

MLE Innovation Related Procurement


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

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Madrid, November 2017

- 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.*



**Mutual Learning Exercise
on Innovation Related
Procurement**

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

Challenge paper, Topic C




Diagram illustrating interconnected gears representing various procurement and innovation concepts: PROJECT RECOMMENDATIONS, DECADES OF PRACTICE, ON-DISTANCE SUPPORT, HIGH-LEVEL EXPERTISE, and THE LEARNING.

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. to ‘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’.

Categories of mechanisms

- 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

	RANK		ALL	POLICY	"NOT POLICY /
Topic 1		Rationale: What is the rationale for financing IEP and PCP?	14	1	13
Topic 2	1	Mechanisms: What are the different financial mechanisms / incentives being used?	42	33	9
Topic 3		Features: What are the important features of financing mechanisms from the point of view of the end user and the provider?	15	11	4
Topic 4	2	Impact: Have the different financial mechanisms delivered the expected	38	24	14
Topic 5	5	Synergy: How can the different financing mechanisms be used together to achieve maximum impact?	24	12	12
Topic 6	4	Missing links: Are additional or alternative financial mechanisms needed? Are opportunities being missed?	27	9	18
Topic 7		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;	1	1	0
Topic 8	3	Challenges and success factors: What are the challenges faced when financing IEP and PCP? What are the success factors?	29	17	12
Topic 9		Framework conditions: What the framework conditions for effective financing of IEP and PCP?	20	12	8

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

