

Making public procurement of innovation a reality: towards a necessary transformation of public organisations?

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Abstract

Public procurement is a critical function for governments, as it involves acquiring goods, services, and works from external suppliers to meet the needs of the public. Innovating in this area can lead to more efficient and effective public service delivery, cost savings, and improved outcomes. However, buying innovative solutions is still a complex challenge for many public buyers in Europe. This article attempts to present the various measures taken at European level and in the Member States to make public procurement a reality on the ground.





For public administrations to carry out their day-to-day activities, public procurement - or their ability to buy goods and services - is essential. This function, long seen as simply managing an administrative procedure, is increasingly understood as supporting strategic policies that can contribute to achieving a wide range of environmental, social and economic objectives. It cuts across all areas of public administration and relies on cooperation between a wide range of public and private players.

Today, the importance of public procurement as a strategic tool is hardly open to debate. Given the size of the public procurement market, estimated at some 14% of EU GDP (around €2 trillion spent per year), it has the potential to stimulate economic growth, promote sustainability, encourage technological advances and address the most pressing societal challenges. It is a powerful tool that governments can harness to achieve their objectives while fostering innovation and competitiveness in the wider economy. Also, as public-sector organisations seek to respond more efficiently to the expectations and needs of their citizens within increasingly tight budgetary constraints, the use of innovative solutions has become key to

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delivering better services and value for money over the long term.

However, despite this consensus on the strategic nature of public procurement of innovation, buying innovative solutions is still a complex challenge for many public buyers in Europe. Some may find that the public procurement regulation, which may not provide a sufficiently secure legal basis, is the reason why public purchasers find it difficult to develop their innovation purchasing practices. While this point is debatable from our point of view, the reasons for these difficulties seem to us to be more complex, especially because innovation is in itself a complex

concept. Innovation involves navigating uncertainty, managing diverse resources and skills, dealing with risk, complying with regulations, changing organisational cultures and responding to dynamic markets and ethical considerations. Successfully managing these complexities is essential to fostering meaningful and sustainable innovation. Although innovation procurement is defined as purchasing a new or highly improved solution,¹ when conducting a project to procure innovative solutions the main focus is on managing an innovation process or an innovation strategy.

It is therefore crucial to help public buyers find their way through this complexity. To this end, a number of initiatives have been launched by the European Union to help public buyers develop more innovation-friendly procurement practices, in particular by reducing the financial risks associated with the purchase of a new solution. (I) While these initiatives have helped to break down the initial barriers to the purchase of innovative solutions, it seems that the current trend is towards the development of collaborative approaches involving greater cooperation between all stakeholders. (II) This collaboration outlines the path that public organisations and their purchasing functions are gradually taking towards transforming their management methods so that they can embrace the flexibility that is essential for innovation.

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¹ Directive 2014/24/EU, Article 2(22).



I. EU initiatives to promote public procurement of innovation

For many years, the European Union (EU) has been actively promoting Public Procurement of Innovation (PPI) and **Pre-Commercial Procurement** (PCP) as important tools for stimulating innovation and economic growth. Pre-commercial procurement consists of procuring research and development services at advantageous conditions from several economic operators. It puts in practice the exemption from public procurement directives for research and development services in one specific case.² Public Procurement of Innovation (PPI) is used in challenges that can be addressed by innovative solutions close to commercialisation or already commercialised in small quantities. Both mechanisms are used to leverage the purchasing power of governments by driving demand for innovation, creating a signal effect and facilitating the spread of innovations.

How does this work in practice? The Commission uses major framework programmes such as Horizon Europe³

² Article 25 of Directive 2014/23/EU, Article 14 of Directive 2014/24/EU, Article 32 of Directive 2014/25/EU and Article 13(f)(j) of Directive 2009/81/EC. Pre-Commercial Procurement is a specific approach to procuring R&D services (competitive development in phases) whereby the public purchaser does not reserve the R&D results exclusively for their own use but shares the risks and benefits of the R&D with the service providers. Organising the risk benefit sharing and the entire procurement process in a way that ensures maximum competition, equal treatment and transparency enables the public purchaser to identify the best possible solutions the market can offer and to avoid State aid under certain conditions. See section 2.3 of the *Framework for state aid for research and development and innovation*, COM (2014) 3282, (R&D&I - Framework).

³ More recently, Horizon Europe, the EU's research and innovation funding programme for 2021-2027, has provided **EU co-funding for PCP and PPI** purchases undertaken jointly by public buyers from different Member States and/or Associated Countries.



to publish thematic work programmes covering a period of two or three years. The work programmes detail the content of the calls for projects, the Commission's expectations, the timetable, the budget, etc. To set up a project, a consortium of at least three partners from three different participating countries must be formed. Through these calls for projects, the Commission will finance a number of activities carried out by the members of the consortia, with a method of reimbursing the so-called eligible costs. In the case of the PPI, for example, the Commission will reimburse part of the actual purchase of the innovative solution. The idea is to provide public buyers with financial support for investment in the development of an innovative solution, or to encourage them to become the first customer for an innovative solution, with the ultimate aim of tackling risk aversion.

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The results of these projects funded by the European Commission are interesting to observe. For example, in 2021, 132 public purchasers, 349 companies and 63 universities took part in a PCP and 61.5% of the total value of all PCP contracts went directly to **SMEs**. Many PPI projects focus on creating new markets for innovative European SMEs and address societal issues on a European scale. The **RADAR project**, for example, aims to meet Europe's urgent need for a system for the rapid detection and effective control of infections linked to antimicrobial resistance (AMR).⁴ One of the factors driving PCPs and PPIs at European level

⁴ Another example: the **DrugDetect** project, which aims to procure an innovative solution for the automatic detection of a large range of drugs in correctional institutions and prisons, that is available 24/7, does not cause delays in internal processes, does not require minimal human intervention, and is GDPR compliant.

is that they enhance the impact of public procurement of innovation.

Some Member States have taken inspiration from the European Commission's initiative to develop their own public procurement financing programmes. For example, in 2017 Lithuania launched a **programme** to finance 15 PCP projects. Regular calls invite Lithuanian public buyers to submit fresh ideas for new pre-commercial procurement projects. In the Flemish region of Belgium, the government has launched the **Public Innovation Procurement Programme** (PIP) to support public buyers in testing and/or purchasing these innovative products and services.⁵

It is a fact that participation in a PCP or PPI project encourages cooperation between participating public purchasers and promotes the use of public procurement to contribute to the development of innovative solutions capable of meeting their needs. However, it is not easy for all public buyers to take part in this type of project, particularly when they are funded by the European Union. Furthermore, even if there are actions to disseminate the results of the projects, only the participants benefit directly from

⁵ A total of €5 million is available annually. The specific needs of each project determine the extent of possible co-financing. In principle, no maximum amounts are foreseen. In order to provide some guidance, PIO foresees the following indicative amounts for an "average" project:

- up to €30,000 for the use of external expertise, carrying out market consultations, organising user queries, etc.
- up to €1 billion for co-financing the procurement of R&D services developing an innovative solution.
- up to €50,000 for costs resulting from setting up a validation or test phase prior to procuring an innovative solution.





the development of their skills to carry out the process of purchasing innovative solutions.

The European Commission has recently started funding projects to develop intermediation activities to better assist public purchasers who are far from being able to participate in a traditional PPI or PCP project. One example is the Innobroker project.⁶ The aim is to demonstrate the validity of a business model and platform (Innobroker) based on an ecosystem of “Business to Government” (B2G) brokerage services for public innovation contracts at EU level. In the same spirit, the European Innovation

⁶ the **Innovation Procurement Brokers** project has worked to facilitate the procurement of innovative goods and services by strengthening the links between public buyers on the demand side and innovative companies on the supply side. Public buyers were supported in the identification of their needs and, once ready, connected with SMEs and start-ups able to develop innovative solutions responding to their requirements.

Council is funding the **Innobuyer project** with the aim of developing a methodology and various actions to enable co-creation between public purchasers and innovative European companies. Although the PCP and PPI models are not being challenged, there is a trend to encourage the creation of complementary areas where there is more collaboration between the various players in the innovation procurement value chain.

This trend advocates an eco-systemic approach to innovation procurement.

II. The development of a new “collaborative procurement” approach

Traditionally, collaborative procurement is about leveraging the purchasing power, expertise and combined resources of multiple entities to achieve cost savings, and to improve efficiency and overall procurement outcomes. However, the collaborative procurement formats that are emerging are different from this classic vision.

The first is the community of practice. **Big Buyers Working Together** is the most prominent EU initiative of this trend. Moreover, this initiative is hosted on the European Commission website “Public Buyers Community” which is supported by DG GROW to enhance collaboration in public procurement. This platform hosts communities of practice that collaborate on different themes and produce results that are then disseminated to the

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entire EU public buyers' community. For example, recently, the AI-based procurement community finalised a European model of contractual clauses that is **available online** for all interested parties. This trend is being reinforced by the emergence of other platforms that enable communities of practice of public buyers to be set up. For example, in the health sector there is the **Healthcare Buyers Community**; in the field of sustainable public procurement, in France, there is the **RAPIDD platform**.

The "community of practice" format is certainly successful because it does not impose an obligation to buy together. It provides a space for the members to work collectively to deepen their understanding of a specific subject, solve problems, and improve their practices within that domain. Communities of practice play a crucial role in fostering innovation in procurement by facilitating the exchange of best practices, lessons learned, and innovative ideas. They facilitate continuous learning, the dissemination of knowledge and the development of the expertise needed to drive processes that enable the purchase of innovation.

Communities of practice can also help build a robust innovation ecosystem by connecting procurement professionals with innovators, start-ups, and technology providers. This can foster a more dynamic and innovative procurement environment. In fact, this is linked to the second format of "collaborative procurement" we are observing, which is the creation of space



for collaboration between public buyers and players in innovation ecosystems.

A good example is the **ECOLAB** (the innovation laboratory for the ecological transition of the French Ministry of Ecology), which has set up a living lab within a local authority community to better connect green and innovative solution providers with the issues facing public purchasers, mainly municipalities. Another example is the **Start-ups in residence** programme developed by the city of Amsterdam and now taken up at national level by the government. This programme uses public procurement rules to develop co-development mechanisms between start-ups and public administrations.

In these two examples, it is interesting to note that there is a framework for building

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innovation eco-systems around the challenges of public buyers. The dialogue established allows the public sector to better express its challenges and the actors of innovation ecosystems to better understand the needs to develop the right solutions.

All these collaborative approaches are accelerating the cultural transformation in the public sector that is needed to make innovation procurement a reality. Collaboration is a driver of the cultural change. It fosters a culture of cooperation, knowledge sharing, risk-taking, and agility, all of which are critical components of successful innovation procurement. When organisations prioritise collaboration, they can better adapt to changing market conditions and harness the full potential of innovative procurement practices. Without this, it is very difficult to develop practices and processes that enable the purchase of new solutions.

In conclusion, why is a collaborative procurement approach one of the keys to making public innovation procurement a reality?

A collaborative approach and cultural transformation within organisations are closely intertwined concepts that play a significant role in improving an organisation's effectiveness, innovation, and overall success. One of the major benefits of the collaborative approach is that it allows better problem-solving, increased creativity, better decision-

making and, above all, increased commitment of participants to the acceptance of innovation. By developing collaborative approaches, we drive change in the fundamental values, beliefs, norms and behaviours of an organisation. When change is intentional, cultural transformation can occur.

How can cultural transformation contribute to innovation in procurement? This can occur by encouraging risk-taking and promoting collaboration, for example. An innovative culture is more likely to embrace emerging technologies like data analytics, artificial intelligence, and blockchain in procurement. Innovation procurement involves finding new and creative ways to source products and services, reduce costs and optimise supply chains. Organisations that foster a culture of innovation are more likely to adapt, experiment with new ideas, and take calculated risks, leading to improved procurement practices and ultimately delivering better value to the organisation.

In conclusion, cultural transformation plays a vital role in enabling innovation in procurement. The transformation of public organisations is therefore a crucial prerequisite to accelerate the use of public procurement of innovation. ■

