



# Public procurement for innovation in OECD countries: Issues & risks

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# Overview

- GOV knowledge on public procurement (PP)
- Public procurement for innovation
- Risk areas in PP
  - the interface between public-private actors
  - the use of exemptions to competitive procedures
  - the risk transfer between public & private actors
  - complaints & disputes in tender process

# Basis of GOV knowledge on PP

- OECD Recommendation on Enhancing Integrity in Public Procurement
  - OECD Principles for Integrity in PP
  - OECD Checklist for Enhancing Integrity in PP
  - OECD PP Toolbox
- Country studies & research
  - Integrity in PP : Good Practices from A to Z
  - Peer reviews (OECD): Greece, Mexico
  - Thematic reviews (non-OECD): Brazil, Iraq, Morocco, Yemen
  - Country progress reporting on OECD Recommendation in 2011

# PP for innovation

- The acquisition of works, supplies and services that do not yet exist within the marketplace
- It excludes
  - grants and subsidies of R&D
  - procurement of R&D services
  - innovation in procurement practices
- Tensions
  - value-for-money vs. innovation goals
  - pre-commercial vs commercial innovation



# PP is a driver of market demand...

## General government procurement, as % GDP

	General govt (less defence)	Central govt (less defence)	Local govt	Social security
OECD simple average	10.32 (9.25)	4.20 (3.11)	5.17	1.09
OECD weighted average	9.17 (7.57)	3.39 (1.75)	5.44	0.51
EU weighted average	9.24 (8.03)	3.76 (2.53)	4.67	0.72
Non-OECD weighted average	6.89 (5.10)	n/a	n/a	n/a

*Notes:* (1) Excludes state-owned enterprises (e.g. utilities); (2) all figures represent the upper limits using estimates from SNA data.

*Source:* Audet, D. (2002), "Government Procurement: A Synthesis Report," *OECD Journal on Budgeting*, 2(3): 149-194, OECD Publishing, Paris

...though at different levels of govt...

General government procurement, as % GDP				
Country	General	Central	Local	Social
SLO	15.34	<b>9.46</b>	2.79	2.98
GBR	13.08	<b>9.00</b>	3.29	0.10
HUN	18.31	<b>8.56</b>	7.38	2.05
POL	10.69	<b>6.55</b>	4.31	0.00
SWE	14.60	<b>6.25</b>	9.00	0.04
NOR	11.44	<b>5.61</b>	6.06	0.00
TUR	7.47	<b>5.58</b>	1.13	0.00
POR	7.24	<b>4.83</b>	2.59	0.13
ISL	12.92	<b>4.81</b>	5.07	2.11
CZE	17.03	<b>4.45</b>	6.53	5.18
GRE	7.29	<b>4.32</b>	0.84	1.30
FIN	9.64	<b>4.22</b>	7.44	1.22
KOR	9.13	<b>3.94</b>	5.10	0.90
USA	8.80	<b>3.71</b>	5.11	0.00
NLD	8.96	<b>3.68</b>	4.90	0.37
NZL	7.28	<b>3.66</b>	3.80	0.00
DNK	10.63	<b>3.34</b>	7.20	0.09
FRA	9.05	<b>3.24</b>	4.22	1.60
AUT	12.16	<b>2.75</b>	5.70	3.70
IRE	10.08	<b>2.73</b>	7.11	0.12
ITA	7.99	<b>2.72</b>	4.90	0.43
ESP	8.74	<b>2.63</b>	4.44	1.64
BEL	5.37	<b>2.48</b>	1.95	0.30
SWI	8.60	<b>2.08</b>	6.24	0.12
AUS	8.85	<b>2.07</b>	5.81	0.00
JAP	9.35	<b>1.85</b>	7.59	0.08
CAN	11.47	<b>1.69</b>	8.80	0.20
GER	7.32	<b>1.52</b>	5.39	0.40

Notes: As per previous slide

# ...and in different sectors—Canada

Public sector share of total demand, Canada, in per cent	
Ships, boats & part (excluding pleasure board)	96.30
Personal medical goods	89.30
Highway & bridge maintenance	80.00
Textile medical products	72.60
Office equipment (excluding photocopy & fax equip.)	34.62
Men's & boy's clothing	25.15
Office supplies	22.96
Gas distribution	12.21
Electric power	11.19
TV, VCR, accessories & unrecorded tape	8.33
Photocopy & microfilm equipment	6.67
Newspapers	3.42
Computers, video units, printers, etc.	3.39
Other paper, containing wood	1.89
Other paper, wood free	0.56

Notes: Different countries may have different sector and product classifications

Source: Marron, D. (2007), "Greener Public Purchasing as an Environmental Policy Instrument," in OECD, *The Environmental Performance of Public Procurement: Issues of Policy Coherence*, OECD Publishing, Paris

# PP vis-à-vis other demand-side policy tools

	<b>Public procurement</b>	<b>Regulation &amp; standards</b>	<b>Research institutions</b>	<b>Public R&amp;D subsidies</b>
(Potential ) Input to firms	\$\$	None	Knowledge	\$\$
Firm's primary incentive	Sales	Mandatory	Access to knowledge	Cost sharing
Access/selection decision	State	None	Firm	State
Effect on firms	Market risk reduction	Market risk reduction	Technological opportunity	Cost reduction
Inherent risks to firms	Idiosyncratic demand	Egalitarianism	Idiosyncratic knowledge	Crowding out of private R&D
Coverage of market	??	100%	??	??

Source: Adopted from Aschhoff, B. and W. Sofka (2008), "Innovation on Demand—Can Public Procurement Drive Market Success of Innovations," *Center for European Economic Research Discussion Paper*, 08-052

# Supporting instruments

Instrument type	Examples
Information based tools	<ul style="list-style-type: none"><li>•Catalogues &amp; Databases</li><li>•Procurement criteria</li><li>•Lifecycle assessment methodologies</li></ul>
Training & communication tools	<ul style="list-style-type: none"><li>•Courses for public procurement professionals</li><li>•Networks, Conferences</li><li>•Websites, Newsletters</li></ul>
Accounting & financial tools	<ul style="list-style-type: none"><li>•Lifecycle costing or value for money methodologies</li><li>•Methodologies to quantify external costs</li></ul>
Legislation & directives	<ul style="list-style-type: none"><li>•Guidelines for public procurement professionals</li><li>•Templates &amp; reporting criteria</li></ul>

Source: Siemens, R. (2007), "A Review and Critical Evaluation of Selected Greener Public Purchasing Programmes and Policies," in OECD, *The Environmental Performance of Public Procurement: Issues of Policy Coherence*, OECD Publishing, Paris

# OECD Principles for Enhancing Integrity in PP (public sector side)

1. Transparency >> fair & equitable treatment
2. Good management >> value-for-money
3. Compliance & monitoring >> resistance to misconduct
4. Accountability & control >> rules are followed

... throughout the procurement cycle

Pre-tendering	Tendering	Post-award
Needs assessment	Invitation to tender	Contract management
Planning & budgeting	Evaluation	Order & payment
Definition of requirements	Contract award	
Choice of procedures		

# Interface between public-private actors

- Market research, networking and liaison by PP professionals with private actors to identify solutions
- Mitigation actions
  - defining ethical codes for PP professionals
  - separation of duties & authorisations
  - early signaling through procurement plan
  - clear procedures & (output/outcome) specifications
  - training of PP professionals

# Use of exemptions to competitive procedures

- Legal exemptions for pre-competitive innovations
  - R&D service, prototypes, first product, defence
  - contract bundling below competitive thresholds
- Mitigation actions
  - use of competitive dialogue in competitive procedures (EC)
  - strategy for use of non-competitive procedures
    - justification & documentation of non-competitive procedures
    - publication of non-competitive contract award
  - establishing performance indicators for tenders
  - training of PP professionals

# Risk transfer between public & private actors

- Public sector inherently risk averse; innovation is inherently risky
  - works, supplies & services do not yet exist
  - possible risk of failure; balanced with public accountability
- Mitigation actions
  - strategy for technical & commercial validation of proposals
  - definition of clear measurable outcomes in contract
  - clear procedures & documentation of contract amendments
  - guidelines & training for PP professionals

# Complaints & disputes in tender process

- Encouraging compliance, deterring unethical behaviour, correcting genuine errors
- Mitigation actions
  - debriefing option for unsuccessful bidders
    - attention to intellectual property & confidential information
  - effective and rapid review & remedies of complaints
  - guideline and training of PP professionals

# Questions for discussion

- What defines pre-commercial vs commercial procurement in different countries?
- Effectiveness of public procurement in supporting innovation?
- Does PP for innovation differ from developing knowledge-based procurement organisations?
- Evidence of risks to integrity through introducing innovation in public procurement?