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## Paths to the Future of Solar Energy in Brazil

Sergio Araújo is president of SolarEnergy, a medium-sized family business in the city of Belo Horizonte, Brazil, that provides installation and maintenance services for photovoltaic panels. With shifts in the market and new government tax policies at the beginning of 2023, he faces new dynamics and challenges.

The country's energy matrix, highly dependent on hydroelectric power, often suffered when lack of rain lowered water reservoirs. Because of that gap and because solar power was environmentally preferable, photovoltaic energy grew rapidly. Government policy helped as well, with no federal tax on energy produced by solar plants. But that changed at end of 2022, with a new tax aimed at ensuring maintenance of the country's electricity distribution lines.

The new taxation's perspective generated a huge expansion in the solar sector in the months leading up to the end of 2022 precisely because the photovoltaic projects in operation by the end of that year would receive a tax-free pass at least until 2045. And, the tax rate starting in January 2023 was going to increase annually.<sup>1</sup>

The race for new "pre-tax" photovoltaic plants caused solar energy to surpass wind energy in the national mix, second only to hydroelectric power (see **Exhibit 1**). Within this context, companies such as SolarEnergy experienced a period of high demand for orders and continuous growth. But now, as CEO Araújo saw clearly, the company would need a new strategy for growth. What would attract investors? How will Solar Energy compete for new customers? What would enhance profit margins? And, could management remain within the close family circle?

### Energy in Brazil

The largest country in South America, Brazil had a population of almost 215 million and a gross domestic product close to USD 2 trillion in 2022. Brazil was the sixth largest consumer market and the 12th largest economy. Its high growth potential seemed to be matched by its structural challenges, with the

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