

# Innovation-oriented public procurement

## B 5-2

### Promoting innovation through demand-side policy

Demand-side innovation policy has gained in importance in many countries over the last few decades.<sup>290</sup> Measures of demand-side innovation policy include regulation (e.g. laying down minimum technical standards for products), the promotion of private demand for innovative goods (e.g. buyers' premiums), and the public procurement of innovative goods and services. Here, this last measure is called innovation-oriented procurement.<sup>291</sup>

One important area of application for innovation-oriented procurement can be the development of a comprehensive and user-friendly system of e-government (cf. Chapter B 6-2). Building an efficient e-government structure can, in turn, help conduct innovation-oriented procurement in a transparent and efficient manner.

### Objectives of innovation-oriented procurement

Innovation-oriented procurement can be used by state actors to correct market failures and as an instrument of strategic R&I policy. Furthermore, state actors must ensure that their services are rendered in a manner that is qualitatively appropriate and cost-effective. In order to meet this standard, the public sector must itself use enough innovative preliminary products and services.<sup>292</sup> The Commission of Experts believes that this is not sufficiently the case in Germany. Public procurement too often resorts to established or not-very-innovative solutions, thus leaving potential for developing innovative products and services untapped.<sup>293</sup>

### High volume of procurement by the public sector

The potential of innovation-oriented public procurement stems from the considerable size of public-sector demand. In Germany, the total volume of public procurement accounts for around 15 percent of GDP (cf. Figure 5-2-1); the figure for 2015 was approximately 456 billion euros.<sup>294</sup>

The potential procurement volume for innovative products and services is estimated to be at least ten percent of public procurement.<sup>295</sup>

While there are uniformly collected and internationally comparable data on the volume of total public procurement in the OECD member states, innovation-oriented procurement is difficult to quantify. No data on this are systematically collected either in Germany or at the international level.<sup>296</sup> Data collection in Germany is made more difficult by the fact that procurement is highly fragmented with an estimated 30,000 contracting authorities.<sup>297</sup>

### Innovation-oriented procurement in practice

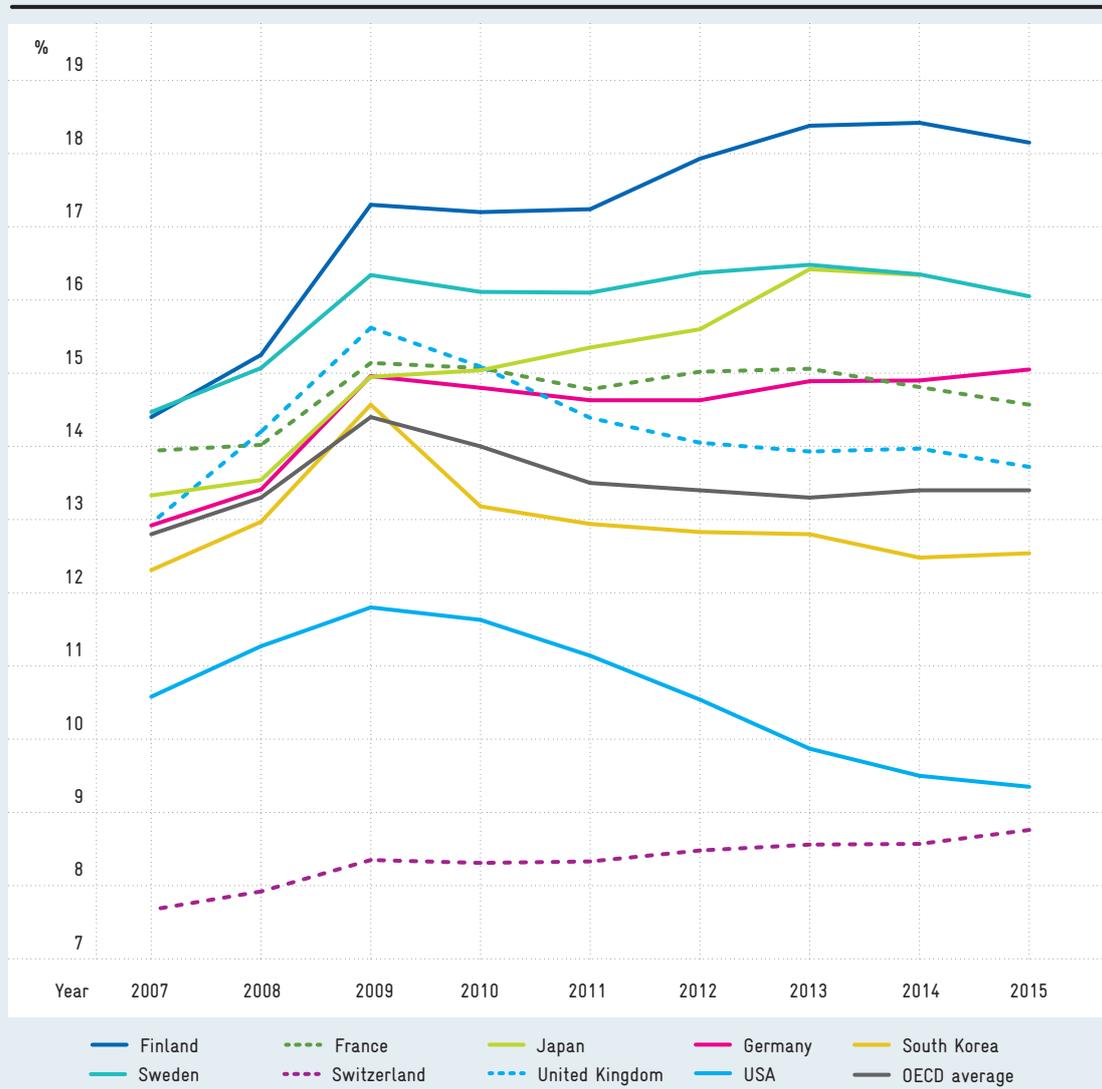
Making the public sector more aware of the potential of innovative procurement is an explicit political goal both at the EU level and in Germany. In the last few years, the European Commission has developed rules that expressly support and encourage putting emphasis on the innovation aspect in public procurement.<sup>298</sup>

This involves the gradual reorientation of procurement law. For example, in 2009, Germany's Act on the Modernisation of Public Procurement Law (Gesetz

Fig. B 5-2-1

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data

### Public procurement as a percentage of GDP, 2007 to 2015



Quelle: OECD National Accounts Statistics (database).

zur Modernisierung des Vergaberechts) permitted strategic procurement targets like environmental, social-policy and innovation-promoting aspects as procurement criteria for the first time.<sup>299</sup> With the so-called negotiation procedures and competitive dialogue, procedures for procurement processes that offer more flexibility and room for manoeuvre in public procurement were introduced. Furthermore, two instruments were created that specifically allow greater focus on innovative procurement: pre-commercial procurement (PCP) and public procurement of innovation (PPI).<sup>300</sup>

In order to create incentives to encourage a stronger orientation towards innovation among procurement managers, the BMWi, in cooperation with the German Association for Supply Chain Management, Procurement and Logistics (Bundesverband Materialwirtschaft, Einkauf und Logistik, BME), has since 2006 been awarding a prize called 'Leadership Through Innovation' ('Innovation schafft Vorsprung') for top performances by contracting authorities in the procurement of innovations and in innovative procurement processes.<sup>301</sup>

The Competence Centre for Innovative Procurement (Kompetenzzentrum innovative Beschaffung, KOINNO) was set up in Germany in March 2013 as a central political initiative. The purpose of this centre is to advise and network procurement managers at federal, Länder and municipal level. In addition, KOINNO helps disseminate successful practical examples<sup>302</sup> and, against this background, also supervises the award of the prize ‘Leadership through Innovation’ for the BMWi.<sup>303</sup>

However, apart from setting up the Competence Centre for Innovative Procurement, the Federal Government has not launched any major initiatives to promote innovation-oriented procurement, with the result that innovation-oriented procurement is a little-used instrument of innovation policy. In the Commission of Experts’ view, this is an omission.

The US government, for example, already began state promotion of procuring innovative goods three decades ago. The Small Business Innovation Research (SBIR) programme, set up in 1982, supports small and medium-sized enterprises (SMEs) via innovation-oriented public procurement. According to the SBIR programme, all federal agencies with an R&D budget of at least 100 million US dollars must pay out a certain percentage of this budget to innovative SMEs via a competition-based procedure. To this purpose, the federal agencies identify societal innovation requirements, e.g. in the fields of health, safety, the environment and energy. SMEs are then invited to compile feasibility studies for innovative projects in these areas of need, which are then financed by the SBIR programme.<sup>304</sup> In a second step, the R&D activities to implement a project proposal can then be promoted, e.g. in the form of a prototype.<sup>305</sup> However, the market launch of the new product developed in this way takes place outside the SBIR programme.<sup>306</sup>

Several countries, including Japan, the United Kingdom and the Netherlands, have set up similar support programmes.<sup>307</sup> The Commission of Experts recommends carefully assessing the costs and benefits of the US SBIR programme and similar programmes in the above-mentioned countries from the point of view of their innovation effects.