



Innovation Public Procurement

This material has been based on public information available on the EC website and official EC presentations



Why Innovation Procurement?

WIN-WIN FOR THE PUBLIC SECTOR IN EUROPE

2406 €Bn is the annual purchasing power of the public sector in Europe

- **Modernization of public services** – improving the quality and efficiency of public services and tackling societal challenges with innovative / breakthrough solutions for the benefit of the citizens
- Smart use of the procurement budget to **remove supplier lock-in** and obtain **more open, standardized and better value for money solutions in a cost effective manner**
- In times of economic distress innovation procurement can **boost innovation in a country/region without extra funds** – only by shifting existing **procurement budget towards R&D and Innovation**
- **Benefits to the local economy** - support to the economic activity in sectors related to the innovative solutions purchased or developed
- It can create growth and jobs in Europe (in PCPs, suppliers can be required to do the majority of R&D in Europe)

Why Innovation Procurement?

WIN-WIN FOR THE PRIVATE SECTOR IN EUROPE

- The power of the public pursue can open up market/sales opportunities for innovative companies in Europe
- Public sector can act as launch customer to help start-ups in Europe scale up and finally go to market
- Demand driven Innovation (through Procurement) helps shortening time-to-market for innovative products/services

SCALE – UP EUROPE MANIFESTO

Calls on the Member States :

- to open public procurement by supporting more Innovation
- to allocate of their annual procurement budget 3% to Pre-Commercial Procurements and 20% to Public Procurements of Innovative Solutions

Public Procurement

- **Public procurement** in general has about 19% of gross domestic product (GDP) of the EU market (source: www.innovation-procurement.org)
- **Public procurement of innovation** (PPI) occurs when public authorities act as a launch customer for innovative goods or services. These are typically not yet available on a large-scale commercial basis and may include conformance testing.
- **Pre-commercial procurement** (PCP) is an approach within the public procurement of innovation, developed specifically for the procurement of R&D services rather than actual goods and services; if the goods or services developed during the R&D phase are to be procured, this would need to be based on a separate procurement process.

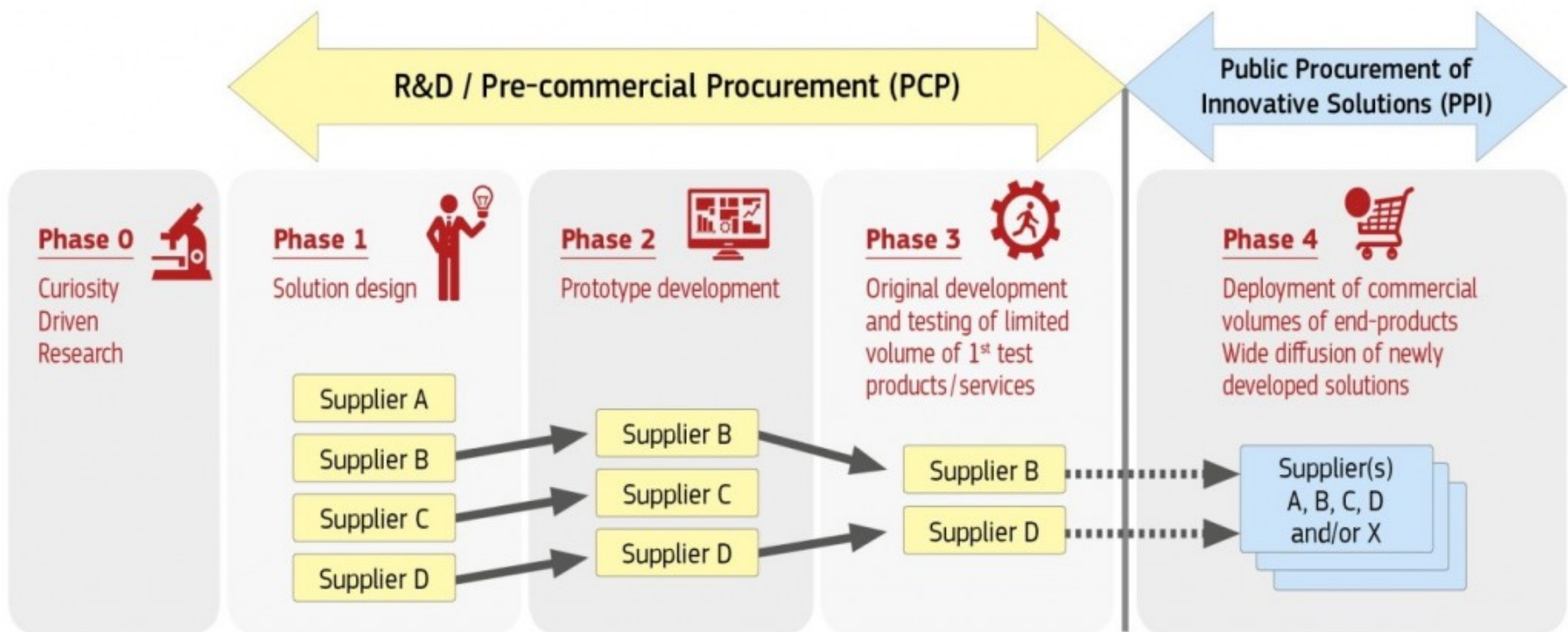
Public Procurement

- PPI and PCP both deliver:
 - economic growth through research and development and investment optimization
 - Increasingly better, advanced products and services
 - Solutions to the challenges faced by the Information Society
- Using PPI and PCP mechanisms public buyers can influence the market towards innovative and desired solutions.

Pre-Commercial Procurement VS. Public Procurement of Innovation

- Problems can be addressed by innovative solutions that are nearly or already in small quantity in the market and don't need new Research & Development (R&D). This is when Public Procurement of Innovative solutions (PPI) can be used effectively.
- In other cases, there are no near-to-the-market solutions yet and new R&D is needed. Pre-Commercial Procurement (PCP) can then be used to compare the positive and negative points of alternative competing solutions approaches. This will in turn enable to de-risk the most promising innovations step-by-step via solution design, prototyping, development and first product testing.

Pre-Commercial Procurement VS. Public Procurement of Innovation



Pre-Commercial Procurement VS. Public Procurement of Innovation

	PCP	PPI
When?	The identified challenge requires R&D to get new solutions developed and tested. No commitment to deploy (PPI) yet.	Challenge requires solution which is near to the market or already on the market in small quantity but does not meet public sector requirements for large scale deployment yet. No R&D involved (R&D already done, or no R&D needed to solve challenge).
What?	Public procurer buys R&D to steer development of solutions to its needs, gather knowledge about pros/cons of alternative solutions, avoid supplier lock-in later (create competitive supply base).	Public procurer acts as launching customer / early adopter / first buyer for innovative products and services that are newly arriving on the market (not widely commercially available yet).
How?	Public procurer buys R&D from several suppliers in parallel (comparing alternative solution approaches), in form of competition evaluating progress after critical milestones (design, prototyping, testing). IPR related risks and benefits of R&D are shared between procurer and suppliers to maximize incentives for wide commercialization.	Public procurer announces the intention to buy a critical mass of innovative solutions to trigger industry to bring products on the market with desired quality / price ratio within a specific time. After verification if the market was able to deliver the desired quality/price – e.g. via a test and/or certification – the public procurer buys a significant volume of innovative solutions.

PCP focuses on the R&D phase prior to commercialization, whereas PPI, which does not cover R&D, concentrates on the commercialization/diffusion of solutions.

PCP only covers the procurement of R&D services, in a way that is clearly separated from any potential subsequent purchase of commercial volumes of end-products.

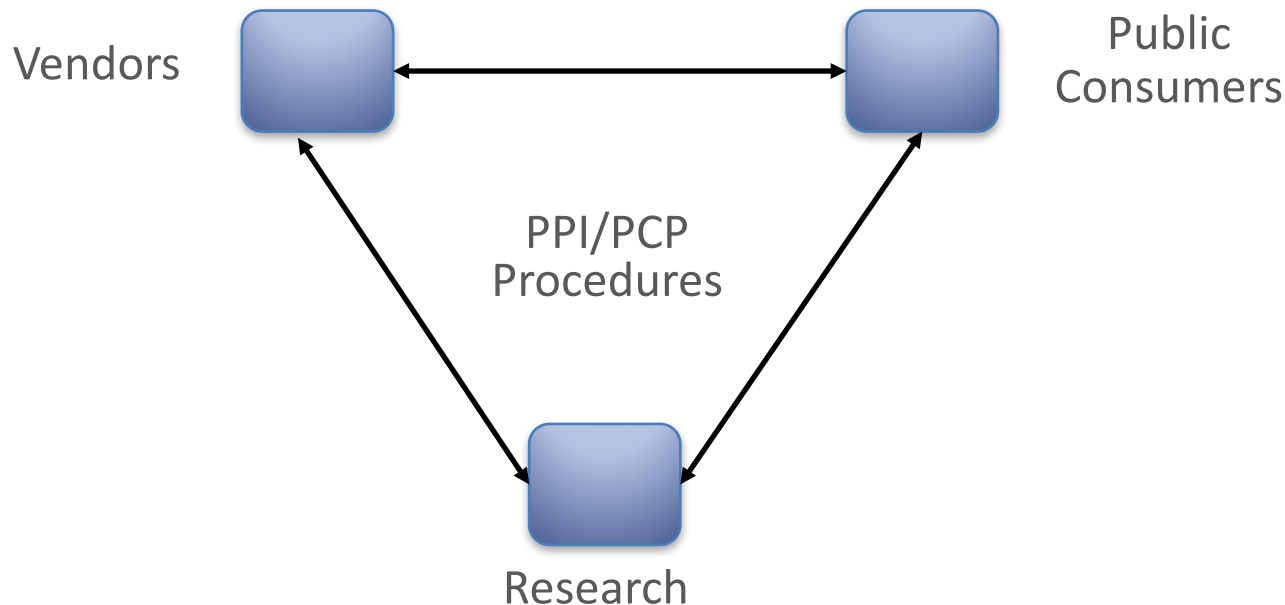
Pre-Commercial Procurement (PCP)

- PCP is used to procure R&D services that involves competitive development in phases, risk-benefit sharing under market conditions, and where there is a clear separation between the PCP and the deployment of commercial volumes of end-products.
- PCP identifies the best possible solutions the market can provide, by comparing alternative solution approaches from different technology vendors in parallel. By steering the development of innovative solutions towards concrete public sector needs, PCP may trigger industry to initiate R&D that was previously not considered and discussed. In PCP, procurers are thus demanding customers, who are articulating advanced solution requirements as potential future early adopters of the developed solutions (which will be selected in a separate PPI procurement that follows the completion of the PCP).

Public Procurement of Innovation (PPI)

- Public procurement of innovative solutions (PPI) means procurement where contracting authorities act as a launch customer of innovative goods or services which are not yet available on a large-scale commercial basis, and may include conformance testing. PPI is a specific approach for procuring innovative solutions in which procurers, unless they conducted a prior PCP, announce well in advance their intention to buy a significant volume of innovative solutions, in order to trigger industry to bring to the market solutions with desired quality / price ratios within a specific time. Market readiness prior to deployment can be verified through e.g. conformance testing, certification or quality labelling of solutions. In PPI, procurers act as launch customers, also called early adopters or first buyers, of the innovative solutions.
- PPI focuses on innovative solutions which are not yet available on a large-scale commercial basis. This also includes solutions based on existing technologies that are used in a new, innovative way. The solutions may have been (partially) demonstrated with success on a small scale (e.g. field testing of a first batch of products) and may be nearly or already available in small quantity on the market. However, due to residual risk or market uncertainty, the innovations are not being produced at large scale yet and do not meet market price/quality requirements of procurers for wide deployment yet.

The procurement cycle



- PPI and PCP procedures regulate and optimize cooperation between entities in procurement
- PPI and PCP procedures allow for greater innovation in public sector, especially for entities that have specific requirements and lack of relevant technical knowledge

Innovation Procurement potential still underutilised

(data from DG CONNECT study, September 2014)

Public procurement is 'the tool' that enables potential buyers to steer industry R&I to its needs. However, it is under-used in EU.



What can countries/regions do?

Political encouragement

- Modernising public sector 'a priority'
Quality-efficiency improvement targets
e.g. Lombardia/IT, UK
- Target % proc budgets to R&D&I
Monitoring framework
e.g. UK, NL, ES, Nordics, FR

Implementation

- Innov Proc Competence center
Training / assisting procurers
(e.g. SE, FI, ES, EE, DE)
- Innov Proc financial support program
(e.g. SE, FI, ES, EE, HU, DE)

Encourage demand side to meet supply side

- Early notification innov proc needs
- Open market consultations
Meet the buyers events

Leverage EU funding

- Horizon 2020
 - ESIF
 - EIB loans
- } Increased support for innov proc

H2020 support to Innovation Procurement in 2016-2017

Forms of support

- **Coordination and Support Actions (100% funding rate):**
 - Support only coordination activities e.g. preparation of a PCP or PPI by a group of procurers (identifying common challenges, open market consultation with industry before initiating a concrete PCP or PPI etc)
 - CSAs do not provide EU co-financing for an actual PCP or PPI procurement
- **PCP Actions (90% funding rate):**
 - Provide EU co-financing for an actual PCP procurement (one joint PCP procurement per action) + for related coordination and networking activities (e.g. to prepare, manage and follow-up the PCP call for tender)
- **PPI Actions (35% funding rate):**
 - Provide EU co-financing for an actual PPI procurement (one joint PPI procurement per action) + for related coordination and networking activities (e.g. to prepare, manage and follow-up the PPI call for tender)

More information

- The brochure on the PCP/PPI projects that are currently EU Co-funded:

<http://ec.europa.eu/digital-agenda/en/news/innovation-procurement-power-public-purse>

- European Assistance for Innovation Procurement (Eafip):

<http://eafip.eu/>



COMMUNICATION PLATFORM FOR TENDERS OF NOVEL TRANSPORT NETWORKS

PARTNERS

