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# Innovation-driven inclusive and sustainable growth: challenges and opportunities for Brazil

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INNOVATION-DRIVEN INCLUSIVE AND  
SUSTAINABLE GROWTH: CHALLENGES AND  
OPPORTUNITIES FOR BRAZIL

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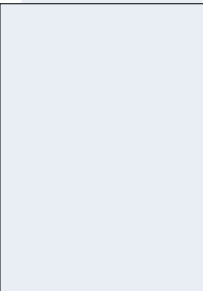


Another challenge for Brazil is its premature deindustrialisation. Over the last 30 years, the country has faced a decline in its industrial sector, with an average 0.4 per cent yearly drop in productivity between 1995 and 2022; this has resulted in the loss of one million jobs and has reduced the manufacturing

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## 5. A dynamic public administration

Successful execution of a mission-oriented agenda will rely not only on coordination between ministries, but also on investment and reform within the civil service. Brazil's commitment to a sustainable and inclusive economic transformation must be undergirded by a new understanding of the role of the state in driving broad-scale economic transformation, and by investments in the dynamic capabilities required to implement this transformation (Kattel and Mazzucato, 2018; Mazzucato and Kattel, 2020). The Government of Brazil recognises this and created the Ministry of Management and Innovation (MGI) in March 2023 with a mandate for state transformation and coordination (MGI, 2023a)

MGI can play a key role in unlocking the potential of all ministries to shape markets, direct growth and advance policies that promote an economy that works for people and the planet. To do so, it will need to implement outcome-oriented tools, institutions and capabilities (as shown in Figure 5). Key among these in the Brazilian context are procurement policy, state-owned enterprises, and the capabilities needed for a digital transformation. The following sections summarise the nature of the opportunity in each of these areas, which will be explored in greater depth in a subsequent report in 2024.

### 5.1 Strategic procurement

Brazil is no stranger to the potential of government purchasing power to create domestic markets for innovative products and services that are needed to solve its biggest challenges, while at the same time creating opportunities for businesses and building domestic productive capacity. This approach has been a central feature of the Health Economic-Industrial Complex (described in Box 6).

Public procurement can be used as a demand-side lever to stimulate innovation and investment, complementing supply-side levers such as R&D funding and enhancing the public funds available to catalyse innovation by using existing budgets more strategically (Mazzucato, 2020; UCL IIPP, 2023). Public procurement in Brazil represents an estimated 12–15 per cent of national GDP (MGI, 2023b). Importantly, it is also a lever for directing innovation and investment towards solving problems that correspond with public policy priorities, such as providing timely and universal access to vaccines or ensuring that all children have access to healthy and sustainable school meals through the National School Feeding Program (Mazzucato, 2020). Procurement can create opportunities for SMEs to scale up and incentives for incumbents to invest in purposeful innovation.

Brazil has taken a strategic approach to state purchasing power for some time,

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### Box 3: Strategic procurement and an example from the London Borough of Camden

Globally, public procurement amounts to approximately US\$13 trillion per year, or approximately 15 per cent of global GDP (World Bank, 2023b), and represents 20–40 per cent of central government spending in almost all OECD countries (OECD, 2023b). Despite significant potential to leverage these budgets strategically, procurement policy has, over the past 40 years, tended to be constrained by a paradigm focused on minimising risk, maximising efficiency and seeking the lowest cost options, in line with the theory of New Public Management (NPM). Procurement policy often resides within teams responsible for legal issues or finance, rather than strategy, and is treated as a technocratic hurdle rather than a strategic lever of change.

Other approaches to public procurement have been gaining traction; however, they remain limited. For example, the innovation paradigm allows for commissioning on the basis of function or outcomes, rather than specifying an exact product, recognising that procurement can create lead markets for new products and thereby help smaller suppliers invest in innovation and achieve scale. This approach is not new but has most often been used in procurement associated with military goals. For example, the first Moon landing was made possible in part because procurement was designed to encourage innovation, shifting from a cost-plus model to a model of fixed price with incentives for

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commissioning and procurement cycle, understand interactions between different commissioned services, and identify and value social capital created through contracts; and alignment of outcomes with missions. The focus of the test case workshopped by IIPP and Camden was on homecare services. This work, which brought together the homecare service, procurement and missions teams, was based on the “Estates” mission and its three target outcomes, as well as on a set of principles described in Figure 6. It is informing concrete changes to procurement policy in line with a new mission-oriented procurement paradigm.

*Figure 6: Mission-oriented procurement for homecare in Camden*

*Adapted from Mazzucato and Wainwright, forthcoming, reproduced with permission.*

## 5.2 State-Owned Enterprises

State-owned enterprises (SOEs) are distinct public organisations that can have a direct policy impact in the economy, through their production of goods and provision of services, and through their commercial relations with domestic suppliers (Mazzucato and Gasperin, 2023). There are 125 SOEs in Brazil, at the federal level, which collectively employ over 400,000 people, and several are significant economic actors. Notably, three number among the largest 500 companies globally, based on annual revenue (OECD, 2000 and MGI, 2023c). Accordingly, SOEs can be important strategic actors in Brazil's economic transformation agenda.

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### Box 4: The state holding company: rationale and international examples

A state holding company is a state-owned entity to which the state delegates certain responsibilities for the governance and policy coordination of national SOEs (Kumar, 1993). Its intermediate position between the government and individual SOEs creates an extra decision-making layer that can better insulate them from political capture while also helping to align the mandates of SOEs with national economic strategy goals. A state holding company can develop into a dynamic and entrepreneurial organisation, attracting talented and purpose-driven personnel (Mazzucato et al., 2021).

This model can bring certain economic advantages. First, a state holding company can retain financial surpluses generated by profitable SOEs and reinvest them internally to support the restructuring or expansion of other SOEs in need of extra financing support. Second, it can play a coordinating role aimed at establishing commercial and technological synergies among SOEs and at facilitating the internal circulation of knowledge and capabilities. Third, a state holding company is well placed to coordinate SOE engagement with cross-cutting missions – and through them other economic actors, across different sectors.

State holding companies are not new in the history of modern capitalism. The Italian IRI (*Istituto per la Ricostruzione Industriale*) was the first and perhaps most notable example, playing a key role in driving Italy's economic development in the post-war period. During the privatisation era of the 1980s

and 1990s, the state holding company model was progressively abandoned.

and not to rely only on procuring these capabilities from software companies (Pahlka, 2023). The outsourcing of key competencies deprives the state of an important source of knowledge that is critical for its ability to innovate and adapt to change (Collington and Mazzucato, 2022). The implementation of the National Strategy for Digital Government and training provided through the National School of Public Administration (ENAP) could be important vehicles for supporting the development of digital capabilities within Brazil's civil service.

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## 6. A new social contract between capital, labour and government

**A sustainable and inclusive economy requires a renewed social contract; in particular, one that is premised on the state approaching public–private collaboration with a view to maximising public value,** undergirded by a new “economics of the common good” (see box 5). There is an opportunity in Brazil, in the context of the Government's agenda of economic transformation and civil service renewal, to build a new social contract between value-creating actors, leading to more dynamic, mutualistic

of innovation and investment with all the risk takers in the economy, whether through equity schemes, royalties, pricing or collective funds. The fifth, transparency and accountability, can ensure public legitimacy and engagement by enforcing commitments amongst all actors and by aligning evaluation mechanisms. To implement these principles in practice, governments must invest in their capacity to engage effectively with businesses and civil society (Mazzucato, 2023b).

*Figure 7: The Common Good Principles (Mazzucato, 2023b)*

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## 7. Citizen Engagement

Citizen engagement is also critical. Confidence in government in Brazil is low (CESOP UNICAMP, 2022). The trust and buy-in of citizens, notably of Indigenous communities and other marginalised groups who have previously suffered from economic policy choices, is a necessary condition for a transformative agenda. The Government of Brazil is taking steps in this direction, including through the adoption of a participatory process for developing its 2024–2027 Pluriannual Plan, which is the federal government's medium-term budget planning tool. The Pluriannual Plan incorporates suggestions surfaced through a citizen consultation that engaged over

34,000 people from all 27 regions of the Brazilian federation, with more than 1.4 million people contributing ideas through a dedicated digital platform called Brasil Participativo (Ministério do Planejamento e Orçamento, 2023). Another example is the process for defining the National Strategy on Digital Transformation, which included more than 800 participants through five regional workshops and an online consultation (MGI, 2023d). This inclusive approach to citizen engagement will be necessary to the development of a new social contract, as well as to the design and implementation of missions aimed at bringing about a more inclusive and sustainable economy

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### Box 6: The Health Economic-Industrial Complex (HEIC)

HEIC, established in 2007 and revived recently, is a good example of how to mobilise industrial investment and innovation around social goals (Gadelha, 2022; WHO Council on the Economics of Health for All, 2023). By turning health challenges into opportunities for investment, innovation and growth, HEIC has successfully delivered life-saving vaccines and built Brazil's productive capacity in vaccine development and manufacturing. SOEs like Butantan and Fiocruz have become central actors in the country's innovation landscape, spearheading research and production. Through Productive Development Partnerships (PDPs), HEIC has prioritised the design of public-private partnerships aimed at maximising public value, notably by making technology transfer agreements a condition for access to the domestic market, helping to boost the technological and productive capabilities of the health-pharmaceutical sector and

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## 8. Conclusion

The Government of Brazil has set a potentially world-leading trajectory aimed at reshaping the country's economy to make it sustainable and inclusive by design, and pre-distributive ex ante instead of redistributive ex post. Brazil's upcoming G20 prutsi2tandC22293 O(i)1 (nP(n)-2)-23e iutsiak2 bomditll1nue-2.9 o .62gt rr-0-4.4 (4.9 (n)6 (r)-4(l1)1 (n lt)-51 (y )4.6 ok)andl2222pe1.8 r-16.66 2 (2)-2 (

Technology and Innovation; Casa Civil; Ministry of Management and Innovation; Ministry of Health; and Ministry of Environment and Climate Change – to discuss opportunities to align key policy initiatives using a mission-oriented approach.

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## About the Author

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