally recognized U.S. specialist and longtime companion of the Lava-Jato investigations *Dr. Susan Rose-Ackerman*. The focus of Rose-Ackerman's work lies in the area of tension between state and law, especially in the field of corruption research.

***„... Sergio Moro not only conducted the process in a biased way, but also commanded the prosecution from the beginning. He manipulated the mechanisms of plea-bargaining, guided the prosecution and directed the prosecution's communication strategy. ...“***

(São Paulo, Oct. 16, 2020, Valor)

Sergio Moro was declared a biased judge after the manipulative conversations were made public. All judgments pronounced by him were eliminated until further notice. Other interesting candidates to watch include the only female challenger and senator, Simone Tebet, and the governor of the state of São Paulo, João Doria. To get a clear picture here, one should wait until around March/April 2022.





## HOW HOT CAN IT GET BY THE END OF OCTOBER 2022? CAN THE POSSIBILITY OF SERIOUS CONFLICT EXIST IN THE PERIOD LEADING UP TO THE SECOND-ROUND RUNOFF BETWEEN LULA AND BOLSONARO?

**W**ithout a doubt, this duel is dividing the country. The campaign could degenerate into violent conflict.

Bolsonaro has already indicated that he will not accept the election results in the event of defeat. He also keeps verbally toying with fantasies of a coup. However, it has become very clear in the course of 2021 that Bolsonaro does not have the backing in the armed forces that he imagines aloud in his illusions. It is also clear in the camp of the *New Right* around Bolsonaro that a coup today is no longer carried out with tanks in the streets, but must be carried out from within the political system. To do this, one must remain in power in order to weaken or even collapse the institutions. Also, courts, up to the Supreme Court, are to be staffed with ideological judges loyal to the line. This is the post-modern version of a coup.

No matter how the situation develops, the central question here is what the reaction of Brazilian civil society might be. It is probably safe to assume that

society would react very strongly and reject such attacks. Against this background, Brazil is much more mature than many observers from the outside would like to perceive.

On the other hand, the indications of an authoritarian/autocratic Bolsonaro project have been more than clear for many years. Even before *Hugo Chávez* was elected president of Venezuela, Congressman Jair Messias Bolsonaro had described the Venezuelan's ideas as a model for the continent and he hoped that the model would also catch on in Brazil. Until the death of Hugo Chávez in 2013, Bolsonaro was an ardent admirer of the Venezuelan autocrat. It is important to understand that it was precisely Hugo Chávez who made his way through the institutions, consistently expanding his power base along the way and using this network to erode state institutions. In the group of global autocrats, Hugo Chávez is probably the post-modern model for carrying out a *coup d'état*.



Far too often, the separation is made with the smokescreens of "right-left" and therefore no logical link is seen between the Venezuelan autocrat and Bolsonaro, and the New Right. However, the link is not in the "right-left" discourse, but in the positioning as nationalist and autocrat.

Looking ahead to 2022 and the ever-approaching October elections, there are two risks. The first is a confrontation between the powers. For example, another Supreme Court decision against President Bolsonaro, the executive branch, may once again be disregarded. Brazil has already experienced such situations in the current legislature.

What can undoubtedly also be observed with increasing intensity are the massive and rapidly radicalizing attacks on the electoral system in order to generate the narrative of fraud, attacks on the press, as can already be registered almost weekly,

and precisely attacks on the judicial system as well as the fever dreams of a coup d'état.

The other way that Bolsonaro sometimes flirts with is to cause chaos and anarchy that justifies an authoritarian break to restore order. In this context, trying to escalate a chaotic situation around pandemic plus social chaos is a "strong ally" of the current Brazilian president. Like all *New Right* political leaders, Bolsonaro is an ardent supporter of chaos and anarchy. To fuel this breeding ground, gun laws have also been massively liberalized in recent years and an increased number of his supporters are now in possession of a sizeable arsenal of weapons which has tripled.

However, as expressed earlier in this article, Brazilian civil society is much more mature than one might perceive from a rough look. This naturally raises the question of how this polarization scenario can be defused in the 2022 election campaign.

# NEW FRONTIERS?



It would be very helpful if candidate Lula were to take stock of what has gone wrong in Brazil's democracy.

Here, too, the primacy of initial communication could possibly lie with candidate Lula.

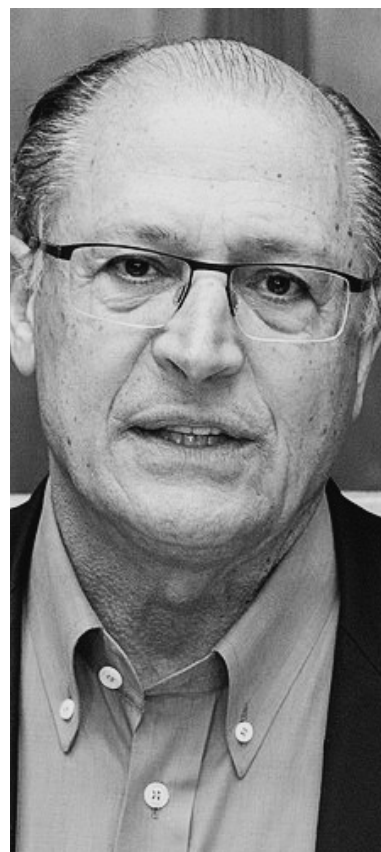


**I**t would be something like a self-critique. To date, that has not happened.

So far, the maneuvers to construct electoral alliances that have been perceived to date cannot be clearly positioned on the chessboard of Brazilian reality. But in the camp of Lula, little plants could be formed in this direction. For many weeks, there has been speculation about a possible alliance between Lula as president and Geraldo Alckmin as vice president. Apparently, talks are at an advanced stage. Geraldo José Rodrigues de Alckmin Filho is co-founder of the liberal

economic social democratic party PSDB. He was himself a presidential candidate in the past and a very successful governor of the state of São Paulo. Alckmin has since left PSDB and will soon join a new party. However, he has a very loyal constituency in the liberal to center-right camps of the political spectrum of South and Southeast Brazil.

Here, the traditional sectors of former PSDB as well as PT may come together in a significant overlap to organize a grand coalition to overcome the "Bolsonaro accident".





# A PROFOUND EXPERIENCE OF THE BRAZILIANS



Likewise, candidate Lula is beginning to signal that if he wins the 2022 elections, he will be the Lula of the first mandate, which also means being president not only of his political grouping, but of the nation. This experience is still present in the minds of many Brazilians. One remembers the many stories of social advancement, the formation of the new middle class, and an internationally respected Brazil with a strong currency, which also allowed more and more people from the lower middle class to believe in a better Brazil. On the entrepreneurial side, too, there is an only tentatively articulated but certainly present memory of a different Brazil. Not least, it was numerous entrepreneurs who were able to develop their companies and business models during the prosperous period, grew and are today in part globally operating companies.

It is becoming increasingly clear to many Brazilians that power must be shared if the mistakes that brought Brazil here are to be overcome. Especially in recent weeks, one can hear more and more in conversations that there is no reason why politicians who defend the essentials - defense of democracy, measures to reduce inequality, preservation of the environmental and cultural heritage - should not unite. Otherwise, as Brazil, we run the risk of losing everything that generations have conquered. Very few see a danger of a military regime. What is seen as a real danger is a resurgence of Bolsonarism, and with it a journey into the future, as coined by Hugo Chávez in Venezuela, characterized as „privatized State“ and governed by autocrat ruling.

A black and white photograph of a crowded beach in Rio de Janeiro. In the foreground, a person stands on the sand. The middle ground is filled with many people walking and playing on the beach. The background shows a dense city skyline with numerous high-rise buildings. A hill with a radio tower is visible in the distance under a cloudy sky.

# **GLOBAL LEADING SCENARIO BRAZIL 2022**





## WHICH GLOBAL LEADING SCENARIO CAN WE ASSUME AS FOR THE YEAR 2022?

Considering all conversations with former clients of iManagementBrazil, current clients, auditors and law firms with whom we have been working trustfully for many years, service providers and suppliers of our clients, regular conversations with one of the largest private banks in Brazil as well as national and international consulting firms, we should assume that the year 2022 will probably be the most difficult phase since the introduction of the Plano Real in 1994. This period will be characterized by significantly lower growth than currently still assumed. Nor should any effort be assumed to pass any sustainable administrative and fiscal reforms.

On the other hand, it is assumed with deep conviction that sustained momentum will return with the election in October 2022 and the hopefully smooth handover of office on January 01, 2023. Against this background, companies are defining their strategic scenario from 2023. In 2022, this will include a fundamentally self-critical review of existing value creation processes, a review of the current product and service portfolio, definition of required know-how, reorganization of internal processes and other necessary adjustments.





# UNEMPLOYMENT, INFLATION, INTEREST RATES, EXCHANGE RATE

In addition, the scenario of rising interest rate pressure in the USA and increasing devaluation pressure on the Brazilian real will intensify the pressure for further interest rate increases by the central bank. It can be assumed that the key interest rate will be between 10.75% and 11.25% at the beginning of February 2022.

The current narrative in the media is that the interest rate will rise to 11.75% by the end of 2022.

Our clients, as well as we, consider this assumption to be baseless optimism, if not negationism. At the beginning of 2021, the key interest rate was 2% and was raised to 9.25% in the course of 10 months.

Together with all six customer companies in the sparing round, we took a microscopic look at the cost calculations, market price margins and announced price increases by the relevant suppliers between the beginning of November 2021 and around mid-January 2022. An average increase of +52% will therefore be reflected in the calculations by about mid Q2 2022. It is completely unclear how much of this can be passed on to the market.

Against the backdrop of rising interest rate pressure from North America, a high-stress election year in Brazil in 2022, continued inflationary pressure from the global scenario and imported inflation from devaluation pressures, we assume a neutral interest rate between 14% and 16%.

This is based on a maximum GDP growth of no more than 0.1%, with a fundamental risk of turning negative. The leading factor in pricing the interest

rate is in no way economic growth. That is ridiculously low anyway and can be neglected as a driver. The sole aim is to keep the successful Brazilian real as stable as possible.

Therefore, a destructive effect on devaluation must at least be dampened, which has not abated since Q3 2019. Should the Brazilian central bank finally lose the primacy of action and confidence here, the reactions will be drastic. The threatening potential became massively visible in 2021. Brazil reported the largest positive trade surplus ever achieved historically. This is mainly due to the mining and agri-business commodities sectors. At the same time, the Brazilian real should have appreciated markedly, as happened in cases of other export-oriented emerging markets. But exactly the opposite occurred - the depreciation accelerated since Q3 2019.

If not many other factors before, at the latest here a deep red light must have gone on for the Brazilian central bank that in the ratio of risk vs. exchange rate vs. interest rate vs. projection, the historical assumptions of the institution, mapped in the so-called forward guidance since the end of 2016, were more than questionable.

With regard to the exchange rate of the US\$, a fluctuation between 5.80 to 6.30 is assumed.

Unemployment is likely to remain high and even rise slightly in view of the weak economy. This is also in line with assumptions in our clients' business plans.



# REFORMS? NOT MUCH OF A CHANCE!

Since the beginning of Bolsonaro's government, there has been a lot of non-stop discussion about major reforms, such as administrative or tax reforms. They have not been implemented in three years, so not even in the election year 2022. Why not in the past three years, and why not now? The Bolsonaro government's base is not very interested in the issue. It is as simple as that.

Any good news can help!

Across the board, the real economy as well as the financial market are assuming a turbulent 2022. It is no coincidence that the Ibovespa stock market index, in anticipation of a complicated year, is down about -12% this year 2021.

Of course, this also means that any further positive news can bring the Brazilian stock market back into positive territory. Since expectations are so low, anything that comes can be good news.

Currently, reports are circulating in the business press that in the election year 2022 there would be a real possibility of a stock market increase of about +25%. All clients dismissed this as wishful thinking, gross nonsense or negationism.

All of the above interviewees assume that Bolsonaro can hardly be expected to improve anything. What is interesting is the now already very common and solidified image that even if former President Lula wins, it will be anything but the end of the world.

It is seen as a massive risk that President Bolsonaro will continue to push price interventions at Petrobras, for example, fueling the image of "*Venezuelanization*".

Assuming that the central bank raises interest rates significantly, any positive political news, such as the rise of a third candidate with a solid economic agenda, can further boost the real as early as late 2022. In this context, however, a broad and solid socio-economic base from the moderate-right center to the center left camp of the eventual candidate Lula will also be seen as a strong positive sign.



# A SPECIAL SPARING ROUND: LOOKING AT THE STARTUPS' ENVIRONMENT.

Startups have developed rapidly in Brazil in the last few years and have also produced extremely noteworthy successes internationally. Without a doubt, Brazil is now one of the preferred global hubs to invest in this sector. iManagementBrazil had carried out several projects with local startups in recent years, which were at an advanced stage of investment. In the group of companies of the current sparing round there is also a Brazilian B2B startup, which is already in the financing fund of a global startup investor. This investor had a special interest in the sparing partner process. Due to the current prominent position of the Brazilian startup environment we decided to publish some further aspects of the discussion process here.

In 2022, this sector will also face a complicated economic environment, both globally and locally. Factors such as high interest rates as a result of worrying double-digit inflation and a central bank in Brazil that is reacting far too late will have a massive impact on credit fintechs. In addition, technology companies that went public last year, such as digital bank *Nubank*, will be under greater strain to achieve profitability. The grinding marks are currently already visible.

Overall, it is assumed that the political scenario will not permanently change the innovation market

in 2022. The global investor tries to pay attention not only to the term of office of a government, but also to that of a successor government. Our client's investor assumes that in October 2022, Brazilian voters will emphatically bring about a fulminant and positive change. Innovation does not happen overnight. That is why they are also looking at the next 8-10 years.

By far the most critical issue in Brazil is seen as the shortage of developers. The demand for technology specialists already far exceeds the capacity to train new specialists. It is assumed that the coming years will be under the premise of "no-code", i.e. the software development strategy without lines of code. Our client will have to align itself strategically and tactically to this.

Despite the unfavorable economic scenario, the volume of capital invested in startups will continue to increase and our client's investor will most likely be able to attract additional investors. The minimum investment volume is likely to drop significantly to approximately US\$1.0 million. These doors seemingly need to be opened to be prepared against competing investments in the rising interest rate markets. However, the risk of overheating startup investments is rated significantly higher.



# RISK OF ERODING MARKETS?

The situation becomes particularly dramatic when one looks at the development of poverty. While in 2000 28% were still living in dire circumstances, this figure plummeted to 5.3% in 2012. In 2018, the figure had already more than doubled, reaching 12%. At the moment of the pandemic outbreak, the figures showed another doubling to 24% in just two years. Currently, the rate is between 29-30%. Against this background, individuals and companies are wondering how and if the situations can be solved in less than a generation. The reverse worked in a little less than half a generation. This question is crucial for any investment decision and to determine the position of the company in the Brazilian market.

The dramatic social plunge of large sections of the new middle class into poverty is destroying sales markets and the possibility of sustainably establishing qualified employees in the national economy. Nor can this be offset by technology or digitization. With the social situation becoming ever more acute, the consumer class thinning out and devaluation not stopping, many digital business models are flashes in the pan. These considerations are fundamental aspects of the definition of the scenarios mentioned at the beginning.

Whether we are talking about eroding markets? No. You can't go that far in any case. However, it is clear that the ongoing and tightening mix demands that business models be examined in every detail, that productivity checks be carried out, and that reorganizational or transformational adjustments be implemented where necessary.





# THIS IS WHERE THE GREATEST DANGER LIES DORMANT!

The crisis is eating through all social strata. It has reached the upper middle class.

After the economic crisis steadily worsened since Q3 2019 via the beginning devaluation of the Brazilian real and first reached the pockets of the poorest, the crisis is now beginning to hit hard the incomes of the upper middle class in Brazil's metropolitan regions.

According to the Brazilian Federal Statistics Institute, per capita labor income fell by 12% in the third quarter of 2021, a figure 10% lower than that recorded in metropolitan regions in the same quarter of 2020.

The decline reflects the troubling combination of weak economic activity and rising inflation. The data also takes into account price trends in the country.

Emblematic is the massive decline of the new middle class between 2018-2020, during which period there was a reduction of -8%. Currently, this important social class still represents a maximum of 46%. This is accompanied by a decline in the evaluation of Brazil as a preferred investment location by about -40%. In 2013, the country occupied 3rd place in this ranking and is currently just able to maintain its position in the top 10.

In 2021, Brazil achieved the historically best result of its foreign trade balance, which of course should have led to an appreciation of the real. The realized result is well known.

This situation is leading to massive pressure on almost all domestic markets and necessitates a sustained review of business models.



# CONCLUSION

**T**he year 2022 will be anything but easy for Brazil. The elections in October 2022 will be the defining issue. Since re-democratization, never has a presidential election arguably been as important as the election in 2022.

Initiated changes in the electoral law to reduce the number of parties represented in Congress open up solid opportunities to reduce the chaotic executive and legislative leadership that invites corruption. This is just the beginning. Clear regulation on party funding is fundamentally important to overcome corruption.

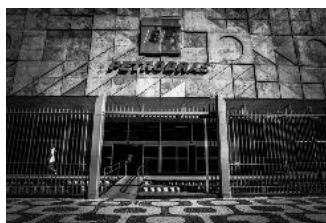
Strategic and, above all, tactical positioning of companies for the period after January 1, 2023 is fundamental. This involves the entire review of value creation, definition of the product portfolio, possible reorganizations or even transformations of the business models.

Rarely in Brazilian history has it been so clear to simply use the year ahead to reposition a lot of business models.

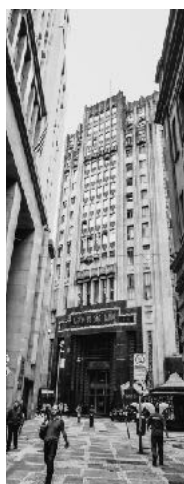
Without exception, all participants in the Sparing Round assume that the October 2022 elections will bring a fundamental shift toward a more economically and socially friendly government. Such a change should re-promote the necessary process of migration toward a middle-class society and stabilize most supply and demand markets and return them to a path of growth. Devaluation of the real and massive erosion of Brazil's middle class is seen as a serious threat. (FPN)







# WHO IS IMANAGEMENTBRAZIL?



# AND WHAT IS THE DIPLOMATIC COUNCIL MISSION BRAZIL?

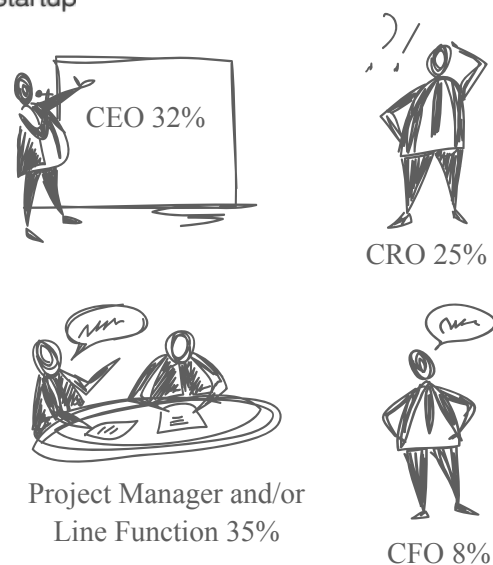
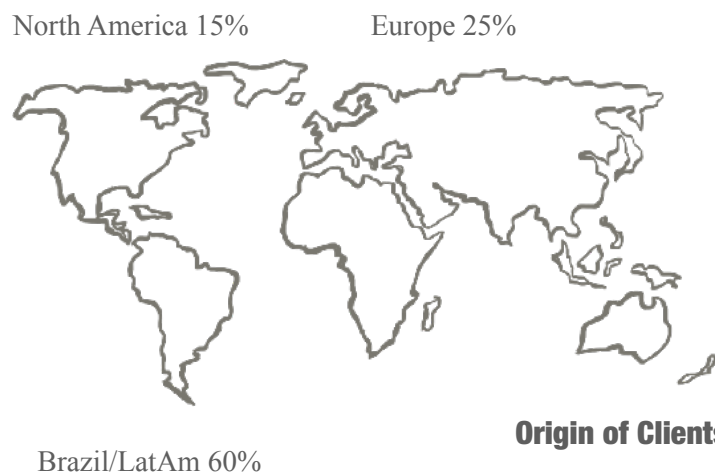
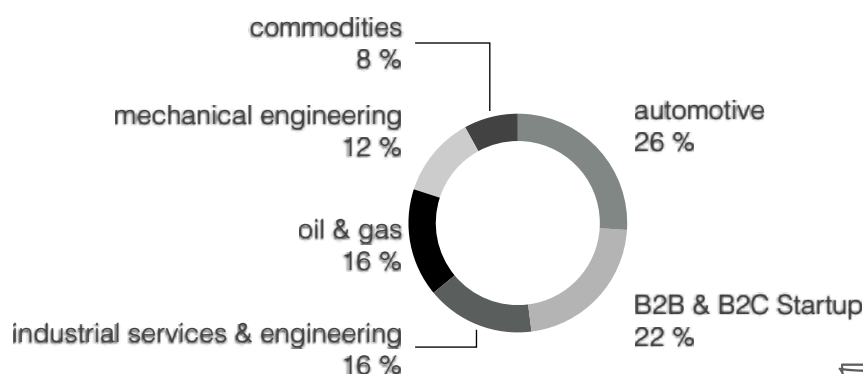
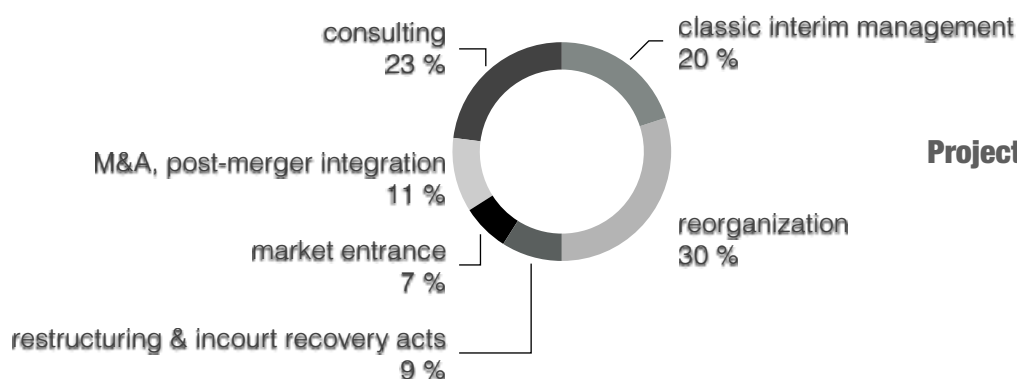
# FACT SHEET IMANAGEMENTBRAZIL



Established in 2005 as an interim management partnership in the City of São Paulo, Brazil.



As of December 31, 2021  
**121 projects** executed and implemented.



# Performance Tuning for your Business in Brazil.

**We know what to do. And we just do it.  
Speed thrills in Brazil. An obsession with  
speed drives a surprising and powerful array  
of positive consequences.**

Companies in Brazil are repeatedly plunged into crises - and on a regular basis, whether due to a difficult economic environment, market openings and new competitors, and not infrequently due to management mistakes. Now this is anything but a new phenomenon. The ways out of the crisis are manifold and it is very difficult to keep an eye on all relevant factors. In recent years, iManagementBrazil Ltda. has developed a new method - easy to understand and tested in practice - and successfully applied it in numerous projects.

Our model paves the way for the redesign of processes, defines competence requirements and creates the basis for integration with your company's most important goal - sales. Our clients are often surprised by the results of this analysis. Drawing conclusions from this analysis and creating the best possible framework conditions for your company in Brazil is a difficult task ahead, even painful decisions.

We observe again and again that many companies have the impression that they are clearly more advanced than the analysis indicates. When it comes to reorganization, however, it's like in real life: better to know exactly where you are, have a plan that you can follow than to go aimlessly. This is valid even more for transformation.

Overcoming the lethargy of „business as usual“ pays off quickly in Brazil. In more than 120 projects (December 2021), iManagementBrazil Ltda. has observed that successful change processes always go through defined phases which take a certain amount of time. These phases must not be skipped because an illusion of rapid progress is generated, but in reality it can slow down the momentum and destroy progress. The most important tool to avoid this error is the toolbox for analyzing the situation, developed and tested in practice by iManagementBrazil.







## WHY IS THE GRAY RHINO OUR SYMBOL ANIMAL?

**O**n various social media channels you will find the gray rhino in the banner as the symbol animal of iManagementBrazil Ltda. The choice on this animal has of course a history and already gives you an idea how we approach project missions.

In 2016/17, we were regularly in the US with a North American client. Brazil was still in crisis. We were working on reorganizations and restructurings in various industrial sectors. A positive picture was painted in the local Brazilian business press. However, we urged caution and saw risks emerging that most strategic investors wanted to chalk up to "other risks" without including them in the scenario.

Those who know us from projects know that since 2016, for example, we have been vehemently highlighting the risk of accelerated devaluation of

the Brazilian real currency and pushing for the issue to be included in the scenarios.

On one of the trips, we saw an interview with *Michele Wucker* on US television. The Gray Rhino has finally replaced the Black Swan excuse, which did a very good job of making people realize that they could not foresee everything. But it has been abused and many managers have used the Black Swan as an excuse for not seeing a crisis coming. Gray rhinos are more dynamic. You either get trampled, get out of the way, or jump on the rhino's back and ride through the crisis.

That was exactly in line with the culture of how we operate in projects. It's about clearly working out possible scenarios, naming them and working out options for action, no matter how aversive they might be.

# DIPLOMATIC COUNCIL IN BRAZIL

## THE GLOBAL THINK TANK

**T**he Diplomatic Council is a unique organization with consultative status at the United Nations, combining a global think tank, a world-leading business network and a non-profit foundation. Members gain access to a global network of leaders in diplomacy, business and social change.

The Diplomatic Council has been granted the highest status a non-governmental organization (NGO) can achieve by the United Nations: special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. This status entitles the Diplomatic Council to participate in UN meetings and to make written and oral statements at international UN conferences and events.

The Diplomatic Council will thus have the opportunity to support the interests of economic diplomacy worldwide, express its views and influence the work of the Economic and Social Council: a thriving economy that brings

prosperity to humanity is one of the best guarantors of peace worldwide.

In 2021, Frank P. Neuhaus joined the Diplomatic Council in his capacity as founding partner and interim manager with iManagementBrazil Ltda. At the same time, the institutionalization of Mission Brazil begins. All six companies participating in the Sparing Rounds use the currently emerging network of Mission Brazil to collectively continue the individual discussions on Brazil's development in 2022 and beyond.







**iMANAGEMENT BRAZIL® THE PEOPLE MOVER**



**MANAGEMENT IS THE  
ABILITY TO MAKE  
PEOPLE AS YOU AND ME  
PRODUCTIVE. IT IS  
NOTHING MORE THAN  
THE ART TO MOTIVATE  
PEOPLE.**

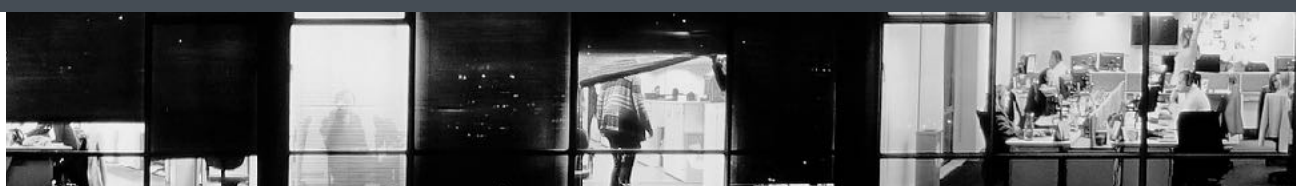






**We know our market better than others do. We are reorganization, restructuring and transformation experts in the way we think, the way we do the projects and the way we communicate internally and externally.**

We take actions for the long-term success of our clients, business partners and our own lasting success. We are looking to the future. We are prepared to stray from the beaten path and accept the risks. We hold up a mirror to ourselves and critically examine ourselves. We are prepared to change and make transformation happen.



## Social Media & Instant Video Calling



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[imb\\_sao\\_paulo](https://www.instagram.com/imb_sao_paulo)



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