Procurement of innovation in Germany: political goals and empirical findings

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  – Procurement strategy
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Agreement on public procurement of innovation

- Political background:
  High-Tech Strategy identifies public procurement as an important instrument of innovation policy

- Agreement of 6 federal ministries (interior, economics, defence, transport, environment, research) in October 2007:
  - Promote procurement of innovation by the ministries
  - Focus on medium degrees of innovation
  - Provides a list of instruments
Agreement details (1)

- Identification of innovative demand by the ministries; publication of long-run demand forecasts
- Continuous market analysis to identify new solutions
- Offer professional training about the legal options to promote innovation
- Foster the strategic dialogue between procuring agencies, end-users, and industry; exchange of experiences between procurement agencies on all state levels
Agreement details (2)

- Publicity for procured innovative solution
- Take advantage of ‘functional specification’, ‘acceptance of variants’, and ‘competitive dialogue’
- Consideration of life cycle costs as award criterion
  - ‘Toolkit’ for innovation-friendly public procurement
Research project „Einkäufer Staat“

- „Einkäufer Staat“ with a general perspective on innovation procurement
- Co-operation partners:
  - Wegweiser (market research)
  - Orrick (law firm)
- Funded by the Federal Ministry of Education and Research
- Starting point: need for improvement in knowledge and raising awareness about innovation and public procurement in Germany
- First research objective: evaluation of the status quo
Data basis

• Own Survey:
  – Population: approximately 30,000 procurement agencies in Germany
  – Sample: 2,306 agencies
  – Responses: 265 agencies; response rate: 11.5 %
  – Questions concerning strategy, organisation, award procedure, and procured products and services

• Supplement to the Official Journal of the European Union (OJ S)
  – 43,555 German tenders between 2006 and 2008
  – All tenders above threshold (without utilities)
Procurement strategy

Source: own survey, 226 valid cases
Award procedure

• Competitive dialogue
  – Procedure for the procurement of sophisticated solutions
  – 95 competitive dialogues in Germany between 2006 and 2008
  – 0.2 % of all published tenders

• Acceptance of variants
  – Openness to innovative solutions
  – Important for open procedures with detailed technical specifications
Acceptance of variants

Source: OJ S (35.223 open procedures)
Award criteria

• Award criteria as an important instrument to promote innovation; respondents identified the award criteria as one of the three most important instruments besides specifications and market analyses

• Life-cycle costs as award criterion:
  – May lead to more innovative solutions
  – Lead to economic efficient solutions

➢ Life-cycle costs should be the rule, cost prices the exception
Average award criteria

Source: own survey, 226 valid cases
Federal Government's Package of Measures

- Acceleration of tender processes
- Increase of thresholds: free choice of award procedure below 100,000 (supply contract) and 1 million (works) euros
- “What impact do you expect?”

Source: own survey, 245 valid cases
Summary: empirical findings

- Promotion of innovations through public procurement still is the least important strategic goals
- Variants are often accepted, but a declining use of this instrument is observed
- 95 competitive dialogues between 2006 and 2008
- Cost prices are the most important award criterion, live-cycle costs are rarely used
- A boost for innovative solutions from the economic stimulus package seems unlikely
Current developments

• Working group on the federal level
• Plenty of best practices on all state levels
• Intensification of experience exchange between procurement agencies
• Increasing number of guidelines for innovation procurement, especially in the field of green procurement
• Discussion about the impact of the new antitrust law: innovative aspects are mentioned as possible selection criteria

➢ Taken together, these trends may lead to a more innovative procurement in the medium term