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Comprehensive Review of the AFDB's Procurement Policies and Procedures

Summary of Literature on Innovations in Public Procurement

ORPF

INNOVATIONS IN PUBLIC PROCUREMENT

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This summary has been prepared by a Consultant and the views expressed herein are those of the Consultant and not of the Bank.

Readers are encouraged to submit comments or questions, or to obtain additional information on the Bank's procurement policy review from the website at: http://www.afdb.org/procurementreview and also from:

Procurement & Fiduciary Services Department (ORPF)
African Development Bank (www.afdb.org)
Temporary Relocation Agency – Tunis (Tunisia)
13 Avenue du Ghana
BP. 323, 1002 Tunis-Belvedere
Tunisia
Tel.: +216 – 7110 2027
Fax: +216 – 7183 3944
Email: procurementpolicy@afdb.org

Procurement & Fiduciary Services Department (ORPF)
African Development Bank (www.afdb.org)
Headquarters – Abidjan (Côte d'Ivoire)
5 Avenue Joseph Anoma
01 B.P. 1387, Abidjan 01
Côte d'Ivoire
Tel.: +225 - 2020 4444
Fax: +225 - 2021 7753
Email: procurementpolicy@afdb.org

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ACRONYMS

AIT	Agreement on Internal Trade
CRiSPS	Centre for Research in Strategic Purchasing and Supply
CSU	Commercial Support Unit
DARPA	Defence Advanced Research Project
DH	Department of Health
EA	Environmental Assessment
ESRP	Environmentally and Socially Responsible Procurement
EU	European Union
GAC	Governance and Anti-Corruption
GDP	Gross Domestic Product
GSD	General Services Department
HCAI	Health Care Acquired Infection Technology Programme
HITF	Healthcare Industries Task Force
ICT	Information and Communication Technologies
MDB	Multilateral Development Bank
MHAS	Modernising Hearing Aid Services
NAFTA	North American Free Trade Agreement
NHS	National Health Service
NIC	National Innovation Centre
OECD	Organisation for Economic Cooperation and Development
ORPF	Procurement & Fiduciary Services Department
PCT	Primary Care Trusts
QIPP	Quality, Innovation, Productivity and Prevention programme
RNID	Royal National Institute for the Deaf
SCEP	Supply Chain Excellence Programme
SHA	Strategic Health Authority
SMDU	Strategic Market Development Unit
SME	Small and medium-sized enterprises
WB	World Bank
WTO	World Trade Organisation

SUMMARY OF LITERATURE ON INNOVATIONS IN PUBLIC PROCUREMENT

I. OBJECTIVES

1. The objectives of this Paper are to review, analyse, synthesise, and to summarise background documentation available in the public domain concerning the theme of **innovations in public procurement**, which could be of relevance to, and also inform the Bank's review of its procurement policies, procedures and processes.

2. This Summary relies on a number of publications and articles, which are itemised hereafter, in the List of References and Resources. Among these, due note needs to be taken of the following: *The WB's Procurement Policies and Procedures: Policy Review – Initiating Discussion Paper; Public Procurement and Innovation – Barbara Allen; Innovation* and *Public Procurement – Review of Issues at Stake*.

II. FINDINGS

3. Current thinking and research clearly indicate that there has been significant and intense attention to procurement and innovation, as indicated by examples from key high income countries. The previous decade has shown massive efforts to make structural and institutional adjustments intended to help drive innovation through procurement. There have also been serious attempts to alter the concept of how procurement is undertaken to deliver innovation, for various outcomes, including the promotion of new forms of service delivery, as well as the search for efficiencies.

4. This is because, up until recently, there seemed to be a shifting mindset about innovation, based upon a growing understanding of '***systems of innovation***' [i.e.: how a multiplicity of actors and organisations need to interact to benefit from procurement]. Successes in given areas, and the sheer number of ideas coming forth around new products, seem to indicate that the intelligent use of procurement mechanisms is being embedded both in culture and practice. Nevertheless [although it may still be too early to predict how the changes to such sectors will impact on the transformation of procurement and innovation], it is imperative to view these dynamics within the broader context of developments affecting MDB procurement policy reforms.

5. In this context, it must be recognised that the evolution of MDB procurement policies and practices enable a closer examination of the factors that shape how those policies need to be ameliorated, with the view to better serving borrowers in future. In this regard, the drivers for change in MDB procurement over the previous two decades have been observed as:

   a. the rise of globalization and integration;

b. the new concepts, tools and technologies that constitute best practices in public procurement worldwide;

c. the growing differentiation among borrower capacities; and

d. the changes in MDB business in response to borrower needs.

6. With respect to ***globalization***, the main impact has been the emergence of new suppliers, many from borrowing countries, for items financed under development operations. Expanded markets have been complemented with ***new approaches in public procurement***, reinforced by international agreements and instruments, for the first time. This has led to a shift in the perception of public procurement, from a set of arcane, bureaucratic rules, to a strategic function critical to getting value for money in a large market, worldwide. Many ***borrower capacities*** have changed, too, with high- and middle-income countries positioned to move ahead rapidly in modernizing their procurement systems, whereas some small countries and those considered fragile and conflict-affected may need different approaches. Finally, the ***MDB business*** has changed and will continue to change. From institutions that once focused on stand-alone, large scale infrastructure investments, MDBs now support development efforts across a wide array of sectors, using diverse instruments and delivery mechanisms. It should be anticipated that these new realities will ultimately affect MDB procurement policies and procedures, their relevance, and their effectiveness.

7. In the specific cases of the subjects of ***globalisation and integration***, ***changing borrower capacities***, and ***changes in MDB business***, it should be noted that these elements have been discussed in detail in the Summary companion to this one, entitled: ***Procurement Policy and Performance***.

8. Concerning ***changes*** (***or new approaches***)***, in public procurement***, it has been opined that the transformations provoked by globalization and integration did not stop with the emergence of new industrial giants, and a new mix of supplying countries under MDB-financed operations. They have also influenced how policies, procedures, and attitudes towards public procurement have evolved. Historically, public procurement was seen as the restricted domain of each national government, a labyrinth of often obscure or idiosyncratic and unchallenged procedures, dominated by political interests, and used to promote national interests or, worse, to collect rents and favour friends.

A New Global Outlook

9. Increasingly, there is consensus among nations that public procurement, like other endeavours, ought to be open to competition and [because it involves taxpayer money], operate at the highest levels of integrity, a stance that the MDBs have taken right from the beginning. Many academics, policy makers, and practitioners now view public procurement as a strategic government function and a public sector management tool that have a direct impact on the quality and quantity of services provided to citizens. Moreover, there is widely-shared recognition that public procurement constitutes a significant market

worldwide. The OECD estimated that, as of 1998, the market represented by contestable public procurement is in the order to 5-7 percent of GDP. In 2009, that was equivalent to US$825 billion for developing economies. Recent estimates are even higher.

10. Concerning the subject of ***alignment***, ***equivalence***, and ***harmonisation***, it should be stated that these elements have been discussed in detail in the Summary companion to this one, entitled: ***Harmonisation in Procurement***.

New Concepts and Approaches to Public Procurement

11. The nature of public procurement itself is changing. It is thus imperative for the WB and MDBs to see where and how they can keep at the vanguard of new concepts and approaches to public procurement. The said developments in the international sphere have been mirrored by a new appreciation of the *need to modernize public procurement systems, treating public procurement as a strategic government function that directly affects the quality and quantity of services provided to citizens*. Many governments [whether in developing or developed countries, and regardless of their starting point], are searching for ***savings***, ***faster and simpler procurement***, ***better value overall***, and ***flexibility***, at the same time as reinforcing ***integrity and accountability*** for the use of public monies. Embedded in this is the ***expectation of high ethical standards*** on the part of both private firms and public sector counterparts.

12. Generally, these changes in perceptions of what makes good public procurement are causing policy makers to rethink the role of public procurement and to adopt modern management concepts and tools. The traditional focus on *rules and procedures* in national procurement systems has driven behaviour towards *regulatory compliance*, rather than ***performance and outcomes***. Thus, procurement reform efforts around the world tend to entail a rebalancing along the continuum of ***compliance versus performance***, ***rules versus principles***, and ***transactions versus systems***. Many countries have been inspired by *private sector procedures*, such as ***framework contracts*** and ***supply chain management***, and are seeking ways to emulate those methods. This has also led to ***outsourcing*** of public services that have traditionally been provided in house and has led to new ways to procure those services in ***partnership with the private sector***. The use of ***information technology***—e-procurement—has become another feature of making procurement more ***transparent and cheaper*** and allowing ***improved management*** of procurement systems.

13. In supporting borrowers along this path, MDBs must not only keep pace with these changes but be at the forefront. This means being able to provide borrowers with a model of *good public procurement* that embodies these new concepts as part of the ***GAC*** [Governance and Anti-Corruption] ***agenda*** and the support for improving public sector management. It also means that MDBs have to internalize these new concepts within their policies, reconciling any differences between their expectations of borrowers (under development operations), with what current good public procurement demands.

14. Public procurement is a key dimension of public administration that efficiently and effectively links the government's financial management system with social and economic outcomes. Consequently, a ***good procurement*** system is not about finding the least cost path from inputs to outputs, but rather is a management function that adds value while protecting integrity in the use of public funds. In detail, a ***good public procurement*** framework:

- Rewards innovative processes and solutions;
- Identifies *best-fit-for-purpose* outcomes;
- Delivers optimum value for money;
- Promotes supplier development and competitiveness; and
- Strengthens public confidence in government.

Value for Money and Best-Fit-For-Purpose

15. The new concepts of good public procurement challenge the premise, common among traditional public procurement systems, of awarding contracts solely on the basis of ***least cost***. Instead, many countries are adopting ***value-for-money methods*** in order to make procurement decisions on the basis of ***whole-life-cycle costs*** and ***benefits***. It should be highlighted that the MDB policies have always allowed whole-life-cycle evaluations, but with the proviso that benefits and costs must be quantified. These are thus commonly included under WB and MDB financing for goods and ICT procurement, and in a range of power, water supply, and sanitation procurements, where it makes more sense.

16. Another of the new concepts in modern public procurement is the need for ***collaboration with the private sector***. The idea is to find the ***best fit through dialogue*** with potential suppliers in order to generate the best overall result for the contracting agency and the users of the goods and services. This new thinking, akin to the MDB ***two-stage bidding***, is that getting the best out of suppliers is a two-way street. But this is the antithesis of traditional procurement policies that are based on competition for each transaction, and limit interactions and restrict communications between the procuring agency and possible suppliers, to avoid tampering with the process. At the same time, the ***increased awareness about cartels*** heightens the need for market-astute contracting agencies, with sufficient knowledge of how supply markets are organized. Notably, the rapid evolution of markets and technology and the dangers of cartels means that agencies should not rely on ***too few*** suppliers (nor ***too many***). Newcomers might have better solutions than those with established track records and may disrupt supplier coordination and collusion.

17. Finally, ***interaction*** and ***knowledge-sharing*** between ***supplier*** and ***user*** may be important in areas where innovations are needed, thus making methods such as the EU's ***competitive dialogue*** appropriate. However, the right balance may be hard to discern and the risks high, especially in ***weak***

institutional and ***probity*** settings. A closer examination of these new methods and their potential use by MDBs must be undertaken.

18. It is understood that the notions of Value for Money, Whole-Life-Cycle Evaluation, and Merit Points are concepts that attempt to go beyond mere costs. In this regard, ***Value for Money*** is a broad concept that governments can use to motivate and steer improvements to public sector management and outcomes. In the context of public procurement, this concept can be relatively simple, encompassing *dimensions* [if measured accurately], such as *reasonable procurement lead times*, *market cost*, and *quality*. More sophisticated approaches require a *detailed understanding of market structures*, and the *delivery* and *actual end use*, a conscious effort to *standardize*, *rationalize* and *simplify*, a focus on *whole-life-cycle costs* rather than just the *purchase price*, a *well-defined and enforceable planning cycle* at various levels, viable *mechanisms to protect competition* and *manage corruption risks*, and a multi-pronged strategy to engage stakeholders *frequently*, *openly*, and *equitably*.

19. While a ***strong capacity*** is required to implement the full concept of ***value for money***, its simpler aspects can be monitored and consistently improved in almost any country. Relatively small investments can begin engendering a culture of replication and performance catalytic to broader systemic improvements. In its simplest form, ***value for money*** reflects that *price alone need not be the sole criterion* for making a procurement decision. Instead, the determining factor is the *optimum combination* of ***whole-life costs*** and ***benefits***.

20. In the same vein, ***Whole-Life-Cycle Costs*** include *maintenance*, *management*, *operating costs* and *disposal*, and the *implications of risks and flexibility* throughout the entire cycle. This approach can also take into account *risks* such as *quality*, *performance of the contractor*, *failure to deliver*, and *not being realistic* as to *what is expected* or *missing out on alternatives*. The idea is that *higher costs* may be translated *via better quality* into *lower whole life costs*, due to *longer useful life* and/or *higher residual values* or *increased benefits*, in terms of *greater user satisfaction* or *ease of use*.

21. Besides, the ***Merit Points*** notion is a system under which *additional points* are awarded to bids based on *qualitative dimensions* such as *quality*, *past performance*, and *technical aspects*. More complex and more demanding than the WB least cost evaluation, merit points had been permitted by WB in the 1980s for procurement of irrigation hand pumps, for example, and are now used in countries such as Indonesia, Morocco, Sierra Leone, and Vietnam, as well as the EU.

22. Consequently, it can be seen how these new approaches, whether called ***value for money*** or ***merit points***, can capture *indirect costs and benefits* and externalities such as *social and environmental impacts*. On the other hand, although conceptually appealing, these methods are still ***controversial*** and may be ***difficult*** to put into practice, given the level of ***subjectivity*** involved. Nevertheless, the idea of going beyond price is very appealing as a way to capture *performance*, *quality*, and *externalities*.

Some Early Adopters

23. Among the first countries to put these new concepts of public procurement into practice was the United Kingdom. Its efforts began in 1999, with a major review to identify *efficiency*, *modernization*, and *competitiveness opportunities*. The idea was to shift from the traditional approach of *competitive tendering* and *bulk buying* to more modern methods to achieve *greater value for money*. One of the results was to set up, in early 2000, a new central body, the Office of Government Commerce, to work with purchasing agencies as a catalyst *to achieve best value for money*. A construction initiative proved successful in saving money and was extended across the entire public sector. ***E-tendering*** was piloted along with *e-auctions*, *e-sourcing*, and measures to improve *category management*, *demand management*, and *sustainability*. The use of ***value-for-money awards*** was mainstreamed in 2004, with gains, as tracked by the Auditor General's Office, of 5 to 10 percent. A number of Commonwealth countries have since launched similar efforts: for example, Canada revamped its procurement policies in 2003, Australia adopted new regulations in 2004, and New Zealand undertook a renewed round of procurement reforms in 2009.

24. Also, the WB, for example, has modernized its ***internal procurement policy***. Under the General Services Department (GSD), the WB *internal procedures* were reformed in 2008, adopting a ***principles-based*** approach. This policy focuses on *managing risks*, *reinforcing ethical behaviour through training*, *working directly with suppliers*, *measuring their performance*, and *assessing success on the basis of outcomes*. The principles adhered to by WB in its internal procurement are ***fairness***, ***transparency***, and ***competition***, with procurement decisions based on ***best value*** defined as the *optimal combination* of *lowest total cost of ownership*, *technology*, *innovation*, *efficiency*, *assurance of supply*, and *quality*. This methodology is used for complex goods and services where it is imperative to evaluate factors other than cost.

25. Other dimensions of the WB internal procurement policy include QuikPro, which allows *direct contact with suppliers*, via GSD's website, and *blanket purchase orders*, which accommodate *frequent*, *repetitive procurements*. There is also constant *assessment of market developments* and *supplier performance*. More importantly, the WB has incorporated *social corporate responsibility* into its procurement policy that calls for the expanded use of *environmentally-preferable products*, *diversity in hiring* and *fair working conditions* by suppliers.

Use of Technology

26. The ***use of technology***, including ***electronic tools and platforms***, is vastly changing the way public procurement is executed and constitutes a key part of modern public procurement. The benefits of ***e-procurement*** are much more than improved efficiency through computerization of processes. It represents a powerful *information and management tool* that underpins the *strengthening of public procurement systems* and that can *transform the*

provision of public services. While not a panacea, many countries have been successful in *lowering transaction costs*, *time*, and *prices*, mainly for high-volume, low-value items that are particularly amenable to the use of *framework agreements*, *reverse auctions*, *catalogues*, and *purchase cards*. In some cases, these systems are shown to *increase competition* and may even be more reliable *in terms of integrity* than other methods.

27. The WB (in leading other MDBs) has encouraged these processes, helping to build capacity, and the Guidelines already allow the use of ***electronic advertisement***, ***electronic signatures***, and ***e-procurement*** platforms under certain conditions. A wide range of borrowing countries now employs some form of ***e-procurement***, including states in Brazil (Minas Gerais) or India (Andhra Pradesh, Karnataka), with readiness assessments conducted by the WB in a number of other countries. An important pre-requisite is to have a solid legal framework, notably for ***electronic signatures***, which can also facilitate the introduction of ***electronic reserve auctions***.

Public Procurement as a Broader Policy Instrument

28. A controversial aspect to public procurement policy has long been the extent to which public policy goals ought to be pursued beyond those directly related to procurement. Traditionally, this has meant protection of domestic industry, which is now increasingly superseded by international and regional agreements that provide for open competition, but other social and economic goals are often interjected into the public procurement debate. One of these is according ***preferences*** to disadvantaged domestic groups. There is a long record of public procurement being used to advance minority businesses or reach out to small and medium-sized enterprises (SMEs), as in the US [under its Small Business Act] and in South Africa's program to support *historically-disadvantaged individuals* and *SMEs*.

29. Another area is ***programs for women entrepreneurs***, and still another is using public procurement to ***stimulate innovation***. While there may be justification to advance these public policies, there are few metrics and evaluations of the cost and benefits. Moreover, the extent to which preferences are allowed under international agreements varies and is *subject to debate* as preferences may *work against competition*, be subject to *fraud and corruption*, and be *discriminatory* against other bidders. In fact, the interim results of a study commissioned by the WB show that countries are able to increase the share of public procurement going to SMEs without the use of side-asides by the use of ***e-procurement***, ***reducing bidding costs***, and providing ***pre-bidding support*** to target groups.

30. Another area of growing interest is the inclusion of environmental concerns into procurement decision-making, otherwise known as *Environmentally and Socially Responsible Procurement* (ESRP) or ***"green" procurement***. There are many examples of cities, states, and municipalities that have already adopted such criteria: e.g. US, Canada and the EU. At the same time, there has been little evaluation of the impacts on realizing environmental goals, costs-benefits, and alternatives. To help understand these new trends and assess their relevance the WB commissioned two studies, one on "green"

procurement, and the other on the use of preferences to achieve supplier diversity. [The theme of "green" procurement has been discussed at length in the accompanying Summary to this one, entitled: ***Sustainable/Green/Social/Procurement***].

31. In coming full circle to the theme of ***changes*** (***or new approaches***)***, in public procurement***, a case example is presented herewith based on a Research Paper (a Policy Briefing) that was commissioned by the Conference Board of Canada [2010]. The article, entitled ***Public Procurement and Innovation***, explored the subject with, as primary focus, the Health Sector of the United Kingdom (besides a brief comparison with an outline of corresponding structures and/or systems of Canada). The Paper's findings are as follows:

    - In the UK there has been a policy landscape with immense central government direction and pressure to deliver on an innovation agenda;
    - The coupling of funds to support the promotion and uptake of innovation with a legal duty to promote ***innovate*** at the regional level of organisation was a key strategy in 2009 in the Department of Health;
    - The commercialisation of procurement through structural changes and new ideas around procurement were important levers through which to embed innovation;
    - There was increasing use of private sector and third sector as providers of primary care, with the consequent need to increase the skills of procurers and commissioners, encapsulated in a major policy programme called ***World Class Commissioning***, as well as the ***Quality, Innovation, Productivity and Prevention programme***;
    - There has been substantial effort to change the direction in which innovation is driven and acquired, from a ***top down***, ***centrally-led process*** to a ***bottom-up local and regionally driven process***; and
    - Procurement can no longer be viewed as a mechanistic linear process, but it must be understood as '***system of innovation***'.

The 'Idea' of Procurement as a Lever for Innovation

32. The use of procurement as a 'tool for government' is not new, though it has been conceptualised in different ways according to the politics, culture, and socio-economic context of the jurisdiction in question. There is a long history, particularly in defence, of manipulating the planning and strategy of acquisition in order to benefit elements of industry or even specific companies.

33. Thus the legal and structural parameters within which this can be done have been of utmost importance, and within every country that buys through government, there are efforts to shape the procurement rules and frameworks to either better protect the taxpayer's funds and procure at least cost [as has generally been the tradition of government], or influence the frameworks to potentially benefit sectors, industries or companies [trade associations, large

companies, varied customers of government]. Certainly, it is in the interest of the state to procure the best possible product or service for the money spent; but this can be at odds with what might actually be the 'best' solution for any given problem. Tight procurement frameworks have often been seen to be barriers to innovation, as the room for manoeuvre (both in terms of process and product), has been viewed as being narrow.

34. It has increasingly been recognised however, that procurement does not need to be a barrier to innovation, and if used in a sophisticated manner, it can even be a driver of innovation. In some countries, the language of innovation is now embedded in policy, if not in practice. There has been substantial interest in Europe and the UK with regards to taking this further, moving the rhetoric around innovation into the practice of procuring goods and services for government.

35. There has been particular interest in capturing the potential of procurement innovation in the health sector, and the UK is a good example of this. The Department of Health and the NHS in England has a combined budget of £104 billion of which around £34 billion is spent with commercial suppliers. The government believes that spending this money wisely and creatively can not only make a significant contribution to the delivery of higher quality care for patients, but it can also stimulate the economy, especially in important industrial sectors such as life sciences.

European Trends

36. Public procurement accounts for some 16% of GDP in the European Union, and in recent years, there has been growing attention to the idea of using procurement to drive innovation. There are two fundamental reasons for this: firstly, the financial downturn and recession in some countries with the consequent search for ways and means to squeeze value out of public money, and secondly, the growing recognition that within the ***EU Directives***, there is opportunity for intelligent use of the procurement policy lever to achieve socio-economic objectives.

37. With growing understanding of the ***EU Directives***, there is greater willingness to see them less as a barrier, and more of a set of tools that actually can enable activity, within a sound accountability framework.

38. The European Commission launched the '***Lead Market Initiative***', a new approach to support thematic networks to help procurers to be more innovative in their purchasing. This followed a public consultation held in the summer of 2008, and a workshop on '***Lead Markets and Public Procurement***', organised through a framework programme in The Hague. Three Public Procurement Networks became operational in September 2009, representing the first time that the Commission funded specialised procurement networks dedicated to innovation, each receiving about 1 million Euros in funding. One of the three pilots is called '***LCB - Healthcare***', whose partners include the Department for Business, Innovation and Skills BIS (UK), Netherlands Organisation for Applied Scientific Research TNO (NL), Norwegian Directorate for Health Affairs (NO), Cracow Rydygier Hospital (PL),

Department of Health DH (UK), and the European Health Property Network EuHPN(NL). The objective of this network is to stimulate innovative low-carbon building solutions for the healthcare sector.

39. In the spring of 2010, a conference entitled '***Promoting Innovation through Public Procurement: Best Practice & Networking***' was held in Brussels (sponsored through the European Commission). This conference, aimed at promoting a connected community of stakeholders (existing ones and new ones), that could facilitate and promote public procurement of innovations: innovation agencies, Enterprise Europe Network partners, experts, industry, and procuring facilitators. A series of presentations and case examples were put forward that illustrate the thoughtful work being undertaken with respect to sophisticated use of the procurement tool.

40. The growth in interest (and, indeed, research output) on procurement as it relates to innovation (both academic and from practice), has been substantial. A very important result of this work (for example the extensive Fraunhofer Institute Systems and Innovation Research project on innovation procurement), has been the finding that at that process level, procurement must be thought of as a '***systemic***' process, and at the policy level, pursuing innovation through procurement is fundamentally about '***systems of innovation***' that must be embedded in structures, cultures, and behaviours of a large number of stakeholders. Policy makers have tended to view innovation in a mechanistic or linear manner that fails to take into account the intricate and interdependent relationships occurring between the users and producers of new technologies.

41. As innovation theory (based on the private sector), has developed over the past 50 years, models of innovation have gradually developed from science-push to market-pull to feedback models to a systems view, which shifts the focus from a firm's internal organisation to an inter-organisational perspective, which integrates the role of the firm's interactions during the process of innovation. This systems view builds on increased recognition of the important role of '***network-innovations***'; innovations arising from combining knowledge and skills of different firms.

42. It must be recognised however, that in the public sector we are dealing with not just networks of firms (which are important in and of themselves), but of networks of public organisations, semi-public organisations, and a large number of hybrid organisations that become involved in the procurement of goods and services for, and by, government.

43. It is this [the levels of complexity associated with thinking about ***procurement*** and ***innovation*** as *inter-connected activities and policies*], that most characterises the changes in the last 10 years in this field. The UK public sector, and in particular health, has begun to grasp and manage the complexities in interesting ways.

Recent History of Innovation Policy Development in Health

44. The state of ***procurement*** and ***innovation*** in the UK has much to do with its constitutional and institutional history, namely, a unitary structure that can drive policy change from the centre, and a regional culture around delivery. Still, in recent years, health procurement in practice was seen to be highly fragmented and disconnected with a multiplicity of actors involved in setting policy and delivering procurement management. Unlike other public sectors, such as defence, the procurement of technologies by the English NHS is not a monopsony. Consequently, there are many different purchasing decision points which can result in disharmony and a reduction in the national purchasing agency's power, both in terms of buying and intelligent use of demand.

45. The NHS is perhaps better understood as a network of multiple, extended supply-chains, with purchaser and provider relationships operating as critical coordinating mechanisms at every level, both internally and across its organisational boundaries. While the NHS's purchasing role is not new, the relative importance of its dual purchasing and providing responsibilities is changing. The NHS is increasingly required to buy not just goods but also services, and to purchase these not just from internal markets, but from an increasingly diverse cross-sector network of suppliers. The effectiveness of the NHS as a purchaser has therefore become critical to its success.

46. To address this there has been a vast array of policies and changes made to the Department of Health. In two critical years, with a major focus on innovation, the drive has been to re-structure that landscape to include a very strong central policy unit, and much more skilled devolved commercial delivery support units. With the election of a Coalition Government in May of 2010 (Conservative/Liberal Democrat alliance) there has been another series of policy pronouncements about spending reviews and cuts, including fundamental changes to the Department of Health and the National Health Service (NHS). The extent to which the very recent (2007-2009) re-structuring to embed innovation will demonstrate success is difficult to say in the midst of further institutional change.

Driving Forces for Procurement and Innovation Policy Direction

47. The concept of procurement and innovation in the UK, especially as it relates to health, can be addressed across three timeframes (that necessarily overlap). The first is a period of time (from approximately 2000 to 2006) in which the UK government began to recognise the key role of innovation in not only industry, but also within government itself, and how government could and should harness the theory and practice of innovation to drive wealth creation and environmental sustainability. The second and key phase is from approximately 2006 to 2009 in which a particular emphasis was placed on designing and managing innovation policy centrally, with a view to driving delivery of the policy regionally and locally. This was a period of enormous activity around innovation and procurement policy. The third phase takes us

from the beginning of 2010 to the present, with yet another phase of policy change and re-structure.

III. PHASE ONE

48. In 2001, the 'Wanless Review', a review of the UK healthcare system, found that the English National Health Service was a late and slow adopter of new technologies and called for the rapid and consistent diffusion of technologies throughout the healthcare system.

49. To address problem of NHS not responding well to innovative ideas, and *not 'pulling' ideas from the supply side*, there were new high-level strategy groups set up. For example, the Healthcare Industries Task Force (HITF), was launched in 2004 to facilitate the uptake of new medical technologies by the NHS, and to help make the NHS a more attractive market for UK companies. It identified aspects of NHS procurement that presented barriers to innovation, and created support levers and functions based in new institutions such as the National Innovation Centre (NIC), the National Technology Adoption Centre (NTAC), and Centre for Evidence-Based Purchasing. It also began to contribute to thinking around a new model for procurement, based on ideas adapted from various other countries and organisations, such as the American Defence Advanced Research Project (DARPA), and its use of ***pre-commercial procurement***.

50. The Supply Chain Excellence Programme (SCEP) was also launched in 2004 by the Commercial Directorate of the Department of Health. The SCEP had two main functions: firstly, to improve national contracting, and secondly, to create Collaborative Procurement Hubs, which were to build governance and decision-making networks to achieve effective NHS-Industry partnership. The SCEP was also intended to market-test the NHS consumables supply chain (NHS Logistics and NHS PASA) to see whether the private sector could do it better. The national contracting scheme received the most attention, as this represented an effort to obtain much greater economies of scale from the vast array of purchasing activities within the NHS.

51. While the Department of Health was engaged in all this activity, there continued to be central government pressure to further integrate the innovation agenda into both sectoral policy, and practice. Further recognition that the public sector was failing to take up innovations came from the Department of Trade and Industry report '*Competing in the Global Economy – The Innovation Challenge*' (2003), and another by the Office of Government Commerce – '*Capturing Innovation – Nurturing Suppliers' Ideas in the Public Sector*' (2004). These made explicit the role Government saw for public procurement in innovation.

IV. PHASE TWO

52. A policy consensus was building around the importance of innovation and finding ways to drive the agenda became an important agenda for the Government. The UK White Paper, *Innovation Nation*, published in March

2008, set out the Government's aim to make the UK the best place in the world to run an innovative business or public service. The White Paper committed each Government Department to include an *Innovation Procurement Plan* as part of its commercial strategy, laying out how it would drive innovation through procurement and use innovative procurement practices.

53. The NHS Next Stage Review, '*High Quality Care for All*' (also known as the Darzi Review; June 2008) noted that "***innovation must be central to the NHS***". Health Minister Lord Darzi laid out a package of measures to encourage and spread ***innovation***. He spoke of the long history of ***innovation*** in England, but that there was a challenge to improve take-up across the NHS. There were three key channels that would drive this agenda: firstly, a £20 million prize fund to encourage people working inside and outside the NHS to *suggest and implement innovation*; secondly, a £220 million *Regional Innovation Fund* to be distributed to Strategic Health Authorities over the following five years; and thirdly, critically, through the Health Bill before Parliament, a new legal duty for Strategic Health Authorities to lead innovation and publish *Annual Innovation Reports*, detailing all activity in this regard. The key point here was that *innovation* was to be driven regionally by Strategic Health Authorities (SHAs), with a legal duty to *promote innovation*; and that *front-line innovation* would be supported through the creation of substantial new ***innovation funds*** held by SHAs.

54. The total package was designed to shift the '***mindset***' of the NHS in favour of '***asking questions***', and *looking for new ways to tackle longstanding problems*. The coupling of making the pursuit of innovation a '***legal duty***' at the level of Strategic Health Authority, with the design and distribution of a Regional Innovation Fund was an important strategy. The clarity of this approach meant there was no question about the nature of activity to be undertaken, and it also set up an accountability framework in that each Strategic Health Authority would have to report on its successes. At the same time, the Strategic Health Authorities were given a package of funds to be spent on this activity, funds to be monitored and spent well.

55. The Department of Health outlined its own *National Innovation Plan* based on the expectation of facing a budget shortfall of between £15 and £20 billion by 2014, unless it found ways to *innovate to deliver the challenges of increased quality and productivity in a shifting socio-economic climate*. The philosophy was underpinned by the belief that ***innovation*** and ***prevention*** were the levers for meeting the challenge.

56. Further drivers stemmed from the need to integrate with a climate change agenda, closely linked to productivity and the relation of innovation to the creation of growth and wealth. The NHS has a carbon footprint of 18 million tonnes of CO2 each year, of which 60% comes from procured goods and services. The NHS and its supply chain equate to 3% of the total emissions for England and the Climate Change Act requires a 26% reduction in emissions by 2020. "*By being a more demanding and intelligent customer, the NHS can encourage its suppliers to innovate to bring new solutions to the*

NHS, and more importantly, by being an organisation that is ready to adopt and diffuse new ideas quickly, it can be an engine for growth."

57. Alongside these policy streams was a further programme that embraced '***innovation***' as a driver for change. The NHS *system transformation project* was also a result of the Next Stage Review; and was to be delivered through the Quality, Innovation, Productivity and Prevention programme [QIPP]. In an increasingly difficult financial environment, the Chief Executive of the NHS, David Nicholson, wrote to all Chief Executives and Chairs of Trusts in England to engage them in implementing the principles of co-production, subsidiarity, clinical leadership and system alignment in all activities, to improve quality whilst improving productivity, and importantly here, encouraging all elements of the NHS to *use innovation to drive and embed change*. The QIPP transformation project continues to be an important driver of improvement and efficiency in the NHS to date.

Commercialisation' of the NHS

58. Another key theme of this period that has been fundamental to driving change in the NHS is the move to 'commercialize' procurement activity, and consequently integrate new ways of promoting innovation. It is about making the NHS increasingly business-like with respect to the way it procures, identifies, and integrates both product and process innovations. There are two key strands to this, the first being institutional and structural changes that are designed to lever innovation, and the second is a new conceptualisation, drawing heavily on private sector concepts adapted for the public sector, of the role of procurement.

59. The institutional changes were substantial. The procurement landscape had been a ***top down*** driven structure, led by the Department of Health Commercial Directorate and a Private Finance Unit, operationalised in the NHS Purchasing and Supply Agency and the NHS Supply Chain at the National Level, the Strategic Health Authorities, Collaborative Procurement Hubs and other stakeholder organisations at the Regional level, and then implemented locally by Primary Care Trusts and providers. The new arrangements were characterised by a locally led group of Commissioning organisations and providers, feeding in both ways to Commercial Support Units (now the umbrella for Collaborative Procurement Hubs) and SHAs, liaising nationally with the NHS Supply Chain, through the DH Commercial Centre comprised of the Procurement, Investment and Commercial Division and the Strategic Market Development Unit, governed by a National Procurement Council. The difference is meant to be in the direction of travel, from a *nationally driven process*, to a *locally driven process*, in theory able to take maximum advantage of innovative ideas and products coming to the fore at the individual firm and organisation levels.

60. Structurally, and driving procedure, was the new Commercial Operating Model [put in place in 2010]. The seven key elements of the new Commercial Operating Model were:

i. Creating regional Commercial Support Units (CSUs);

ii. Making the NHS Supply Chain contract deliver more efficiencies;

iii. Realignment of the NHS Purchasing and Supply Agency functions;

iv. Creation of the new DH Commercial centre;

v. Ensuring that the World Class Commissioning programme enable the use of CSUs;

vi. Ensuring that third and independent sectors have a clear point of commercial contact in each region; and

vii. Contributing to innovation, research, regional development and local regeneration.

61. The new conceptualisation of procurement was based on the idea that procurement acts as a bridge between an organisation and its supply base. By harnessing relationships with suppliers, an organisation can stimulate new innovation and adopt existing innovation to leverage quality and productivity. The notion of '***innovation procurement***' was framed as three related, but different, approaches to procurement, viz.:

- Pre-Commercial Procurement
- Innovative Procurement
- Procurement of Innovation

62. ***Pre-commercial Procurement*** is where there is a perceived need without a commercially available solution. These needs must be identified, harnessed and communicated to the market to stimulate curiosity driven research, leading to solution exploration, prototyping, and testing, entering production when successfully commercialised. ***Innovative Procurement*** is where the existing procurement processes and strategies can be developed to enhance supply relationships so that innovation can be rapidly exploited. ***Procurement of Innovation*** is where a beneficial innovative product or service already exists, but is not being widely adopted, driving a need to overcome the barriers and delays to adoption and diffusion through system management.

63. These ideas were combined with the institutional and structural changes to depict a new approach to using procurement to drive innovation. This 'Regional Approach' to technology-led innovation was an attempt to align the structural changes of the NHS with a new concept and approach to using procurement.

The World-Class Commissioning Programme

64. An important use of language should be made clear. '***Procurement***' has typically been referred to as the purchase of goods and services [from the definition of requirements, to delivery, and monitoring]. It has increasingly

encapsulated functions beyond the operational activity of purchasing, to a more strategic, interrelated and interdependent series of roles. Within the UK health environment, the concept of '***commissioning***' has taken on an important meaning. From October 2008, the ***EU Procurement Directives*** were extended to cover the purchase of healthcare services from providers. The purchase of healthcare services is referred to as ***commissioning*** and is carried out by teams of ***commissioners*** working in Primary Care Trusts across the UK.

65. The **aim of commissioning** is to provide the right healthcare services to a local population based on need, and increasingly services are being moved away from hospitals and delivered by providers in primary care, as well as through social services. Commissioning is crucially and critically a set of activities performed by both health and social care, and the boundaries of these activities have posed significant challenges for the delivery of increasingly complicated care. This has implications for the use of innovative products as services are being redesigned.

66. The language of ***commissioning*** has taken on wider and more ubiquitous meaning across the health and social care landscape. The structures and funding streams are key drivers of this. Although funding for health care is raised centrally, it does not then flow directly from the Treasury out to hospitals, health centres and other providers. Instead it is allocated to intermediary NHS bodies (in the UK, they have been known in recent years as Primary Care Trusts, or PCTs), which act as third party payers. These organisations are responsible for assessing local health needs and prioritising the allocation of resources, accordingly. PCTs secure the services required to meet those needs and priorities by agreeing and managing contracts with a range of healthcare providers. This strategic role has embraced the planning, procurement and monitoring functions now known as '***commissioning***'.

67. With the rise of the drive to *commercialise the NHS*, in parallel was the strategic intent to make the '***commissioning***' of services much more *efficient*, *integrated*, and *patient-focussed*. Correspondingly, the focus of *political and managerial attention* began to shift to the demand-side of the system. Following a period of heavy investment in NHS provision from 2000 onwards, policy-makers experimented with a new set of structures, rules and incentives, which in combination, are designed to significantly strengthen the power and influence of NHS commissioners. The strategy for transforming the NHS from a ***provider-led*** to a ***commissioner-led*** system includes dramatically increasing the knowledge, skills and capacity of individuals and organisations responsible for commissioning at a local level. In this context there is a growing desire to learn about purchasing experience and competence in the commercial world.

68. In alignment with the other elements of the commercialisation of the NHS, The World-Class Commissioning programme set out the vision for an NHS led by '***world-class commissioners***' and identifies the competencies that such organisations will require. Mark Britnall, as Director of Commissioning and System Management, in '*Necessity not Nicety: A New Commercial operating model for the NHS and Department of Health*' attempted to explain how the

NHS could achieve a more commercial approach while retaining its core values. With an emphasis on commercial skills flowing through all policy guidance, the disbanding of PASA and the launch of the 10 new Commercial Support Units in the regions, there was a new focus of activity and much attention being paid to the capabilities of commissioners.

69. There was a reasonable amount of history to this change. One of the exercises in moving activity out of the NHS was the Independent Sector Treatment Programme (in 2003) overseen by the Department's Commercial Directorate. It had been identified that NHS commercial skills were sparse and there was little understanding of how to work in a business setting. The policy document tried to widen the sphere of influence and skills, and to ensure their implementation across the whole of the healthcare sector in a systematic manner. It highlighted the *commercial skills* the NHS needs, such as ***market analysis***, ***shaping and nurturing innovative services***, and ***encouraging new markets*** in the provision of health care. NHS organisations building up this sphere of skills need to commission jointly with local authorities, where appropriate, and conduct competitive exercises and manage contracts intelligently. Providers (PCT providers) were also increasingly under pressure to develop commercial skills to better ***recognise opportunities***, ***deliver effective responses to tenders***, '***perform according to contract***', and ***generate ideas*** to help deliver better value and health outcomes.

70. The next spate of structural changes meant that the Commercial Directorate within the Department of Health was decommissioned, replaced by the Procurement, Investment and Commercial Division, now part of the NHS Performance, Finance and Operations Directorate at the DH. The main function of the division is to strengthen commercial and procurement support for the DH in one location. The work of the PCID will be informed by a new National Procurement Council, intended to enable commercial management across the whole system in a coherent way. Also created was the Strategic Market Development Unit (SMDU) to support commissioners in market analysis and market-making. The aim is to provide a single voice for the NHS and DH to speak to the independent sector and engage in the creation of new markets. The Cooperation and Competition Panel will sit within the SMDU. It is to investigate potential breaches of principles and rules of co-operation and competition for the provision of NHS-funded healthcare. It is to examine issues such as merger and conduct inquiries, procurement dispute appeals and advertising and misleading information dispute appeals.

V. PHASE THREE

71. The period from January to May of 2010 was a time of general policy hiatus in the run-up to the general election. Despite having promised not to overhaul the NHS, once elected the new Coalition Government announced a radical re-structuring of the NHS, and indeed, the foundations of the current system in terms of systems of delivery.

72. The key structural changes are the disbanding of Primary Care Trusts and a reconfiguration of the Strategic Health Authorities. Most healthcare services

are to be commissioned by newly-formed GP consortia and governed by an independent NHS Commissioning Board. All guides were updated for 2011/12 to reflect the transition to shadow GP commissioning consortia, and the shadow NHS Commissioning Board, the phased introduction of an Any Willing Provider model (starting with community services). The model was set out in the White Paper '***Equity and Excellence: Liberating the NHS***' (July 2010). The intention was to create an NHS that is more responsive to patients and achieves better outcomes. This meant including more autonomous providers, GP consortia commissioning most healthcare services, the creation of an NHS Commissioning Board, an Economic Regulator and a shifting procurement model entitled '*Any willing provider*' being able to provide services in most sectors of care.

73. The policy agenda seemed broadly in line with what has been undertaken in recent years in the NHS in terms of commercialising procurement and devolving systems around innovation. There is much further research required to fully unpack the implications of all this change for procurement policy and its role in innovation.

Specific Developments related to the Use of Procurement as a Lever for Innovation

74. Innovation has been traditionally theorised according to linear product and process approaches. But recent policy developments, and indeed innovations themselves, can no longer be characterised along these clear lines. In fact, one now sees '***systemic innovation***', which blends both the procurement of product and adaptation of the process. The following examples outline the manner in which systems of innovation demonstrate how procurement can be understood and used in a sophisticated manner.

Telecare

75. The involvement of procurement in telecare is driven by the demographic of ageing "baby boomers" and the rise of ethnic migration (necessitating new ways of thinking of health care delivery), upon the healthcare system. New models of healthcare provision such as ***telecare*** or the interactive and technologically advanced ***telehealth*** involve re-thinking of what is understood to be health care and how it is delivered. For example, by assisting the individual to stay in their own home, ***telecare*** has implications for *how the professions interact in supporting an individual through various stages of illness or infirmity*. Indeed, innovations such as ***telecare*** are contributing to the redefinition of what is '***appropriate***' care. The healthcare system supporting the elderly, will move away from being fully '***interventionist***' (*procedures and care in an acute setting*), but will be increasingly built around *supporting the individual over a continuous period of time*, with emphasis on *monitoring for prevention rather than cures*. The shift to ***home-*** and ***community-based*** support (and the potential for the *accompanying technology*), means there will be *new volume markets for suppliers*, *new markets* (not even conceptualised yet), and *new needs* for procurement to satisfy.

76. The *National Framework on Telecare* was developed as a public procurement mechanism to support the delivery of ***telecare*** *policy* in the UK. It eliminates the need for local care services to individually undertake their own procurement exercises and more generally aims to contribute to the creation of a competitive marketplace for telecare for the public sector. This award winning initiative has been rated as very successful, being used by over 80% of local authorities and delivering substantial cost savings. At the frontline delivery level, anecdotally, there is some belief that the procurement of ***telecare*** has not been implemented thoughtfully, or in a way that integrates the social and healthcare needs of the individual. There is still much progress to be made with respect to how the procurement of 'product' and the 'commissioning' of care is handled across the wide ranging needs of many sections of the population, such as the elderly and disabled.

Digital Signal Process Hearing Aids – A System of Innovation

77. Following reports in the 1990s highlighting the ineffectiveness of hearing aid services, John Hutton, MP Parliamentary Under Secretary of State for Health announced in January 2000 that the British government would invest £9.7 million to fund a series of pilot sites to assess the implications of adopting digital hearing aids. This initiative subsequently became known as the "*Modernising Hearing Aid Services*" project (MHAS), and within 4 years the NHS moved from prescribing no digital hearing aids to prescribing the technology to all appropriate users. One of the key objectives involved a revision of the existing supply chain that suffered from the effects of '***institutional inertia***'; approaches to funding, prescribing, and contracting were firmly embedded such that cost pressures, assumptions about what the NHS could and should provide, and outdated specifications inhibited the introduction and adoption of Digital signal process hearing aids.

78. The market for hearing aids was significant, and represented a huge opportunity for the government to lever change on volume, price, as well as improving the quality of the product for the user. It was recognised that shifting the supply chain would be a complicated process due to fear on the supplier side of damaging their private sector markets; the lack of incentives for audiologists to prescribe digital aids through the NHS; the institutional network around supply practices, and the lack of funding to support widespread use of the digital product. A new '***system of innovation***' was developed, whereby *each of the key stakeholders was responsible for an element of changing both the process of getting the product, as well as changing the technology itself*.

79. The Royal National Institute for the Deaf (RNID) represented the needs of the patients and, in an unusual arrangement, formally acted as the lead organisation, managing the project and leading the process of implementation. The leadership of James Strachan (CEO of RNID and hearing impaired himself), was fundamental to the success of the project. *Interactive learning* between the different networks of stakeholders involved *coalesced around different themes*. For example, *researchers* interacted with *audiologists* to build the necessary *clinical and technical knowledge* to enable the prescription of the digital aids. The RNID, with the NHS PASA, formed a

procurement sub-system to negotiate with suppliers, which collectively has also formed a key *sub-system* that had to *develop new business strategies*.

80. One of the key lessons of the Digital Signal Hearing Aid Project was that *the roles of all actors* in the '***system***' must be carefully considered and reviewed, beyond just the procurement agencies, both in driving the adoption and diffusion of new technologies, but also in developing affordable technologies that serve users. A ***systemic perspective*** requires that these *roles, responsibilities and interactions must necessarily shift*, especially as the technology evolves in real-time. Ensuring that new technology is taken up for the benefit of users requires that *procurement be viewed and managed as a dynamic* ***system of innovation*** *that is never static, but evolving and changing continuously*.

Yorkshire and Humber – Highlights from Report of Annual Innovation Plan

81. The Departmental National Innovation Plans varied in detail and ambition. A brief review of the Regional Annual Innovation Reports (2009/2010) reveals very different levels of activity and commitment to the innovation agenda. The Yorkshire and Humber Strategic Health Authority (one of the 9 SHAs) Annual Innovation Report is of considerable merit, at least in so far as it reports on a significant amount of activity and effort to undertake the innovation agenda seriously.

82. The Yorkshire and Humber SHA focussed its innovation strategy on developing partnerships to promote innovation in the region; promoting an innovative culture in the NHS in the region; recognising and rewarding innovation; and maximising the use of the Regional Innovation Fund to promote the adoption and spread of innovations in the region. The work of the Regional Innovation Hub, in partnership with the SHA, represents the kind of activity that has been spurred on by commitment to the agenda, under the new institutional structure.

83. The Hub reported its impact on the basis of over the previous 5 years receiving 846 new ideas, assessing 408 and undertaking the support of 58 through to live projects; and supporting the development of 50 commercially ready technologies with a market value of over £50 million. Examples include a motorised drip stand, and X-ray calibration device for application in dental surgeries and hospitals, and the Knight-Sheffield Bed, an aid for non-invasive spinal injury. The hub supported the development of 5 spin-out companies, raised £1.7 million venture capital funding, and partnered on R&D contracts to the value of £34 million.

84. The Regional Innovation Fund shows how devolved funding can lever new ideas and bring forward technology that might not otherwise have seen the light of day. In 2009/2010, a total of 242 unique applications were submitted the end result of 15 successfully funded projects totalling £1.44 million.

85. Taken in perspective, this kind of activity represents a '***system of innovation***' to some extent. The different avenues in which innovation is being pursued,

and the roles of stakeholders to take responsibility for bringing technology forward make it possible for new ideas to break through and become commercially viable.

Health Care Acquired Infection Technology Programme (HCAI)

86. The HCAI technology programme was developed to speed up the development and adoption of technologies to combat HCAIs, particularly MRSA and C. Difficile. It aims to identify which new technologies provide the best value, and which will have the most impact, and includes some elements of '***pre-commercial procurement***'. This '***system of innovation***' involves a number of key strands:

- ***Innovation Push***–identifying the kinds of technology that will help most at the NHS front-line, by asking practitioners associated with infection prevention and control what they need developing and what would be most helpful.

- ***Support for Industry***–fully engaging with industry and developing networks to communicate the need for specific new and novel technologies.

- ***Support for Innovators***–providing innovators in both the commercial and public sectors with access to scientific and procurement advice at all stages of their technology development and adoption programmes.

- ***Making it Easier***–providing a clear route map through the development and adoption process, making it easier and less costly.

- ***Support with Adoption***–helping the NHS access the value of technologies to show what works best and provide them with ready-made business cases to encourage local adoption at hospital level.

- ***Demand Pull***–supporting approved technologies and highlighting opportunities and easy access to supplies catalogues, along with other promotional activities, so the NHS knows what is available and how effective it is.

87. There are two complementary channels for identifying new technologies, the ***Rapid Review Panel*** and the "***Smart Ideas***" Programmes. The ***RRP*** was set up in 2004 to provide a *prompt assessment* of new and novel equipment, materials and other products that may be of value to the NHS in improving hospital infection control and reducing hospital acquired infection. The NHS ***Smart Ideas*** programme consisted of workshops held during 2007, with around 500 NHS staff and other professionals associated with infection prevention and control. The purpose was to gather their ideas about how technology might be used to help combat HCAIs more effectively. The National Innovation Centre was taking forward a number of ideas to specify, design and prototype. Another unique element involved asking some talented designers to work on a '***Design Bugs Out***' programme. This involved creating better designs for critical hospital equipment and furniture which have

historically proved hard to clean effectively and where redesign will make them easier to clean, more modern, and easier to use.

Comparison: Procurement Practices in Canada and the UK

88. Procurement policy in Canada is characterised by central government overall frameworks and direction, with devolved policy and practice at the provincial level in alignment with the constitutional structure.

89. The interaction of the North American Free Trade Agreement (NAFTA), the World Trade Organisation (WTO) agreements, and the Agreement on Internal Trade (AIT) is particularly important in this federal setting, as they define and guide how the provinces work together and with the central government on matters of purchasing and contracting.

90. At the federal level, there is a division of labour in terms of policy setting (Treasury Board of Canada) and procurement operations (Public Works and Government Services Canada). The provincial institutional frameworks differ from jurisdiction to jurisdiction. Each province has an organisation that provides frameworks and policy for the operation of procurement in that province, with varied delivery organisations that interact with business and other organisations in their bids to operate various services.

91. This has evolved over time substantially. For example, Ontario now has the Supply Chain Management organisation within the Ministry of Government Services implementing an integrated corporate procurement strategy to leverage, optimize and account for the procurement of government goods and services. British Columbia operates a Procurement and Supply Services organisation, 'offering procurement and supply services, using a combination of internal and private sector resources.' Each provincial procurement organisation has a slightly different approach and underlying model, for the most part now carefully organised to face front-line business services and the providers to government.

92. In Canada, one of the key events in procurement in recent years was the Gomery Inquiry and the resulting tightening of the procurement frameworks and contracting guidelines to prevent misuse of taxpayer money. The Agreement on Internal Trade has had some impact in opening up procurement within and across the provinces. Group purchasing organisations have become increasingly important in pursuing a procurement strategy that takes advantage of economies of scale, especially in health and education.

93. The UK's Office of Government Commerce has some parallels to Public Works and Government Services in Canada, providing corporate frameworks and guidance at central government level. The Canadian system is understandably, a highly devolved system, which requires layers of multi-stakeholder organisations and negotiations to agree to changes in the procurement arrangements. The UK procurement system in contrast is very strongly centrally directed and controlled, despite increasing efforts to devolve activity, as well as responsibility to organise and manage procurement. The arrangements for innovation cascade downwards, recent policy and practice

as described in this paper, has made significant strides towards engendering a bottom-up process for levering procurement innovation. Despite procurement systems that differ in many ways, there is still ample reason to explore and learn from each other, giving consideration for different political, cultural, and socio-economic contexts.

VI. CONCLUSION

94. The Paper clearly indicates that there has been significant and intense attention to procurement and innovation, as demonstrated by the example of the health sector in the UK. The past 10 years have shown massive efforts to make structural and institutional adjustments intended to help drive innovation through procurement. There have also been serious attempts to alter the conception of how procurement is undertaken to deliver innovation, for various outcomes including the promotion of new forms of service delivery as well as the search for efficiencies.

95. Up until the recent myriad of changes announced for the health sector, there did seem to be a shifting mindset about innovation, based on a growing understanding of '***systems of innovation***', how a multiplicity of actors and organisations need to interact to benefit from procurement. Successes such as the *Digital Signal Process* hearing device programme, the *Regional Innovation Fund* and the sheer number of ideas coming forth around new products, seem to indicate that the intelligent use of procurement mechanisms is being embedded both in culture and practice. It is still too early to tell how the latest changes to the health sector will impact on the transformation of procurement and innovation.

96. *Allen, Wade, and Dickinson* wrote that the notion of '***power***' is particularly important in understanding and assessing how procurement and supply chain models are evolving, and this is key as it relates to innovation. With a policy environment that is changing fundamentally, and an increasingly complex map of stakeholders in health, how individuals, organisations, and governmental institutions relate to one another will be critical. New modes of ***power-sharing*** are inevitable. Christine Harland, President of the Health Care Supply Association and Director of CRiSPS, said that moves to larger purchasing organisations and a greater involvement of private insurers, means more stakeholders will be involved in decisions and there will increasingly be different types of organisations engaging with each other. The *future for health procurement* is ***collaboration***, ***boundary-spanning***, ***collaborative procurement***, teams making ***commissioning decisions***.

97. A more in-depth analysis of specific procurement practices in the context of the current political changes is needed to understand fully *whether policy has truly enabled practice* in terms of ***levering innovation through procurement***. We can say however, there is now a much *more sophisticated understanding* of ***procurement and innovation***, and there have been *successes along the way*.

VII. APPLICABLE LESSONS

98. The form, variety and types engendered by the ***changes*** (or, ***new approaches and innovations***) ***in public procurement*** will have far-ranging implications for Bank procurement policies, as they stand at present. This is because, even in the case of familiar concepts like ***life-cycle costing*** and ***e-procurement*** (which already exist on the books), the Bank has to push and advance the principles beyond mere mention in the policy, into actual and generalised use. Concerning ***life-cycle costing***, for example, the Bank has to move the concept forward into more serious considerations of *risk and flexibility, quality, performance*, etc. Similarly, in the sphere of ***e-procurement***, the Bank must assist borrowers into venturing into the areas of *electronic signatures, reverse auctions,* and the like, since it has been a member of the MDB e-Government process, for years.

99. Conversely, other concepts like ***value-for-money***, ***collaboration with the private sector***, ***best-fit-through-dialogue***, ***competitive dialogue***, and ***merit-points***, etc., could prove to be game-changers [or, paradigm shifts], compared to the Bank's usual practices. It is clear that these other concepts will make fresh demands on the Bank, with respect to appropriate levels of capacity, integrity and inventiveness. Their inclusion in the Bank's policies will therefore have to be sustained through the injection of specialised training for personnel (training of trainers; Bank staff; and EA staff). In this quest, the Bank must look to the ***EU*** for the necessary technical assistance, since it has practical experience on most of them.

100. Meanwhile, the Bank must pay particular attention to how the WB will propose to resolve the issues of integrating the new concepts into its Guidelines, in the interest of alignment and harmonisation. The Bank may even wish to conduct joint piloting exercises with WB, with the view to "testing the waters" in the adoption of these new concepts.

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