Institute for Innovation and Public Purpose

A mission-oriented framework for the coordination of State-Owned Enterprises in Brazil

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About The Project

This working paper was written as part of a project funded by the Open Society Foundations, led by Mariana Mazzucato (PI).

The Institute for Innovation and Public Purpose (IIPP) is collaborating with the Ministry of Management and Innovation in Public Services (MGI) to support MGI's agenda of state transformation, exploring the design of government tools and institutions and the development of capabilities that will be needed to implement the Government of Brazil's economic transformation agenda. The project focuses on the design and governance of state-owned enterprises (SOEs), digital public infrastructure, and public procurement. This working paper synthesizes preliminary insights related to challenges and opportunities in SOE governance and coordination in Brazil, based on research conducted from January to September 2024. It was written to foster dialogue at an interministerial workshop held on October 17, 2024.

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Methodology

This paper draws on a review of relevant academic literature and policy documents, insights from other jurisdictions, and interviews with representatives from a diverse range of Brazilian stakeholders, including ministries, SOEs, the judiciary, business associations, worker representatives, academia, and other relevant parties. Reflections on public ownership, coordination, and governance were explored and some ideas for new approaches were tested.

Reference

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Contents

1. Introduction

The Brazilian Government is pursuing an ambitious transformational agenda that emphasises the importance of tackling climate change and promotes equity and inclusion alongside robust economic growth. Key initiatives like the New Growth Acceleration Plan (Novo PAC), the Ecological Transformation Plan, the New Industrial Policy (NIB), and the Climate Plan (expected to be launched in 2025) span different ministries. While there is room for improvement in coordinating these initiatives, the missions outlined in the new industrial policy offer significant potential to link and enhance ongoing efforts and advance sustainable economic development.

By prioritising the ecological transition within its development strategy, Brazil aims to transform social and environmental challenges into opportunities for investment, innovation, and collaboration. This represents a departure from traditional economic policy approaches, as it emphasises purpose-oriented investments and innovation rather than addressing market failures. **This shift will require extensive coordination and state capacity enhancement.**

State-owned enterprises (SOEs) play a pivotal role in the Brazilian economy. They provide essential infrastructure, ensure the country's energy security, finance large-scale projects that require patient capital, manage critical digital services, and undertake high-risk investments. They are uniquely placed to drive national development due to their position as public actors that are empowered to engage actively in markets. However, to contribute to overarching policy goals, or "missions", such as those outlined in the NIB, SOEs need effective coordination tools (Mazzucato and Gasperin, 2023). **This discussion paper examines the status of SOEs in Brazil and explores the potential to enhance alignment and improve coordination.**

In Brazil, the Ministry of Management and Innovation in Public Services (MGI) holds a strategic position to transform public administration by fostering the development of tools, institutions, and capabilities across the Brazilian State. As a support ministry, MGI plays an enabling function, helping other ministries to serve the interests of society and the environment and to implement the Government's overarching agenda in a whole-of-government way. As part of MGI, the Secretariat for the Coordination and Governance of State-Owned Enterprises (SEST) is well-positioned to strengthen initiatives and promote interministerial dialogue aimed at aligning SOEs with government priorities.

2. From privatisation to strategic alignment

History shows that SOEs possess several capabilities that private companies typically lack. These include the abilities to promote coordinated large-scale, long-term investments; provide essential products and services at affordable prices; ensure adequate levels of competition in concentrated markets; increase national investments in science, technology, and innovation; control scarce goods that are essential as inputs for economy-wide production ; safeguard the interests and sovereignty of nations; and make business decisions guided by collective interest (Chang, 2007). Governments can leverage these entities to shape markets in alignment with policy goals.

In many countries, a wide range of SOEs operate across various sectors and help shape their economic development trajectories. For instance, POSCO, South Korea's largest SOE, consistently ranks among the world's top 10 producers of steel and has laid the upstream groundwork for the country's automobile industry. By investing in this capital-intensive, high-risk industry when no private sector company was willing to take the risk, the South Korean government created an export champion (Chang, 2013). Another example is the Istituto per la Ricostruzione Industriale (IRI), which played a central role in Italy's economic "miracle" by constructing much of the country's infrastructure and shaping its industrial competitiveness in defence and shipbuilding (Gasperin et al., 2021). Recently, China has shown how to develop some of the most productive and profitable SOEs in the world by supporting critical advanced industries and creating forward and backward linkages with private companies (Lin et al., 2020).

In recent years, SOEs have garnered increasing attention from international organisations such as the World Bank, IMF and OECD (World Bank, 2014, 2023; IMF 2024), which recognise the active role that SOEs can play in fostering economic development within productive systems, especially in the context of new industrial policies and the decarbonisation of national economies. For example, the OECD's recently updated guidelines on the Corporate Governance of State-Owned Enterprises emphasise the role of SOEs in economic resilience, sustainable development, and competition (OECD, 2024). Furthermore, academic research has moved beyond the privatisation debates of the 1990s, arguing that efficiency is determined not just by ownership but also by broader institutional and policy frameworks (Cuervo-Cazurra, 2018; Bernier et al., 2020; Gasperin et al., 2021). Attention continues to focus predominantly, however, on good governance to enhance accountability and efficiency, and avoid corruption risks.

SOEs have the potential to generate greater public value (see Box 1) by taking a long-term perspective oriented around clear policy goals or "missions", leveraging their public mandates (Mazzucato, 2013). SOEs can play pivotal and proactive developmental and policy roles to facilitate the desired transformation of economies (Hertog, 2010), rather than merely emulating the behaviour of private firms (Mazzucato & Macfarlane, 2023).

Box 1: Public value

Public value should be understood as the product of a collective endeavour. The state's role in creating public value encompasses more than just redistributing wealth or resolving issues related to public goods; rather, it involves collaboratively co-creating value across various domains through the interactions between the public and private sectors and civil society. This means moving away from the perception that markets are solely established by the private sector and that the role of the state is relegated to fixing market failures. Instead, public value is realized when the state shapes markets to reflect public purposes and priorities (Mazzucato, 2018a; Mazzucato and Ryan-Collins, 2019).

As public entities, these companies can take a long-term view that prioritises broader stakeholder and economic benefits over short-term shareholder interests. They can also take greater risks to explore the innovative solutions and breakthrough technologies needed to address complex societal challenges (Mazzucato, 2023b). Furthermore, new kinds of collaborations with public and private institutions (going beyond traditional public–private partnership models) have the potential to enhance resource allocation, facilitate knowledge exchange, and foster networking, thereby promoting innovation and sustainable development.

Although SOEs are often viewed as entities that should remain at arm's length from political influence, such a perspective can lead to a disconnect from broader policy goals, reducing the SOEs' potential public value. Additionally, empirical studies tend to compare SOEs to private companies using financial indicators like profitability and debt ratios. This narrow focus neglects key aspects, such as the SOEs' technological capabilities and their role in advancing national industrial development. To truly understand the impact of SOEs, it is necessary to take a broader systems approach that examines the full portfolio of SOEs in relation to the national industrial landscape and aligns their performance with overarching policy objectives, recognising their strategic importance to the economy (Gasperin et al, 2021). Countries with different socioeconomic contexts are rethinking the role of SOEs (examples of such efforts are included in Section 3), adopting new governance approaches and enhancing coordination tools and capabilities to support both SOE returns and governments' strategic goals (Tagliani, 2021). These examples can inform the Brazilian debate.[1]

2.1 A brief history of privatisation in Brazil

To strengthen SOE coordination and mission alignment in Brazil, it is important to start by analysing the current state of play for SOEs in Brazil, examining the governance frameworks and concepts that currently shape their operations.

The rise of anti-Keynesian ideas from the 1970s onwards, along with the theoretical convergence against state intervention in economic orthodoxy during the 1980s and 1990s, limited the debate on the state's role in the economy. The economic policy proposals of this 'New Consensus' led to significant institutional changes, restricting state intervention, including the role of SOEs. In this context, fiscal constraints were expanded, and limits were placed on public debt, public spending,

1 Empirical studies frequently assess SOEs solely based on financial metrics, which can be misleading because they overlook the technological capabilities and contributions to national economic development (Tagliani 2021). While a case-study approach focusing on individual SOEs offers a qualitative understanding of their capabilities, it may fail to fully address the broader industrial context and the connection between policy and state ownership. Therefore, a comprehensive assessment framework is needed that combines quantitative analysis with qualitative insights to fully capture the role of these companies in national development strategies.

and even revenues. Thus, the so-called 'fiscal anchor' became a key element in assessing the country's risk profile.

In Brazil, the public budget became heavily tied to operating expenses, which meant that most of the budget restrictions affected investment spending. To signal austerity to international financial markets, governments suspended (or even abandoned) major structural projects and privatised several SOEs (Teixeira & Silva 2023). One of the outcomes of these measures was that the public sector's asset reorganisation eliminated one of the pillars of the Brazilian federal pact: the coordination between federal SOEs and their state-level counterparts, which had allowed for a specific model of sectoral policy formulation and regional distribution of public investments (Lopreato, 2013).

Between 2003 and 2016, efforts were made to revive the role of SOEs, adapting their operations to the existing legal and regulatory framework. This allowed SOEs to play critical and extensive policy roles, both individually and collectively, albeit with certain limitations. However, between 2016 and 2022, the country entered a turbulent period. The revelations from 'Operation Car Wash' found resonance among influential segments of Brazilian society, placing Brazilian SOEs at the centre of the political and institutional crisis. The condemnation of SOEs involved in scandals, rather than just their leaders, served as justification for a new wave of privatisation.

The argument for privatisation was that a strong fiscal adjustment and the transfer of state functions to the private sector were necessary to tackle corruption. Established through Provisional Measure 727/2016, the Investment Partnership Program (PPI) aimed to reduce bureaucratic hurdles and state interference, instead prioritising the role of the private sector, and included the transfer of state-owned assets (DIEESE, 2018). To expedite the process, the new National Privatisation Program (PND) regulations were issued through presidential decrees, and by 2018, 191 projects had been qualified for transfer to the private sector.

Through the Investment Partnership Program (PPI), BNDES was tasked with creating a private entity, the Partnership Structuring Support Fund (Faep), which aimed to structure public–private partnerships (PPPs) in collaboration with the federal, state, and municipal governments. This shift in the role of BNDES – from financing major projects to also restructuring and dismantling public institutions – was accompanied by other measures aimed at permanently curbing the bank's ability to direct credit in the future. In this context, the long-term interest rate (TJLP), a benchmark established at the start of the Real Plan (in 1994 and periodically updated by the National Monetary Council), was replaced by the long-term rate (TLP), similar in level and volatility to the market rate. In this period, BNDES became a hub of intelligence and structuring agent for PPPs and privatisations.

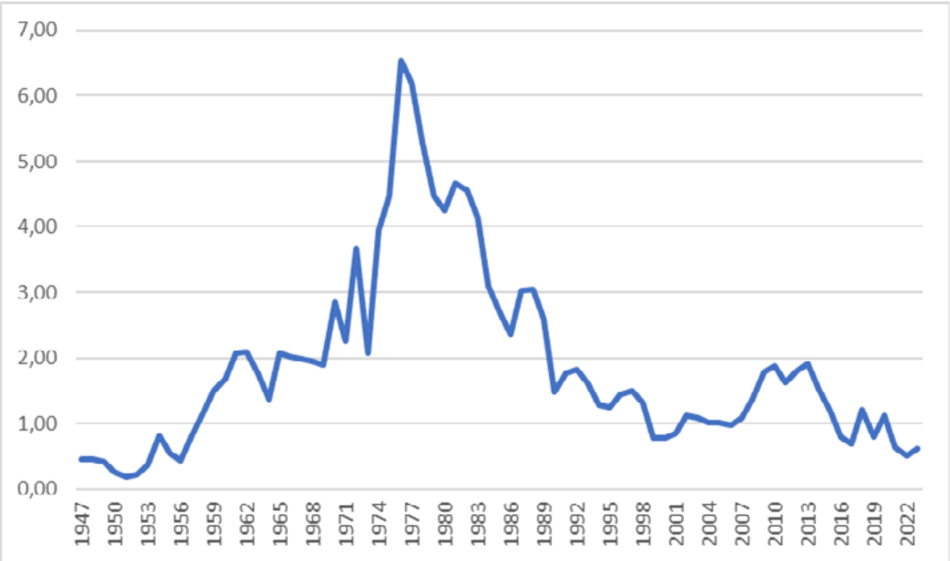
Brazil's history of SOE privatisation is not unique. Italy, for example, experienced a similar trend of privatization in the 1990s, with sales exceeding $160 billion from 1992 to 2007 in current values (Gasperin et al, 2021).

2.2 State of play of Brazilian SOEs

At the federal level, there are currently 123 SOEs, 44 of which are under direct control and 79 under indirect control of the State (subsidiary companies). These entities are officially classified into three primary groups: (1) entities reliant on the Union budget – i.e., with budgets tied to the fiscal budget; (2) financial autonomous companies operating within the state's productive sector; and (3) financial institutions (Panomara das Estatais).

Over the last two decades, there have been periods of greater emphasis on the role of SOEs in structural change, while a short-term vision has prevailed at other times, seeking mainly dividends or preparing SOEs for privatisation. For instance, in the mid-2000s, especially following the post-2008–09 international financial crisis, Brazilian SOE investments peaked at nearly two per cent of GDP; however, this ratio has declined significantly since then, hovering just above 0.5 per cent in recent years (see Figure 1).

Figure 1. Investment of Brazilian federal SOEs as a percentage of GDP, 1947–2023



Source: FGV Fiscal Policy Observatory (2024).

Amidst declining investments, some Brazilian SOEs have seen a notable rise in profits and dividend payouts to shareholders. For example, Petrobras recorded its highest-ever profit of R$188.3 billion in 2022, distributing the largest dividends in its history to national and international shareholders. Similarly, BNDES reported a net profit of R$41.7 billion in the same period, which was paid out to the government as dividends rather than being reinvested into loans. This highlights the short-term focus that Brazilian SOEs have adopted in recent years, prioritising immediate financial returns over long-term investment in development projects.

Currently, Brazilian SOEs operate under decentralised guidelines when it comes to oversight and strategic direction, which limits coordination by the central government. Furthermore, there is a significant absence of consolidated information available to the Brazilian government regarding the capabilities of these companies in advancing policy implementation. In terms of governance frameworks, a significant reliance on OECD recommendations prevails (Silva, 2019, p.65).

The primary instrument for governing SOEs is Law 13,303, which was approved in 2016 and is commonly referred to as the SOEs' Law. The law's primary focus is on improving governance, compliance, and transparency within SOEs, rather than emphasising their role in supporting public policies. Regulatory bodies, the legislature, and the judiciary tend to prioritise the shareholder perspective as controllers (personal interviews, 2024). This has resulted in a focus on short-term financial returns, often at the expense of long-term societal benefits. It has also hindered the broader coordination necessary to align SOEs with public goals, limiting their potential to contribute to national development objectives.

However, President Lula's third government has expressed a clear commitment to leveraging SOEs to support transformative initiatives. In this context, ministries and companies are implementing various measures to enhance the strategic role of SOEs. To effectively align SOEs with broader national development and public policy goals, however, requires a shift in how SOE are understood, as well as in how they operate.

3. A new framework for shaping the role of SOEs

Realising the full potential of SOEs as drivers of innovation and development that can contribute to a more resilient, sustainable and equitable economy requires a shift in focus from short-term profitability to long-term value creation aligned with national policy goals.

The "economics of the common good" offers a helpful framework for organizing economic actors to collaboratively shape economies in the service of collective goals. It is guided by five key principles: purpose and directionality, co-creation and participation, collective learning and knowledge-sharing, access for all and reward-sharing, and transparency and accountability (Mazzucato, 2023c). Applied to SOEs, this framework suggests several important shifts in SOE governance (Mazzucato, 2023c).

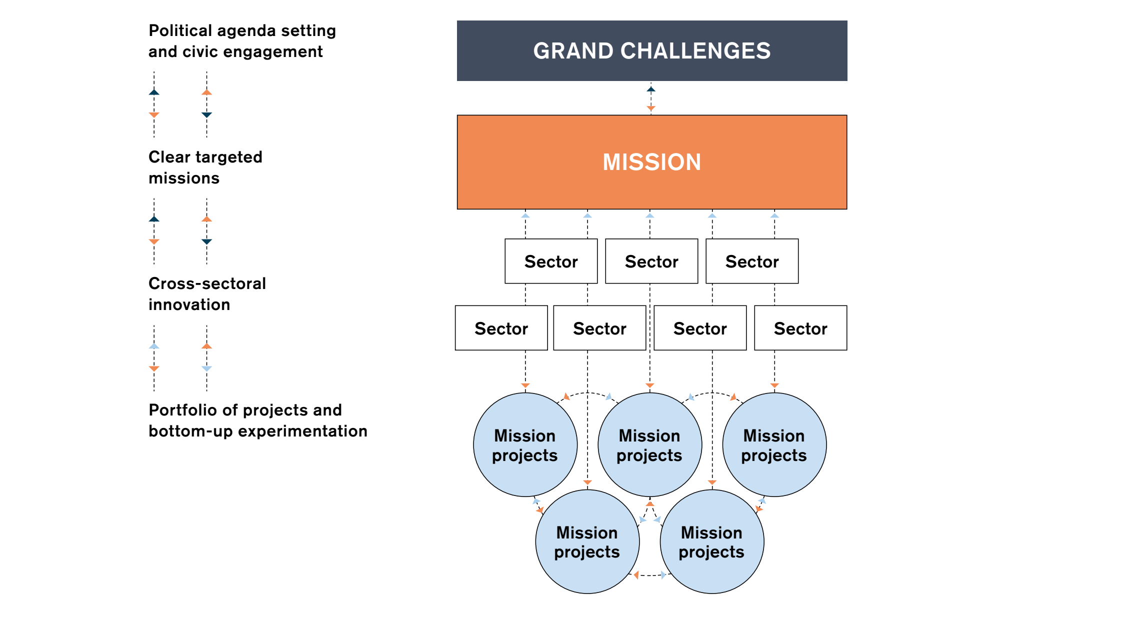
Purpose and directionality: First, SOEs can be governed in alignment with the government's policy goals, as key actors in implementing a mission-oriented approach to innovation and industrial strategy (see Box 2). Missions are clear, bold goals that will catalyse investment and innovation across actors and sectors (Mazzucato 2021). SOEs can play a pivotal role in directing long-term investments and shaping markets that align with mission goals.

Financial SOEs can offer patient capital, creating an environment that encourages risk-taking and experimentation in line with mission goals. They can also effectively coordinate the investment ecosystem by engaging with a variety of stakeholders, including both financial and nonfinancial market participants (Mazzucato and Macfarlane 2023).

Box 2: A mission-oriented approach

Missions help shape economies, as well as the relationships between economic actors, to serve the common good (Mazzucato, 2023c). They can turn challenges into pathways for investment and market opportunities for businesses.

Figure 2. A mission map (Mazzucato 2018b)



Grand challenges are difficult but important, systemic, and society-wide problems that do not have obvious solutions. For example, the United Nations' Sustainable Development Goals (SDGs), to which all 191 United Nations Member States signed on, represent an attempt to articulate the world's 17 most pressing challenges.

Missions are concrete goals that, if achieved, will help to tackle a grand challenge. They set a clear direction for the different actors and sectors whose investment, innovation and effort is required to develop solutions. To mobilise as much cross-sectoral collaboration as possible, missions should focus less on economic outcomes and more on societal and environmental outcomes. Missions can help transform complex challenges, such as the SDGs and their 169 targets, into clear investment pathways.

Sectors are sets of economic agents that need to be involved in developing solutions to specific missions, generally in collaboration with one another.

Projects are activities or programmes that solve particular problems and, in so doing, help to achieve the broader mission, such as a research and development (R&D) programme focused on developing a new product, service or process that could contribute to a mission's success.

* This section draws on Mazzucato (2018b, 2019) and Mazzucato et al. (2024) and has been reproduced with permission.

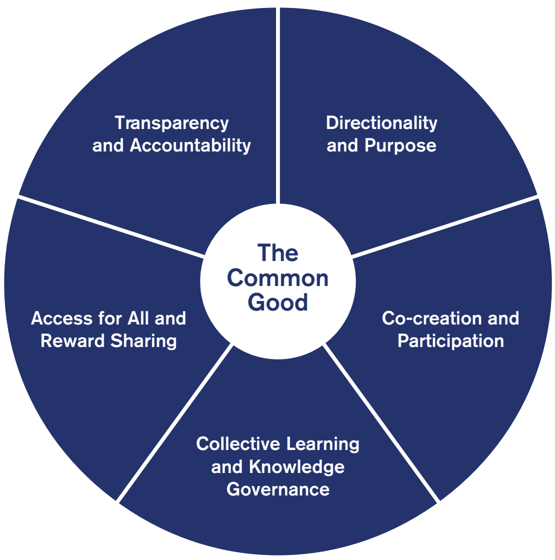
Co-creation and participation: Second, SOEs can engage their stakeholders, including companies and citizens, in a more dynamic process of value co-creation. They can also take a thoughtful approach to engaging and empowering their own workers to contribute to their mandates, including through worker engagement in innovation and technology adoption (see Box 3).

Collective learning and knowledge-sharing: Third, SOE governance should emphasise learning. Instead of pushing SOEs to mirror private sector practices, the focus should be on adopting a learning-driven approach that supports SOEs in continually refining their value chains. By fostering a culture of learning and adaptation, SOEs can remain flexible in addressing complex challenges, driving long-term economic and societal benefits. SOEs can also, through their investments, financing, and purchasing power, stimulate the creation of patents or develop them directly. The benefits and knowledge created through these innovations should be widely shared.

Access for all and reward-sharing: Fourth, SOEs should utilise robust conditionality mechanisms to shape collaborations with the private sector that generate public value and socialise both risks and rewards. Productive and financial SOEs can establish economic, social, and environmental conditionalities within their contracts with private sector actors, making access to public finance and other support contingent on firms aligning their business practices with specific criteria.

Transparency and accountability: Fifth, SOEs should be evaluated not only based on narrow financial metrics, but also on their contributions to wider socioeconomic outcomes. SOE evaluation should consider their success in helping to achieve the missions within their purview, as well as the spillover effects generated in other parts of the economy in the process of seeking to achieve these missions (Mazzucato, 2021). Accountability frameworks should prioritise clear, mission-aligned targets, while also allowing for flexibility and ongoing improvement.

Figure 3. The Common Good Framework (Mazzucato, 2023c).



Box 3: Engaging SOEs workers in the implementation of missions

Workers at SOEs can play an important role in advancing missions. Ensuring that employees are actively involved can enhance their commitment and maximise their contributions to missions.

Collective labour agreements as a tool for workers' engagement: In Brazil, the 10 largest SOEs collectively employ close to 400,000 individuals (MGI/SEST, 2024a). Sectoral trade unions, or SOEs employee associations, act as representatives for their workers during negotiations. Some – for example in sectors such as petroleum, banking, and electricity – are notably influential and well organised. A successful example that merits further attention as a benchmark for collective negotiations is the inclusion of a 'Just Transition' clause in the agreements between the Unified Federation of Petroleum Workers (FUP) and Petrobras (FUP, 2024 – Clause 111). This is noteworthy because it creates pathways for discussions and engagement around missions associated with economic and ecological transformation within formal agreements between SOEs and their employees. Collective agreements represent an opportunity to foster collaboration and alignment around broader social, environmental, and economic goals, ultimately contributing to a more sustainable and equitable future for all stakeholders involved.

The opportunity of leveraging SEST's mandate to foster collaboration between SOEs and their workers: SEST plays a key role in establishing guidelines related to labour matters for employees in SOEs, encompassing crucial elements such as job and salary plans, health benefits, collective bargaining, and profit-sharing agreements. Given this mandate, SEST is well positioned to propose criteria and standards for these negotiations. SEST could, for example, explore standards that would enable the alignment of employee welfare with broader social and environmental objectives, incorporating the workforce's perspective, and adopting a more holistic approach to labour relations and organisational performance. This alignment could create opportunities for enhanced collaboration between SOEs and their workers, ensuring that labour relations are not only about meeting contractual obligations but also about fostering a more equitable and sustainable future.

4. Global insights

While there is no universal model to be replicated, valuable lessons can be learned from the models that various countries have adopted to align their SOEs with strategic national development goals. To avoid unintended consequences, policy options must be analysed within specific national contexts (Evans, 2008), and lessons from these efforts in establishing coordination models must be interpreted and adapted to the Brazilian context.

4.1 Insights from international models of SOE governance

Some countries have transitioned from fragmented and dispersed SOE governance systems towards greater coordination, constructing models that are aligned with their development strategy. SOEs must be considered within the political economy context of their respective countries, including the challenges faced by nations that have different income levels and institutional cultures. New forms of coordination and governance models have emerged globally. These models use a range of ownership and control structures, encompassing minority, majority, and other hybrid forms (Tagliani, 2021; Musacchio and Lazzarini, 2018).

Drawing on international experiences from countries like Thailand, South Africa, France, and China can provide valuable insights for the discussion in Brazil. Examining a diverse set of countries with varying political economies, sizes, challenges, and development levels, provides a new perspective on how different approaches to SOE coordination might relate to Brazil's unique context. Each of the countries listed has developed specific strategies to enhance coordination, having considered their starting conditions, political objectives, resources, and political landscapes. Table 1 lists the coordination tools that each of these countries has employed to facilitate comparison and reflection on these approaches.

Table 1. Governance models, objectives, policy options and outcomes – selected countries[2]

Country/model	SOE coordination tools	Degree of coordination based on OECD governance models
THAILAND Mixed advisory ownership model	Thailand has an SOE office (State Enterprise Policy Office – SEPO) located within the Ministry of Finance. Thailand has improved its coordination of SOEs with the following policy tools: 1. Thailand's SOE office is headed by a 'Superboard' chaired by the Prime Minister. The Superboard meets once a month and sets the strategies for each SOE. 2. The State Enterprise Assessment Model (SE-AM) is an evaluation system employed by the SOE office, which uses a mix of objectives to evaluate SOEs, mainly policy goals but also financial criteria. 3. The SOE office has, in collaboration with a broader Ministry of Finance information system, developed a Government Fiscal Management Information System for SOEs (GFMIS-SOE) – a digital SOE data collection, repository and analysis system.	Medium-high level of SOE coordination
SOUTH AFRICA Mixed dispersed ownership model *(proposed) centralised*	*Currently, South Africa has a low level of coordination of SOEs. Among three sets of SOEs, all with dispersed ownership, only one set out of three is supervised by the SOE office.* *However, the country is in the process of establishing a centralised state holding company for certain SOEs – the State Asset Management SOC Ltd. (SAMSOC). SAMSOC will enable the oversight, restructuring, coordination and management of SOEs in its portfolio. While it aims to enhance governance and accountability, it also provides an opportunity to align key SOEs with the country's economic development goals.*	Current: Low level of SOE coordination *Proposed coordination under SAMSOC: untested*

2 The criteria for the application of the governance model typology and for the assignment of the level in the degree of coordination were based on OECD models (OECD 2005, 2015), which range from 'decentralised', to 'dual ministry model', to 'centralised' approaches, in order of increasing level of coordination.

Country/model	SOE coordination tools	Degree of coordination based on OECD governance models
CHINA Centralised ownership model	China has highly concentrated ownership, especially of strategic SOEs, in its SASAC holding company, which depends directly on the State Council (the equivalent of the government cabinet). China employs the following coordination tools: 1. China's SASAC holding company owns all strategic non-local SOEs. 2. China's SOEs employ a planning system in which party members and SOE management are closely connected. Policy insights are transferred to SOE management to ensure policy alignment, while party members gather business exposure and management experience.	High level of SOE coordination
FRANCE Centralised ownership model	France has a state agency that acts as a coordinating body for SOEs within the Ministry of Finance: the Agence des participations de l'Etat (APE). APE employs the following coordination tools: 1. APE nominates SOE board members and promotes institutional dialogue. 2. APE conducts SOE performance evaluation, employing mainly financial criteria, with some policy indicators. 3. APE participates in France's Industrial Council, which is the body that defines the national industrial strategy of France. 4. APE has technical sectoral expertise and routinely gives strategic industrial advice. 5. APE performs strategic reviews to ensure that SOEs are aligned with broader state policies and economic goals.	High level of SOE coordination

Sources: BCG Committee (2018); Mazzucato & Gasperin (2023); UNECA (2021); WEF (2023); APE (2024); OECD (2005, 2015); Nicolò et al. (2020 – Authors' elaboration); Parliament of the Republic of South Africa (2024).

4.2 Insights from mission-oriented banks

In countries that have achieved innovation-driven growth, governments often intervene to offer the patient, strategic financing that the private sector is typically reluctant to provide. Public finance has the capacity to transform markets and create a multiplier effect that promotes more inclusive and sustainable growth (Mazzucato, 2023d).

State investment banks (SIBs), or development banks, are well positioned to offer patient, strategic finance for mission-oriented investments. As more nations embrace industrial strategies, SIBs with substantial balance sheets have the potential to significantly contribute to fostering and directing innovation and investment aligned with policy priorities, such as the transition to a low carbon economy. According to Mazzucato and Macfarlane, 2018) specific institutional features can help to realise this potential.

The quality of financing is vital; it should be **patient, long-term, and outcomes-oriented.** While some critique SIBs for "crowding out" private investment, examples like the German's KfW (formerly KfW Bankengruppe) and BNDES show that they can create new markets, attract private investment, and generate additionality.

In addition, by placing conditions on access to public finance, SIBs can ensure that private entities receiving funds align their business practices with broader goals (Mazzucato and Rodrik, 2023; Mazzucato and Macfarlane, 2023). Institutions like KfW, BNDES and the European Investment Bank utilize conditionalities to guide firms toward socially valuable objectives, such as improving energy efficiency and advancing renewable energy investments (Mazzucato and Macfarlane, 2023; Mazzucato and Mikheeva, 2020).

The development of **capabilities and diverse expertise** within SIBs extends beyond financial knowledge. Having in-house economic, engineering and scientific expertise, for example, allows SIB staff to evaluate investments based on a broader range of criteria, including social and environmental factors. This is important for investments that involve risk and uncertainty, where market signals are less dependable. SIB staff often provide expert guidance on government policy design and implementation, as well as financing options. Additionally, offering advisory services like strategic planning, capacity building, and technical assistance can facilitate the creation of viable projects and motivate businesses to pursue investments that might not occur otherwise. Valuable insights can be drawn from mission-oriented organizations such as DARPA and ARPA-E in the US, Yozma in Israel, SITRA in Finland, and Vinnova in Sweden, which have embraced risk-taking at the organizational level. These entities have utilized secondment practices to temporarily integrate high-level scientists into government roles and effectively leveraged the expertise of broader networks (Mazzucato and Macfarlane, 2019).

Stable financial resources significantly influence SIBs' ability to fulfil their mandates and their willingness to engage in riskier, innovative projects. The broader institutional context plays a crucial role in this regard. For example, KfW enjoys a direct, unconditional guarantee from the Federal Republic of Germany, enabling it to achieve the highest credit rating and offer lower financing costs to its clients. In contrast, other SIBs that depend on capital market financing without the backing of a AAA-rated nation may face limitations in their risk appetite, as they must adhere to credit rating requirements to maintain low financing costs.

It is also crucial to design SIB **governance frameworks** to allow them to provide patient, long-term financing and prioritize social and environmental goals, while avoiding potential risks, for example related to financial instability or unfair competition. Adapting the governance of SIBs to a mission-oriented approach has the potential to equip countries to tackle the critical challenges of the 21st century (see Box 3). **Updated monitoring and evaluation frameworks** are also important to properly assess the impact of mission-oriented investments.

Box 3: Robust governance is essential to make mission-oriented banks effective

Strong governance structures are essential for SIBs. Unlike traditional financial institutions, SIBs typically operate without the pressure to deliver short-term profits, allowing them to offer patient financing and focus on broader social and environmental goals. Critiques that are sometimes associated with SIBs, such as poor performance, financial instability, unfair competition with the private sector, and undue influence from interest groups, often stem from inadequate governance.

Striking the right balance between political representation and independent decision-making poses a significant challenge for all publicly owned financial institutions, particularly for mission-oriented SIBs. Although this relationship holds great potential, it hinges on effective governance to uphold sound banking practices and minimize political interference. KfW's experience suggests that incorporating independent, non-political representatives and various stakeholders—such as industry bodies, trade unions, and regional representatives—can be advantageous, provided mechanisms are in place to ensure these groups remain objective evaluators without seeking special privileges (Mazzucato and Macfarlane, 2023).

5. Charting a new path for SOEs in Brazil

While the privatisation agenda is no longer dominant in Brazil, SOEs continue to operate in a relatively siloed way that fails to realise their full potential; and yet their strategic importance to Brazil's economic agenda is clear.

Given the diverse range of SOEs in Brazil, pursuing an agenda of greater alignment with key policy goals requires first identifying those that are most strategic in the context of Brazil's economic agenda. Several criteria can guide this selection, including: (i) national relevance (in areas such as the energy transition, technological innovation, and social welfare); (ii) SOE budget size and market power; and (iii) their importance in supporting established policy priorities or missions. The ability of different SOEs to align their activities with policy goals would also have to be taken into account, recognising that some face limitations due to the objectives defined by their corporate statutes and may be subject to legal action from minority shareholders if they operate according to a long-term mandate seeking economic transformation instead of just profitability. The capacity to coordinate investments varies, influenced by government policies as well as specific legal, institutional and sectoral frameworks.

Efforts to better leverage the strategic potential of SOEs could focus on key SOEs, with an emphasis on mission alignment, maximising the value of public-private collaboration, and monitoring and evaluation aligned with strategic priorities.

5.1 Strengthening coordination and mission alignment

There is an opportunity, in the context of the Government of Brazil's wider economic and ecological transformation agenda, to enhance SOE coordination, foster collaboration, and drive more effective governance and strategic alignment. To seize this opportunity, new institutional structures may be needed.

One possibility is the creation of an interministerial body or commission (for example, similar to the recently created Interministerial Commission of Public Procurement for Sustainable Development and Interministerial Commission for Innovations and Acquisitions of the Growth

Acceleration Program) dedicated to defining strategies to inform how key SOEs should align their activities with critical policy goals related to initiatives such as the NIB, PAC, PTE, and Climate Plan. This body would need to involve ministries responsible for the supervision of key SOEs and those responsible for the main transformational policies.

The Interministerial Commission on Corporate Governance and the Administration of Union Shareholdings (CGPAR) – a collegial body responsible for addressing matters related to corporate governance in federal SOEs and to the management of the Union's shareholdings – could be a starting point. However, to become a strategic nucleus, it would require a new mandate and new capabilities, extending beyond its current role.

Establishing a new body within the government could improve coordination capacity, interministerial dialogue, and communication between ministries and SOEs, helping to centralise discussions on how key SOEs can bolster government policy priorities. Such an approach would underscore the importance of SOE coordination and increase the legitimacy of strategic decisions. More specifically, this new body could facilitate the development of common guidelines for strategically directing key SOEs to align with government plans, as well as regular meetings between ministry and SOE leadership to establish clear and stable objectives. The structure should remain lean and agile, featuring an executive secretariat dedicated to high-level coordination.

This strategic coordination function could be supported by a technical assistance function, potentially housed within SEST. By broadening its functions beyond oversight and short-term cost containment, SEST could better align its objectives with a more forward-looking vision.

This technical support or "observatory" function could be structured around four main axes:

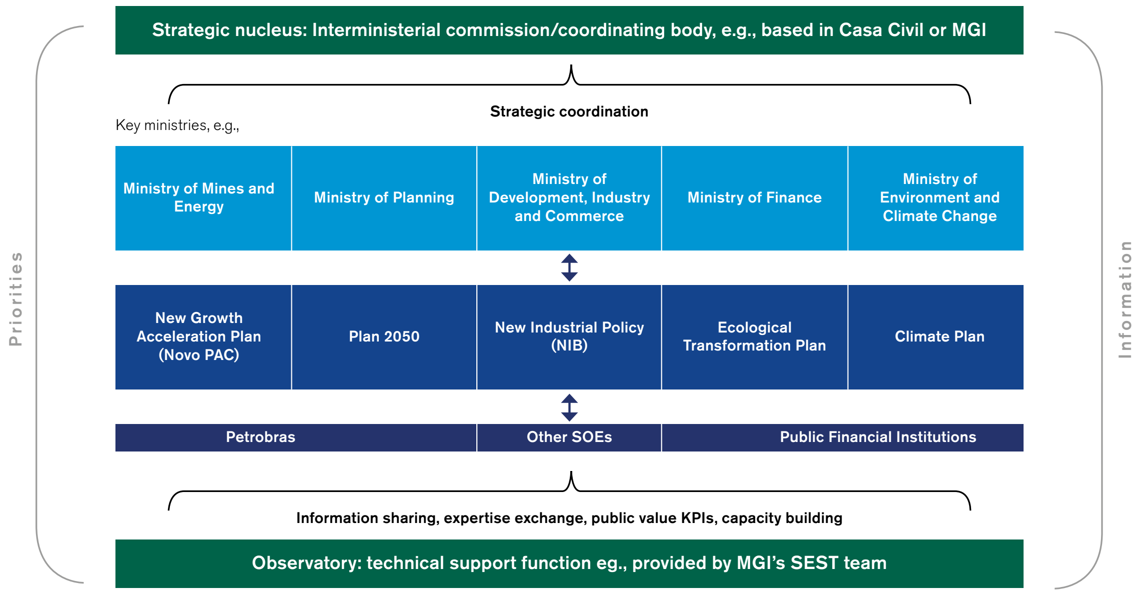
1. **Providing information to support central government decisions** through data on SOE operations and global models and equipping SOEs and their boards of directors with a unified understanding of policy guidelines
2. **Facilitating expertise exchange** among ministries, technical bodies, SOE boards and other actors in the wider ecosystem
3. **Defining public value indicators** to enhance transparency and support a more robust understanding of the value created by SOEs and
4. **Building capacity** for mission delivery, including the ability to take risks (instead of avoiding risks or 'de-risking'), embrace uncertainty, and confidently design policies and partnerships that maximise public value (Mazzucato and Collington, 2023).

This observatory would benefit from a multidisciplinary composition, including expertise in economics (including in-depth knowledge of the sectors in which the key SOEs operate), law, governance practices, and accounting. To bolster its capacity, it could also benefit from partnerships. Given that BNDES has deep sectoral knowledge as well as an understanding of how to align its own activities with policy priorities, it could support SEST with technical advice – including on the 'modernisation' of SOEs for the challenges of the 21st century, in place of its previous role in supporting privatisation (see Box 4).

It is worth noting that SEST is already making significant strides by rethinking its SOE portfolio (MGI/SEST, 2024a), revisiting the State-Owned Enterprises Information System (SIEST), and innovating how the government leverages its institutions, including through technical cooperation agreements to share expertise (MGI/SEST, 2024b). These changes have the potential to transform how SOEs view SEST in Brazil: from a department focused solely on cost control and short-term management to an ally in advancing and coordinating the long-term agendas of SOEs.

Figure 4 illustrates how these new functions could be structured.

Figure 4. Proposed approach to SOE coordination



Authors elaboration

Box 4: The role of BNDES in Brazil's SOE agenda

In the current Brazilian context, BNDES plays a central role in programmes such as PAC and NIB, acting as the primary financier for initiatives aligned with government priorities, including NIB missions. While it faces certain limitations, BNDES provides a compelling model for aligning SOE mandates with government policy priorities.

BNDES's institutional leadership capacity also allows the bank to offer technical assistance, for example in planning and impact assessments. In this regard, in contrast to the role BNDES played in restructuring and privatising SOEs during the 2016–2022 period (as noted in Section 1a), there is now an opportunity to use BNDES's expertise and sectoral knowledge to support the 'modernisation' of SOEs. While this can include support for restructuring SOEs on a microeconomic and tactical level, to make them financially healthier and aid in compliance efforts, it could also include support for aligning SOE operations with policy goals.

Internal forums at the bank, such as the Sectoral Analysis Committee (CAS), which has been revived after years of inactivity, could serve as a hub for developing this kind of strategic support. CAS is responsible for helping to systematise BNDES's sectoral knowledge and for advancing the analysis and mapping of projects and strategic plans of companies. CAS provides a forum for discussing the outlook for the Brazilian and global economy, sharing information about economic sectors, and raising investment prospects. It provides diagnostics and conducts studies that evaluate trends and challenges for productive sectors. It is possible that the strategic role of SOEs in different markets will be incorporated into CAS's thematic scope.

It is worth noting that BNDES already has technical cooperation agreements with MGI. It makes use of SEST's databases and provides relevant information to SEST in a symbiotic manner.

Box 5: The role of SOEs in supporting the NIB's Missions

The importance of SOEs to Brazil's economic agenda has not been emphasised in the same was that, for example, procurement policy has. The NIB's action plan, launched in January 2024, has limited references to assigned roles for SOEs in supporting its missions. However, SOEs have a critical role to play in advancing these missions and in supporting the government's economic agenda. For example, several SOEs are integral to missions 1, 2, and 5:

In the case of Mission 1 – Sustainable and digital agro-industrial chains for food, nutritional, and energy security – the government has identified several key challenges: enhancing agricultural productivity; increasing the added value of Brazilian agricultural production; aligning industrial and foreign trade policies; mechanising family farming; boosting the use of bio-inputs for food and livestock production (including biofertilisers); and developing national machinery, equipment, and inputs to reduce dependency on international supply chains. Although BNDES and FINEP are the only SOEs mentioned as critical to mission implementation, other SOEs could also play a central role. These include Banco do Brasil, given its prominence in production financing and its strong ties to Brazil's primary sector which is a significant emitter of greenhouse gases. Leveraging climate and environmental conditionalities in the financing of farmers could be an effective mechanism to encourage their support for climate action. In addition, Embrapa, Brazil's science and technology SOE, could significantly contribute to productivity improvements, particularly through the advancement of bio-inputs. Finally, Petrobras' investment in biorefineries could be instrumental in developing biofertiliser supply chains, fostering both backward and forward linkages in bio-production industries and contributing to broader efforts in sustainable agriculture.

In Mission 2 – Resilient health industrial complex to reduce vulnerabilities of the Unified Health System and expand access to healthcare – the government has identified several key challenges: reducing the import dependency for basic inputs; aligning industrial and foreign trade policies; improving the effectiveness of mechanisms to stimulate private investment; lowering the cost of credit, especially for equipment and inputs; increasing domestic production of medical equipment (which presently meets only 50 per cent of demand); integrating and coordinating the purchasing power across various federal entities; and fostering disruptive innovations in the healthcare sector. BNDES and FINEP are mentioned as key players, particularly in financing innovation through non-repayable funding by utilising public funds, along with the state-owned Brazilian Company of Hemoderivatives and Biotechnology (Hemobras) for the completion of a national blood product manufacturing facility. However, to fully tackle these challenges, public laboratories like Fiocruz and Butantan could play critical roles in the production of high-tech drugs and vaccines. By leveraging public financing from BNDES, FINEP, and other financial instruments, new public–private collaborations could be promoted, generating public value by ensuring essential healthcare services remain free at the point of use for the population. Additionally, technological SOEs such as Serpro and Dataprev could contribute by developing solutions to enhance information systems and connectivity, thereby supporting the broader goals of healthcare innovation and coordination across federal entities.

Regarding **Mission 5** – Bioeconomy, decarbonisation, and transition and energy security to ensure resources for future generations – the government has identified several key challenges: expanding partnerships between academia, the private sector, and international funds for applied research; encouraging technological innovation focused on decarbonisation; promoting professional qualifications in the bioeconomy and energy sectors, including energy efficiency and renewables; regulating government procurement with a focus on the bioindustry; promoting domestic production of equipment for renewable energy generation; and developing 'green' technological pathways. BNDES and FINEP will offer repayable and non-repayable credit for innovation related to the bioeconomy and energy transition, and supporting energy efficiency in micro, small, and medium enterprises. These efforts contribute to financing the production links in the bioindustry chain. However, to truly foster industrial niches like bioenergy and renewable energy generation equipment, investments from companies such as Petrobras and its subsidiaries (notably Petrobras Biofuels – PBio), along with ENBPar (an SOE in the electricity sector), could also be instrumental. These SOEs play a critical role in facilitating the energy transition and advancing the bioeconomy, while also helping organise markets to safeguard national economic independence and sovereignty. Petrobras, in particular, could leverage its purchasing power to influence the bioindustry by establishing national content criteria and sustainability metrics for inputs used in biofuel and biochemical production. Additionally, these SOEs can contribute to developing technologies, materials, components, and solutions for energy storage, wind turbines, and photovoltaic cells, including refining necessary materials.

Similarly, other SOEs could support Missions 3, 4, and 6. For instance, Caixa Econômica Federal could finance sustainable and resilient infrastructure, housing, and mobility in smart cities under Mission 3; Ceitec (National Center for Advanced Electronic Technology) could contribute to the fabrication of integrated circuits, modules, and radiofrequency identification under Mission 4; and Nuclep (Nuclebrás Heavy Equipment) could support various industrial sectors, including defence, under Mission 6

5.2 Maximising the public value of public–private collaboration

To foster genuine economic transformation in Brazil, businesses, governments, trade unions, and various stakeholders would need to collaborate in shaping markets that promote a more equitable form of capitalism that benefits multiple stakeholders. This is not about prioritising one group over another, but rather about discovering innovative methods for co-investment and partnership. Ultimately, creating a new social contract between the state, capital, and labour is crucial for ensuring that a broader segment of the population can share in economic growth (Mazzucato, 2023b).

SOEs play a critical role in enhancing the public value derived from public–private collaborations. Conditionalities are one of the key tools for doing so. SOEs can set conditions on private sector access to grants, loans and other public support, requiring recipients to adopt behaviours that align with public objectives. Conditions can include, for example, ensuring affordable access to certain products and services, requiring companies to meet sustainability and fair employment standards, and requiring reinvestment of profits in productive activities like research and development and worker training in place of excessive distribution to shareholders. Profit sharing, including through equity stakes, could also be a condition of certain SOE investments to socialise both the risks and rewards of innovation, with profits reinvested for public benefit or used to create citizen dividends or shares (Mazzucato and Rodrik, 2023).Brazil's Health Economic Industrial Complex (HEIC) demonstrates the role that SOEs can play as part of a broader strategy for directing public-private collaboration to deliver on policy goals. HEIC adopts a mission-driven strategy by merging the societal objectives of universal healthcare with industrial development goals (Mazzucato et al., 2024). By leveraging SOEs, public laboratories and productive development partnerships (PDPs), HEIC has reduced reliance on imported pharmaceuticals and promoted local production while ensuring that essential health products are affordable and accessible. The Executive Group of the Health Economic Industrial Complex (GECEIS) has played a critical role in synchronising the efforts of various ministries and agencies, including SOEs such as BNDES, FINEP, and Fiocruz, ensuring a unified approach. By defining annual strategies for strategic markets, GECEIS has effectively guided the PDP programme, facilitating the local production of vital healthcare products. In the context of the NIB in particular, BNDES and FINEP are already committing significant resources to bolster the health sector, focusing on the production of biological active pharmaceutical ingredients (APIs) and vaccines. Considerable investments are being directed towards new manufacturing facilities and the development of groundbreaking medicines, supported by both public and private funding. These initiatives are expected to stimulate substantial private sector investment, propelling Brazil's healthcare industrial policy forward, with projected total investments in Mission 2 anticipated to reach R$57.4 billion by 2026 (Presidency of the Republic, 2024).

5.3 Monitoring and evaluation

A more coordinated, mission-oriented approach to SOEs should be mirrored by a shift in how SOEs are monitored and evaluated. Financial metrics, which have tended to predominate, do not reflect alignment with public policy goals or public value maximisation, and may present a distorted view of performance. Therefore, new monitoring and evaluation frameworks are necessary to capture the broader, dynamic impacts of market-shaping policies – such as multiplier effects, sectoral spillovers, and technological advancements – as well as to assess the extent to which SOEs are supporting the achievement of missions (Mazzucato and Gasperin 2023). This is important for focusing SOE activities on strategic goals, fostering learning and effectively communicating results to society.

Public value indicators can help to guide SOE operations in alignment with policy goals and provide data to support effective decision making.

SEST is exploring measurable indicators that underscore the public value of SOEs. The current SEST Indicator System (IG-SEST) follows OECD recommendations to assess corporate governance levels in federal SOEs (Ribeiro Neto et al., 2018). However, a new indicator system is currently being discussed, which would aim to go beyond governance issues and financial key performance indicators (KPIs) to incorporate assessments of public policy contributions, innovation, and management practices (personal interviews, 2024). The focus could shift from ranking companies to using the tool collaboratively, with an emphasis on sharing insights to support learning and improvement. By establishing a new range of indicators, SEST could play a crucial role in aligning SOE operations with broader policy objectives.

By prioritising strategic alignment rather than just financial and governance metrics, governments can better harness the potential of key SOEs to contribute to national development goals.

6. Conclusion

The Government of Brazil is advancing an ambitious agenda to make its economy economically and ecologically sustainable and inclusive. To succeed, a parallel agenda of state transformation is needed. Harnessing the potential of Brazil's SOEs should be central to this state transformation agenda.

As some of the largest economic entities in Brazil, SOEs have the capacity to significantly influence the broader economy through their investments and business practices, creating and shaping markets. However, in recent years, an emphasis on profit-maximising and privatisation means that the strategic potential of SOEs in Brazil has not been realised.

To maximise the public value of SOEs, a new approach is needed that includes new governance and coordination structures within government to foster mission alignment, an approach to public-private collaboration that is focused on achieving shared goals and producing shared value, and new public value indicators to monitor performance. This represents a fundamental shift away from emphasising efficiency, profits, and independence, and towards positioning SOEs as strategic actors that are responsible for working collaboratively with other government actors, as well as with private sector actors, civil society and workers, to achieve shared goals.

Achieving sustainable and inclusive economic growth in Brazil will require SOEs to be enabled and directed to play an active role in supporting this agenda.

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