Topic A

Developing strategic frameworks for four kinds of (innovation) procurement
by
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The central question for this MLE:

How can public procurement enhance innovation?
The kinds of procurement addressed

1. Direct innovation procurement
2. Catalytic innovation procurement
3. Functional regular procurement
4. Pre-Commercial Procurement (PCP)
5. ......
1 & 2: Innovation procurement (IP)

A public agency places an order for a product to fulfil certain functions within a given time period, but for which a product does not exist at the time of the order. This type of procurement must result in some form of product innovation.

- 1. **Direct** IP occurs when the procuring agency is also the (end) user of the product. The procuring agency uses its own demand or need to promote an innovation. This is the “classical” case.

- 2. **Catalytic** IP occurs when the procuring public agency functions as a catalyst, part-financier, and/or knowledge resource for the (end) users, which are represented by a “purchase group”
3: Functional regular procurement:

• The procurement of products by a public agency that describes a function to be performed (or a problem to be solved) instead of describing the product that is to perform the function.

• The agency specifies what is to be achieved rather than how it is to be achieved.

• It might lead to innovations or it might not. It opens up for innovation but does not require it.
4: Pre-Commercial Procurement (PCP)

• Takes place when an expected R&D result or solution is procured by a public agency, i.e., it implies direct public R&D investments.

• PCP is exempted from the EU procurement rules.

• PCP means the procurement of research and development services...... where there is a clear separation of the research and development services procured from the deployment of commercial volumes of end-products. In other words, the buying of end-products in commercial volumes is not included in PCP.
The kinds of procurement addressed

1. Direct innovation procurement

2. Catalytic innovation procurement

3. Functional regular procurement

4. Pre-Commercial Procurement (PCP)

5. ......
These four kinds of procurement:

- are different
- have different goals
- are implemented in different ways by means of policy

For the purpose of understanding public procurement and pursuing procurement policy to enhance innovation **the four specific kinds of procurement are the important ones**. They will allow Member States to make progress in this MLE.

The strategic frameworks must partly be different for the four kinds of procurement addressed.
Functional procurement is key

• Functional procurement is **needed for all the four** different kinds of procurement addressed in this MLE.

• To achieve innovation through public procurement it is, paradoxically, **more important to emphasize functional procurement than to pursue innovation procurement.**
Functional procurement is crucial in the Swedish National Procurement Strategy from 2016. Quotes:

• “The public sector can also enhance innovation in suppliers by, in procurement, demand functions rather than ready solutions.”

• “By requiring functions instead of having specific requirements with regard to goods and services, the creativity and ability to innovate of the potential suppliers are enhanced.”

• “To demand functions can increase competition in the procurement, since a larger number of firms and organizations can respond to the tenders, which is beneficial particularly for small and medium-sized firms.”

• “... your agency formulates functional requirements and emphasizes the result that shall be achieved instead of specific requirements with regard to the goods and services.”

• “... your agency uses assistance from the initiatives and means of support that The National Agency for Public Procurement has developed to formulate functional requirements in procurement.”
The set-up of institutions and organizations:

• The procurement law
• Routines and cultural norms
• ...

• The procuring organizations
• Ministries
• Supporting organizations
• Law making organizations
• ...

11
Obstacles to innovation/functional procurement

• Weakening of public organizations

• Identification of needs/problems

• Specification of functions

• Competence-building in procurers and procurement support

• Risk/risk aversion

• Lack of interactive learning and the role of procurement rules
Problems to discuss for later seminars

There are many other problems related to functional and innovation procurement, including Pre-Commercial Procurement. Three of them will be addressed in the other Topics (B, C and D) focused in this MLE. They are:

• Capacity building

• Financial mechanisms

• Monitoring, measuring and impact assessment
Today we focus on:

• Functional procurement

• Set-ups of institutions and organizations

• Risks and risk aversion

• PLUS, now: Discuss more general issues related to the creation of strategic frameworks