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Organized Hip Hop Movement of Brazil: Strengthening Ventures Through Network Ties

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Organized Hip Hop Movement of Brazil.



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1 NESST uses the term "self-financing" to refer to diverse strategies used by civil society organizations to generate their own revenues (sale of products, service fees, use of hard or soft assets, and dividends or investment income). NESST uses the term "social enterprise" to refer to self-financing activities that are designed by a CSO to significantly strengthen the financial sustainability and the mission impact of the CSO.

Executive Summary

The Organized Hip Hop Movement of Brazil is the largest Brazilian hip hop organization, with a presence in 14 states and business promotion activities in five of those states. It was founded in 1989 in the city of Fortaleza, the capital of the State of Ceará, in Brazil's Northeast region. The Movement expanded rapidly throughout the city, and subsequently reached Ceará's interior and surrounding states. The organization resulted from the merger of the Student Movement and Hip Hop's Crews and historically has operated in concert with Brazilian social and popular movements.

In 1998, the Movement created a legal non-governmental organization (NGO), known in Portuguese as Movimento Hip Hop Organizado do Brasil (MH2O), and began to function institutionally, becoming one of the largest Brazilian youth NGOs. Currently, it comprises 28 sub-organizations in the Northeast and Southeast regions of Brazil. In Ceará state alone, the organization has 6,000 members.

Hip hop music is a powerful international trend and surely one of the most important current cultural manifestations. It emerged at the end of the 1960s in largely African American and Latino neighborhoods in New York City, urban areas plagued by poverty, violence, racism, drug dealing, deficient infrastructure and a neglected public educational system. This social context made it possible for hip hop to become a powerful voice for social change in many urban areas and a legitimate communication tool for the poor and excluded youth of many Western countries, not least in Brazil.

MH2O, under Johnson Sales, its institutional coordinator and leader for the past 18 years, helps Brazilian youth living in impoverished communities to channel their energy into productive social engagement rather than gang involvement, drugs, and violence. The organization inspires them to become performers, artists, and business entrepreneurs within a culture that reflects their lives: hip hop. MH2O organizes young people to become their own producers of hip hop culture and operate small businesses to market their products. It works with young people to create products based on the elements of hip hop, including dance (breakdance and smurf-dance), music (rap) and painting (graffiti). MH2O's key strategy is to educate and promote economic inclusion for young people from low-income communities through cultural entrepreneurship, the creation and management of businesses and a network of entrepreneurs.

The Alternative Market Pilot Program (AMPP) is MH2O's principal self-financing¹ mechanism and income-generation program. The AMPP started in 2005 and was launched institutionally thanks to a partnership which brought substantial funding and support from several Brazilian federal agencies, including the Ministry of Labor and the Small Business Support Agency (SEBRAE). Through the AMPP, the organization has been working with youth (ages 17 to 24) in the states of São Paulo, Rio de Janeiro, Ceará, Paraná and the Federal District, delivering capacity building and economic inclusion through a network system



that has incubated 30 small cultural businesses, as follows: four video production firms, five audio production studios, six graffiti ateliers, six cultural event production firms, four apparel firms and five retail stores.

In 2007, this business network has so far generated 15% of MH2O's total budget for the year. The Alternative Market Pilot Program is expected to progressively and annually increase its contribution to the organization's budget generated through self-financing activities. Current percentages are projected to be 20% by 2009, 40% by 2011 and 70% in 2016, and the organization's plans call for the continued development and commercialization of services and products to reach a larger economic scale and cover additional geographic regions in Brazil. In parallel, the program is strengthening and organizing the poorest segment of society: youth at social risk and historically excluded from other economic inclusion policies. The goal is to enable this target group to enjoy the benefits of its own artistic, cultural and social endeavors and build its own future.

Despite its strong financial results, the Hip Hop Organized Movement of Brazil's self-financing and income-generation program has faced a series of institutional challenges over the past three years (2004 - 2007). And its upcoming post-incubation phase (2008) is not totally risk-free, nor is overall funding diversification strongly in place at this time. However, the positive and tangible social impact achieved thus far is already clear to all stakeholders involved. The program is building citizenship and providing education to its members as it offers concrete access to income generation and employment. Besides generating untied funding to the organization, it is strengthening and amplifying the Movement's social mission and outweighing all kinds of costs.

So far in 2007, MH2O's business network has generated 15% of the organization's total budget and it expects to increase the percentage of income from self-financing activities in the coming years.

Section A: The Brazilian Context

A.1. Social Inequality in Brazil

Brazil, officially called the Federative Republic of Brazil, is the fifth-largest country in terms of physical area and population. Brazil has the eighth-largest economy in the world based on gross domestic product (GDP) and is the largest economy in Latin America. Currently, the country is among the top 20 exporters in the world: it is projected that in 2007, Brazil's exports will total US\$152 billion, 11% higher than 2006. Despite its impressive macroeconomic achievements, Brazil has been historically a country of extreme social and income inequality. According to the United Nations' Human Development Report of 2004, Brazil presents the eighth worst index of inequality in the world, topping all countries in South America and only ahead of seven African nations. Brazil is also widely viewed as a country with extreme social injustice, where there is a significant difference in quality of life and access to all kinds of opportunities between its small, wealthy elite and the country's majority of poor and socially excluded people. Recent United Nations statistics have shown that 47% of Brazil's income is controlled by just 10% of its population.

Despite some recent improvements in the reduction of social inequalities –



largely ascribed to current President Luiz Inácio Lula da Silva's programs to transfer income to the poor – and the country's decreased economic vulnerability to shocks and swings of the global financial markets, Brazil's social fabric is still weakened by social injustice coupled with relatively low levels of economic growth and a lack of jobs. The interior of Brazil's Northeast region (known in Portuguese as "Caatinga") is one of the areas most affected by poverty, mainly because of chronic drought. Poverty is also prevalent throughout many other regions and above all in the favelas, the shantytown communities that have proliferated in metropolitan areas.

Even now, Brazil is in need of fundamental structural, fiscal and legal reforms and confronts pressing social challenges such as slavery and child labor, police abuse, torture, endemic corruption and human rights violations, including environmental ones. The absence of the State in promoting employment for low-income youth and delivering effective public policies in education, health, housing, safety, and other areas to marginalized populations has in recent years given rise to the work and importance of Brazilian civil society organizations (CSOs) in the country, as is the case with the Hip Hop Organized Movement of Brazil.



MH2O has incubated several businesses catering to the growing demand for clothing with a hip hop aesthetic.

A.2. Brazil's Nonprofit Sector

In Brazil, the participation of an organized civil society re-emerged in the early 1980s, coinciding with the return of democracy after more than 20 years of military dictatorship, when progressive CSOs and their leadership carried out their work mostly underground because of the regime's political repression and censorship. The landmark of this transition is the reform of the Federal Constitution in 1988, which carries in its text and complementary laws the institutional architecture that now regulates Brazilian society. Since that period, and particularly throughout the 1990's, Brazil has witnessed strong growth in diverse types of arrangements between the state and CSOs in the implementation and shared management of public policies, particularly social policies.

A recent study to map out and measure the country's nonprofit sector was undertaken by the Brazilian Institute of Geography and Statistics (IBGE) in partnership with the Brazilian Association of NGOs (ABONG). To comply with international criteria, some categories were excluded from this research and three types of legal entities reflecting the new Brazilian Civil Code were maintained: associations, foundations and religious organizations (recently included as a third category). According to the criteria applied, the study shows that in 2002 Brazil had around 276,000 CSOs, all of them private, non-profit, institutionalized and self-administered. This universe of CSOs employs approximately 1.5 million people and almost half are located in Brazil's Southeast region. Civil society organizations in Brazil are involved in a vast range of public interest services and thematic interventions, ranging from social assistance to education, health, sports and leisure, the natural environment, income generation, employment, arts and



culture, science and technology, communications, public safety, and others. The oldest CSOs are those delivering social assistance and which are linked to the Catholic Church, such as orphanages founded during the colonial era. The more recent organizations are NGOs that were founded during the 1980s, in particular those addressing human rights violations and promotion of social development projects. There are also many prominent NGOs working to defend the interests of women and minorities and to protect the environment and raise consciousness about it throughout all sectors of society.

The largest Brazilian nonprofit organizations work in the educational and health sectors, but there is currently a serious debate taking place in the country about the need to make a clear distinction between legitimate non-profit organizations and others that operate in a fashion more similar to for-profit companies.

In Brazil, CSOs obtain funding from a variety of sources, including charging membership fees, obtaining grants from individuals or local institutions, sales of products and services, government contracts and funds from international entities such as foundations, NGOs, multilateral organizations and cooperation agencies. Participation, engagement and financing of social programs by the corporate sector is relatively recent in Brazil; nevertheless, the notion of corporate social responsibility is gaining traction throughout Brazil.

Section B: Organization Background

B.1. Mission

MH2O's strategy for mobilizing young people through hip hop production must be understood within the context of the tremendous growth in the youth population that has occurred in the country. Brazil currently has 81 million youth between the ages of 15 and 29. The social context for poor young people in Brazil is not at all favorable: according to IBGE's current data, 65% of the unemployed in the country are youth and they also account for 69% of the prison population. Nine million youngsters are living below the poverty line and homicide is one of the highest causes of youth mortality, accounting for 44% of deaths.

Young people living in urban poverty in Brazil face seemingly intractable obstacles to improving their lives: scarce resources, unemployment, and a life in neighborhoods characterized by high rates of criminal activity. Johnson Sales realized that these problems exist internationally and that one way in which they are being addressed globally is by the hip hop movement. Confronting the problems of economic and racial isolation and political exclusion are essential elements of the international hip hop movement in several countries, including Brazil; this is expressed most visibly through rap music, graffiti art and breakdance. MH2O also identified an absence of social structures in which youth could participate meaningfully, truly express themselves and have a say in the development of programs and organizations that could potentially have an impact on their lives.

Brazil has 81 million youth between the ages of 15 and 29. Nine million youth are living below the poverty line and face seemingly intractable obstacles: scarce resources, unemployment, and a life in neighborhoods characterized by high rates of criminal activity.



MH2O is an organization with several mission-related goals: mobilizing youth, nurturing their creative instincts, facilitating the development of entrepreneurial skills, generating income, promoting inclusive and equitable social values and giving voice to those who are often excluded from national debates.

B.2. Programs

MH2O has three main functional areas. The first is its economic development program, directed at the organization's financial sustainability and promotion of social economic inclusion for its beneficiaries and members through income-generation opportunities. The second program, community development, aims to develop a sense of community among its members, strengthen their corporate culture, oversee the organization's insertion into the communities where it works and increase its membership. Finally, MH2O's institutional development program is responsible for supporting the other two functional areas through the elaboration and management of projects, as well as fundraising, forging institutional partnerships and developing the organization's hip hop cultural brand.

MH2O develops projects and programs in several thematic areas: culture and education, social economy, and campaigns against youth violence and drug use. It also works to influence the development of public policies in Brazil. Some examples of its programs include:

Community Violence Prevention: Aimed at reducing violence rates in communities, through this program MH2O provides community education with hip hop art and culture and support to youth-directed initiatives that promote peaceful coexistence.

School Safety: This program includes workshops and lectures about crime prevention, drug use and prostitution, in partnership with public sector agencies, to public schools located in low-income communities. The program simultaneously engages youth to participate in the organization.

Culture and Counterculture: This program promotes positive cultural and behavioral values and educates new members on social engagement and ethics.

Hip Hop Regionalization: This program strengthens local cultural and historical awareness through interaction with hip hop's artistic elements.

B.3. Staff and Financial Information

Currently, the organization has a staff of 30 full-time employees, eight part-time employees and 60 volunteers who work with the organization on a regular basis. Over the past four years, the organization's financial resources have come mainly from the Brazilian government and revenue generated by the enterprises of the Alternative Market Pilot Program, as shown in the following table.



Source	2007* (in US\$)	2006	2005	2004
Public Sources (local/national)	445,267.90	372,093.00	186,046.00	
Corporate Grants (local/national)				60,465.00
<u>Self-financing:</u>				
Membership Dues	20,238.51	12,590.00	12,590.00	6,697.00
Product Sales	82,148.10	41,861.00	33,488.00	11,162.00
TOTAL	547,654.51	426,544.00	232,124.00	78,324.00

*2007: February to June

Over the past three years, MH2O's budget has been allocated in the following way:

Expense	2007 (projected)	2006	2005
Administrative/office	28%	30%	19%
Fundraising	7%	7%	8%
Programs/activities	57%	58%	60%
Other	8%	5%	13%
TOTAL	100%	100%	100%

Overall, the organization's current financial health is considered to be stable, with sufficient funding to support its main activities. However, MH2O lacks the financing to support prospective programs. Like other NGOs in Brazil, MH2O faces difficulties in mobilizing resources from donors to cover core operational expenses and to align its programs and financial needs with the guidelines of most grant-making foundations.

Section C: Self-financing

MH2O engages in self-financing activities for a variety of reasons, including financial need - the organization must become more sustainable - and mission-related reasons, as it seeks to improve the economic situation of its beneficiaries by providing them with income-generation skills.

The Alternative Market Pilot Program invests in the talent and entrepreneurship potential of low-income youth and provides what they have been missing: access to opportunities based on technical assistance and economic support. The Program was an idea that emerged in 1995 from youth members from low-income communities and shantytowns in the state of Ceará. The idea was to create businesses to provide jobs and income to its members and funding to strengthen the organization's cultural and social interventions. However, at the beginning they weren't sure how to put their plan into practice, as they lacked



The Alternative Market Prototype Program began in 2003, using an innovative methodology to incubate business ventures. With support from Brazil's Ministry of Labor, the program has been widely replicated throughout five states.

management skills and above all seed money to start their businesses. Despite these obstacles, these young people made several attempts at starting businesses between 1995 and 2000. They sold bicycles, skateboards, cassette tapes and clothing and held street-based cultural performances to raise contributions from the public. These resources were reinvested in initiatives and events aimed at building their businesses. The frustrations were many and several times these youth came close to abandoning their efforts. But even then, MH2O members were already planning to develop three businesses: a sound studio, a cultural events planning firm and a graffiti atelier, believing these businesses would represent hip hop's artistic elements and allow them to provide financial backing to the organization.

By 1998, MH2O had expanded into 10 Brazilian states and was operating as a legally constituted NGO, providing its members with the opportunity, skills and knowledge needed to develop organized projects. However, it was only in 2002 that the organization finally secured financing from the federal government (the Ministry of Justice in collaboration with the United Nations Development Program, or UNDP) for a larger project involving hip hop artistic workshops and promotion of human rights in 10 communities in the state of Ceará, directly benefitting 400 youth. MH2O was able to use the project to further disseminate hip hop and to gain interest and support from its target group in income generation through art and culture.

That same year, MH2O developed an operational partnership with a Brazilian NGO based in the state of Ceará called Comunidade Empreendedores de Sonhos, which specialized in fostering micro-entrepreneurship in low-income communities. With funding from the Small Business Support Agency, the two organizations designed the Alternative Market Prototype Program in 2003. The project used an innovative methodology to incubate small businesses and resulted in the creation of the three businesses that MH2O members had been planning in Ceará. This project and techniques contributed by the institutional partners allowed MH2O to further refine its intervention model and methodology, and the model officially became known as a "Cultural Business Incubator". At the end of 2004, after representatives from the Brazilian Ministry of Labor learned about the project and visited the three businesses, the ministry invited the organization to replicate its model in four additional states located in the South, Southeast and Central regions. With this government support, the Alternative Market Pilot Program began to be widely replicated, fulfilling a dream of MH2O staff and stakeholders. MH2O applied strict criteria to select the states, cities and communities where it would develop the program to ensure compatibility with its social mission. Decisions about expanding have been based on the following methodological and strategic reasons:

São Paulo: São Paulo was chosen because it is the largest consumer market in the country, it is where the majority of nonprofit donor organizations are concentrated and it is where hip hop culture is most developed. MH2O chose to focus its work in the community of Tiradentes, on the east side of the city of São Paulo, a community facing a high level of youth unemployment and scarce



opportunities for productive social involvement.

Rio de Janeiro: The model was brought to Rio de Janeiro because although it is well known as a major tourism center, it is simultaneously plagued by violence, unemployment and an intense drug trade. In this city, MH2O chose to work in the community Morro da Providência, the original Brazilian favela.

Paraná: Paraná, a state in Brazil's Southern region, is home to a highly developed hip hop culture. At the same time, it is an area suffering from drastic social inequalities. The capital city of Curitiba is considered an ideal environment to test new programs and services because it is a mid-size city with a relatively large middle class (with substantial purchasing power). MH2O chose to work in Boqueirão, a neighborhood suffering from high levels of youth involvement in crime and drug trafficking.

Federal District: This is the nation's "political heart" and headquarters of the Brazilian federal government, which allows for greater access to the public sector and opportunities to influence public policies in the country. MH2O is working in the community of Ceilândia, which also sees high levels of crime and particularly youth crime.



MH2O youth are involved in all aspects of running their businesses, including selling their products in retail venues.

The Alternative Market Pilot

Program began in 2005 and has incubated 30 small businesses since then, throughout the geographic areas described above, in addition to the state of Ceará (where the program's prototype was created in 2003). The businesses include: four video production firms, five sound studios, six graffiti ateliers, six cultural event production firms, four apparel firms and five retail stores. The ventures have been set up as "learning enterprises" – they are not yet fully legalized as commercial ventures – and are engaged in the following activities within hip hop culture:

Video production firms: audio-visual production for events and parties, documentaries, music videos, TV commercials and image editing.

Sound studios: music production, technical editing of commercial spots, and rehearsal space rental.

Graffiti ateliers: a variety of painting services, plastic arts, design and indoor/outdoor decoration.

Event production firms: organization of cultural events, concerts and workshops; consulting services and talent management.



Apparel firms: product brand development, sewing and cutting services and clothing customization.

Retail stores: marketing of products from the Network's ventures, including CDs, DVDs, clothing, accessories, and other items.

The Alternative Market Pilot Program has directly benefited 960 low-income youth and mobilized more than 150 institutional partners. Additionally, it has delivered five regional workshops for hip hop organizations now strengthened by the program, has organized capacity-building workshops to develop social entrepreneurship and technical skills among its members, has influenced public policies aimed at the economic and social inclusion of at-risk youth, and has developed a production chain involving the arts, sports and lifestyle.

Section D: Management

The Program was designed as a network to incubate small businesses which are linked by type and by geographic region, which are all linked to one another through a national "social holding company" – the first holding company of its kind in Brazil. The holding company is a central business enterprise organized to guarantee brand uniformity and cohesion across the many businesses and to deliver three essential services to the entire Network:

1. **Central Purchasing Unit:** This unit is responsible for purchasing equipment and materials and to retain needed services to assist all businesses within the Network. It developed and maintains an up-to-date suppliers database and has been created to purchase larger quantities at a lower cost.
2. **Central Capacity-Building Unit:** This unit is responsible for developing a national capacity-building model to provide technical assistance in management and technological education to the entire Network. This unit promotes the standardization of all technical aspects of all the businesses in the Network and ensures quality standards for products and services; and
3. **Central Marketing Unit:** This unit is responsible for identifying potential clients. It maintains a database of consumers who have expressed interest in the Network's products and services. It has been designed to promote sales on a larger scale and manage the Network's distribution and logistics.

Internal management of the Network's business ventures is implemented through "business teams" with predefined roles; however, decisions are always made by a majority vote of the team involved in a specific venture. The processes associated with producing goods, concerts and music are undertaken collectively. As a result, young adults not only develop skills, income, and modes for self-expression in art, but they also participate meaningfully in the decision-making process and the shaping of the organization. They have a voice in MH2O.

The organization provides institutional support to the businesses and a social hip



MH2O has incubated several audio production studios.



hop "brand" with aggregated value; finances their incubation period through the purchase of materials and supplies; and promotes technical capacity building. In turn, a percentage of each venture's net income is granted back MH2O. The organization directs 20% of this financial return toward national activities including fundraising and campaigns. The remaining 80% goes to social interventions in communities and expansion of the state-level business network.

The social holding company is the controlling firm of all the ventures within the Network. It has been created to allow for the Network's growth, expansion, full fiscal legalization and shared management of businesses practices. It owns 51% of each venture's ordinary shares and will retain a participation in each venture's profits, although according to its statutory bylaws, it can only invest these resources back into the same ventures and/or in the launching of new businesses as well as the expansion of the Network.

At the time of this case study's publication, the percentage of profits that each venture will transfer back to the social holding had yet to be determined. However, it is expected to be approximately 20%, with flexibility in certain cases. In addition, the social holding company is currently taking all the necessary steps to become a legalized firm in Brazil. The 30 existing small businesses of the Network are following the same path and expected to be legal commercial ventures by November 2007. Eventually, the ventures are expected to become self-sustainable through their operations in the formal marketplace and their eligibility for public micro-credit financing, thus reaching the post-incubation phase foreseen for 2008.

To further strengthen this self-financing program and leverage additional financial support, MH2O has also developed partnerships with municipal and state entities, offering to share the methodology it has created for the Alternative Market Pilot Program. The organization also works with other CSOs, academic institutions and technology centers.

To implement its activities, MH2O has taken the specific steps outlined below over the past three years:

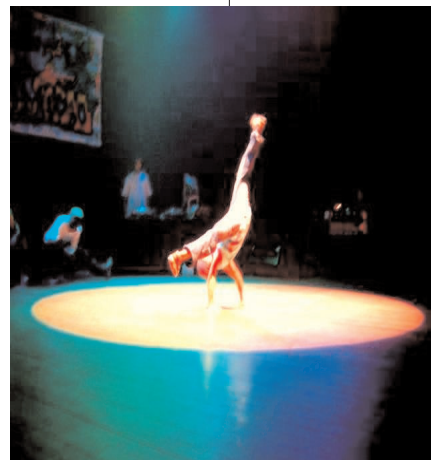
2005

Replication of national model: Selection and training of national coordination teams; development of working plans; regional consolidation of alternative market and identification of hip hop organizations to shape the regional forums.

Identification and mobilization of institutional partners: Definition of partnership criteria and organization of regional forums.

Selection of youth entrepreneurs: Development and publication of documentation to convene youth entrepreneurs and provide forums for them to assemble.

MH2O has incubated several cultural event production firms, which also provide consulting and management services for performers.





Technical capacity building. Developing the model and building capacity in skills needed for social entrepreneurship.

2006

Development of business teams: Selecting youth from the previous phase to join business teams and developing these teams to work on business incubation.

Creation of national network of hip hop ventures: Mapping out hip hop businesses throughout the program's geographic areas.

Development of central business units: Renting space to accommodate these units; purchasing and installation of equipment and launching of business units.

Incubation: Building the capacity of youth in administrative management, elaboration of business plans and required technologies, as well as analysis and revision of business plans.

2007: Start-up of post-incubation phase

Launching ventures in the alternative market: legalization of business entities; promotion of partnerships for ventures to get access micro-credit financing; organization of events to launch ventures.

Program evaluation: Detection of strengths and weakness within a Balanced Scorecard tool; overall program assessment and recommendations for new approaches and methodologies to be followed.

2008: Full development of post-incubation model.

According to recent research carried out by the Small Business Support Agency (SEBRAE), 80% of emerging Brazilian small firms across a range of sectors cease to exist five years after they have been created. Given this situation and concern about the long-term performance of the ventures, MH2O decided to develop a strategy based on shared management of these businesses following their incubation phase and supported by the social holding company described earlier.

The social holding company ensures that MH2O has formal business agreements with the Network's ventures, provides a greater degree of professionalism in all activities involved and helps the ventures to function directly in the formal marketplace. In this manner, it is hoped that it will be possible to measure future economic impact using well-defined market and financial projections and outcomes.



MH2O's programs inspire youth to become performers, artists, and business entrepreneurs within a culture that reflects their lives: hip hop.



Section E: Management Challenges

The Alternative Market Pilot Program has encountered a number of challenges. One of the main difficulties has been the need to adapt technology to a target group suffering social exclusion with low levels of education. Specifically, the MH2O members had to learn about administrative procedures, marketing and financial accounting techniques – all sophisticated concepts and skills for young people without access to quality education. In addition, members also have had to share their time between participating in MH2O projects and working or job searching to meet immediate economic needs.

In order to bridge the gap between the Network's social and technical model and the skill set of youth without academic formation in business practices, the organization worked together with university students (interns) already specialized in business administration tools and pedagogical techniques tailored to low-income youth. The program's sequential steps were systematized accordingly and shared with all stakeholders involved through distribution of an easy-to-follow CD-ROM, in which all the necessary steps and activities for developing a business are presented in a clear manner. This practical solution brought the added value of becoming a useful replication tool that can be used by other CSOs in Brazil seeking to develop social enterprises.

It is important to underscore the contribution of the Brazilian academic sector in making these challenges more manageable for MH2O: university partners have helped with technical assistance, management consulting and brand development in each state of the Network, and have also provided intellectual capital through original research.

For the Network to achieve overall financial sustainability, it needs to scale its operations by operating a greater number of ventures and reaching more consumers. To achieve this goal, MH2O has had to direct much institutional time and energy towards the development of complementary partnerships to strengthen and expand the program in the existing four states covered by the Alternative Market Pilot Program and to respond to opportunities as they arise in other regions as well. In parallel, it has been challenging for MH2O to be fully understood by all partners involved, particularly Brazilian public sector agencies. For many, it is difficult to understand the organization's intervention model of incubating cultural businesses not only for financial profit and income generation for the organization and its members, but also to promote social inclusion, empowerment and citizenship building.

MH2O also faces the challenge of securing working capital for the Network's ventures, ensuring their access to financial liquidity through micro-credit schemes, identifying and capturing market share for the Network's products and services, setting overall standards for quality and continuously developing partnerships for capacity building and technological education in areas such as design and music production.

To bridge the gap between the Network's social and technical model and the need to train youth without academic formation in business practices, MH2O worked with university students specialized in business administration tools and pedagogical techniques tailored to low-income youth.



In 2008, MH2O will map out the hip hop market in Brazil, in an effort to define which products and services can be characterized as "hip hop", build national networks of entrepreneurs and ventures and promote social inclusion.

Finally, MH2O also has confronted the costs of implementing such pioneering work in Brazil. At its beginning, the Alternative Market Pilot Program was hampered by the complete lack of technical information and data regarding the size and scope of the market for hip hop products, which it needed in order to launch its business ventures. Understanding of the hip hop market is still relatively limited in Brazil and in many other countries where the movement is present, with the possible exception of the United States. Thus, MH2O has had to work without organized knowledge and data related to market size, market trends, competition and risk analysis, price setting, ideal product mix, merchandising, operational aspects, break-even point and other aspects of business planning. This has made the development of feasibility and business plans extremely challenging.

In order to overcome this challenge, MH2O is putting forward a new initiative in 2008 called "Hip Hop's Entrepreneurship" to gather information about the sector in Brazil. The goal of the initiative is to map out the sector, define which products and services can be characterized as "hip hop", build networks of entrepreneurs and ventures at the national level linked to MH2O, organize the hip hop market and promote social inclusion through the hip hop creative industry. This new initiative is intended to cover a vast geographic area in Brazil housing the largest consumer markets of youth culture in the country, including the states of Pará, Ceará, Bahia, Minas Gerais, Amazonas, Rio de Janeiro, São Paulo and the Federal District. The organization is currently fundraising to implement this new program during the upcoming decade (2008 - 2018).

Section F: Legal Aspects

The businesses generated by the Alternative Market Pilot Program are on their way to becoming formal legal entities, a major step planned for the post-incubation phase which will begin in 2008. Thus far, the program has operated under MH2O's institutional umbrella as a legal NGO. During the pilot phase, the Network's business ventures were formed as "learning firms", which has limited their commercial freedom but also limited their financial liability.

The newly created social holding company and the Network's ventures will be registered as businesses, subject to full payment of income taxes, professional accounting reporting requirements and the need to obtain all permissions and licenses. Once these legal entities have been registered, the businesses will be able to enter into binding contracts to be signed and implemented among the Network's stakeholders. They will also have access to other benefits, such as micro-credit and loans at favorable interest rates. The organization has hired a professional financial administrator and retained the services of an accounting firm to ensure legal and fiscal compliance and to manage bureaucratic procedures involved in starting a business in Brazil, including filing the appropriate forms and obtaining a tax identification number.



Section G: Effects of Self-financing

MH2O's self-financing program has had many impacts on the organization. Apart from generating 15% of the organization's budget in 2007, it has brought positive social impacts. An illustrative and tangible example is the case of a community based in Serrinha (city of Fortaleza, capital of Ceará State) where there has been a decrease in crime and violence rates, youth drug abuse and drug trafficking in a neighborhood where MH2O has been working. The program has helped to keep youth away from gang activity by offering concrete options for productive engagement through hip hop culture.

The Alternative Market Pilot Program has successfully combined social, economic and culturally positive impacts, by addressing human rights, generating jobs and income for its members and diffusing positive values. All of the products and services developed by the Network's small businesses are aligned pedagogically and oriented to disseminate inclusive values and social justice. By providing access to formal labor, education and capacity building in business management, the program has allowed low-income youth to be productive and in many cases MH2O appears to have had a greater impact on reducing social risk for low-income youth, than, for example, the programs run by the government of Ceará State.



MH2O's programs have helped to keep youth away from gang activity and offered concrete options for productive engagement through hip hop culture.

At the organizational level, self-financing activities have contributed to the improvement of MH2O's operations and staff skills in project planning, long-term strategic thinking, financial and administrative management and decision-making processes. In its next phase, the program is also expected to positively impact the organization's financial diversification through new opportunities to engage with corporate donors and supporters from civil society, leading to greater financial sustainability. In addition, the program has leveraged opportunities for the organization to develop new relations and alliances that will allow MH2O to expand geographically and further strengthen its social mission.

Examples of programs and partnerships currently being implemented by MH2O include:

State of Paraná: overall strengthening of the Alternative Market Pilot Program's business network in the state, through financial support from Ashoka and an operational partnership with the Brazilian NGO "Aliança Empreendedora", which is dedicated to the promotion and organization of micro-entrepreneurship and capacity building for micro-entrepreneurs in the country.

The project aims to combine MH2O and Aliança Empreendedora's methodologies to map out and develop a network of hip hop micro-



entrepreneurs, involving the integration and strengthening of groups, entrepreneurs and low-income communities through skills building and empowerment. This intervention model will target income and job generation by providing assistance in five areas: 1) knowledge and information (capacity building); 2) design and marketing (kiosks, catalogs, retail stores, etc); 3) capital (micro-credit financing); 4) technology and infrastructure (machinery, tools and equipment); and 5) citizenship-building (health and education).

The anticipated outcomes include: 30 to 50 hip hop micro-ventures identified and mobilized to participate in the project; involvement of 15 communities/municipalities in the State of Paraná; and systematization and dissemination of knowledge and a model to be replicated in other regions.

State of Ceará: Two projects developed in partnership with the City Hall of Fortaleza designed to strengthen the existing program and the hip hop business network in Ceará, in addition to incubating three more ventures in the city.

Federal District: A partnership developed with a state-owned bank will enable MH2O to expand the self-financing program into the city of Sobradinho, generating six additional ventures that will be added to the Federal District area's network, thus amplifying its scale and impact.

Although historically hip hop culture has been associated with male values, attitudes and overall lifestyle, the organization has successfully engaged the active participation of females.



São Paulo: MH2O is developing a partnership with the City of Tiradentes' municipal government aimed at utilizing and contracting the services and products of the Network's businesses in São Paulo for artistic and cultural events in the area.

Rio de Janeiro: A network of cultural producers and performers is being organized to support the program's businesses in the city. This initiative has already granted copyrights and priority use of the Network's products and services to local artists and has organized philanthropic concerts on their behalf.

Additional initiatives involving institutional partnerships and commercial negotiations are currently being developed in the geographic areas covered by MH2O's self-financing program, aimed at strengthening the businesses of AMPP's Network during their post-incubation phase. The rationale behind these efforts is that the ventures are more likely to succeed if they are backed by a solid network system, utilizing scale and securing access to formal commercial markets.

Another interesting impact is the growing participation of females in the business network and MH2O's capacity to promote a gender-balanced perspective within the Alternative Market Pilot Program. Although historically hip hop culture has been associated with male values, attitudes and overall lifestyle, the organization has successfully engaged the active participation of females. The social



methodology employed is characterized by a gender-neutral outlook throughout the program's activities and currently 40% of MH2O's beneficiaries are females, who participate in coordination and leadership-level positions.

Section H: Conclusions and Lessons Learned

Despite the difficulties faced by MH2O in its self-financing program, overall it has been a successful initiative with very strong future financial potential. As it formalizes its business processes, MH2O is able to enjoy the benefits of market access for its products and services and take steps to strengthen and amplify the Network.

MH2O is also evaluating the entire Alternative Market Pilot Program to identify lessons learned and further refine its overall self-financing strategy, particularly with regard to the impact of the social holding company. The organization plans to develop a comprehensive business plan to further clarify key issues such as financial projections as well as policies on revenue sharing, intellectual property rights and development of a hip hop commercial brand suitable for a larger market, without compromising standards and quality of products and services.



MH2O is partnering with municipalities throughout Brazil to produce hip hop cultural events that engage youth.

In particular, MH2O recognizes the need to further diversify its funding basis and avoid dependency on public sector financing. Along with the Alternative Market Pilot Program, MH2O's future financial sustainability strategy calls for establishing an office in the city of São Paulo to fundraise from corporations, foundations and other grant-making institutions. The organization believes that a healthier funding mix will provide access to tools, values and practices of the corporate, public and organized civil society sectors, strengthening the movement's social mission, delivering more untied funding and allowing for greater influencing of public policies that promote social and economic inclusion of low-income youth in Brazil.