

The Role of Public Procurement in Low-carbon Innovation

Summary of the 33rd Round Table on Sustainable Development¹
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Public procurement accounts for a sizeable share of countries' GDP (13% on average in OECD countries, generally more in emerging and developing economies). Public procurement can be used strategically to meet a country's policy objectives.

Main Messages

- The Paris Agreement should encourage national and local governments to consider how to better align their public procurement expenditures to foster innovation for the low-carbon transition.
- Innovative low-carbon solutions exist, and as such are not the main obstacle to the transition. The problem is to create appropriate markets. There is sometimes a tendency in public procurement to fall back on well-known solutions, a barrier to the diffusion of innovations.
- At the same time, public procurement has been used to trigger innovations and new economic activities, creating new needs and markets. Government demand can be a powerful tool to orient supply choices.
- Sustainable public procurement is not new and is already present at various degrees in many countries, but should be the default option when feasible and affordable.
- The sense of Round Table participants was that life-cycle costing or total cost of ownership could be the new norm, instead of the lowest-price criterion still mandated in some jurisdictions. Best practice could usefully be shared in this area.

¹ The OECD RTSD gathered high-level government experts to exchange views on the role of public procurement in low-carbon innovation. This summary does not reflect the views of the OECD Secretariat or its member countries. A [background paper](#) was produced to support discussions.

- Upstream from procurement, public-private dialogues help to identify new needs and emerging innovations. Performance standards and labels can facilitate sustainable choices during procurement.
- Making public procurement a powerful instrument for innovation will require political leadership, including to address concerns of ministries of finance, and making resources available for training of public procurement officers.
- The introduction of risk-sharing in public procurement contracts is important in order to mobilise SMEs' innovative capacity. A 'culture' of risk-sharing must also be encouraged among procurement officers.
- Public procurement is largely a domestic activity, but, in some instances, local governments have co-ordinated procurements and shifted supply towards innovative solutions. The development of and reliance on international standards could also scale up markets.
- Some breakthrough innovations will require dedicated financing in the pre-commercial R&D phase. Instruments exist to organise competition in these phases, in combination with procurement for commercial deployment.

The Round Table Chair's suggestions for future OECD work in this area

Recognising the major contribution of the OECD to transform public procurement into a strategic economic policy tool and its [Recommendation on Improving the Environmental Performance of Public Procurement](#), the Chair suggests that the OECD could:

- Provide further evidence of the successes of public procurement in innovation and sustainability. The introduction of sustainable public procurement in Sustainable Development Goal 12.7 provides an opportunity to establish appropriate metrics in this area.
- Bring together innovation experts, private sector and ministries of research and finance for an open discussion on how best to harness public procurement for low-carbon innovation.

Further points from the meeting

The combination of the need for policy coherence (standards, prices, pulling in the same direction), the day-to-day activity of public procurers (timely delivery, cost), and the strategic use of public procurement for innovation is not straightforward. Efforts (training, new tendering methods, e-procurement) are needed to facilitate the integration of sustainability in procurement.

There are three main options for moving forward with sustainability procurement: 1) 'nudging' and soft law, calls to buy green; 2) regulations (e.g. EU law) whereby certain choices are mandatory, e.g. with a method to integrate total cost of ownership and a price on emissions; 3) free initiatives on the part of local governments to co-ordinate their public procurement tenders.

Setting targets for sustainable public procurement can help, provided tools are there to allow procurers to comply and to avoid an overload of secondary objectives. Innovation could also occur through requiring procuring agencies introducing innovations of their choice to report back to their central government.

The design of public procurement for innovation may be the domain of sectoral specialists working upstream of the design and management of the procurement.

The procurement of functionality rather than specific products and technologies (e.g. a low-emission, high-efficiency ferry, as opposed to a ferry running on biofuel) can encourage innovative solutions and business models. Sustainability can be such functionality, although clear criteria are needed to ensure that value for money is delivered by the market.

Sustainability criteria can be used to rule out certain practices from procurement (e.g. in the case of a mandated increase in energy efficiency, the obligation to source labelled materials); the mandatory use of these criteria can help to overcome budgetary constraints.

Life-cycle costing has been used systematically in some jurisdictions to integrate the cost of operations, including environmental externalities (CO₂, NO_x and other emissions, water usage), in the bid price, a strong encouragement to minimise these impacts. Some jurisdictions combine the use of labels or standards, and financial incentives to foster adoption of 'green' solutions in procurement.

Suppliers can also demonstrate sustainability performance with their own tools and standards (e.g. a contractor proposing positive energy buildings). But this must be taken into account in the awarding of contract, and comparison can be difficult as suppliers use different methods. Some jurisdictions mandate a single method. Procurement agencies, end-users of procured goods and services and the private sector can work together, e.g. to discuss the development of methods, standards or labels that will direct innovation.

Risk-taking is not natural among procurement officers, whose performance can be measured with the effective delivery of operational services, products or works. Incentives are needed to encourage risk, an essential element of innovation.

Pre-commercial procurement and R&D grants are effective, including for SMEs, but they need to be complemented with a commitment to buy, under conditions of performance. Innovation partnerships in the 2014 EU Directive could be a good vehicle for going from experimental to market stage. Innovation procurement can also be used to cover all phases of innovation (from R&D to acquisition of commercial volumes), with multiple operators to ensure competition in each phase.

Government can also create the conditions for innovation outside procurement, e.g. by providing information on material flows to industrial plants to encourage circularity.