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**European Public  
Procurement Landscape**  
The case of Estonia.

Public procurements account for ~25% of public expenditure in Estonia. In 2019 nearly 7000 procurement procedures were initiated, with a total estimated cost of € 3 billion.

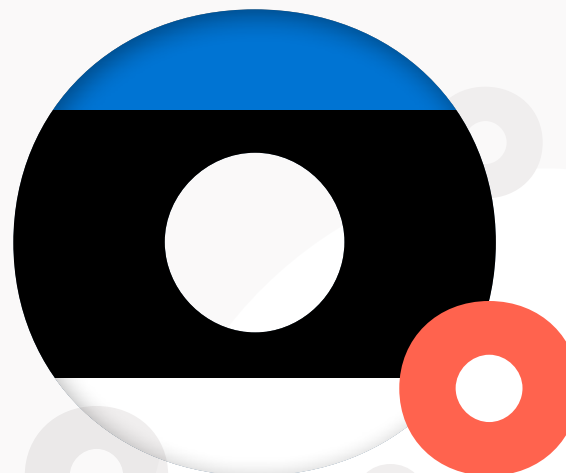
98% of all the procurements were e-procurements and 86% participants small and medium- size companies (SMEs)<sup>1</sup>.

The field of public procurement in Estonia is regulated by the **Public Procurement Act (PPA)**<sup>2</sup> and supplemented with several regulations<sup>3</sup>.

The general responsibility of public procurements in Estonia lies in the Ministry of Finance, which has set up a central online environment - Public Procurement Register<sup>4</sup> for publishing notices of the Public Procurements, submitting tenders and awarding contracts.

Innovation procurement and its objectives came under the spotlight within the wider entrepreneurship and innovation strategy<sup>5</sup> of the Ministry of Economic Affairs and Communications - one of the key

#### Public Expenditure Estonia



#### Public Procurements

**25%**  
**€3 Billion**

actors in the field of innovation procurement - responsible for strategy and supervision. There is an organisation - **Enterprise Estonia (EAS)** appointed to **provide financial assistance, counselling, cooperation opportunities and trainings regarding innovation procurements**. EAS is in the process of building up a national competence centre of innovation procurements within the Horizon2020 project **Procure2Innovate**<sup>6</sup>.

1. Interactive statistics of procurements in Estonia: <https://app.powerbi.com/view?r=eyJrIjoIOTg4ZGQ1M2ItNTkwYy00ZGFILTg5NjAtYTljMzAyZDliYjc1IiwidCI6IjRmYjQ2MmUyLWE2MzktNGJINC1iM2U1LTM2ZW1MTg0M2M5MSlsmMIOjI9>

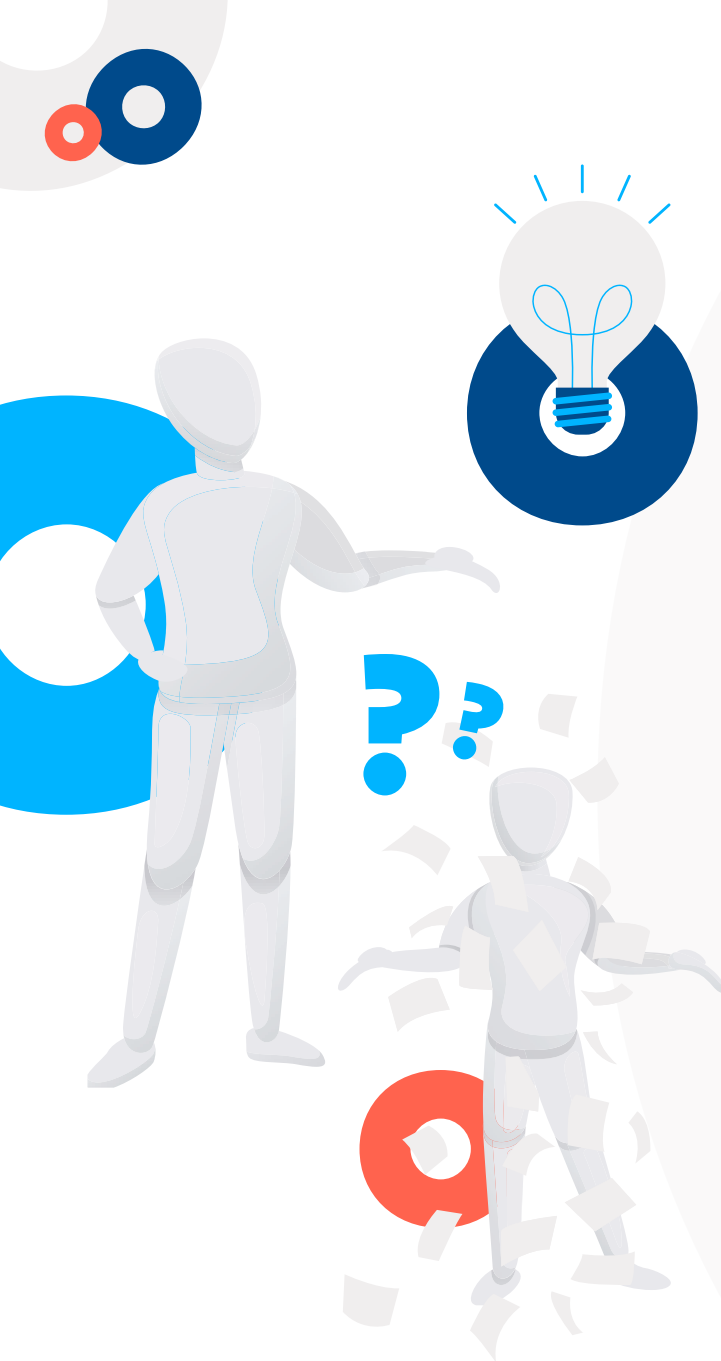
2. <https://www.riigiteataja.ee/en/eli/505092017003/consolidate>

3. <https://www.rahandusministeerium.ee/en/objectivesactivities/public-procurement-policy/legislation>

4. <https://riigihanked.riik.ee/rhr-web/#/>

5. Estonian Entrepreneurship Growth Strategy 2014- 2020: [https://kasvustrateegia.mkm.ee/index\\_eng.html](https://kasvustrateegia.mkm.ee/index_eng.html)

6. <https://procure2innovate.eu/estonia/>



Thanks to trainings and other awareness-raising activities, the overall knowledge regarding the existence of innovation procurement is quite high within the public sector. **But know-how regarding implementation and, therefore, actual practice remains low.**


The implementation support demands time and resources, as it is often a case-by-case approach by EAS and therefore is not easily scalable.

The Estonian legal framework gives an official definition for innovation but does not provide the definition for innovation procurement, R&D, Pre-Commercial Procurement (PCP) (although there is a clear legal basis in PPA provided for implementing PCP) or Public Procurement of Innovative solutions (PPI). The working definition of innovation procurement (general term), PPI and PCP which are in line with the EU definition can be found in the national "Guidance on innovation procurement"<sup>7</sup> published by Enterprise Estonia (EAS) which presents guidelines on how to procure innovation.

Even though a **legal framework** is presented, it **can be ambiguous and rigid**, and public procurers feel they have limited decision-making power. To procure innovative solutions, there should be more flexibility and freedom. Even though there are opportunities in theory, **the lack of practical knowledge leaves procurers "playing in the safe zone".**

7. [www.rahandusministeerium.ee/sites/default/files/Riigihangete\\_politika/juhised/eas\\_innohangete\\_juhend.pdf](http://www.rahandusministeerium.ee/sites/default/files/Riigihangete_politika/juhised/eas_innohangete_juhend.pdf)





Procedures dedicated to procure innovative solutions are innovation partnership, competitive dialogue or competitive procedure with negotiation, but **Innovative Aspects can be present in all types of procurements** not depending on the chosen procedure. Since 2017, there is an opportunity to mark (by the procurer) in the Register if innovative aspects are present in a specific public procurement by **answering 4 questions**. This questionnaire might be subjective and often also ignored – several innovation procurements are not marked as “containing innovative aspects”. Assessing the actual number of implemented innovation procurements is therefore complicated.

Based on the interviews and desk research, **their share is negligible, often connected with “hot” topics on the political agenda** and carried out on a project basis rather than included in the long-term



## Questions presented to procurer to define if innovative aspects exist in the procurement:

**Did you acquire research and development activity in the scope of this procurement?** (For example: basic research, application research, testing and development etc.);

**Was the object of the procurement novel for the contracting authority as well as for the whole market in general?** (For example: Defence Forces procured a blocking device for the activation signal of explosives set off by radio which did not previously exist on the market.);

**Was the solution procured in the scope of this procurement novel for the contracting authority?** (For example: the procurement of a control system of smart street lighting. Must be novel in local level but may be used in another country.);

**Did the procured solution make the work processes at the facilities of the contracting authority more effective?** (For example: using an IT solution in new fields such as the procurement for a traffic flow control and planning system at Tallinn harbour).





One big challenge for actually implementing innovation procurements is that **public servants feel the need for innovation differently**, which is the first precondition for innovation procurements. People who work with procurements on a daily basis do not often think of innovation procurements. The need and input for organising innovation procurement should come from people who have expert knowledge of the specific area, but those are unfortunately not familiar with procurement procedures.

Therefore, it is often a question of synergies inside public institutions. PPI demands a clear definition of the vision, **but the most complicated part is often describing the innovative solution**. In order to define the need, you have to familiarise yourself with the field and the available solutions (if we are not talking about the PCP) and possibilities to integrate those into the work of institution. Hence, the importance of involving specialists when preparing the tender and describing the expected solution cannot be underestimated.

Innovation procurement procedures do not differ much from those of regular procurement, but as the definition of the solution might end up still unclear (or might be on the challenge/problem not the solution level), **more questions are coming from providers** (mainly technical).

**This requires usually extra effort, and a long preparation period compared to regular procurements (at least a year and with close collaboration of the parties). Clarity is seen as being of the utmost importance when presenting the qualification conditions, as this is the biggest source of controversy.**





**EAS**

**Innovation  
Procurement**

**Public  
Procures**

strategies of institutions.

In addition to human resources, **owing to the higher risk that procuring innovation represents, funding** is another challenge that public institutions see. **Estonia has a specific measure set up that is funded by the EU Regional Development Fund (€20M per year)** and managed by Enterprise Estonia (EAS) to support innovation procurements. Activities implemented under this measure include training, preparing guidelines, developing a monitoring system and providing public procurers with incentives for innovation procurements.

## **EAS provides co-financing for Estonian Public Procurers.**

Innovation procurements which meet the criteria receive **financial support to a maximum of 50%** of the project cost and a maximum of €500,000. All stages of the procurement process are supported, from the identification of the need until the conclusion of the contract (procurement preparation and organisation, like legal and sector-specific consultancy, and





procurement process management and contract execution, purchase of procurement proceeds, including research and development).

**As procuring innovation is not usually included in institutional strategies, there is no budget allocated to carrying out innovation procurements within public institutions** and, therefore, finding the means to cover even the 50% of the funding is challenging. The budget dedicated to innovation procurement is limited to the funding of projects in specific sectors but this does not seem sufficient to develop a holistic strategy to mainstream innovation procurement widely across the country. The lack of a strategic vision is confirmed by the lack of specific commitments by key procurers and the lack of measures to boost public demand and scale up innovation procurement widely across the country.

In general, however, interest in the topic remains high. **Innovation is seen as important and there is an interest to procure more innovative solutions**, but due to the several challenges mentioned, it often stays at the level of thought. There is avid interest in learning how

to define the need for innovation, conduct discussions with providers, and evaluate more effectively the benefits of procuring innovation through best practices.

**The sectorial approach** could help to move from case-by-case implementation support to a wider, yet focussed approach, from defining the needs to optimising the processes via tackling the challenges with resources and producing know-how.

**Therefore, in the Estonian case, PRONTO has a great potential to help to put theoretical knowledge into practice with methodological approaches of how to implement PPI in specific sectors.**



## The case of Estonia.



This analysis is based on PRONTO partners' expertise and previous experience, the review of relevant documents (laws, guidelines, presentations, articles, studies, etc.) and interviews with key actors trying to cover all aspects of public procurement, namely representatives of:

. **The 'demand' side**, i.e. individual public entities (e.g. public hospitals, research institutions, universities, technical centres, regional development agencies, municipalities, etc.), central/regional purchasing bodies (e.g. ministries, regional development agencies, etc.).

. **The 'supply' side**, i.e. private companies that constitute potential suppliers of innovative solutions.

. **The 'support' side**, i.e. policy makers (e.g. ministries), national/regional entities supporting public entities, experts/advisors, etc.



## Interviews conducted.

Country	Demand	Supply	Support	Total
Estonia	1 Ministry 1 Municipality 1 Public hospital	-	1 National PPI Competence Centre 1 Regional Energy Agency 1 Health Cluster	6

**Important note:** The aim of PRONTO is not to perform an exhaustive and thorough analysis of the national PPI landscape but rather to collect the insights on the challenges for the design and implementation of PPI procedures to properly adjust the upcoming PRONTO services and address the actual support needs of the public buyers. Therefore, the foreseen number of interviews was not envisioned to be large.





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