MLE Innovation Related Procurement

Topic C: Financial Mechanisms in support of Innovation-enhancing Procurement and Pre-commercial Procurement

Gaynor Whyles
JERA Consulting
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• Provide context, stimulate thinking and provide a framework for the MLE participants to address one of the four overall goals of the MLE:

• *To investigate the required financial mechanisms for contracting authorities to undertake public procurement of innovation; IEP and PCP.*
Agreement about the necessity for financing

OECD Survey on Strategic Innovation Procurement (2015) and the OECD report ‘Public procurement for Innovation: Good Practices and Strategies’

• OECD country survey reports: ‘increasing or solidifying’ financial resources for innovation procurement was reported as one of the most frequently used measures to overcome challenges.

• OECD support framework for the use of public procurement for innovation includes “Dedicate sufficient budgets, funds and other financial incentives”

• The OECD report goes on to comment that:
• “Financial support has two different roles in innovation procurement: on the one hand, sufficient funding is a necessary prerequisite for undertaking it; on the other hand, the form of funding can act as an important policy lever”.
Agreement about the necessity for financing

• ERAC Opinion (1209/15)

• Makes the recommendation:
  • "Provide financial incentives for contracting authorities to undertake innovation procurement, in the form of grants or loans.

• References the need to support suppliers on a "complementary basis":
  • "SMEs need to be encouraged to bid on public innovative tenders through financial incentives, sharing the risks and benefits of innovative development’"
Role of financing

- Financial mechanisms exist to support and help to deliver the overall policy framework for innovation procurement;
- They are a means to an end, not an end in themselves.

The role of financing may be to:

- **Incentivise**, i.e. ‘motivate or encourage someone to do something; incite to action or greater effort’ or provide a ‘a payment or concession to stimulate greater output or investment’;
- **Mitigate risk** i.e. ‘taking steps to reduce adverse effects’
- **Enable**, i.e. ‘to make able; give power, means, competence, or ability to; authorise or make possible’.
Financial mechanisms for IEP and PCP can be distinguished into two broad categories: Direct and Indirect.

These can be further distinguished by whether they are targeting primarily the demand side or the supply side of the innovation spectrum.

- **Direct demand side**: related to direct financing for procurers with the cost of purchase of an innovation. This largely concerns the IEP type of procurement.

- **Direct supply side**: related to direct financing of demand led near market R&D channelled to suppliers via procuring organisations or their representatives (e.g. innovation agencies). These are the PCP type of procurement.

- **Indirect**: For both supply side and demand side, related to enabling and supporting procurers and suppliers to undertake IEP and PCP type activities.
Many aspects of financing

### Rationale:
What is the rationale for financing IEP and PCP?

### Mechanisms:
What are the different financial mechanisms / incentives being used?

### Features:
What are the important features of financing mechanisms from the point of view of the end user and the provider?

### Impact:
Have the different financial mechanisms delivered the expected outcomes?

### Synergy:
How can the different financing mechanisms be used together to achieve maximum impact?

### Missing links:
Are additional or alternative financial mechanisms needed? Are opportunities being missed?

### Balance:
The level and relative value of financing for IEP and PCP and the level and relative value of financing for direct and indirect mechanisms; both at the national and European level;

### Challenges and success factors:
What are the challenges faced when financing IEP and PCP? What are the success factors?

### Framework conditions:
What are the framework conditions for effective financing of IEP and PCP?
## Orientation Poll Results

<table>
<thead>
<tr>
<th>Topic</th>
<th>Rank</th>
<th>Question</th>
<th>ALL</th>
<th>POLICY</th>
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<tbody>
<tr>
<td>Topic 1</td>
<td></td>
<td>Rationale: What is the rationale for financing IEP and PCP?</td>
<td>14</td>
<td>1</td>
<td>13</td>
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<td>Topic 2</td>
<td>1</td>
<td>Mechanisms: What are the different financial mechanisms / incentives being used?</td>
<td>42</td>
<td>33</td>
<td>9</td>
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<tr>
<td>Topic 3</td>
<td></td>
<td>Features: What are the important features of financing mechanisms from the point of view of the end user and the provider?</td>
<td>15</td>
<td>11</td>
<td>4</td>
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<tr>
<td>Topic 4</td>
<td>2</td>
<td>Impact: Have the different financial mechanisms delivered the expected impact?</td>
<td>38</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>Topic 5</td>
<td>5</td>
<td>Synergy: How can the different financing mechanisms be used together to achieve maximum impact?</td>
<td>24</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Topic 6</td>
<td>4</td>
<td>Missing links: Are additional or alternative financial mechanisms needed? Are opportunities being missed?</td>
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<td>9</td>
<td>18</td>
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<td>3</td>
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<td>17</td>
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<td></td>
<td>Framework conditions: What the framework conditions for effective financing of IEP and PCP?</td>
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<td>12</td>
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</tbody>
</table>
Day 1 Overview

- Experience on financing in Spain and case examples

- EC Financing and breakout discussion of how EC programmes are supporting the national agendas (what works, what could be better, what is needed?)

- Experience from outside Europe, Inter-American Bank of Development
Day 2 Overview

• Experience on financing at the national level followed by a **plenary discussion** - keeping in mind the focus identified by the orientation poll: *Mechanisms; Impact; Synergy*

• Experience from outside Europe, some examples from the OECD report

• **Break-out session** - focus reflecting the responses to the Orientation Poll – *Challenges and Success Factors; Missing Links; Framework conditions AND 3 conclusions* and what this tells us about future direction

• Next steps in the MLE
After the seminar....

- Request input from the MLE participants
- Structured input
- Preparation of the Topic C Thematic Report
thank you!