

ERAC 1215/14

NOTE

From:	ERAC Secretariat
To:	Delegations
Subject:	Draft ERAC Opinion on Innovation Procurement

I Introduction

Over the last decade more and more countries in Europe and beyond have realised the potential of innovation procurement¹ as a way to boost demand for innovative goods and services. It has become an established part of policies in many EU Member States, in the form of a wide range of instruments – from setting national percentage targets for innovation procurement to developing action plans and financial instruments. Furthermore, the revised EU procurement legislation combined with financing in Horizon 2020 and in structural funds have increased and widened the interest in the innovation procurement in the EU Member States.

¹ In this document the term Innovation Procurement refers to any kind of public procurement practice (pre-commercial or commercial) that may help the market uptake of innovative products and services.

Highlighting the importance of the topic, ERAC has decided to develop the discussion further by drafting its proper opinion to mark the way forward for innovation procurement. The principal aim of the report is to identify good practices across Europe and propose ways to promote and implement these good practices.

Based on the results of the survey carried out among ERAC members as well as using other available resources, ERAC proposes a set of recommendations and policy options to the Council, Member States and the Commission.

To the Member States:

- 1. Create a strategic framework for innovation procurement, together with a clear action plan**
- 2. Raise public buyers' awareness on innovation procurement and set up a coordinating service offering support for procurers**
- 3. Develop and provide financial incentives for undertaking innovation procurement**

To the European Commission:

- 4. Set up an EU knowledge-sharing facility on innovation procurement, encouraging matchmaking and peer-learning**

To the Member States and the Council:

- 5. Set up innovation procurement targets on European as well as on national levels, combined with adequate monitoring systems**

The structure of the draft opinion follows the most recurrent challenges according to the survey carried out among the members of ERAC: strategic level, implementation and impact.

II Background

It is important to use public procurement strategically. This is a main message from the „Europe 2020 Flagship Initiative Innovation Union“ because of two reasons. On the one hand, public procurement is becoming more and more important as a vehicle for encouraging innovation in companies and letting companies sell their innovations to procurers. On the other hand, public procurement of innovative products and services is vital for improving the quality and efficiency of public services at a time of budget constraints. However, little public procurement in Europe is aimed at innovation, despite the opportunities under the EU procurement directives. Important hurdles still remain, as most public sector organisations still prioritize low-cost over innovation. This means that Europe has an enormous – and till now under-exploited – opportunity to spur innovation using procurement because of the large and continually increasing financial volumes involved (see table below).

Total public expenditure on works, good and services²

Year	2005	2006	2007	2008	2009
EU 27 Total in Billion €	1 802,23	1 945,80	2 091,63	2 164,47	2 288,44

Latest estimations position public expenditure on works, goods and services at a value of close to €2.3 trillion in the year 2009, equalling 19.4% of European GDP.

² Source: <http://i3s.ec.europa.eu/commitment/21.html>

Governments therefore exercise a significant influence on the market. The public sector has the potential to serve as an important driver for innovations, through its role as a 'launch customer' creating lead-markets for sophisticated new products and services. The findings of European Public Sector Innovation Scoreboard 2013 show that an important share of companies sell their innovative products and services to government buyers. Altogether 24% of companies in the EU27 have sold their innovations to the public sector through public procurement since 2009 (EPS Innovation Scoreboard 2013). Also, about one third of companies that had successfully participated in a public procurement tender, had sold innovative products or services as part of this (Innobarometer 2014).

However, there is significant room for improvement in developing public procurement of innovation. Only 6% of companies have taken part in any form of public procurement of innovative solutions. (Innobarometer 2014) . This partly reflects the finding that even if 66% of public organisations consider innovation and low cost equally important in their tenders, the share of organisations prioritising low-cost over innovation is roughly two times higher (respectively 22% and 12%) (EPS Innovation Scoreboard 2013). Therefore, significant work remains to be done on national as well as EU level to unleash the full potential of innovation procurement. This opinion addresses the main challenges and recommends five actions to tackle them.

III Recommendations

III.a Strategic level

Policy development varies greatly among the countries that participated in the survey. Some countries are quite advanced and already have in place dedicated innovation procurement strategies or action plans which are in many cases complemented by corresponding implementing measures. Other Member States are just starting to address this policy area.

Some common challenges can be identified at the strategic level:

- Innovation procurement is a new policy field and its ownership is not self-evident. Policy development requires co-operation across the administration. In many Member States there are no proper working methods for horizontal co-operation and co-ordination. Political commitment is necessary to facilitate the change in behaviour.
- The potential of innovation procurement is becoming increasingly more recognised, but the evidence is still mostly anecdotal. It will take several years before policy changes and initiatives taken in recent years are able to provide empirical evidence.

Following this, ERAC proposes the Member States to:

Recommendation 1 - Create a strategic framework for innovation procurement, together with a clear action plan

Creating a strategic framework for innovation procurement requires that the preconditions for policy development, such as the feasibility, the objectives, stakeholders and the funding, are determined.

This can be achieved by developing an innovation procurement strategy or by ensuring political commitment through embedding it in national innovation strategy, procurement strategies or sector strategies. At the local and regional level this can be done in e.g. service strategies.

In order to implement the strategies it is recommended to work out an action plan for innovation procurement with clear tasks and responsibilities, addressing in particular the challenges of the horizontal policy implementation in the ministries and agencies.

Examples of good practice

In Denmark the innovation procurement is an essential part of the national procurement strategy that emphasizes the importance of intelligent purchasing. The basic objective is to increase synergies and scaling up, emphasising the role of market dialogue to identify market and user needs, using functional requirements to support innovation and development of more efficient solutions. The Danish national innovation strategy also contains a number of policy initiatives concerning public procurement of innovation.

Finland has incorporated innovation procurement into several national sector strategies and programmes (e.g. most recent are bio economy strategy, cleantech strategy, Innovative Cities –programme). In addition, a comprehensive Tekes innovation programme „Smart Procurement“ has been started to create favourable conditions and necessary financial and other support for innovation procurement. Integrating innovation procurement to most relevant sector strategies creates ownership and links the innovation procurement directly to the future needs of each particular sector.

In Austria an action plan on innovation procurement was developed as part of „Austrian Strategy for Research, Technology and Innovation“. It establishes the institutional governance for the implementation and defines concrete tasks and responsibilities among the ministries and agencies. The focus is on empowering and mobilising the public procurers. Till now a special focus has been given to the transport, energy and building sectors.

III.b Implementation

While the previous chapter emphasised the need for a coherent strategic framework, the following recommendations reflect the implementation of that strategy. Innovation procurement practices show quite some variety among Member States. As demonstrated by the survey, many countries have already adopted strategy documents recognising the importance of innovation procurement, either in a stand-alone action plan or integrated in the policy scheme. However, innovation

procurement policies are often implemented in a dispersed or fragmented way, resulting in a limited scale of market take-up.

In implementation it is important to tackle both the cultural obstacles and change of risk-averse attitudes in the public sector by focusing on capacity building as well as providing different incentives. More advanced policy-systems already include a set of measures on innovation procurement, covering awareness-raising activities, services, and financial support programs. In general, strategic governance, raising awareness among stakeholders, development of skills and providing co-financing incentives remain critical elements in order to encourage innovation through procurement policies.

Therefore, the ERAC calls upon Member States to:

Recommendation 2 - Raise public buyers' awareness on innovation procurement and set up a coordinating service offering support for procurers

In each Member State, a central service provider should coordinate the implementation of policies dedicated to public procurement of innovation. The promotion of these policies would create the conditions for a thorough engagement of all types of stakeholders (especially public buyers).

The tasks of the service providers could include the following:

- Map promising innovative procurement opportunities and identify strategic innovative procurement sectors, according to the political specificities of the Member State (for instance: healthcare, transport, housing, energy).
- Facilitate networking and knowledge-sharing between stakeholders, coordination of implementation initiatives such as trainings, online platforms, trade shows etc. Specialised trainings to mobilise public procurers for innovation procurement should aim at enhancing the involvement of different actors into market dialogues.
- Provide support and advice to buyers on defining innovation, solving legal and contractual aspects of innovation procurement procedures, EU instruments available in Horizon 2020 and ESIF.

- Spread best practices among regional and local authorities in order to facilitate awareness and peer-learning on innovative procurement. This should also include assessment tools regarding both risk management and benefits of innovation procurement.

Examples of good practice

In Sweden the support, guidance and information on all aspects of innovation procurement is gathered in the Swedish Competition Authority. The agency encourages innovation-friendly procurement as well as supplying method and skill support for innovation procurement. It provides guidance on areas and industries where specific forms of innovation procurement are appropriate, implements regional inspirational seminars, collects and disseminates good examples. The agency participates also internationally on bi- and multilateral level in order to benchmark best practices and to learn more about the development of innovation procurement in the EU.

In France, the professional "reverse" trade shows organized by public institutions at both national and local levels are an example of efforts by Member State authorities to spread awareness on innovation procurement and encourage networking. Public institutions take up the role of the exhibitors, visited by large companies and SMEs, interested in their needs for new products and services. This new kind of trade show foster an effective encounter between emergent needs and innovative companies. Public buyers can identify new suppliers, and companies get opportunities to propose and discuss their specifications. More than 200 participants, of which 100 SMEs, attended the first edition held on 7 July 2014 under the theme of digital administration. Examples of projects include “Software management of biological samples” where the National Agency for AIDS Research found an industry partner for creating an innovative biobank and “Software to improve the storage capacity and network of high performance computing cluster” with National Institute of Health and Medical Research partnering with the private sector in developing its computing capacities.

Recommendation 3 - Develop and provide financial incentives for undertaking innovation procurement.

Member States should aim at developing and providing a comprehensive set of financial incentives, taking into account its political and cultural specificities to stimulate certain sectors and domains. Such a policy could involve grant programs with co-financing for innovation procurement by public contracting authorities in order to encourage innovation via procurement policies.

As a result, procurement is to evolve into an open innovation process where co-creation between supplier companies and users is a critical success factor. Large companies as well as SMEs need to be encouraged to bid on public innovative tenders through financial incentives sharing the risks and benefits of innovative development. Therefore government action plans should provide financial support for innovation procurement schemes on a complementary basis.

Examples of good practice

In Finland, TEKES is running a programme "Innovations in public procurements" (2013-2016) which provides a financial incentive for public procurers in Finland to undertake more "innovative" procurements. The programme budget is about EUR 60 million of which Tekes will cover half. TEKES funds the planning of public contracts aiming at renewal of services and activities. This funding is targeted at all Contracting Authorities, and it typically covers 50% of total project costs. The procurement must be extensive enough to have an impact on the development of the sector, at least regionally. The planning and preparation of an innovative procurement should encourage active dialogue with potential tenderers and end-users. Additionally, strategic commitment to an innovative procurement is expected of the Contracting Authority. Examples of successful projects include the "Flood risk warning system" for comprehensive flood risk management as well as "Zero Energy Building" in Järvenpää testing innovative solutions for the energy-efficient constructions of a nursing facility.

In the UK, the Small Business Research Initiative (SBRI) programme presents a well-established process to connect public sector challenges with innovative ideas from industry, supporting companies to generate economic growth and enabling improvement in achieving government objectives. SBRI works by setting up a competition when a government

department or public body wants to procure an innovative product or service to solve a particular problem. Competitions are widely advertised and applications from businesses are invited. The most promising applications are awarded development contracts. Companies can be given up to £1m to develop their ideas into innovative solutions for the public sector, 100% of the development and prototyping / demonstration cost of developing a new product or service are funded. As a recent example of a SBRI success story, the National Oceanography Centre launched a competition to find long-endurance marine unmanned surface vehicles, resulting in the construction of an autonomous vessel C-Enduro that uses multiple energy-sources (solar, wind and diesel) to keep it operational for a long period. Other examples of successful projects include the development of intelligent fabrics, solutions to combatting online fraud, novel lights bulbs and many more.

The European Commission is supporting the development of innovation procurement both with financial measures as well as ‘soft’ tools, such as knowledge-sharing, awards and guidance. Despite the high visibility of innovation procurement in Horizon 2020 together with the increasing EC financial support, the mobilisation of public procurers on the EU level proceeds slowly. Admitting that the full mobilisation power of Horizon 2020 to unfold requires more time, it seems appropriate to complement it with further actions in order to substantially boost innovation procurement along European public procurers and take advantage of the benefits that could be derived from it.

Therefore the ERAC recommends the European Commission to:

Recommendation 4 – Set up an EU knowledge-sharing facility on innovation procurement, encouraging matchmaking and peer-learning

The tasks of this facility would be collecting, synthesising and diffusing innovation procurement relevant knowledge. The target groups could be threefold: individual public procurers interested in cross-border procurement, national service centres and national policy makers. The facility could be organized either as an explicit service point, use the Policy Support Facility (PSF) or a thematic platform/network.

The EU knowledge facility on innovation procurement should provide:

- Hands-on expertise and one-to-one support to Member States (e.g. for groups of procurers interested in cross-border undertakings, national service centres, national policy makers).
- Knowledge-sharing in the form of guides, examples of good practices, standard documentation for tenders etc. Also the organisation of workshops and training courses for general awareness raising and peer-learning on innovation procurement.
- A European platform for innovation procurement gathering needs, projects or even calls for tenders from various European countries, where innovation procurement stakeholders could meet and debate.

Examples of good practice

The ‘Procurement of Innovation Platform’, a project funded by DG ENTR, has already elaborated some innovation procurement guides, is distributing relevant news and documentation and serves as a good meeting point for innovation procurement stakeholders. Nevertheless, it does not provide any hands-on expertise or directly organise workshops and events.

DG ENTR & DG CONNECT organise periodic high-level events (approximately twice a year), which are very good examples of awareness raising and networking.

III.c Impact

The expectations on the impact of innovation procurement are high. The efficiency and quality of public services should be improved, while spurring industrial innovation at the time of budget constraints on the one hand and addressing the major societal challenges on the other. To better realize this impact, a substantial increase of innovation procurement is aimed at.

On the European level, a quantitative innovation procurement target has been discussed – inspired by the US SBIR program. Within the “Europe 2020 Flagship Initiative Innovation Union” it was suggested that from 2011, Member States and regions should set aside dedicated budgets for pre-commercial procurements and public procurements of innovative products and services. This should create procurement markets across the EU starting from at least €10 billion a year for innovations that improve the efficiency and quality of public services, while addressing the major societal challenges. In addition, joint public procurement should be facilitated. On the national level Member States such as France and Spain have already introduced quantitative innovation procurement targets. Other countries such as Austria, Finland, Germany, Lithuania and Sweden discuss quantitative targets. Since innovation procurement is difficult to measure, the setting of targets and the monitoring of its achievement are challenging.

The monitoring of the impacts of innovation procurement is just in its beginning. Although member states collect public procurement data on a regular basis innovation procurement was not included in the past. This situation is slowly changing. On the European level, innovation procurement is included as part of the Innobarometer Survey, the Community Innovation Survey, and the Public Sector Innovation Scoreboard. On national level, several countries started monitoring activities and are preparing assessments and evaluations – e.g. Austria, Estonia, Finland, France, Germany, Ireland, Italy, Lithuania, Norway, Portugal, Spain, and Sweden. Beyond that the European Commission and the OECD are working on the development of standards for the monitoring and measurement of innovation procurement.

Therefore the ERAC recommends the Member States to:

Recommendation 5 - Set up innovation procurement targets on European as well as on national levels, combined with adequate monitoring systems

Innovation procurement plans should include qualitative and/or quantitative targets. Whereas quantitative targets can be expressed as dedicated innovation procurement budgets, qualitative targets can range from “more awareness for innovation procurement” to “more frequent use of the innovation relevant mechanism of the procurement law” to “better including R&D in procurement tenders”. The setting of targets and the monitoring should be based on prior innovation procurement definitions distinguishing types such as “R&D Procurement” (as it is done in PCPs), “First Commercial Procurement” (new for both, the supplier and the contracting entity) or “Diffusion of Innovation” (new for the contracting entity, but not for the supplier).

Examples of good practice

With regard to targets, on July 2011 the Spanish Cabinet passed a regulation on innovation procurement which obliges each of the ministries and their public bodies to specify in their budgets and in different multiannual action programs the amounts allocated to this procurement modality. Thereby a target of 3% was set (percentage of procurement budget dedicated to innovation).

The French Government has given priority to the development of innovation procurement with a target of 2% of the overall volume of public procurement awarded to innovative SMEs by 2020.

Regarding monitoring, within the Community Innovation Survey and the Innobarometer Survey, monitoring indicators have already been developed and tested. Their focus is thereby on the industry impact.

A research project to measure the innovation impacts of public procurement has been carried out in Finland. Based on a company survey and survey to public procurers, the project

attempts to gather knowledge on the impacts of innovation procurement at the firm and procurement unit level and deepen the understanding of the mechanisms as well as risks and barriers related to purchasing innovative solutions.

In Austria the development of a comprising monitoring system has been started in 2014. A first set of impact indicators has been developed, and Statistics Austria has been commissioned to carry out a representative innovation procurement survey, the result of which is expected in mid-2015.

Annex 1. Composition of the ERAC Task-Force on Innovation Procurement

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- David Adolphe (FR) *also Bastien Beley*
 - Eva Buchinger (AT)
 - Miguel Ortiz Pajares (ES) *also Juan Manuel Garrido*
 - Valentinas Kvietkus (LT) *replaced by Romualdas Kalytis*
 - Ivana Pavlaković (HR)
 - Sigrid Rajalo (EE)
 - Lena Svendsen (SE)
 - Hilde Vermeulen (BE)
 - Kirsti Vilén (FI)
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