Advantages of investing in Innovation Procurement. H2020 support and EAFIP Initiative

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Innovation Procurement:
- Procurement of R&D services to tackle specific public needs when solutions are not yet on the market (PCP)
- Procurement of solutions new to the market where the public sector acts as first customer (PPI)
Why Innovation Procurement?

WIN-WIN FOR THE PUBLIC SECTOR IN EUROPE

- Modernization of public services – improving the quality and efficiency of public services and tackling societal challenges with innovative / breakthrough solutions for the benefit of the citizens
- Smart use of the procurement budget to remove supplier lock-in and obtain more open, standardized and better value for money solutions in a cost effective manner
- In times of economic distress innovation procurement can boost innovation in a country/region without extra funds – only by shifting existing procurement budget towards R&D and Innovation
- Benefits to the local economy- support to the economic activity in sectors related to the innovative solutions purchased or developed
- It can create growth and jobs in Europe (in PCPs, suppliers can be required to do the majority of R&D in Europe)
WHY INNOVATION PROCUREMENT

WIN-WIN FOR THE PRIVATE SECTOR IN EUROPE

- The power of the public pursue can open up market/sales opportunities for innovative companies in Europe
- Public sector can act as launch customer to help start-ups in Europe scale up and finally go to market
- Demand driven Innovation (through Procurement) helps shortening time-to-market for innovative products/services

SCALE – UP EUROPE MANIFESTO

Calls on the Member States:
- to open public procurement by supporting more Innovation
- to allocate of their annual procurement budget 3% to Pre-Commercial Procurements and 20% to Public Procurements of Innovative Solutions
• Get 20% better value for money products (US defense data)
• Use PPI also if no (more) R&D needed for procurement need
• Use a small budget PCP to de-risk a large budget PPI
  • PPI spec can be 'completely rephrased' benefiting from PCP lessons learnt
• Use conditions that encourage job creation 'in Europe'
  • Because PCP falls outside WTO rules
• Prevent foreclosing of competition & crowding out of private investment in R&D
  • Companies that are not financing their R&D via procurement/PCP (e.g. via grants, own company resources) can still bid for deployment contracts/PPIs
• Facilitates access to procurement market for SMEs
  • Gradually increasing contract sizes, tasks, required manpower
  • Stringent financial guarantee/qualification requirements: 'no' in PCP, 'ltd' in PPI

... above not the case if R&D is procured as part of/inside large deployment contract

->New innovation partnership procedure not supported in H2020 (for other purpose)
Objectives of the study on Quantifying the impact of PCP in Europe

- Quantify the **economic impact** of pre-commercial procurement (PCP) in Europe, **compared** to other procurement approaches, based on detailed information from public procurers and awardees collected through questionnaires
  >> **analyze whether and how much the impacts observed in PCPs (panel 1) differ from the impacts observed in the panels 2 (R&D services contracts) and 3 (mixed R&D services and supply contracts) of the control group of procurements**

- Provide a series of **recommendations** for new actions to be undertaken at EU level and at national level to encourage the use of PCP and improve the link with potential follow-up public procurement of innovation (PPI).
Findings of the Study on the impact of PCP

Improvements in the quality and/or efficiency of the public services achieved by deploying the innovative solutions developed as a result of the PCP;

- **Increase in quality and decrease in prices of products resulting from the highly competitive multi-sourcing, phased procurement approach that distinguishes PCP from other procurement approaches;**

Reduction in the risk of failure in large scale follow-up PPI procurements

Increase in the efficiency of R&D expenditures;

Speeding up time-to-market for firms and facilitating the access of SMEs to the procurement market;

- **Attracting financial investors to Europe;**

*Increased interoperability / impact on standardization / reduction of supplier lock-in;*

- **Impacts on competition structure in the market;**

Increased exploitation of IPRs and R&D results in general.
Growing impact at European level

More info on these EU policy initiatives on innovation procurement

European Council asking for more balanced use of supply and demand side instruments (in particular more PCP)

Study measuring amount of R&D procured in all MS
First national PCPs started by procurers in MS without EU funding

ESIF and H2020 reinforce PCP/PPI support
European award for innovation proc

2014 public proc dirs, EU state aid rules

First joint cross-border PCPs launched (FP7)
Increasing amount of EU funding for PCP & PPI

Network national competence centers on innov proc
ERAC council recommendations
eafip launched
1st joint cross-border PPI launched

Council & EP conclusions on PCP Communication
FP7 & CIP: awareness raising/networking procurers

Europe 2020: IU and DAE targets for PCP and PPI
EC Survey on state of implementation of PCP across MS (national legal FW)
Growing impact at Member State level

PCP and PPI in ESIF: PL, HU, IE, FR, ...
EE, LT develop innov. proc. Strategy
Gr announces creation of competence center

DE, PL put innov. proc. in R&D&I strategy
IT (€ 150M), ES (€ 250M) to PCP/PPI struct funds
Baltics (LT, LV, EE) join Norden agreement
FR sets 2% target for innov proc.

NO, FI, SE, DK, IS min. agreement on cross border innov. proc. collaboration (including 2,5% target)

AT, NO, DK, IS, IT include innov. proc. in R&D&I strategy
ES (3%), NL and UK (2,5%) set expenditure target for innov. proc.

FI, SE, ES, Flanders (BE) launch support program & competence center for procurers

FI, SE, ES, Flander (BE) include innov. Proc. in R&D&I strategy

UK NHS and MOD PCPs and PPIs, NL launching customer (PPI)
What can countries/regions do?

**Political encouragement**
- Modernising public sector 'a priority'
- Quality-efficiency improvement targets
  - e.g. Lombardia/IT, UK
- Target % proc budgets to R&D&I
  - Monitoring framework
  - e.g. UK, NL, ES, Nordics, FR

**Implementation**
- Innov Proc Competence center
  - Training / assisting procurers
  - (e.g. SE, FI, ES, EE, DE)
- Innov Proc financial support program
  - (e.g. SE, FI, ES, EE, HU, DE)

**Encourage demand side to meet supply side**
- Early notification innov proc needs
- Open market consultations
  - Meet the buyers events

**Leverage EU funding**
- Horizon 2020
- ESIF
- EIB loans
  - Increased support for innov proc
- **Speed up public sector modernisation** – improve quality and efficiency of public services with breakthrough solutions

- **Get better value for money through cooperation** - enable public sector around Europe to share cost + experience to buy new solutions that can respond to concrete public needs

- **Address issues of common interest together** – e.g. where interoperability and coherence of solutions across borders, pooling of resources or market defragmentation is required

- **Create growth and jobs in Europe** – help innovators bring European R&D to the market (the majority of R&D in H2020 funded PCPs should take place in Europe, ltd set of first test products can be bought in the PPI from companies in the PCP)
12 FP7 funded PCPs have awarded contracts by now
- SILVER (Robotics for elderly care)
- CHARM (Traffic management)
- PRACE 3IP (Energy efficient supercomputing)
- SMART@FIRE (Smart protective equipment for fire fighters)
- PREFORMA (Long term digital preservation)
- DECIPHER (Mobile health services)
- Human Brain Project (High Performance Computing for brain simulation)
- V-CON (Virtual construction of road infrastructure)
- Cloud for Europe (Cloud computing for governments)
- Thalea (Telemedicine for intensive care unit patients at increased risk)
- IMAILE (Personalised e-learning solutions)
- NYMPHA-MD (Mental care for bipolar disorders)

HBP PCP doesn't result from a PCP call. HBP decided itself to use PCP under its subcontracting activities.

Contracts awarded
- Tender docs downloaded typically between 50 to 300 times
- Nr of offers received typically between 10-34 (4-7 for specialised/low budget PCPs)
- 77 contracts awarded in total (130 companies/universities involved)
Data collected so far

• Opening route-to-market for new players/SMEs
  - 73% of contracts won by SMEs (SME lead bidder, bidding alone or with partners)
  - Compared to 29% in public procurements across Europe
  Mostly small young SMEs: 27% below 10 people, 60% below 50 people, 49.5% less than 10 years old

• Joint procurement stimulates cross-border company growth
  - 29% of contracts won by bidders that are not from a country of any of the procurers in the buyers group (e.g. DE company working for UK+NL procurers)
  - Compared to 1.26% in public procurements across Europe (also in national PCPs)

• Relevance to universities & bringing scientific results to market
  - 31% of winning contracts have university/R&D center partner in consortium
  - Winning SMEs are also often university start-ups

• Encouraging commercialisation – budget efficiency
  – Bidders offered ~ 50% price reduction on R&D cost (market beyond procurers)
    -> PCPs can get twice as much R&D done for same budget as R&I action

• Creating growth and jobs in Europe
  – 98.7% of bidders do 100% of R&D in Europe
    (2 have committed to do minimum 68% resp. 85% of R&D in Europe)
Still companies out there that don't know about these contract opportunities. 5 additional Horizon 2020 funded PCPs will launch their call for tenders later this year. Who can help promote such upcoming call for tenders in their countries? Overview on-going projects: http://ec.europa.eu/digital-agenda/en/eu-funded-projects
Progress PCP implementation
Learn from first movers

Framework identified and/or pilots in preparation

Pilots started

2007

Awareness Raising
Exploring possibilities

Working on framework

Malta
Bulgaria
Slovakia
France
Luxembourg
Switzerland

Denmark
Lithuania
Ireland
Norway
Sweden
Spain
Finland
Belgium
Netherlands
UK

2017

Awareness Raising
Exploring possibilities

Working on framework

PCPs projects on-going or finished

Malta
Bulgaria
Cyprus
Slovenia
Luxembourg
Switzerland

Latvia
Iceland
Poland
Romania
Czech Republic
Slovakia
Ireland
Netherlands
Finland
Sweden
Spain
UK
Belgium
Austria
Norway
Italy

Norway
Sweden
Finland
Spain
UK
Belgium
Austria
Norway
Italy
H2020 support to Innovation Procurement in 2016-2017

PCP/PPI Actions + Coordination and Support Actions (CSAs)
Forms of support

- **Coordination and Support Actions (100% funding rate):**
  - Support only coordination activities e.g. preparation of a PCP or PPI by a group of procurers (identifying common challenges, open market consultation with industry before initiating a concrete PCP or PPI etc)
  - CSAs do not provide EU co-financing for an actual PCP or PPI procurement

- **PCP Actions (90% funding rate):**
  - Provide EU co-financing for an actual PCP procurement (one joint PCP procurement per action) + for related coordination and networking activities (e.g. to prepare, manage and follow-up the PCP call for tender)

- **PPI Actions (35% funding rate):**
  - Provide EU co-financing for an actual PPI procurement (one joint or coordinated PPI procurement per action) + for related coordination and networking activities (e.g. to prepare, manage and follow-up the PPI call for tender)

! New !
In addition, other entities can also participate
- In buyers group: also private/NGO procurers providing services of public interest
- In coordination/networking activities: any private/public type of entity (e.g. experts, end-users, certification bodies that assist procurers) that has no conflict of interest (no potential suppliers of solutions for the PCP/PPI)

Public procurers are contracting authorities or contracting entities as defined by the EU public procurement directives

MS = Member States
AC = Countries Associated to Horizon 2020
**Buyers group**
- Beneficiaries that provide the financial commitments for the PCP or PPI.
- Min 2 public procurers from 2 different Member States or associated countries
- Shall represent the demand side for the innovations, a critical mass of procurers that can trigger wide implementation of the innovations, shall aim for ambitious quality/efficiency improvements in area of public interest.

**Lead procurer**
- Public procurer in project appointed by the buyers group to lead and coordinate the PCP or PPI. Can be part of buyers group or not.

**Subcontractors**
- Successful tenderers, selected by the buyers group & lead procurer as result of the PCP or PPI call for tender, to provide the R&D services (PCP) or innovative solutions (PPI).
- They do 'NOT' enter the grant agreement with the EC.
PCP and PPI actions - Eligible activities

- **Preparation stage**
  - Preparation of **one** joint PCP or **one** joint or coordinated PPI procurement per action
    - Open market consultation / verification of market readiness to meet procurement need
  - Outcome
    - Agreed common tender specifications + Joint procurement agreement
    - Confirmation of availability of financial commitments to start PCP/PPI

- **Execution stage**
  - Joint procurement of the R&D services (PCP) or innovative solutions (PPI)
  - Follow-up of suppliers and validation of results
    - PCP: Validation/comparison of the performance of the competing PCP solutions against jointly defined criteria in real-life operational conditions
    - PPI: Evaluation of results of deploying and operating the procured solutions in real-life operating conditions
  - Dissemination/exploitation of results

Other coordination/networking activities relevant to the action (e.g. preparation of follow-up PPI, contribution to standardisation / regulation / certification)
Reimbursement rate direct costs: Max 90% respectively 35% of eligible costs for PCP respectively PPI actions

- Eligible direct costs to carry out eligible activities defined in WP include:
  - Price of the R&D services (PCP) or innovative solutions (PPI) procured (if procurement conducted in compliance with requirements in Annex E WP)
  - Eligible coordination and networking activities
  - May include in-kind contributions (e.g. third parties putting resources at disposal of beneficiaries e.g. for testing of solutions)
  - VAT is an eligible cost unless for beneficiaries that can deduct it

- Requested reimbursement for coordination and networking activities can comprise max 30% (for PCP) / max 50% (for PPI) of total requested grant

Plus 25% for indirect costs. But, no indirect costs on the price of the PCP/PPI procurement or on 3rd party resources not used at the beneficiary premises

Pre-financing: Yes, 1st pre-financing at start project for costs for preparation stage, 2nd pre-financing before execution stage for rest of costs (incl. call for tender)
• Importance concrete procurement need
  • Surveys: what companies need = customer requirements. No use to do PCP/PPI for the fun of funding innovation.

• Importance preparatory work
  • Still R&D needed? Need to compare competing solution approaches. No test proof yet whether any can meet procurement need. (PCP)
  • Already solutions near or on the market. No R&D but perhaps still close-to-market adaptation/integration-scaling up needed. (PPI)

• Importance of open market consultation
• Importance of defining IPR conditions up front in call for tender
• Importance of wide promotion of call for tender
• Learn from others – no need to reinvent the wheel
eafip INITIATIVE

- Toolkit and Help-desk
- Workshops & Conferences
- Free local assistance
- Identification of key procurers in the ICT sector
EAFIP TOOLKIT

The eafip Toolkit aims to provide support to policy makers in designing PCP and PPI strategies, and to procurers and their legal departments in implementing such procurements. It will consist of three modules:

- **Module 1:** A strategic module addressed to policy makers, providing economic and case evidence about the impacts and benefits of PCP and PPI, together with concrete guidance on how to embed PCP and PPI into innovation strategies;

- **Module 2:** An operational module addressed to public procurers aimed at clarifying the pre-requisites and key steps to design and implement an innovation procurement process (PCP and PPI); and

- **Module 3:** A legal / operational module addressed to legal services aimed at clarifying legal issues and provide practical ‘how-to’ guidelines, supported by templates.
For more detailed info on Innovation Procurement please the following link:

where you can also find the brochure on the PCP/PPI projects that are currently EU Co-funded

For the synergies between H2020 and ESIF please visit:

European Assistance for Innovation Procurement (Eafip):
http://eafip.eu/
Thank you very much for your attention

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