



27 July 2020

BACKGROUND DOCUMENT FOR INNOVATIVE PUBLIC PROCUREMENT ACTION PLAN

1 Innovative procurement aims at achieving both social and business impacts

In Finland, the definition of innovative procurement emphasises the impacts on the productivity and quality of services as well as on companies:

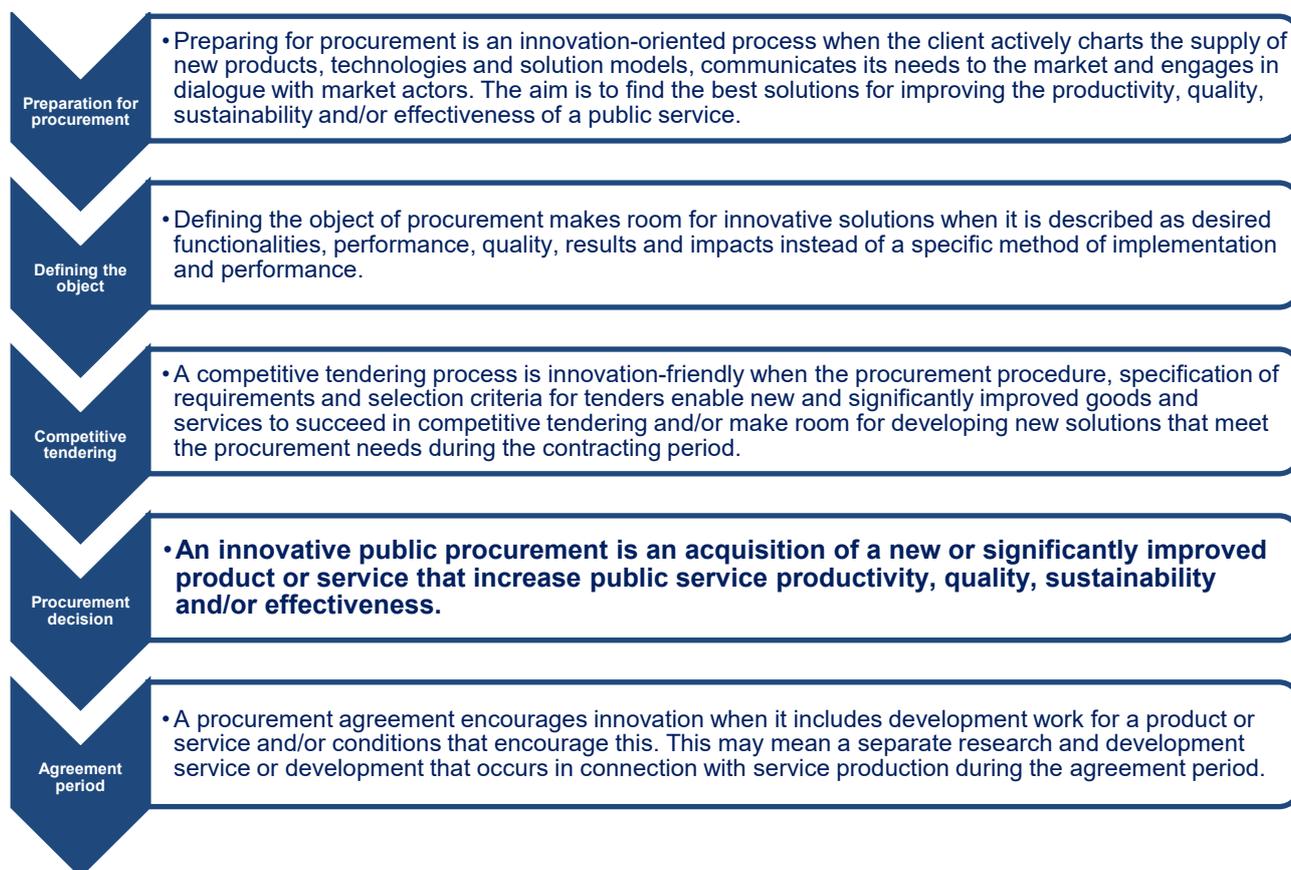
Innovative public procurement is an acquisition of a new or significantly improved product or service that improves public service productivity, quality, sustainability and/or effectiveness.¹

Innovativeness can be included in, and promoted in many ways during, the different stages of the procurement process. In terms of impacts, the preparation phase is particularly important in procurement. During this phase, it is important that clients communicate about their needs in advance to the market, actively chart the supply of new products, technologies and solution models, and engage in dialogue with market actors. The aim is to find the best solutions for improving the productivity, quality, sustainability and effectiveness of a public service.

In addition to long-term development, it is also important to utilise quick piloting and iterative processes. It is also important to implement procurement in such entities that also enable small innovative companies to participate in competitive tendering processes.

¹ Valovirta et al. 2017: Public procurement of innovation – definition, opportunities and measurement. The Government.

Innovativeness can be promoted in different stages of the procurement process ²



Finland already has a lot of experience and good examples of innovative procurement that has led to better and more effective public services. Below are three examples of innovative public procurement. They show how acquiring new solutions in a customer-oriented manner enables improving the effectiveness of procurements and promoting the implementation of important strategy objectives, such as productivity and sustainability. At the same time, companies' business opportunities and market development will be positively influenced.

² Valovirta et al. 2017: Public procurement of innovation – definition, opportunities and measurement. The Government.

Example 1.**New learning ecosystem – platforms and digitalisation of services**

The City of Vantaa aims to gather the users and producers of digital services in the education sector on a shared platform.

Contracting entity: City of Vantaa

Objective: The objective of the City of Vantaa is to reform the work carried out in educational institutions and administration by developing a joint system for education services. The joint system aims to cover the systems and services used by teachers, learners, principals, guardians and administration.

Impact:

- **on the contracting entity:** Analysing the data collected on the platform supports teachers' daily work and ensures more equal starting points for learning. The data also supports knowledge management in the administration.
- **on the industry market:** The platform bringing together actors in the education sector encourages cooperation between companies in the field and enables new innovations. The platform provides companies with an opportunity to pilot solutions with a limited target group and provides a reference that is easily scalable to other schools joining the platform.
- **on society:** The aim is to attract as many service and system suppliers, municipalities, cities and other actors in the field of education as possible to the platform. As the digital ecosystem is expanded to the national level, it will promote learning nationally and create long-term well-being

Source: Business Finland

Example 2.**A centralised solution of identity and access management – data, platforms, customer-oriented services**

The City of Jyväskylä aims to enable user-specific tailoring of services.

Contracting entity: City of Jyväskylä

Objective: The objective is to develop a centralised solution for identity and access management, which lays the foundation for the production of value-generating services tailored to each user. The first phase is focused on regional electronic access control by collecting the different access control data from the Kangas region into a joint system which makes the data available to various other systems.

Procurement procedure: Innovation partnership

Impact

- **on the contracting entity:** The centralised solution developed for identity and access management will lay the foundation for implementing smart urban solutions independent of time and place.
- **on the industry market:** The company producing the solution and the service providers using the solution will get an important reference. The agents producing the services will be able to provide increasingly personalised solutions generating additional value.
- **on society:** The solution creates a model for a new type of identity-based service production in the municipal sector both regionally and nationally. This is also a solution for sustainable development that aims to digitalise and automate different types of access and related management.

Source: Business Finland

Example 3.**Procurement of intensified assisted living for older people - effectiveness of services**

Purchasing effectiveness instead of days of care in the intensified assisted living for older people

Contracting entity: City of Oulu:

Objective: Good quality of life and satisfaction for older people and their relatives/loved ones, preserving the functional capacity of older people for as long as possible, and producing overall economic impacts.

Procurement procedure: Open procedure. Comparison criteria 1) client satisfaction, weight 15%, 2) preserving the customer's functional capacity, weight 15% and 3) price of tender, weight 70%. The tenderer had to make a promise on client satisfaction (on a scale of 1-5) and on preserving or improving the clients' physical functional capacity (as a percentage of the number of clients covered by the agreement). A reward and sanction system was used as an incentive in the agreement. Rewards were granted if the produced service exceeded the promises given in the tender; sanctions were imposed when the service did not meet the promises given. A market dialogue was held on the new procurement model.

Lessons learned: The city received a service package effective in terms of its quality-price ratio. The reward and sanction system encouraged service providers to work with a more goal-oriented approach to ensure rehabilitative nursing. The incentive model worked as intended, especially in measuring the preservation of residents' functional capacity. The assessment of customer satisfaction as part of the reward and sanction system was abandoned during the agreement period, as the response rate of the customer satisfaction survey was repeatedly too low. The procurement procedure emphasised careful preparation and the involvement of experts and service providers in the process.

Source: KEINO Competence Centre

Example 4.**Electronic public transport – a low carbon solution**

The local executive of the City of Turku has decided that the city will actively encourage the use of electricity and biogas in own and its service providers' vehicle fleet. The city will also offer parking benefits for motorists using climate-friendly fuels and favour climate-friendly transport services.

Contracting entity: Turun Kaupunkiliikenne Oy and Oy Turku Energia - Åbo Energi Ab

Objective: Cutting emissions.

- The transition to electric cars replacing the consumption of fossil fuels (approx. 2,500,000 litres of diesel over ten years) mainly by electricity produced using domestic forms of energy. The electric rate schedule of the City of Turku group obliges the electricity supplier to supply CO2-free energy.
- Reducing well-to-wheel emissions, i.e. emissions related to oil refining and distribution
- Cutting noise emissions: Electric buses make considerably less noise than conventional diesel buses. As a result, electric buses reduce noise pollution in an urban environment.
- Comparison of the TCO and carbon footprint of the electric and diesel bus on a Föli public transport line.
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Parties and actors involved in the procurement:

- City of Turku: Procurement expertise and practical implementation of the procurement; political decision-making and group steering by the city group; public transport agency FÖLI, which purchases transport services from the Turun Kaupunkiliikenne Oy company.
- Turun Kaupunkiliikenne Oy, contracting entity: electric buses and related maintenance service
- Oy Turku Energia - Åbo Energi Ab, contracting entity: charging solution and related maintenance service
- Turku University of Applied Sciences: research partner and coordinator of student work
- VTT: research partner
- Municipal funding: leasing funder
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Procurement procedure: Restricted procedure During the preparation stage, the City of Turku organised market dialogues with several actors in the sector. The requirements and comparison criteria for the object of the procurement included fleet requirements, performance requirements, energy consumption and the maintenance agreement.

Lessons learned: In this project, 6 electric buses drive in the electrified line every day; this totals at nearly one million kilometres as of spring 2019. CO2 emissions have been cut by more than 800 tonnes. The project provided plenty of information and experiences on the operation of electric buses from the perspective of the client, operator and charger maintenance. The challenges of the procurement were related to the introduction of new technology and finding the right operating models. Electric buses must be considered as a system that forms a larger entity. For example, the failure of a charging station will quickly affect the operation of the entire system. The procurement required renewing the operating and contract models for transport operations. In addition, attention had to be paid to the contractual division of responsibilities in error situations.

Source: KEINO Competence Centre

More examples are available on the KEINO and Business Finland websites.

<https://www.hankintakeino.fi/fi/keinokkaat-hankintaesimerkit-0>.

<https://www.businessfinland.fi/suomalaisille-asiakkaille/palvelut/rahoitus/tutkimus-ja-kehitysrahoitus/innovatiiviset-julkiset-hankinnat/>

2 Significant procurements by central government and municipalities as an innovation platform

Municipal procurements

Municipalities' operations are challenged by growing service and investment needs that occur at the same time as tax revenue is declining. The ageing of the population is particularly prone to increase service needs, and municipalities also have ambitious climate targets, responding to which requires investments. The coronavirus pandemic will further increase the burden on municipalities by generating high additional costs in health care and also more extensively across wellbeing services. The new situation requires introducing brand new service and technology solutions more than ever before. Innovative public procurement provides a means of solving these challenges together with companies and partners, while renewing public sector services at the same time.

In their strategies and health care provision plans, municipalities and joint municipal authorities have outlined their policies on the organisation of services, i.e. whether the service is produced by the municipality or purchased from the market. For this reason, the share of procurements varies in local government budgets. There is no comprehensive information available on the number and quality of procurements by municipalities. At a rough level, the annual procurements of municipalities and joint municipal authorities amount to around EUR 23 billion. The sectors most significant for procurements include the social and health services, and investments related to the built environment. These account for about 2/3 of the volume of municipal procurement in Finland. In addition, a significant share of municipal procurement is related to the purchase of ICT services, software and equipment. Procurements carried out by joint municipal authorities (e.g. hospital districts), municipal enterprises and public limited liability companies and municipalities' inhouse companies are also considered municipal sector procurements, which are subject to ownership steering.

Central government procurements

The total volume of central government procurements is approximately EUR 6 billion annually, including procurements by safety authorities (the Finnish Defence Forces, the National Police Board and Finnish Customs) and procurements by contracting entities external to on-budget activities, such as VR, the Social Insurance Institution of Finland and Yle. Of the total volume, the share of procurements subject to a tendering process by the Hansel Oy joint contracting entity is approximately EUR 900 million.

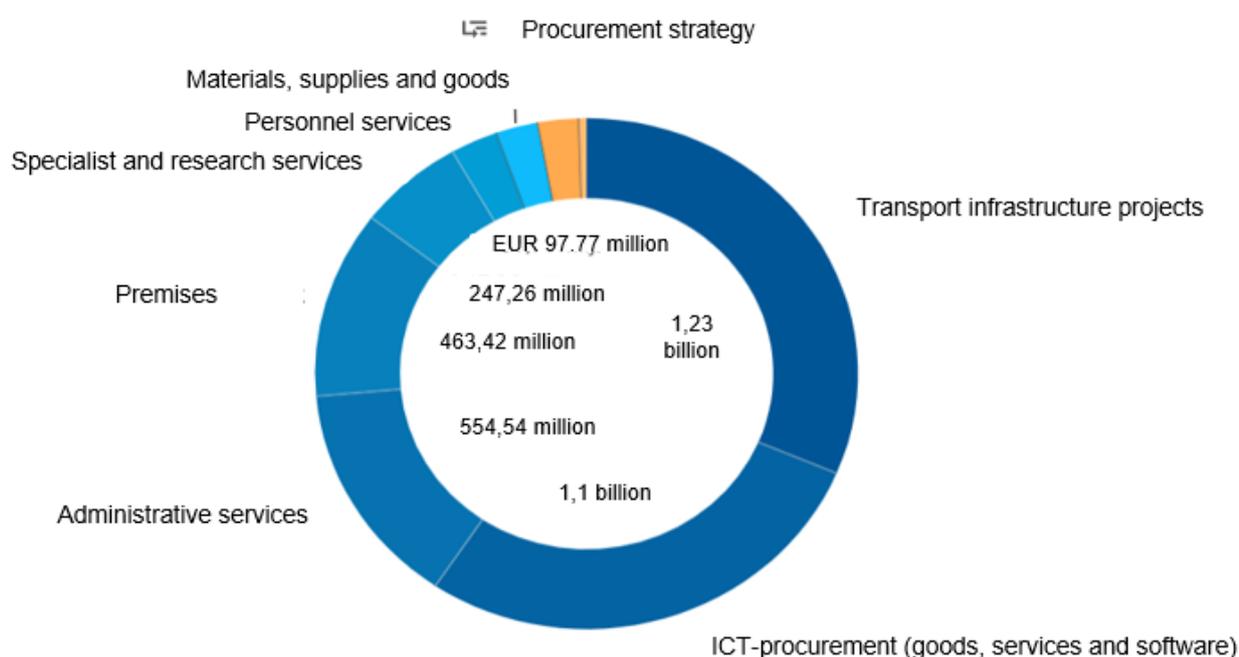
Central government carries out competitive tendering processes for ordinary goods and services as well as widely used IT devices, software and joint administrative information system procurements in a centralised manner. Hansel Oy is the joint contracting entity for central government. Senate Properties is responsible for carrying out a competitive tendering process for the construction projects required by the premises and properties owned by the central government. Valtori is responsible for sector-independent information systems jointly used by central government. Hansel Oy has also served municipalities and joint municipal authorities since 1 September 2019.

Measured in terms of euros, the largest contracting entity in the central government sector (excluding the Defence Forces) is the Finnish Transport Infrastructure Agency operating in the administrative branch of the Ministry of Transport and Communications (in total approximately EUR 1.2 billion/year). Other bodies with annual procurements amounting to over EUR 100 million include the National Police Board, the Ministry for Foreign Affairs (incl. Finnish missions and development cooperation projects), the Ministry of Justice (incl. the court system), the Tax Administration, the Centre for Economic Development, Transport and the Environment, the

Construction Establishment of Defence Administration, the Border Guard and the Prime Minister's Office (the Government Administration Department).

The procurement data service maintained by Hansel Oy includes procurements in the central government sector (excluding procurement by the safety authorities and off-budget contracting entities), and the volume of these procurements is approximately EUR 4 billion annually. Of this number, the share of procurements tendered by Hansel Oy is approximately EUR 450 million annually. Of these procurements, the most significant procurements by sector are related to transport infrastructure projects (EUR 1.23 billion) and ICT procurements (EUR 1.1 billion including services, software, supplies). A significant share of the procurements is related to premises.

Government procurements by sector in 2019 (excluding procurements by safety authorities and off-budget contracting entities, total volume EUR 4 billion).



Source: Government Procurement Data Service (Hansel Ltd)

3 Key national development measures for innovative public procurement

One of the targets set in the Programme of Prime Minister Sipilä's Government was that five per cent of all public procurement should be innovative. In its mid-term review of spring 2017, the Government decided in on the establishment of a network-like competence centre for sustainable and innovative public procurement (KEINO) and allocated EUR 6 million for this purpose in the budget for the period 2018-2019. In addition, EUR 8 million in funding for promoting innovation procurement was allocated to Business Finland for the period 2018–2019.

In recent years, Finland has invested in developing the prerequisites for innovative public procurement and these are good in a European comparison. This is also reflected in a comparative study carried out by the EU Commission in 2019, which defines Finland's overall preconditions as very strong (ranking 1st in a comparison of EU member states). For more information, see section 1.6.

KEINO Competence Centre

The KEINO Competence Centre began its operations on 1 March 2018 and will be funded from the 2018 and 2019 budget until 31 May 2021.

KEINO's main objectives are:

- 1) to increase procurement that implements the sustainability target and innovativeness in Finland
- 2) to promote the identification and active use of public procurement as a management tool
- 3) to help contracting entities to openly share information about their experiences and learn from one another.

KEINO's key results from the period between March 2018 and June 2020 include:

- 1.) In autumn 2019, KEINO launched the **KEINO Academy, a development programme for the management of effective public procurement**. KEINO Academy aims at improving the utilisation of procurements as a strategic tool and enhancing the strategic management of procurements. KEINO Academy 2 will be launched in autumn 2020. 26 procurement units from the municipal and central government sectors have been selected for both programmes.
- 2.) **KEINO developer group activities** support the implementation of the strategic objectives of contracting entities and bring the contracting entities and companies together. The focus of the activities is on sectors with significant impact: technical services (e.g. low-carbon construction), education and training, healthcare and social services (hospital districts), transport. There are currently 11 ongoing developer groups. The start-up events of the developer groups have been participated by around 250 people representing over 100 contracting entities. Some 80-90 contracting entities participate in active developer group activities. The groups are particularly investing in the scaling of good examples and solutions as well as business cooperation. The aim is to increase operating models that support a boost in the number of sustainable and innovative public procurements, their application in concrete procurements, and promote pioneer procurements that promote systematic change.
- 3.) In 2018, KEINO surveyed the **status of procurements in Finland from two different perspectives**: how procurements are currently managed in different public organisations in Finland and what the state and level of competence is in terms of the sustainability and innovativeness of procurements. The surveys provide valuable information on the state of public procurement in Finland in 2018. The surveys will be repeated in autumn 2020.
- 4.) The **KEINO change agent activities** (15 change agents) enable building regional sustainable and innovative procurement networks, which will result in connecting the KEINO activities more strongly to regional implementation (networks, regional special features etc.). The change agents have provided advice to more than 100 different customers (representing various contracting entities). Change agents help in market dialogues and participate in regional development projects and in climate working groups, for instance. This enables them to influence the development of procurement in different regions.
- 5.) KEINO has provided **concrete advice and supported regional co-development**. KEINO has been part of the Covid-19 pitching event organised by the EU Commission and was responsible for the national coordination of the event in Finland. The aim was to align the needs of the public sector related to the Covid-19 outbreak with innovative

companies that could meet these needs. Two large contracting entities and two companies participated from Finland. The EU Commission will organise a second event on the same theme in autumn 2020.

- 6.) Finland is piloting **Green Deal agreements for public procurement** which provide a means of engaging public contracting entities through voluntary agreements to the achievement of the strategic targets for the bioeconomy and the circular economy in the government programme and energy and climate strategy as well as market development. The method has facilitated the negotiation of agreements and supports the implementation of agreements.
- 7.) KEINO has supported the development of Finland's first **study module on sustainable and innovative public procurement** at the Master's degree level at Metropolia University of Applied Sciences.
- 8.) KEINO has **provided advice to individual contracting entities** on around 100 individual requests for advice. Some 1,500 people have participated in webinars and other training and events organised by KEINO. KEINO has published 50 procurement examples that support sustainability and innovation for utilisation by contracting entities.

KEINO carried out a customer satisfaction survey in spring 2020. 112 people responded to the survey. Additionally, specialists from around 20 different organisations were interviewed separately. According to the survey, 78% of those who used the KEINO services were satisfied with KEINO's activities (had benefited a lot or quite a lot from them). 92% of those participating in KEINO Academy felt that their organisation had benefited a lot or quite a lot from the activities. Of those participating in the KEINO developer groups, 88% had benefited a lot or quite a lot from the activities. In particular, the respondents felt that KEINO enabled the sort of cooperation that had not been previously occurring and increased interaction with companies. The activities of the change agents had helped a lot or quite a lot in 82% of cases. 90% of those who had used the advice service felt that they had benefited a lot or quite a lot from the service. Based on the interviews, customer experiences related to KEINO were primarily very positive, and no similar agent or services have been previously available. There has been demand for an agent such as KEINO and the survey respondents wished that the activities would be continued.

Further information about KEINO activities: <https://www.hankintakeino.fi/fi>

First national quantitative measurement of sustainable and innovative public procurement (2018)

The KEINO Competence Centre for Sustainable and Innovative public procurement in Finland carried out a survey on the current status of the number of sustainable innovative public procurements in autumn 2018. The total number of procurements with novelty value for both the market and the clients was 5% of total procurements (N=278). Nearly half, or 46%, of the procurements covered by the survey concerned new or improved solutions in the contracting organisation. The innovative procurements or procurements allocated to innovative solutions are estimated to have improved the quality of services and the achievement of the effectiveness objectives set for activities. The results show that there is room for innovative solutions in procurement.

The results of the quantitative measurement of innovative public procurements involve a lot of uncertainties and they do not lend themselves to drawing more definitive conclusions. A similar survey will be carried out in 2020 to obtain information on the trend in the changes in sustainable and innovative procurement. The measurement efforts utilised a definition of innovative public procurement by a project by the Government's analysis, assessment and research activities, which emphasises both social and business impacts. The degree of novelty examined from

different perspectives is similarly examined in established innovation surveys carried out in companies

Novelty of procurement for the client	Novelty for the market					(N=278)
	Brand new solution	Significantly improved solution	Solution has been previously available on the market	I do not know		Total
Brand new solution	3.2%	1.8%	10.1%	0.7%		15.8%
Significantly improved solution	0.7%	6.1%	20.5%	2.2%		29.5%
Previously used solution	-	-	-	-	54.7%	54.7%
Total	3.9%	7.9%	30.6%	2.9%	54.7%	100.0%

Business Finland funding for innovative public procurement (2018-2019)

EUR 8 million in funding for promoting innovation procurement was allocated to Business Finland for the period 2018–2019. The funding was allocated to supporting innovative public procurement that involves introducing new solutions, promotes scalability, enables businesses to get references, *mobilises a market change or supports the competitiveness of the business models of SMEs and new companies*. The funding is targeted at public contracting entities, which aim to reform services and operations. The target group comprises contracting entities with motivation and need for the long-term development of services and activities, willingness and strategic commitment to large-scale renewal of procurement, and the ability and resources to implement innovative procurement.

Action plan on innovative public procurement in central government (2017)

The Ministry of Economic Affairs and Employment prepared an action plan on innovative public procurement in central government in 2017 in cooperation with ministries, agencies and institutes. The action plan includes 14 measures to support a strategic approach in the innovative procurement by administrative branches, related management and the preparations for concrete procurements. KEINO implements the programme in cooperation with different organisations.

Development programmes implemented to increase the use of innovative procurement

Innovative public procurement has been promoted through several programmes that have already ended, including the INKA programme, the Huippu ostajat programme and the Witty City programme. The health sector growth strategy and the transport sector growth programme have identified innovative public procurement as one way of promoting the achievement of the objectives of these strategies.

4 Reports and publications

National Audit Office's performance audit (2017)

The National Audit Office of Finland (NAOF) carried out a performance audit on innovative public procurement, which was completed in summer 2017. The National Audit Office published two audit reports: the implementation of the innovation strategy in public procurement and innovative operating models for public procurement.

The National Audit Office recommended that the monitoring of innovation policy should be developed to be more systematic and the strategies should be more precise in determining the concepts and objectives of innovative public procurement. The National Audit Office also recommended that national policy strategies should define more clearly the parties responsible for implementing the objectives set for public procurement. Cooperation between different administrative branches and the central government and municipal sectors should be developed in such a way that the national strategy guidelines would be identified and applied in the organisations that implement procurement. These organisations should adopt strategic thinking more extensively and the number of innovative public procurements should be increased. National innovation strategies should set a target for significant contracting entities to have an innovation-friendly procurement strategy.

Further information: <https://www.vtv.fi/julkaisut/julkisten-hankintojen-innovatiiviset-toimintamallit/>

Benchmarking by the European Commission (2019)

The European Commission examined the prerequisites for the implementation of innovative public procurement in 30 European countries. The method used in the survey (10 indicators and sub-indicators) enables assessing the maturity and performance of the policy frameworks of different countries. Finland ranked first in the benchmarking and was the only country belonging to the "strong performers" group. Good performers included Austria, the Netherlands, Belgium, Sweden, Estonia, Norway, Spain and the United Kingdom.

According to the report, Finland has a comprehensive set of policy measures. In the 10 indicator areas, Finland's score varies from 60% to 100% with an average rate of 67.6%. The average score of the 30 countries included in the survey is 27%. Finland's particular strengths include the KEINO Competence Centre, the Action plan on innovative public procurement in central government and the quantitative (5%) target set for the central government sector. According to the survey, Finland's weakness is its lack of a uniform objective set for all public contracting entities. Part of the public sector (e.g. education, culture, security, defence, water supply, public services) also does not recognise the strategic importance of innovative public procurement. Some cross-cutting policies (such as entrepreneurship and competition policies) do not cover innovative public procurement. There is also room for improvement in the monitoring system and support services, the improvement of capabilities and the use of overall economic advantages as a selection criterion.

Further information: <https://ec.europa.eu/digital-single-market/en/news/benchmarking-national-innovation-procurement-policy-frameworks-across-europe>

OECD report Public Procurement for Innovation – Good Practices and Strategies (2017)

Based on an extensive survey sent to countries, the OECD produced a report on good practices and strategies for innovative public procurement.

Main findings:

- Nearly 80% of the countries that responded have measures to support innovative public procurement and 50% have prepared an action plan to support these

- Nearly half of the countries reported that innovative public procurement has increased the effectiveness, efficiency or user satisfaction following the use of procurement
- The most common challenges faced by countries are related to risk aversion, management, personnel and skills capacity and political support.

OECD recommendations on promoting innovative public procurement

- Embed the concrete objectives of innovative public procurement into national and regional policies and strategies
- Make use of understandable definitions, guidelines and templates to facilitate implementation
- Dedicate sufficient budgets, funds and other financial incentive
- Promote professionalisation by providing training to build staff capabilities and skills, setting up multidisciplinary teams and competence centres focused on public procurement for innovation
- Raise awareness by publishing good practice cases, creating a dedicated knowledge-sharing platform and hosting workshops and seminars
- Pay attention to risk management and measure impact to increase trust
- Use standardisation as a catalyst for innovation

Further information: <https://www.oecd.org/gov/public-procurement/innovation/>