



PUBLIC PROCUREMENT OF INNOVATION: HOW DO START-UPS FIT IN

A brochure for public buyers

Innovate **differently.**
Innovate **better.**
Innovate with the **public sector.**



Luxembourg: Publications Office
of the European Union, 2023
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PDF ISBN 978-92-76-61995-6
DOI : 10.2873/422079
CATALOGUE NUMBER : ET-04-23-058-EN-N



Public procurement means more than just buying; it means **investing**

Public procurement rules no longer deal just with ‘how to buy’; they are also concerned with ‘what to buy’. Increasingly, it is recognised that making good use of taxpayers’ money is about more than merely satisfying the primary needs of public bodies. The public rightly want to know not just whether a solution procured with public money is formally compliant with the rules, but also whether it delivers the greatest added value in terms of quality, cost-efficiency, environmental and social impact and opportunities for suppliers.

Public procurement as leverage for start-ups and start-ups as leverage for **a better world**

Public investment and innovation are both essential to meet the challenges of the post-pandemic recovery, the green and digital transitions and the creation of a more resilient economy in the EU. As standard-bearers of innovation, start-ups – and especially the most entrepreneurial and imaginative among them – can bring significant innovation into the public sector.

DIVE INTO THE FUTURE OF INNOVATION

An ocean of opportunities

EU public procurement rules have enabled public buyers to design procedures suited not just large companies but also to smaller innovative suppliers and start-ups. Accounting for over 14% of gross domestic product (GDP), EU public procurement is a huge market for innovative products and services, but its potential is underused. The European Commission

aims to improve public procurement practices, promote demand for innovative goods, services and works in Europe, and foster the uptake of innovation in the EU. This will enable public demand to be integrated into the innovation ecosystem and foster sustainable economic recovery.

PUBLIC PROCUREMENT VALUE

by sectors with highest start-ups concentration

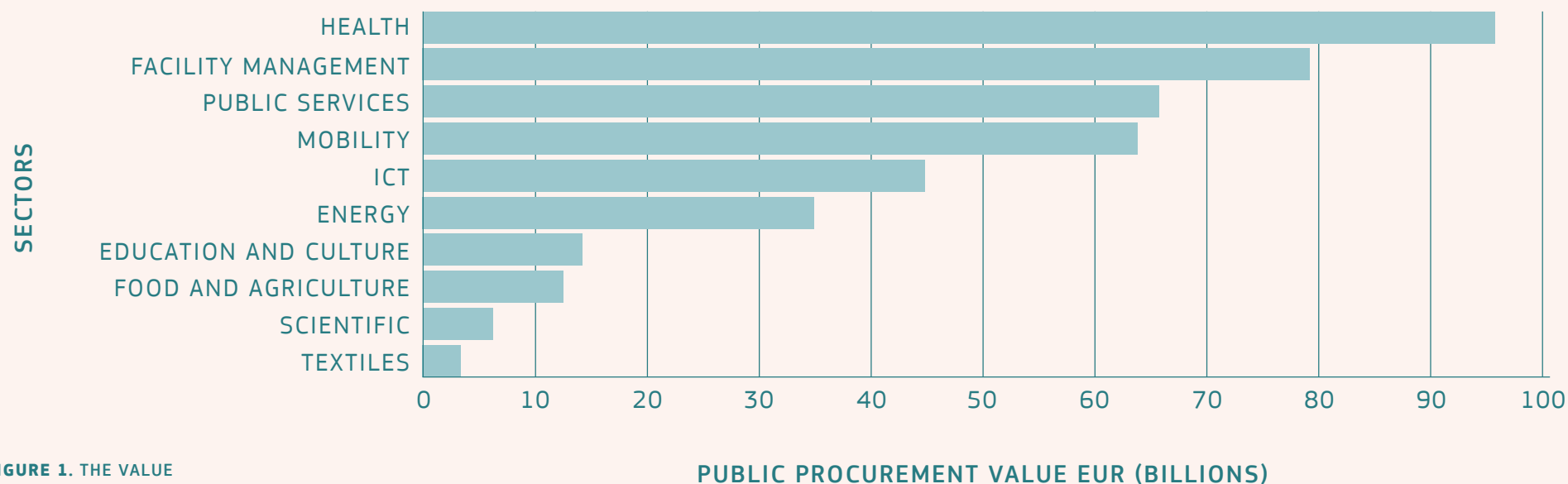


FIGURE 1. THE VALUE OF PUBLIC TENDERS BY SECTORS WITH THE HIGHEST CONCENTRATION OF START-UPS IN THE EU IN 2020.

The new **European innovation agenda**

The Commission will support the formation of an advisory service for innovation procurement specialists. This service will act as an intermediary between public buyers and innovative suppliers. The Commission will also support the creation of living labs and incubators, for example, to connect innovators and public administrators and support innovative solutions to public needs.

START-UPS AS INNOVATION ACCELERATORS AND PUBLIC BUYERS AS START-UPS ACCELERATORS

Why attracting start-ups?

1 To understand where the next generation of ideas and solutions come from: start-ups are ambitious and dynamic innovation accelerators and are therefore more likely to find innovative solutions that respond to needs.

2

Working with start-ups can often lead to new more agile ways of working and thinking in your organisation or institution.

3

To attract more interest, and therefore receive a more wide-ranging and higher quality offer of new solutions for innovation procurements. Start-ups can bring a completely different viewpoint to bear on how to serve a public need or solve a problem that affects the public.

4

To get the most out of the 2014 EU public procurement rules, which have enabled contracting authorities to design procedures that are adapted to smaller innovative suppliers.

5

To give innovative companies an opportunity to test their new solutions in real-life conditions and use cases so they can scale up their solutions and increase the impact they have in your city/region, etc.

6

To diversify the economy, by allowing businesses to meet their customers wherever they are, assessing the readiness of a new product or identifying the costs of applying innovative technologies.

7

To understand who the emerging players to watch out for in the ecosystem are in the context of supplier market intelligence.

8

To get a better knowledge of how to use digital tools and of the role data plays in innovation.

INNOVATION PARTNERSHIP: A PROCEDURE MADE FOR START-UPS

What is the ‘innovation partnership’?

The innovation partnership is a procedure that combines research, innovation and procurement. The process is divided into phases. The tendering phase takes place at the very beginning of the procedure, when the most suitable partner or partners are selected on the basis of their capacity to execute the contract and their tenders. In the next phase, the partner(s) develop the new solution in collaboration with the buyer. This phase can be divided into several stages during which the number of partners may be gradually reduced, depending on whether they meet predetermined targets. In the final, commercial phase, the partner(s) produce the innovative solution, which will be purchased by the buyer.

Procure innovation, procure the future

Innovation cuts across all sectors. Current societal challenges and transitions often require solutions which are interdisciplinary and are able to connect different sectors. Very often start-ups have the ability to make those connections.

The sectors in which there are a lot of start-ups involved in innovation partnership procedures tend to be the sectors with a high proportion of start-ups generally. By procuring from them, the public buyer invests in them and in the future much like a venture capitalist, with the difference that there is no shareholder asking for the investment to be repaid. The return on investment for public buyers is the societal impact which the procured innovation from start-ups can often provide.

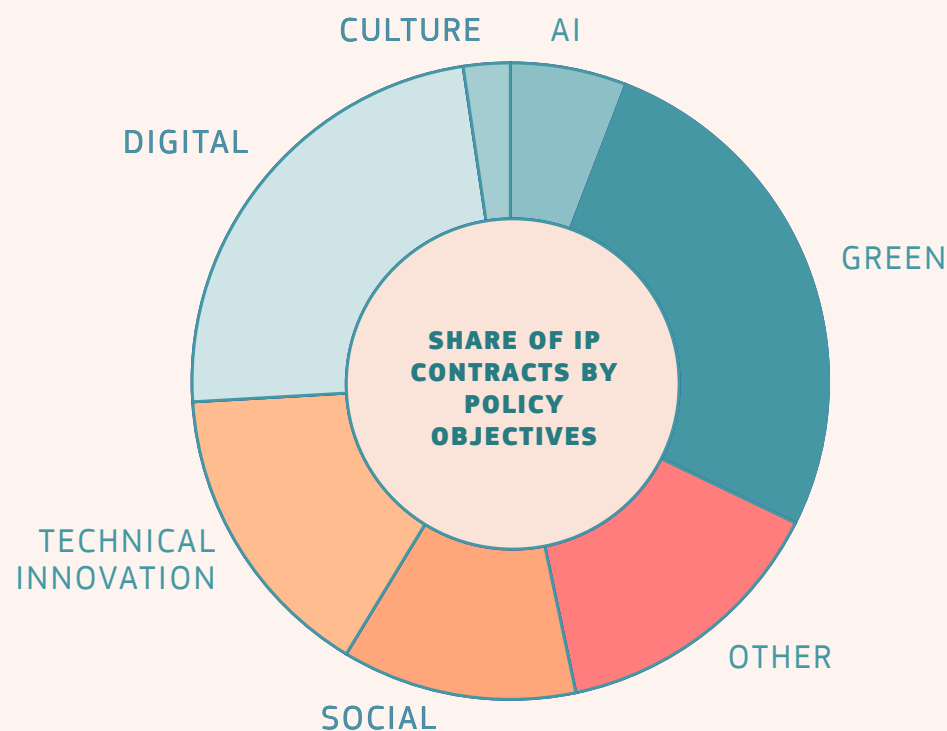


FIGURE 2. THE PROPORTION OF INNOVATION PROCUREMENT PROCEDURES AWARDED TO SMES BY POLICY OBJECTIVE IN THE EU BETWEEN 2016 AND 2021.

CONNECTING PUBLIC BUYERS WITH INNOVATION ECOSYSTEMS

The European Commission has launched a number of initiatives specifically designed to connect the public procurement world with innovation ecosystems. The figure below displays a new paradigm to be followed in public procurement which takes account of the expanded innovation ecosystem. Under this new paradigm, it is especially important for the

buyer to focus on the preparation of the call and on contract execution. The call should be prepared in close connection with the innovation ecosystems, which include small and medium-sized enterprises (SMEs) and start-ups, innovation agencies, living labs, universities, research centres, etc.

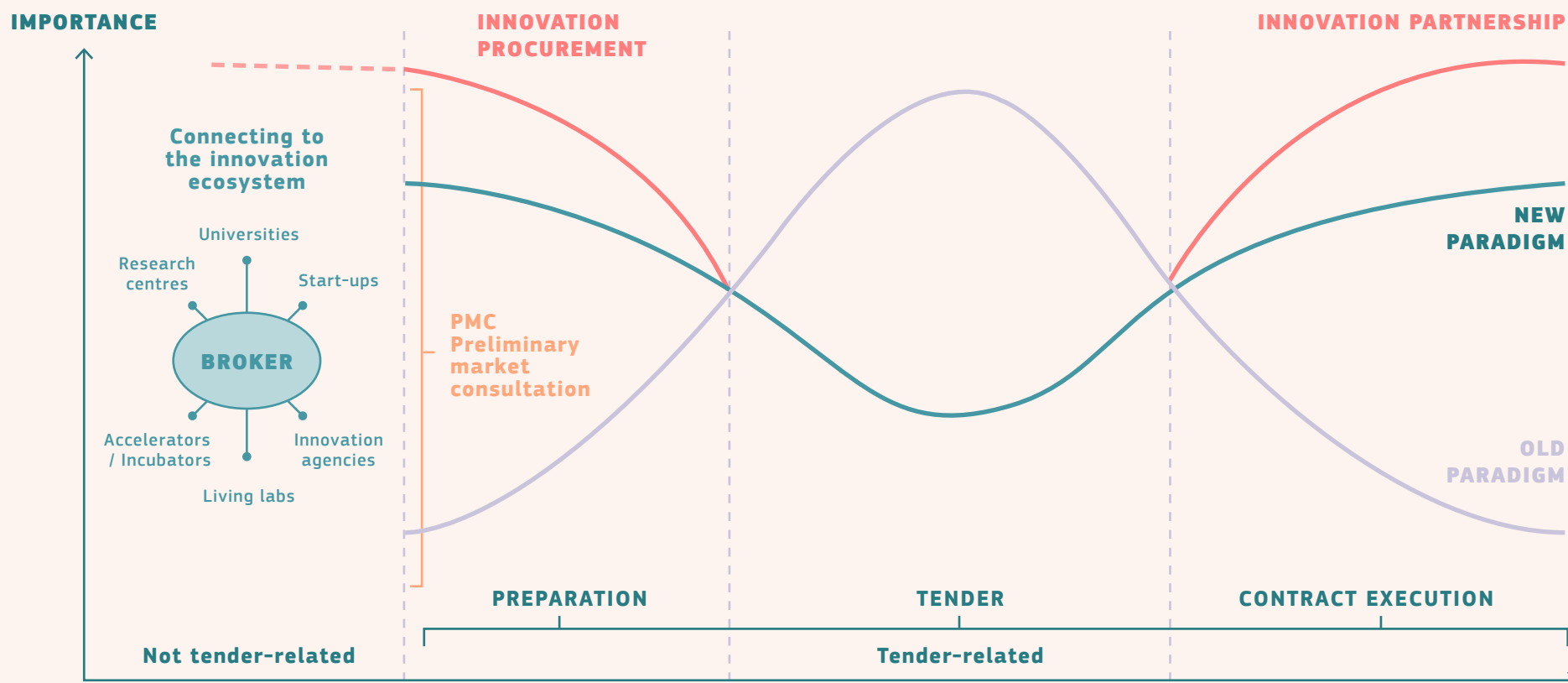


FIGURE 3. THE PHASES OF INNOVATION PROCUREMENT AND THE ROLE OF INNOVATION PROCUREMENT BROKERS.

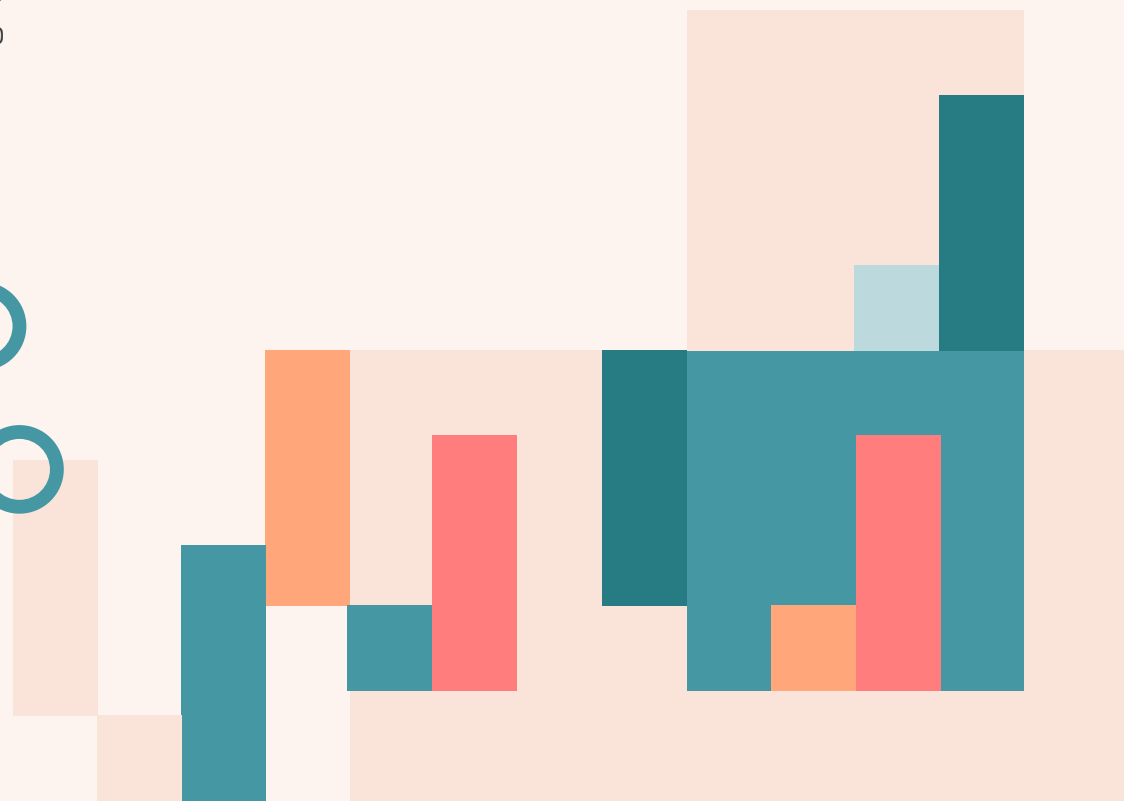
Sustainable hubs

As indicated in the [new European innovation agenda](#), the European Commission will support the creation of living labs and incubators, for instance, to connect innovators and public administrators and support innovative solutions in areas of public need. The European Commission has launched a call for projects to create laboratories (living labs and incubators) in which the challenges and needs of public bodies can be addressed and overcome with innovative solutions from start-ups and entrepreneurs. The objective is to forge a strong link between innovators and public administration in areas like mobility, green and digital transitions, health, education, etc. It will also help to develop purchasing practices that are conducive to the creation of new markets for innovative firms.



What is Innobroker?

The [innovation procurement brokers project](#) has worked to facilitate the procurement of innovative goods and services by strengthening the links between public buyers and innovative companies. Public buyers were supported in identifying their needs by intermediate bodies or parties, the 'broker'; then, when they were ready, the buyers were put in touch with SMEs and start-ups able to develop innovative solutions responding to their requirements.



BEFORE STARTING, CHECK THAT YOU HAVE THE RIGHT CONDITIONS TO ATTRACT START-UPS! BEAR IN MIND THAT SIMPLIFICATION IS THE KEY TO ATTRACTING START-UPS TO PUBLIC PROCUREMENT MARKETS!

ENABLING CONDITIONS

ACTIONS



Have the right strategy in place from the start

To attract innovative companies, the technical specifications should be set out in terms of functional requirements (i.e. what needs to be done) for the solution to be developed i.e. defining the problem to be solved while avoiding being overly prescriptive about how to solve it. This is especially important as start-ups operating in a different sector might have a solution that can also be applied to your problem. Market research and market consultations can help you to understand what is and is not available to buy, as well as the composition of the markets you are buying from.

Reduce the administrative burden

According to the once-only principle, require the European Single Procurement Document for participation in public procedures, so that start-ups can reuse previously inserted data and apply more quickly.

Adjusted selection criteria

Require a turnover level no more than twice the estimated contract value to avoid excluding potential tenderers with lower turnover who might still have the necessary capacity and – even more importantly – a better solution.

Choose means of proof that do not require a bidder to have been in business for many years (such as turnover, educational and professional qualifications of service provider instead of certificates of satisfactory execution). If possible, consider setting low selection criteria.



Start-up-friendly
tender features

Define upfront, in the tender documents, the allocation of intellectual property rights linked to the public contract: start-ups may be less inclined to participate in a call for tenders, or to exploit their full innovation potential, if they are not going to retain the property rights for their inventions.

Divide the tender into lots to ensure that smaller operators can bid, as they may not be able to deliver on all aspects of a large contract. It is also possible to limit the number of lots awarded to any single bidder.

Open up the possibility of variants, to facilitate the participation of start-ups and innovative SMEs that provide one innovative solution only.

Start-up-friendly
contract features

Ensure that the size and duration of the contract is not an obstacle. Smaller contracts, including the division of contracts into lots, may facilitate access for companies or organisations with less capacity. On the other hand, short contracts, of 1 year or less, may make it difficult for a small contractor to invest in and deliver outcomes, especially when it takes time for the results of an initiative to be apparent.

Design the contract according to the development phases and align payments with those development phases to provide a constant cash flow and liquidity.

Envisage on-time or pre-financing payment schemes: start-ups and innovative SMEs need to be paid early and on time because they don't have the financial buffers that larger companies do.





Start-up-friendly
contract features

Where the contract will require data protection expertise – the use of public information for example – make the specifications clear about what role the contracting authority will play, and the contractor’s expectations. Consider giving the contracting authority a bigger role to play in giving advice on data protection requirements. This could be particularly relevant for digital innovation.

Build into the contract only essential reporting requirements and progress meeting requirements. For example, link reporting needs only to a progress and payments schedule, and hold meetings only at key milestones. By doing this, the buyer reduces the administrative burden for the start-up and themselves.

Communication

Besides publishing the call in the national portal for public procurement notices and on TED¹, publish it on social media and publicise it elsewhere, on portals and in publications for example, especially those dedicated to innovative businesses.



¹ Tenders Electronic Daily, at <https://ted.europa.eu/> if the call is above the EU thresholds for publication at EU level.





Contact details

Any questions? Contact us: GROW-INNOVATIONPROCUREMENT@ec.europa.eu

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