

# PPPI · POLICY BRIEF

## Public Procurement Promoting Innovation in Austria

October 2014

## IMPLEMENTATION OF THE AUSTRIAN PPPI ACTION PLAN 2013/2014

**SUMMARY:** The Action Plan “Public Procurement Promoting Innovation (PPPI)” was adopted in 2012. Its implementation is making good progress and has been positively received by the procurement community. A political commitment to innovation procurement plans, targets and budgets, and a smart procurement policy mix are recommended.

### THE CONTEXT OF INNOVATION PROCUREMENT

Public procurement promoting innovation (PPPI) is high on the policy agenda. On the European level as well as on the national level, it is regarded as an important demand-side instrument and is included in the EU strategy “Europe 2020” (EC 2010/COM/2020) as well as in the Austrian national “RTI Strategy” (BKA et al. 2011). PPPI includes:

- commercial public procurement of innovative solutions (PPI)
- pre-commercial procurement of R&D (PCP).

Boosting innovation through demand-side measures is not a new approach. Policies such as technology-based standards, innovation-oriented regulation, and innovation procurement have been used in the transport, energy, and defence sectors, among others. The recent increase in interest in this issue is based on two considerations. On the one hand, demand-side policies are expected to be less expensive than supply-side policies, such as direct and indirect government funding of public and private research and development (R&D), and provision of risk capital and research infrastructure. On the other hand, demand-side policies are expected to be effective in orienting innovation towards societal challenges such as health, inclusion, safety & security, and sustainability.

At present, hopes are high that demand-side policies can provide a powerful lever. However, it would be misleading to see this as moving away from supply-side policies. Instead, it is important that demand-side and supply-side policies are integrated in an appropriate policy mix.

### THE CHALLENGE OF INNOVATION PROCUREMENT

Procurement and innovation are often seen as antagonists. Although delivering qualitative public services is the ultimate goal of public entities, public procurement is oriented towards cost-saving as an economic necessity, and towards providing safety & security as a welfare-state principle. Both are reasons for the inherently conservative and risk-averse nature of public procurement, which in turn is antithetic to innovation.

However, there is also an innovation need because of the increasing requests made by citizens and politicians. They urge public procurers to tender innovation solutions or even R&D. The ultimate rationale is that the acquisition of innovative goods, works and services should contribute to the effectiveness and quality of public services, whilst at the same time helping to meet the challenges facing society today.

### THE AUSTRIAN PPPI ACTION PLAN

The Austrian PPPI Action Plan<sup>1</sup> was adopted in 2012 and has robust political and institutional backing. First, the PPPI Action Plan is linked to the Austrian “RTI

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<sup>1</sup> Leitkonzept für eine innovationsfördernde öffentliche Beschaffung (IÖB) (BMWFJ/BMWIT 2012).

Strategy” (see above). Second, it has been developed on the basis of a stakeholder process involving the relevant players of the Austrian procurement community. Third, its implementation has been mandated by the Austrian Government<sup>2</sup>.

The cooperative process owners of the Action Plan are the Ministry for Transport, Innovation and Technology (BMVIT) and the Ministry of Science, Research and Economy (BMWFW).

The Action Plan aims at increasing the share of innovation-demanding public procurement. This should create two kinds of impacts. On the one hand, it should stimulate industry to deliver better goods/services, while on the other hand enabling public bodies to deliver better public services.

Although there had been experience with the promotion of innovation through public procurement prior to the Action Plan in Austria<sup>3</sup>, it had been a more or less marginal issue. To overcome this marginalisation, the stakeholders of the PPPI strategy process gave out the clear message that the envisaged increase of the share of procurement budgets dedicated to innovation will require further support. Accordingly, the Action Plan suggests a set of instruments comprising four dimensions:

- **STRATEGIC DIMENSION** (“soft law”): Political commitment to the introduction of innovation-related procurement plans in public entities and dedication of budgets; integration of innovation needs of public procurers in existing programmes.
- **OPERATIVE DIMENSION** (state aid & procurement): Establishment of PPPI service centres to provide tailored support; establishment of specific incentives stimulating innovation procurement; initialising PPPI pilots.
- **LEGISLATIVE DIMENSION** (“hard law”): Amending procurement law to include innovation as an explicit issue.
- **IMPACT DIMENSION**: Establishment of innovation procurement monitoring and benchmark systems.

The PPPI Action Plan does not specify a quantified target, i.e. a percentage of procurement budget dedicated to innovation, but several possible quantitative targets – from 1% to 5% – are mentioned in the text, inspired amongst others by the US SBIR Programme (US-IPC 2014).

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<sup>2</sup>Decisions of the Austrian Council of Ministers; see overview of the architecture, dates and mandates of the Austrian stakeholder process (Buchinger 2012).

<sup>3</sup>The Action Plan includes good practices; see also (Buchinger/Steindl 2009; Br nner et al. 2012; I B-Serviceestelle 2014).

## THE AUSTRIAN SMART PROCUREMENT POLICY MIX

The policy mix idea is well established in Austria. Its application to demand-side approaches results in a policy complex which could be labelled the Austrian “smart procurement policy mix” (Fig. 1).

In this policy mix, the PPPI Action Plan, the Action Plan for Sustainable Public Procurement (SPP) and the Fair Public Procurement Initiative (FPP) complement each other<sup>4</sup>. The SPP Action Plan is compulsory for federal public entities. As part of the SPP Action Plan, green procurement services (i.e. indirect state aid) are implemented at national level and are linked with green procurement services at the level of the federal provinces<sup>5</sup>.

Two further instruments are part of the smart procurement policy mix. The Austrian Security Research Programme KIRAS is a direct state aid instrument offering grants for procurement-oriented R&D.<sup>6</sup> WienWin, an initiative of the City of Vienna, is an indirect state aid instrument offering R&D brokerage between municipal entities and Viennese companies.<sup>7</sup>

It is an explicit goal of the PPPI Action Plan to identify and exploit synergies with other instruments.

## ACHIEVEMENTS IN THE IMPLEMENTATION OF THE ACTION PLAN

The implementation of the PPPI Action Plan is making good progress. Achievements in all four dimensions can be observed.

Addressing the **STRATEGIC DIMENSION**, the introduction of innovation-related procurement plans in public entities has started with awareness activities. There is already a first example of the integration of innovation needs of public procurers into an existing programme (see below: PCP pilots as part of the “Transport Infrastructure Research” programme).

Addressing the **OPERATIVE DIMENSION**, the PPPI Service Centre ([www.ioeb.at](http://www.ioeb.at)) was initially established within the Federal Procurement Agency (BBG) in 2013. It offers various services ranging from e-platforms to consulting and training to awareness activities and event organisation. All these services are well received by the procurement community. Subsequently, PPPI competence centres have been set up in order to cooperate closely with the service

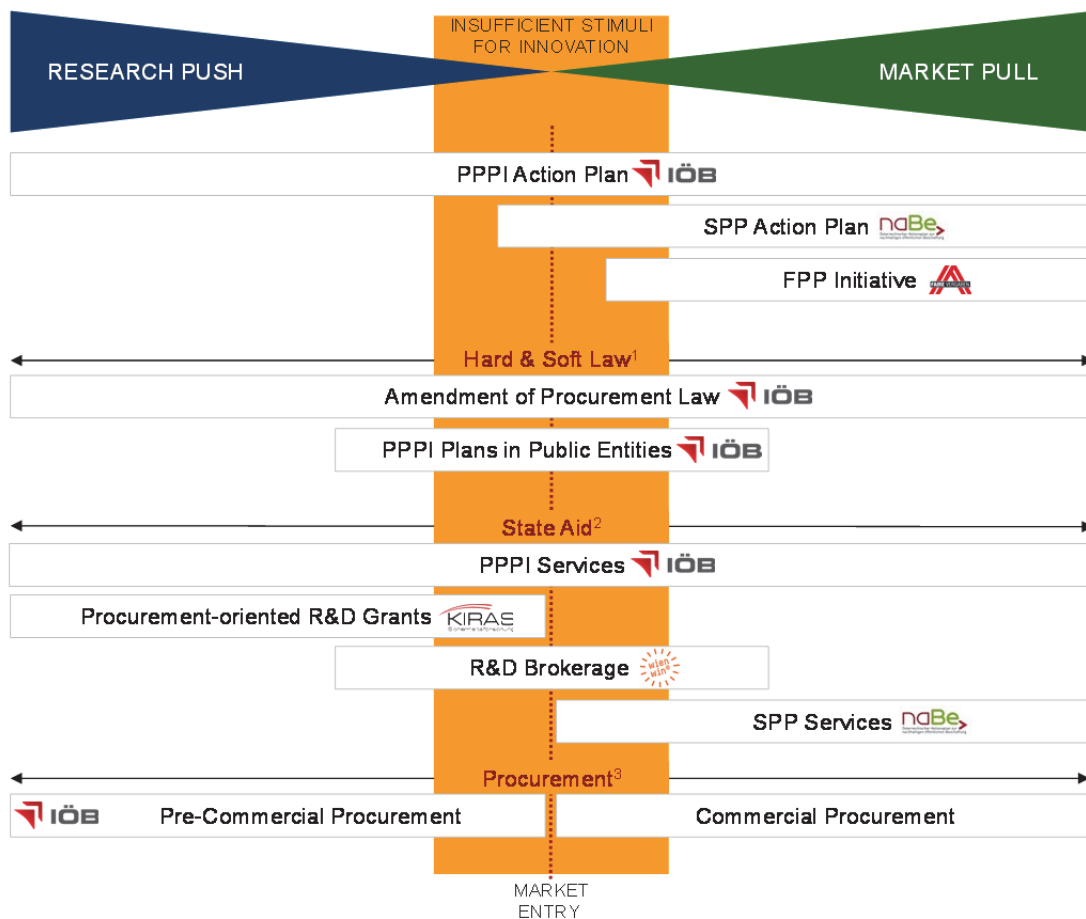
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<sup>4</sup> sterreichischer Aktionsplan zur nachhaltigen  ffentlichen Beschaffung (naBe) (BMLFUW/BMF 2010), adopted in 2010. FPP started only recently, April 2014, <http://www.faire-vergaben.at/>.

<sup>5</sup>[www.nachhaltigebeschaffung.at/](http://www.nachhaltigebeschaffung.at/), [www.oekokauf.wien.at](http://www.oekokauf.wien.at), [www.oebshop.at/](http://www.oebshop.at/), [www.umweltgemeinde.at/beschaffungsservice](http://www.umweltgemeinde.at/beschaffungsservice)

<sup>6</sup><http://www.kiras.at>

<sup>7</sup>[www.wienwin.at](http://www.wienwin.at)



**IÖB** PPPI Public Procurement Promoting Innovation (IÖB Innovationsfördernde öffentliche Beschaffung): National action plan

**naBe** SPP Sustainable Public Procurement (naBe Nachhaltige Beschaffung): National action plan

**FPP** Fair Public Procurement (Faire Vergaben sichern Arbeitsplätze): Social and economic partners' initiative

**WienWin**: Regional research & development brokerage programme

**KIRAS**: National procurement-oriented research & development funding programme

<sup>1</sup>“Hard law” = legislation, “soft law” = strategies, plans, agreements etc.

<sup>2</sup>Direct and indirect state aid according to the EU “Framework of state aid for research & development & innovation” (EC 2014/C/3282)

<sup>3</sup>Pre-commercial procurement of R&D (PCP) and commercial public procurement of innovative solutions (PPI) according to the EU “Procurement Directives” (EU 2014/24, 2014/25) and their application in the Austrian „BundesvergabeGesetz (BVG, Federal Tendering Act)” (BGBl 2006/17)

Figure 1: Austria's smart procurement policy mix

centre. At the moment there are commitments for “general competence centres” with the Austrian Research Promotion Agency (FFG) for PCP and the Austria Wirtschaftsservice (aws) for PPI. Commitments for “sectoral competence centres” have been set up with AustriaTech for “smart mobility”, and with the Austrian Energy Agency for “energy”. The next commitments are intended for “buildings”. Last but not least, the Austrian Economic Chambers (WKO) and the Platform of Procurers of the Austrian Federal Provinces have agreed to serve as PPPI “contact centres”.

A specific incentive stimulating innovation procurement was already set up when the Austrian PCP scheme was first introduced. Under the “Transport Infrastructure Research (VIF)” programme, two PCP pilots started in 2011 and are presently in their final

stage. These pilots are quite successful from the procurers' perspective, i.e. the Austrian Federal Railways Infrastructure Company (ÖBB) and the Austrian Motorway and Expressway Corporation (ASFINAG) (<https://www.ffg.at/vif>). Another PCP pilot has started very recently and deals with innovative solutions for cooling and heating in historical buildings (<https://www.ffg.at/PilotHeizenKuehlen>), with the Burghauptmannschaft Österreich (BHÖ) as the procurer.

Within the LEGISLATIVE DIMENSION, the amendment of the Austrian procurement law of 2013 successfully includes innovation as an explicit issue (BGBl 2006/17 Novelle 2013 (Federal Law Gazette 2006/17 amendment 2013)).

Addressing the IMPACT DIMENSION, a comprehensive evaluation of the impact of the PPPI

Action Plan is scheduled for 2016. As one of the preparatory steps, the development of a monitoring system has been started in 2014. A first set of impact indicators has been developed, and Statistics Austria has been commissioned to carry out a representative PPPI survey, the result of which is expected in mid-2015.

Despite all these remarkable achievements, some important issues are pending and may need renewed or even intensified political commitment. These issues are discussed and formulated as policy recommendations in the following chapter.

## POLICY RECOMMENDATIONS

Due to the fact that the implementation of the PPPI Action Plan is still in its first phase, the policy recommendations focus on two salient issues.

The most important lesson learned in the first phase of the implementation of the Austrian PPPI Action Plan is that the success of operative instruments depends on the success of strategic instruments; or in other words, the effects of well-developed operative instruments such as services, trainings, and schemes will remain small as long as the strategic instruments such as plans, targets and budgets remain under-developed. Therefore a renewed commitment to PPPI in Austria is recommended, by starting a discussion about innovation procurement plans, budgets and targets on the political level. This should be closely linked to the "Outcome Orientation" principle established at the

federal level in 2013.

The US SBIR programme mentioned above as well as the plans, targets and budgets to which Spain and France have committed themselves can serve as role models (US-IPC 2014; ERAC Forthcoming). The US SBIR programme requires federal agencies to set aside a percentage of their annual extramural R&D budget for small businesses; this percentage was 2.5% prior to 2012 and will increase annually to up to 3.2% in 2017. The Spanish government obliges all ministries and their public bodies to specify the amounts allocated to innovation procurement in their budgets, aiming at a goal of 3%. In France, the government has given priority to the development of innovation procurement, with a target of 2% of the volume of public procurement to be awarded to innovative SMEs by 2020.

The second salient issue is how the PPPI Action Plan is embedded in the overall "smart procurement policy mix". A broad range of feedback indicates that public entities tend to be overwhelmed by the multiple requirements they are confronted with: green procurement & innovation procurement & fair procurement. Therefore it is recommended to integrate these three aspects as far as possible. This means aiming at providing collaborative events, guides, trainings and services whenever appropriate. Eventually the Austrian procurement policy mix should become a unified complex, thus putting one important aspect of its smartness into practice.

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