

Recommendation for innovation-promoting public sector procurement in Austria

The Austrian Council recommends political support and specific full-coverage

Implementation

The Austrian Council for Research and Technology Development recommends the political support for innovation-promoting public sector procurement be increased further. The Austrian Council for Research and Technology Development also recommends the full coverage implementation of innovation-promoting public sector procurement across and beyond department boundaries be enforced and innovation procurement plans be compiled, and subsequently coordinated and monitored at a central location.

Improvement in the data situation for (innovation-promoting) public sector procurement

The Austrian Council recommends a standardised, full-coverage and obligatory recording of the volume of public sector procurement in Austria in general and the introduction of innovation-promoting public sector procurement in particular.

Awareness creation and qualification of all involved in the procurement process

The Austrian Council recommends the introduction of a standardised usage and assignment profile for public sector procurement personnel in combination with a standardised, extensive qualification for this work. The awareness creation and qualification of all participants, especially decision makers, must also be ensured and promoted.

Motivation and Risk Sharing

The Austrian Council recommends the integration of technically competent people into the procurement process to support the operative procurement personnel and shape the incentive systems, which encourage the acceptance of risks and increase readiness to participate in innovation processes in public sector administration.

Background

In recent years, increasingly more attention has been paid at both European and international level to demand-side innovation support measures, which, in addition to funding and other supply-side mechanisms, can be used to increase innovation.

The intensive efforts of the European Union in the last 10 to 15 years in particular were the critical trigger for an in-depth reappraisal of the issue by the member states¹.

Edler & Georghiou² define demand-side innovation policy as follows: *“Set of public measures to increase the demand for innovations, to improve the conditions for the uptake of innovations and/or to improve the articulation of demand in order to spur innovations and the diffusion of innovations.”*

According to this definition, demand-side innovation policy not only has the primary goal of supporting the development of new innovations, but rather must also promote their diffusion with the procurement of already existing innovations. The area of innovation-promoting public sector procurement is a demand-side innovation policy tool. The most important difference here is between the commercial procurement of innovations (PPI – Public Procurement of Innovation) and the pre-commercial R&D procurement (PCP – Pre-Commercial Procurement).

¹ The Lisbon Strategy (2000) applies as the starting point for this development, in which innovation was focused on as the essential motor for economic growth and whose declared goal is to make Europe a competitive economic region in the next 10 years. Public sector procurement has in the meantime become firmly defined in the strategies at EU level as an innovation driver and an important part of the strategy for Europe 2020 (European Commission 2010) within the framework of the "Innovation Union" initiative (European Commission, 2010).

² J. Edler / L. Georghiou (2007): Public procurement and innovation – Resurrecting the demand side. Research Policy, 36, 949–963, 2007.

Furthermore, as part of the national implementation of Directive 2014/24/EU on public sector procurement a new award procedure called “Innovation Partnership” will also be introduced, whereby public sector procurement personnel have the use of another mechanism to shape public sector procurement as more innovation-promoting.

Commercial Procurement of Innovations (PPI)

Commercial public sector procurement of innovations is the procurement of innovative products or services by the public sector. This involves a test purchase or a first purchase or the procurement of innovative products for the procuring side.

Pre-Commercial Public Sector R&D Procurement (PCP)

Pre-commercial public sector R&D procurement mostly involves a longer joint process, in which the procurement personnel and innovation-drivers determine and specify shared requirements for innovative solutions. If we consider the volume of an average 14 per cent of GDP³ per year, which flows within the EU into the area of public sector procurement, we can see the high potential embodied in the systematic increase in demand for innovative products and services. The increase in demand for innovative products and services will in particular strengthen domestic small and medium-sized enterprises (SMEs), which will then have better opportunities in the otherwise highly regulated and generally low-risk award processes. On the other hand with more innovation-promoting public sector procurement it will itself become more innovative and can consequently offer the general public improved products and services. The benefits of innovation-promoting public sector procurement are indeed undisputed. This is, however, a still very new and partially unresearched topic and implementation as part of a broad demand-side innovation policy is often linked with significant difficulties.

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³ European Commission (2014): Public Procurement as a Driver of Innovation in SMEs and Public Services. Belgium: European Union, 2014.

Demand-Side Innovation Policy in Austria

In addition to specific best practice examples, with the innovation-promoting public sector procurement guiding concept, since 2011⁴ there has been a thoroughly ambitious initiative in Austria, which has set itself the goal of increasing the percentage of innovative and innovation-promoting procurements in the whole of public sector procurement. A study on behalf of the Austrian Council for research and Technology Development⁵, which primarily focused on the topic of innovation-promoting public sector procurement in Austria with regard to the current state of implementation, attested positive findings to the initiative. Considered as a whole, it must be said that Austria is also positioned well in the international comparison of countries.⁶ However, the Austrian Council's study also shows specific areas of action for the future, which represent the key points of this Council recommendation. The innovation-promoting public sector procurement guiding concept essentially addresses two impact directions. On one hand innovation-promoting public sector procurement will be broadly improved, to increase the general probability that procuring parties in Austria will prefer innovative solutions more. On the other hand strategic procurement will be used as a policy mechanism to achieve economic and political goals. Both directions should be maintained and implemented more consistently in the future.

Political Support and Comprehensive Implementation

One thing is extremely important with all areas of action shown – broad political support. Austria has set itself the goal of joining the innovation leaders by 2020, and on the whole is not badly positioned. However, a closer examination of recent years allows us to assume that this goal cannot be achieved without ambitious and consistently implemented measures⁷. Innovation-promoting public sector procurement can be an innovation policy tool, but it requires good embedding in a broad policy mix.

And it also requires high political attention, accompanied by specific resources and supportive measures. We cannot assume that innovation-promoting public sector procurement can be

⁴ ÖB (2012): Innovation-promoting public sector procurement guideline concept (on behalf of the BMVIT and the BMWFW with the support of the BBG and AIT).

⁵ D. Murhammer-Sas: "Innovation-promoting public sector procurement in Austria – overview, obstacles and definition of further areas of action." spe-consulting gmbh, Vienna, July 2015.

⁶ Federal Austrian Government: Austrian Research and Technology Report 2015.

⁷ Austrian Council: Report on Austria's Scientific and Technological Capability 2015.

implemented comprehensively and sustainably without additional resources. Furthermore there are no legal regulations for an obligatory percentage of innovation-promoting public sector procurement.

Innovation in public sector procurement will be supported on the political side not merely with concepts and strategies, but rather with a binding dimension that actively promotes and encourages innovation as well. Innovation procurement plans of public institutions that illustrate a clear positioning of their own future requirement are indispensable in this context. These plans should be compiled and discussed cross-department. A central office, which should be based in a department equipped with coordination competencies, could coordinate these plans and check them as part of monitoring on the basis of clear goals. The definition of innovation procurement plans and their monitoring by a central office would make it easier to achieve penetration of the entire level of the public sector. The coordination at the ministries' side in particular could therefore be made easier and already procured innovations, whose penetration is often especially slow, could be better diffused. The Austrian Council welcomes the fact that, with the innovation-promoting public sector procurement service office and the competency and contact points, a responsible contact partner has been set up for innovation-promoting public sector procurement. The assignment to the BBG must, however, be questioned, as this is only responsible for a fraction of public sector procurement. An even broader use of the service office would have to be endeavoured, which should range from support in determining requirements to the creation of business cases and in particular the performance of the actual process. The long-term goal of the service office should, among others, be for the purchasing entities to change their processes and structures to favour an more intense consideration of innovation in procurement. The Austrian Council for Research and Technology Development recommends the political support for innovation-promoting public sector procurement be increased further.

The Austrian Council for Research and Technology Development also recommends the full-coverage implementation of innovation-promoting public sector procurement across and beyond department boundaries be enforced and innovation procurement plans be compiled, and subsequently coordinated and monitored at a central location (such as the Federal Chancellery, for example).

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Data Situation

Estimates indicate that the volume of all public sector procurement in Austria is approx. 35 to 40 billion EUR per year⁸. Despite Austria's obligation to report data on public sector procurement to the WTO and the European Commission, a standardised and central recording system has still not been set up. The Austrian Court of Auditors has referred in several reports⁹ to the urgent requirement of central recording and underscored this recommendation with detailed specifications with regard to clear criteria to guarantee the comparability and goal-oriented analysis of data. Based on currently available data it is not possible, however, to assess the percentage of innovation-promoting public sector procurement or total public sector procurement in Austria. As part of the innovation-promoting public sector procurement guiding concept there was indeed a survey by Statistik Austria¹⁰, but this data is only conditionally significant because it is voluntary in nature and the return was very low. A standardized recording of the volume could serve as the basis for an objective to be derived from it, with regard to the volume and phased increase in innovation-promoting public sector procurement, and would therefore result in an increase in public sector expenditure in research, technology and innovation. The Austrian Council for Research and Technology Development recommends a standardised, full-coverage and obligatory recording of the volume of public sector procurement in Austria in general and the introduction of innovation- promoting public sector procurement in particular.

Qualification

Operative procurement personnel faces new and increasingly complex requirements. In addition to economical aspects, social, ecological and innovative criteria are also considered with public sector procurement. However, the satisfaction of these requirements requires appropriate human resources, which are frequently not available in sufficient numbers. Added to this is the often insufficient know-how and experience of the procurement

⁸ W. Clement / E. Walter (2010): Innovation-promoting public sector procurement in Austria – contributions for a guideline concept for the programme of action (on behalf of the BMWFJ).

⁹ Rechnungshof (Court of Auditors; 2015a): Report by the Court of Auditors: Internal control system with direct awards in selected departments, BMVIT and BMWFJ.
Court of Auditors (2015b): Statement: Amendment to the Federal Law on the setting up a federal procurement company with limited liability.

¹⁰ See http://www.statistik.at/web_de/frageboegen/oeffentliche_einrichtungen/innovations_foerdernde_beschaffung/index.html for details.

personnel. In many cases there simply is not enough knowledge of new technologies and innovations and therefore there is insufficient expertise to evaluate these. Furthermore, the process leadership with innovative procurement projects in many organisations is in the hands of legal and administrative professional groups, and consumers, users or political decision makers are only rarely involved. In Austria there are no specific job titles for public sector procurement personnel, and nor is there any standardised qualification for this work. In addition to special information and further training measures of the innovation-promoting public sector procurement service office and in cooperation between the innovation-promoting public sector procurement service office and the administrative academy of the Federal Government, there is actually a regularly offered basic and advance seminar on the topic of innovative and sustainable procurement. These measures are a good basis, but they are not a standardised qualification. Installation in the administrative academy of the BKA or a technical college as own study course might be a possibility. The focus here should be on supporting and relieving the burden on the procurement personnel. Innovation-promoting public sector procurement must, however, also be seen as a collective process, which begins at management level and moves across all levels of the organisation. The strategic specifications on the owner and policy side should in particular be considered with regard to risk behaviour. A high level of competence of all involved, and not just the operative procurement personnel is indispensable. This must be guaranteed with the qualification and awareness formation of all participants. *The Austrian Council for Research and Technology Development recommends the introduction of a standardised usage and assignment profile for public sector procurement personnel in combination with a standardised, extensive qualification for this work. The awareness creation and qualification of all participants, especially decision makers, must also be ensured and promoted.*

Motivation and Risk Sharing

In view of the complex requirements of procurement personnel there are often hardly any objective reasons to purchase innovative products or services. The costs are mostly higher, at least in procurement, the empirical values with the products are low by nature, costly preliminary searches are required and in the precommercial area in particular the specific procurement projects are connected with significant added expenditure in terms of time. Added to this are fears connected with legal requirements, so that

often the known, frequently less innovative path is travelled with public sector procurement. With this multitude of risks, the operative procurement personnel are generally left alone and are only given specific support with, for example, the acceptance of financial risks.

The Austrian Council for Research and Technology Development recommends the integration of technically competent people into the procurement process to support operative procurement personnel and shape the incentive systems, which encourage the acceptance of risks and increase readiness to participate in innovation process in public sector administration.

Outlook

As the next step, the Austrian Council suggests the further implementation be discussed and an expansion of the concept be agreed on, in particular for the obligatory definition of innovation-promoting public sector procurement in procurement plans. Special attention should be paid to the area of innovative SMEs, which often do not succeed in winning procurement projects from the public sector. Efforts should be increased in this area to identify the barriers to access for innovative SMEs and to offer solutions. Generally speaking in Austria there must be more new cooperation projects between the public sector and companies and new structural inroads must also be made in this area. Initiatives in Scandinavian countries such as Sweden and Denmark¹¹ can serve as role models for this access.

¹¹ V. Lember / R. Kettel / T. Kalvet (2014): Public Procurement, Innovation and Policy. International Perspectives. Heidelberg: Springer.