Ministry of Economics of the Republic of Latvia

Interreg Baltic Sea Region

Co-funded by the European Union

RESPONSIVE PUBLIC SERVICES
PPI4cities

POLICY RECOMMENDATIONS FOR FURTHER SUPPORT OF PUBLIC PROCUREMENT OF INNOVATION AMONG MUNICIPALITIES IN THE BALTIC SEA REGION

RECOMMENDATIONS DEVELOPED WITHIN THE FRAMEWORK OF THE INTERREG BALTIC SEA REGION PROGRAMME PROJECT “PPI4CITIES”

DEVELOPERS:

The Ministry of Economics of the Republic of Latvia In cooperation with:
Lithuanian Innovation Centre, The Baltic Institute of Finland,
Estonian Chamber of Commerce and Industry, Panevėžys Development Agency,
BME Region Mecklenburg Western Pomerania, NorthDenmark EU-Office

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SUMMARY

Across the Baltic Sea Region (BSR), public procurement of innovation (PPI) is increasingly recognized as a strategic instrument for modernizing public services, strengthening competitiveness.

The PPI4Cities project, coordinated by the Lithuanian Innovation Centre with partners from Latvia, Lithuania, Estonia, Finland, Germany, and Denmark, demonstrates that while the policy frameworks are evolving, the practical uptake of innovation procurement remains uneven and limited by structural, institutional, and financial barriers.

Most partner countries acknowledge the transformative potential of PPI, yet implementation is constrained by similar systemic challenges: fragmented governance, insufficient inter-institutional coordination, low awareness, and limited financial and methodological support. Municipalities, which play a decisive role in introducing innovative solutions, often lack dedicated funding, risk-management mechanisms, and strategic incentives to engage in innovation-driven procurement.

Common obstacles are knowledge gaps, risk aversion, rigid legal interpretations, and the absence of impact assessment systems—have collectively hindered the ability of public institutions to adopt innovation as a regular practice rather than an exception. Despite these challenges, numerous strengths and good practices are evident across the region. Finland's mature policy ecosystem, Estonia's centralization of innovation expertise, Lithuania's GovTech Lab, Germany's KOINNO competence centre, and Denmark's CO-PI demonstrate effective approaches to building skills, fostering collaboration, and promoting innovation partnerships. Latvia's growing emphasis on digital transformation and sustainability provides a foundation for more coordinated and evidence-based policymaking.

These experiences underline the importance of practical tools, shared knowledge, and capacity-building networks that can connect cities, ministries, and private sector innovators. A coherent regional approach is therefore essential.

By aligning strategies, harmonizing legal and financial instruments, and promoting knowledge exchange through digital platforms like ppi4cities.eu, bsr countries can collectively accelerate the adoption of ppi. Empowering municipalities with accessible guidance, measurable objectives, and stable funding will transform innovation procurement from an experimental activity into a sustainable driver of smart, inclusive, and resilient urban development.

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INTRODUCTION

Today's urban challenges – from climate change to the demand for digitalisation and smart governance – call for innovative solutions that can adapt to a rapidly evolving social landscape. The public sector plays a strategically significant role in driving this transition, and one of the most effective tools to accelerate it is Public Procurement of Innovation (PPI).

These policy recommendations were developed within the framework of the Interreg Baltic Sea Region project "PPI4cities". The aim of the project is to strengthen cities' capacity to adopt innovative solutions through PPI, while simultaneously developing and offering practical tools, including artificial intelligence-based instruments and gamification methods. These tools act as a roadmap, helping cities overcome existing barriers and implement procurement processes that stimulate sustainable development and enhance public well-being.

This document compiles various chapters providing information on the project and its contributions, along with an analysis of the current state of PPI in the six partner countries – Latvia, Lithuania, Estonia, Finland, Denmark, and Germany. The objective is to support policymakers and local governments across the Baltic Sea Region by providing concise, accessible, and actionable insights into current challenges and needed support mechanisms for expanding the use of PPI.

The document brings together key findings, good practices, and country-specific challenges related to the implementation of innovation procurement, offering recommendations for overcoming these obstacles and fostering further development.

These recommendations represent a step toward smarter, more sustainable, and citizen-friendly cities, encouraging peer learning and the exchange of best practices.

In the project PPI4cities, public authorities learn how to build a smart city by designing innovations already at the procurement level.

Start your public procurement of innovation journey today – with ppi4cities!

3. PROJECT AND PROJECT PLATFORM DESCRIPTION

Interreg baltic sea region project "supporting bsr cities to implement public procurement of innovation while providing practical tools created using ai technologies and gamification methods" "ppi4cities"

IMPLEMENTATION: January 2023 - December 2025
PROJECT TOTAL BUDGET: 1 727 124,20 euro

PPI4cities support the cities in BSR region to improve their public services and achieve their ambitious innovation goals through developed pragmatic tools, which facilitate the uptake of public procurement of innovation. There are so many innovations that can be implemented to make urban life easier. Therefore, project supported cities throughout the process to deal with different economic, environmental and social challenges and look for the smart solutions to them. It was done by bringing together a portfolio of capacity building material and tools that enable the various actors of the cities to exploit structured content and move forward faster and with greater confidence and certainty in adopting smart cities' solutions through PPI.

Project also formed a network of BSR cities - dedicated to public procurement of innovation.

Through peer exchange, networking and training, project fostered political commitment and boosted collective expertise, equipping cities to put PPI at the centre of smart city development.

During the project, developed solutions piloted in a real-city settings in order to assess their feasibility and the effectiveness for the target groups.

Project partners implemented support activities to boost the BSR-wide impact of developed solutions on PPI and assist the BSR city network through transferring the solutions to the broader audience of the target group.

Within the PPI4cities project, public institutions learned how to build a smart city by planning and developing innovations already at the procurement stage, strengthening the capacity of cities in the BSR to improve public services and achieve ambitious innovation goals through practical tools. These practical tools are intended to promote the use of PPI in practice.

Taking into account the wide range of possible innovations, the project provides support to cities at various stages, while addressing economic, environmental, and social challenges by seeking smart and sustainable solution approaches.

To achieve this, various capacity-building tools and resources have been developed, available on the digital project platform PPI4cities.eu (hereinafter - the platform), providing structured access to information and support on the path to implement smart city solutions through PPI.

The platform functions as a BSR city network, promoting cooperation and knowledge exchange in the field of public procurement of innovation. By implementing project activities such as experience exchange, networking, and training, the project aims to promote support and expand the overall competence, enhancing the municipalities' ability to incorporate PPI into their smart city strategies. An essential role is played by the project platform's potential to promote public-private sector collaboration, as the platform is available to both public and private sector representatives.

Throughout the project, the solutions developed were tested in a real environment to assess their viability and effectiveness for the target groups. Project partners implemented support activities to strengthen the impact of these solutions in the BSR and encourage their dissemination to a broader audience.

PROJECT COORDINATOR:

- Lithuanian Innovation Centre (LT)

PROJECT PARTNERS:

- The Baltic Institute of Finland (FI)
- Estonian Chamber of Commerce and Industry (EE)
- The Ministry of Economics of the Republic of Latvia (LV);
- Panevėžys Development Agency (LT)
- BME Region Mecklenburg Western Pomerania (DE)
- NorthDenmark EU-Office (DK)

PROJECT PLATFORM

The platform was created to achieve the project's goal and promote the potential of PPI by connecting forward-thinking cities, innovative companies and procurement specialists, enabling the public sector to build smart cities by developing innovations already at the procurement level.

PPI4cities platform is the place were cities come together to learn and grow their innovation potential, showcase best practices, exchange experiences and build valuable connections with like-minded institutions.

However, the platform is not only for cities. It is also the gateway for a gamified competence building for individuals and teams, working in the field of public procurement.

The platform also provides a significant opportunity for representatives of the private sector, not only providing the opportunity to develop competence and advance knowledge for both individual users and teams working in the field of public procurement, but also providing networking opportunities and the implementation of private-public sector cooperation. The company has the opportunity to publish its products on the platform, communicate with cities and create joint innovations. Users will be able to get to know organizations from the Baltic Sea region.

The platform displays city profiles and best practice examples, thereby promoting mutual networking, collaboration, and finding solutions to common challenges.

The PPI4cities platform consists of four major parts: the Good practice database, public sector challenges, private sector services and capacity building tools:

- **Best Practice Database** - a comprehensive catalog of best practices, serving as a support tool for procurement specialists. Practical examples from urban public procurement emphasize practical tips and applied criteria. The selection of criteria is often mentioned as one of the main challenges in the procurement process, so this information will be essential for promoting PPI. The best practice catalog serves as a tool for promoting PPI in BSR cities. Practical examples demonstrate that innovation-based public procurement is possible. This catalog provides an opportunity for both public and private sector representatives to gain insights into practical solution applications and their adaptability in various contexts and industries, thus promoting broader PPI implementation at regional and national levels.

- **Public Sector Challenges and Private Sector Services** - cities have the opportunity to create their own profiles and publish existing challenges that can be addressed through innovative solutions. This section enables cities to present their profiles, allowing them to share experiences, learn from each other, and collaborate in developing solutions to common issues. Combined with the Private Sector Services section, the platform not only supports competence development and knowledge sharing for individual users and teams, but also fosters networking and facilitates cooperation between the public and private sectors. Companies can use the platform to present their products, connect with cities, and co-create innovative solutions. Users will be able to explore organizations across Baltic Sea Region countries, promoting stronger BSR-wide collaboration and partnerships.

- **Capacity building material** - focusing on the following innovation procurement topics: needs assessment, market engagement, procurement criteria and tendering procedure.

  The first two topics (needs assessment and market engagement) are more relevant for the manager-level positions as they involve the general planning processes as well, however these can also be used by procurement specialists.

  The later two topics (procurement criteria and tendering procedures) provides more practical information on the procurement process, thus these will be more important for the procurement specialists. The training material will consist of support materials and interactive tools.

  Capacity building materials are be accompanied by the interactive individuals' knowledge self-assessment tool, organizations' needs assessment tool, project innovativeness self-assessment tool, which generates recommendations after providing needed information and completing it.

  It also helps to assess the readiness of the organization to conduct the PPI, the innovativeness of the procurement project and provides recommendations what are the next steps needed to complete in order to be prepared for the implementation of PPI.

  The knowledge assessment tool is designed using gamification elements which provides needed reinforcement and support to players by adding elements of engagement and fun to the training process.
  Scores and leaderboards are used in order to encourage players to have a friendly competition and motivate participants to learn.

  Participants are given examples of different procurement project descriptions and specific tasks (exercises) will be formulated. After completion of the tasks, procurement specialists will be given the feedback on their results.

The platform features a specially developed artificial intelligence tool designed to provide additional information on public procurement of innovation, current events and seminars, technology trends, consultations and other services related to the urban environment. This tool is intended for consultations on public sector initiatives and PPI aspects.

The PPI4cities platform – an accelerator for innovative cities in the BSR, is available to anyone interested in PPI processes. The PPI4cities platform can help explore the potential of PPI in creating smart cities using a comprehensive set of capacity-building materials, self-assessment tools, CityLab and a good practice database that ensures mutual cooperation between the public and private sectors in BSR cities.

The platform has been created as a significant support tool for the implementation of innovative solutions in bsr cities, implementing ppi, ensuring the promotion of mutual cooperation and achieving ambitious innovation goals

4. THE CURRENT SITUATION REGARDING PUBLIC PROCUREMENT OF INNOVATION IN BSR

Innovation procurement in Europe remains underdeveloped and underutilized, significantly limiting the region's competitiveness. The EIC Forum and multiple high-level reports, including those by the European Court of Auditors and experts, highlights critical barriers that hinder the adoption of innovation-friendly procurement practices. These include:

- Restrictive legal frameworks;
- Fragmented national policies;
- Insufficient financial incentives.
  (Inovācijas iepirkumu investīciju un politikas sistēmu salīdzinošā novērtēšana Eiropā)

A key concern is that public procurement rules often favor existing solutions, leaving little room for innovative offerings from startups and SMEs. Overly detailed tender specifications, strict financial criteria, and procurement decisions based on the lowest price create an uneven playing field that disadvantages innovative European companies. Moreover, intellectual property rights (IPR) conditions often prevent firms from commercializing their innovations, further discouraging participation in public tenders. *(Inovācijas iepirkumu investīciju un politikas sistēmu salīdzinošā novērtēšana Eiropā)*

The benchmarking of national innovation procurement policies confirms that most European countries lack strategic frameworks to support innovation procurement. The most underdeveloped areas include:

- Lack of national action plans;
- Limited financial commitments;
- Weak policy integration - innovation procurement is not prioritized in key public sector policies;
- Insufficient incentives and support measures - public buyers lack motivation and resources to implement innovation procurement.
  (EIC forums — politikas ievirzes 2024)

The EIC Forum's recommendations call for removing legal barriers, enhancing financial incentives, and enabling joint cross-border procurement to create a more unified and efficient innovation procurement market across the EU. The revision of EU public procurement directives and the upcoming European Innovation Act aim to address these challenges by simplifying regulations and making procurement more accessible to startups and SMEs.

To compete globally, Europe must double its investment in innovation procurement and establish clearer policies, stronger financial incentives, and a more innovation-friendly legal framework. Without urgent action, the EU risks falling further behind in leveraging public procurement as a driver of technological advancement and economic growth.

To understand the current state of innovation procurement in Latvia, Estonia, Lithuania, Finland, Germany, and Denmark, a descriptive overview was prepared, outlining the following indicators characterizing the existing situation:

- description of planning documents and strategies that define the necessity for implementing
- Public Innovation Procurement (PPI);
- description of the applicable legal framework;
- PPI implemented by the public sector;
- factors and challenges influencing the growth and development of PPI in the public sector in the country;
- available support instruments for the implementation and promotion of PPI.

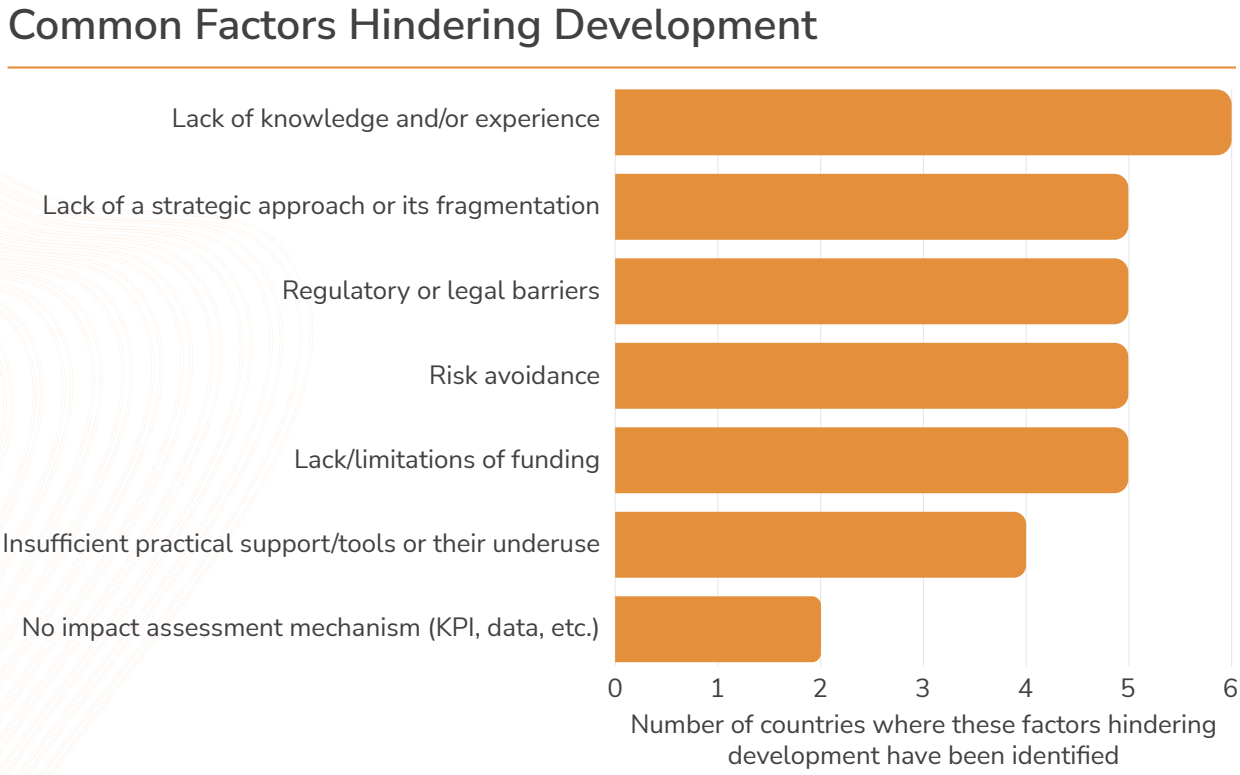
The chapter is an analysis of the current situation developed by the joint project partners, with the aim of characterizing the current situation, identifying the current development constraints and the available support. The chapter is structured in two complementary parts:

- The first part provides an overview of the challenges identified in all project partner countries, summarizing and describing many development constraints.
- The second part is dedicated to the description of the current situation in each country.

A detailed description of the situation in each country is provided in the annex section

COMMON FACTORS HINDERING DEVELOPMENT IN BSR

Summarising the current situation and the identified challenges in the context of introducing innovation public procurement in BSR countries, a common trend can be observed. The compiled results are presented in Figure 1.1, reflecting the common factors hindering development and the number of countries where each factor has been identified, as well as in Table 1.1, which lists the relevant hindering factors and the specific project partner countries where they have been observed.



1.1. Figure *Source: Based on information compiled by the project partners.*

1.1. Common Factors Hindering Development and Countries Where They Have Been Identified

Factor Hindering Development	Countries Where This Factor Has Been Identified
Lack of knowledge and/or experience	Latvia, Estonia, Finland, Germany, Denmark, Lithuania
Lack of a strategic approach or its fragmentation	Latvia, Lithuania, Finland, Estonia, Denmark
Regulatory or legal barriers	Latvia, Estonia, Finland, Germany, Denmark
Risk avoidance	Latvia, Finland, Germany, Denmark, Lithuania
Lack/limitations of funding	Latvia, Estonia, Germany, Denmark, Lithuania
Insufficient practical support/tools or their underuse	Latvia, Germany, Denmark, Lithuania
No impact assessment mechanism (KPI, data, etc.)	Latvia, Lithuania, Denmark

Source: Based on information compiled by the project partners.

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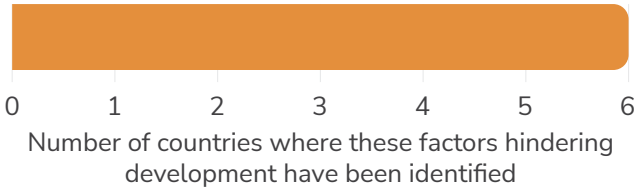
DESCRIPTION OF COMMON FACTORS HINDERING DEVELOPMENT

Summarising data on the factors hindering the development of innovation public procurement reveals a clear trend – these challenges are structural and interconnected. In all analysed countries, especially in Latvia, Estonia, Finland, and Denmark, the development of innovation procurement is hampered by several similar factors, indicating common challenges in the transformation of the public sector. It can be concluded that although the main difficulties in the project partner countries are similar, they require a coordinated approach at the national level.

To understand each of the common factors identified and their causes, a more detailed description of each factor will be provided in the context of the project partner countries.

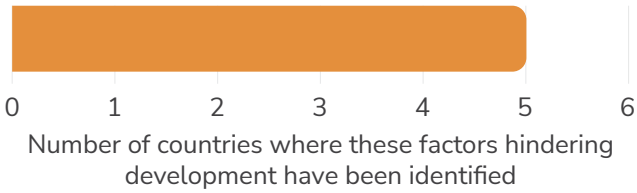
Lack of knowledge and/or experience



1.2. Figure *Source: Based on information compiled by the project partners.*

All project partner countries have identified a challenge relating to knowledge and capacity in the public sector, citing the lack of practical experience and available good practice examples in the field of innovation procurement as the root cause. Lack of knowledge and experience is the underlying cause of each of the subsequently identified factors hindering development, as it stems from the absence of specific knowledge and relevant experience in implementing innovation public procurement. It is possible that the root cause of this factor is linked to the lack of a strategic approach in the respective country, leading to fragmentation not only in the provision of support but also in the exchange of experience within the territory, thereby negatively affecting the potential for innovation development in the country.

Lack of a strategic approach or its fragmentation



1.3. Figure *Source: Based on information compiled by the project partners.*

The lack of a strategic approach or its fragmentation in the field of innovation procurement, identified in five out of six countries, mainly arises from the fact that innovation public procurement as a strategic instrument to foster innovation development is rarely consistently integrated into national, regional, and municipal development strategies, policy plans, and budget priorities. Furthermore, coordination, i.e., mutual cooperation between different levels of governance and sectors, is often insufficient. As a result, there is a lack of a common vision, clearly defined objectives, indicators, and distribution of responsibilities, which hinders long-term planning and the focusing of resources on implementing innovative solutions. Such fragmentation means that initiatives are

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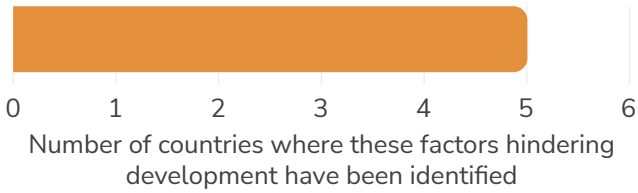
often implemented in isolation, without synergy and opportunities for scaling, thereby reducing their impact and potential to overcome other interlinked hindering factors and improve the current situation.

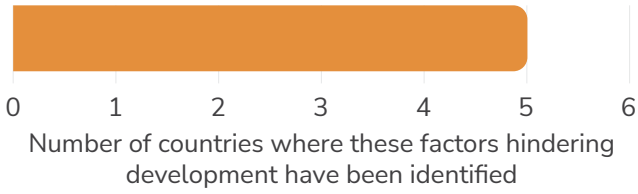
Regulatory or legal barriers



1.4. Figure *Source: Based on information compiled by the project partners.*

Regulatory or legal barriers hindering the implementation of innovation public procurement have been identified in five out of six countries. This challenge mainly arises from complex and resource-intensive procedures, legal uncertainty in the process of implementing innovation public procurement, and differing interpretations of legislation by the relevant institutions, i.e., public sector representatives. This results in caution and discourages the introduction of innovative solutions. In most project partner countries, innovation public procurement is perceived as a time-consuming process subject to uncertainty. Although existing regulations are explained further and simplified interpretations are provided to the target audience, these are not always used sufficiently. The situation is further complicated by uncertainty in the relevant legal framework – for example, there is a lack of clarity on the scale at which innovation public procurement is determined – at the enterprise, municipal, regional, or national level. These circumstances reduce the readiness to implement innovation public procurement, limit early market engagement, and hinder the introduction of innovative solutions in the public sector.

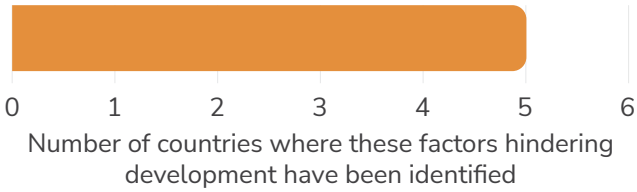
Risk avoidance



1.5. Figure *Source: Based on information compiled by the project partners.*

Risk aversion in the implementation of innovation procurement is mainly a direct consequence of the previously identified factor hindering development, reflected in the dominance of the lowest-price principle, legal uncertainty, and fear of failure, which may be interpreted as inefficient use of public funds. Public sector institutions often lack confidence and practical examples demonstrating the safety and usefulness of innovative approaches, recognising that innovation public procurement does not always guarantee the desired outcome, as it is a new and previously untested solution. Moreover, complex procedures and potential legal consequences increase caution and demotivate the public sector from introducing innovations through public procurement. Given the above, preference is given to lower-risk procurement models, which limits flexibility, early market engagement, and the introduction of innovative solutions.

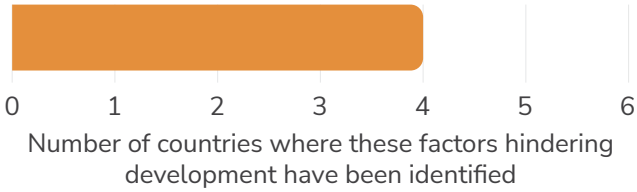
Lack/limitations of funding



1.6. Figure *Source: Based on information compiled by the project partners.*

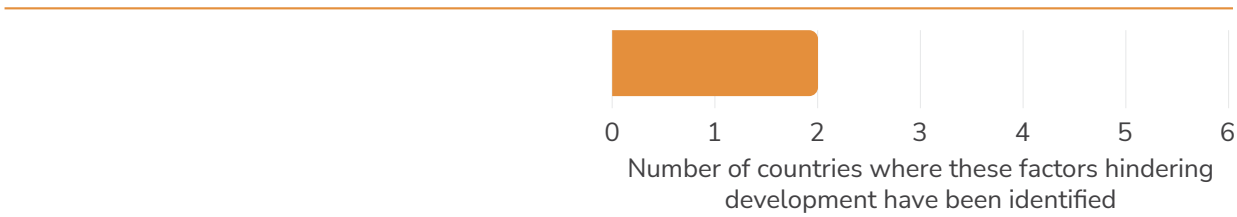
When analyzing the common factors hindering development, the lack or limitations of funding for innovation procurement was identified in five out of six project partner countries. This factor mainly arises from the fact that at national, regional, and municipal levels, there is often no specific budget allocated for the introduction of innovative solutions, and no special financial mechanisms exist to support projects associated with higher risk and cost. Smaller municipalities and regions are particularly affected by this limitation, as their limited resources are prioritized for everyday needs, while funding for more complex or risky procurements is postponed or not initiated at all.
This situation hampers early market engagement and reduces opportunities to scale innovative solutions, limiting the public sector's ability to harness the potential of innovation for the development of cities, regions, and the state.

Insufficient practical support/tools or their underuse



1.7. Figure *Source: Based on information compiled by the project partners.*

Insufficient practical support and the lack of such support tools or their insufficient use in innovation procurement mainly arise from the absence of centralised consultations, standardised training, and accessible practical examples, as well as from the fragmented availability of existing tools. Smaller institutions and municipalities are particularly affected by this problem, as without methodological and technical support, they lack confidence in selecting procedures and ensuring the quality of innovation implementation. In some countries, available tools are not consistently used due to a lack of knowledge, fragmented policy integration, or institutional inertia, which hinders the implementation of innovation procurement and limits the ability to ensure its broader and more effective application. In most project partner countries, such support tools exist, but they are not easily accessible or the target audience is not sufficiently informed about them, resulting in their non-use and the perception that support for innovation implementation is non-existent.



1.8. Figure *Source: Based on information compiled by the project partners.*

A significant factor hindering development, as it directly affects the absence or lack of justification for measurable indicators, is the lack of an impact assessment mechanism, identified in two out of six project partner countries.

This factor mainly stems from the fact that in several countries, there are no developed systems for systematically collecting, analyzing, and evaluating the impact, results, and effectiveness of innovation public procurement.

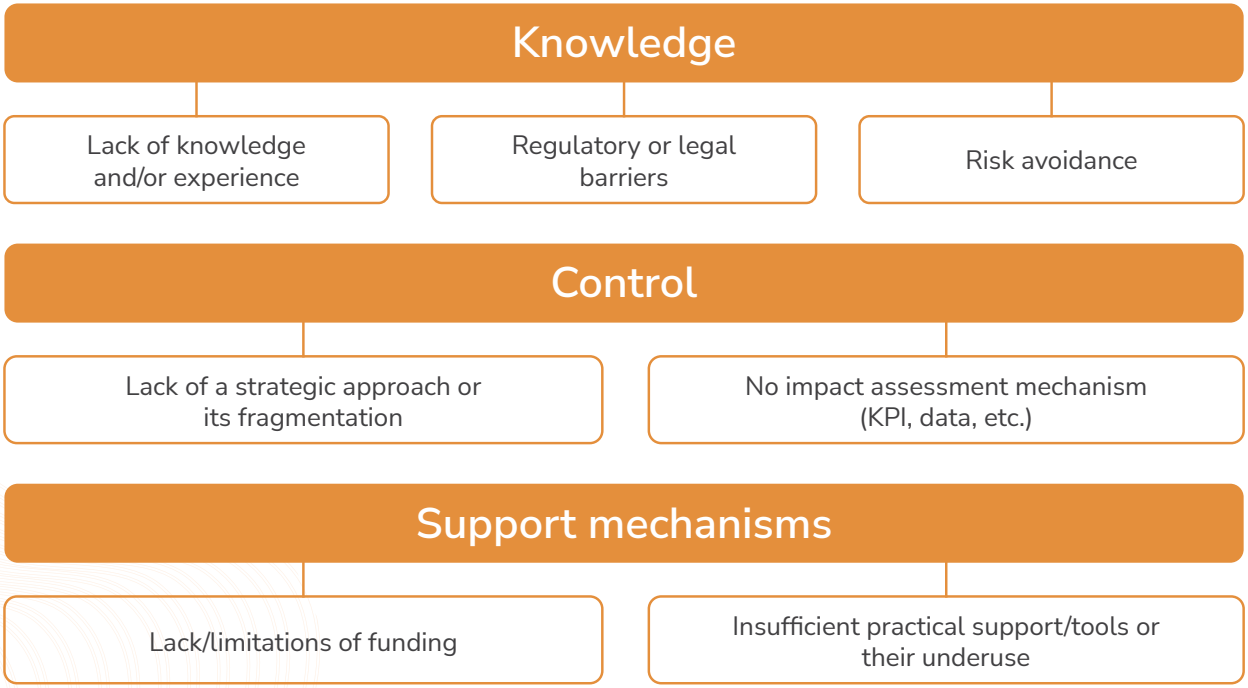
Existing databases are often incomplete and do not provide analytically useful overviews, while specific innovation objectives and KPIs are not defined at either the regional or national level. This prevents the creation of evidence-based innovation policy in the field of public procurement. Such an incomplete evaluation system prevents an accurate understanding of the current situation, hinders the identification of good practices, and reduces motivation to introduce innovative solutions, as there is a lack of clearly defined goals demonstrating their added value and based on real data.

Consequently, the absence or incompleteness of information prevents improvement of the situation, as without understanding the current state, it is impossible to solve existing problems, provide the necessary support, or implement necessary improvements.

Summarizing the experience of the project partner countries, it can be concluded that the potential of innovation public procurement is systematically limited by a set of closely interrelated factors – lack of knowledge and capacity, absence or fragmentation of a strategic approach, regulatory and legal barriers, risk aversion, insufficient funding, limited availability or insufficient use of practical support and tools, as well as the lack of impact assessment mechanisms. These factors have mutually reinforcing effects, where the knowledge and experience gap increases caution and hinders the integration of innovation into policy and budget planning, while fragmented strategic management and insufficient resources prevent the scaling and implementation of innovative solutions. The complexity of regulations and legal uncertainty reinforce conservative and established procurement practices, while the lack of support tools and KPI systems prevents decisions from being based on evidence and experience.

As a result, the public sector cannot fully utilise innovation procurement as a strategic instrument for societal development, making targeted, coordinated, and data-driven action necessary at all levels of governance to break this chain of hindering factors and promote innovation potential.

Identified factors hindering development, or challenges common across the project partner countries, can be grouped into three blocks – **knowledge, control and support mechanisms**.



1.9. Figure *Source: Based on information compiled by the project partners.*

The **KNOWLEDGE** block encompasses factors that directly relate to the public sector institutions' level of understanding, competence and confidence in the context of innovation public procurement. Experience from the project countries – Denmark, Finland, Latvia, Estonia, Lithuania and Germany – shows that limited knowledge and practical experience, as well as incomplete understanding of the regulatory framework or gaps therein, significantly constrain the ability to use innovation procurement as a strategic development instrument. Incomplete or incorrect interpretation of regulations creates additional uncertainty, while lack of information and skills fosters excessive caution and risk aversion, thereby deterring the adoption of innovative solutions.

Taken together, these factors impede bold, results-oriented decision-making and reduce the readiness to integrate innovative approaches in the public sector. Systematically closing the knowledge gap and ensuring a clear, consistent interpretation of the regulatory framework are prerequisites for the effective implementation of innovation procurement, thereby enabling the introduction of innovation in the public sector and supporting development.

The **CONTROL** block covers factors related to the strategic framework for innovation public procurement and the monitoring of its implementation. The experience of the project partner countries indicates that the lack of a strategic approach, or its fragmentation, hinders the purposeful integration of innovation procurement into development policy and limits its long-term impact. Without clearly defined objectives, priorities and coordinated action plans, innovation procurement is perceived as a series of short-term initiatives rather than a structured and strategic long-term development tool.

In addition, the absence of impact assessment mechanisms — including KPIs and data collection systems — prevents objective analysis of progress and the impact of innovation procurement, and hinders evaluation of the efficiency of resources invested. Consequently, decisions promoting innovation procurement, such as its inclusion in strategic documents, are not based on evidence; establishing impact assessment capacity is therefore essential to enable data-driven decision-making and preserve transparency. Systematic strengthening of strategic planning and monitoring is critically important to ensure the sustainability of innovation procurement and to achieve targeted results.

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The **SUPPORT MECHANISMS** block is concerned with the availability of resources and practical support instruments for implementing innovation public procurement. Based on the analysis of the situation in the project partner countries and the identified hindering factors, it can be concluded that lack of or limited funding is one of the principal barriers to introducing innovative solutions. Without dedicated financial instruments for municipalities and other public sector bodies, it is difficult to initiate or scale up innovation procurement activities, given the need to conduct in-depth feasibility studies, market dialogues or even pilot projects.

At the same time, there is insufficient practical support for the public sector. It is important to identify the scale of this hindering factor — whether there is a lack of methodological tools, guidelines, consultancy and good practice examples, or whether existing tools are simply underutilized. It is essential to map existing support mechanisms, update and adapt them to the needs of target audiences and to improve the current situation. Initially, it is crucial to assess the existing base of support mechanisms by compiling an inventory of available support types and their usefulness, aligned with the latest trends. A complete absence of such tools reduces the confidence and capacity of procurement specialists to implement innovative solutions.

The absence of support mechanisms not only increases the risk of failure but also obstructs the integration of strategic procurement solutions. For sustainable development of innovation public procurement, it is essential to ensure a stable, targeted, coherent and easily accessible set of support instruments capable of providing both knowledge transfer and practical assistance at every stage of the procurement process.

In summary, the potential of innovation public procurement in the project partner countries is significantly limited by interrelated barriers across the knowledge, control and support mechanisms. The combined effect of the identified factors hampers both the adoption of strategic approaches and the implementation and scaling up of practical solutions. To overcome these challenges and secure the sustainability of innovation procurement, targeted, coordinated and evidence-based action is needed at all levels of governance, alongside strengthening the public sector's knowledge and skills base, introducing a clear strategic and monitoring framework, and providing appropriate and accessible support instruments.

4.1. LATVIA

Public Procurement of Innovation (PPI) in Latvia is gaining strategic attention, supported by national development frameworks and policy planning documents. Innovation procurement is recognized as a tool for boosting economic competitiveness, introducing modern technologies, and increasing public sector efficiency. However, practical implementation remains limited due to fragmented expertise, risk aversion, and insufficient national coordination. PPI in Latvia is primarily driven by municipalities and state authorities, particularly in sectors such as ICT and energy/environment.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION:

Latvia's strategic documents emphasize the public sector's role in driving innovation through procurement, which states in:

- **National Development Plan 2021–2027** – Prioritizes innovation as a driver of productivity and competitiveness. Calls on the public sector to act as an innovation promoter and purchaser.
- **Industrial Policy Guidelines 2021–2027** – Targets increased R&D investments and calls for greater public-private collaboration, particularly through digital innovation hubs and smart municipality initiatives.
- **Regional Policy Guidelines 2021–2027** – Encourage regional ecosystems for smart solutions and pilot initiatives, with innovation procurement as a potential development tool.
- **Digital Transformation Guidelines 2021–2027** – Advocate for digital government reform and define innovation procurement as a means to promote digital and user-centered public services.
- **Sustainable Development Strategy until 2030** – Highlights the need for an open innovation system and encourages public procurement programs that support tailored innovative solutions.
- **Government Action Plan** – Mandates the creation of an innovation ecosystem and outlines measures for supporting innovation procurement, including identification of buyers and suppliers, awareness campaigns, and pilot cases.

THE RELEVANT LEGAL FRAMEWORK

Latvia's legal framework enables PPI through various procurement laws and regulations. These frameworks collectively allow for innovation procurement under various procedures, though the innovation partnership is often mistakenly seen as the only valid method. These legal acts are:

- **Public Procurement Law (2016)** – Ensures transparent and competitive procedures and explicitly includes the "innovation partnership" as a procurement method.
- **Law on Procurement by Utility Service Providers (2017)** – Governs procurement in energy, transport, and other public services, including the innovation partnership model.
- **Public-Private Partnership Law (2009)** – Regulates long-term cooperation for infrastructure and services, enabling innovation through flexible models.
- **Cabinet Regulation No. 107 (2017)** – Sets procedural rules for standard public procurement, supporting innovation when properly applied.
- **Cabinet Regulation No. 187 (2017)** – Defines procedures for procurement by utility providers.
- **Cabinet Regulation No. 605 (2023)** – Outlines standardized procurement notice templates, including codes for innovation-related procurement.

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

In Latvia, Public Procurement of Innovation (PPI) is becoming an increasingly important tool for addressing current societal challenges and introducing new, more effective solutions in state and municipal governance.

The ICT sector stands out as the most active field, receiving the majority of innovation procurements, highlighting the demand for digitalization and technological solutions in the public sector. Most of these procurements consist of process innovations, reflecting an interest in improving existing work processes and enhancing service quality. Eco-innovations reflect a growing focus on sustainability and environmentally friendly solutions.

Most frequently implemented PPI by classification type:

- **Organizational Innovations** - Procurement resulting in the acquisition of material and technical resources for equipping the Science and Education Innovation Center (SEIC) "FabLab Liepāja."
- **Process Innovations** - The CSDD system for the registration of vehicles and small watercraft, analysis and visualization of performance indicators for vehicle driver qualifications, and the operation of customer service centers, significantly simplifying data storage, accounting, and analysis processes.
- **Product Innovations** - A floating unmanned autonomous platform for conducting depth measurements.
- **Eco-Innovations** - An integrated approach to ecosystem restoration and protection, including the restoration of peat bogs and the development of a solar park.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	**Lack of knowledge and experience** – Municipalities and city institutions lack understanding and practical knowledge on using innovation procurement as a strategic development tool. This hinders flexible and targeted procurement due to incomplete or misinterpreted legal understanding. *(Also applies to regional level)*
	Risk aversion – The dominant "lowest price" principle discourages adoption of higher-uncertainty solutions, limiting innovation opportunities. *(Also applies to regional level)*
	Lack of practical support – The absence of practical examples and centralized advisory support undermines confidence, especially in smaller institutions. *(Also applies to regional level)*
	High risk of failure and resource waste – Innovation is perceived as a risky investment, where failure may be interpreted as inefficient use of public funds. *(Also applies to regional level)*
	Lack of dedicated funding – Most municipalities do not allocate specific budgets for innovation through public procurement, which limits idea development and risk-taking. *(Also applies to regional level)*
	Conflict of interest risk during market consultation – Engaging market actors prior to procurement may lead to conflicts of interest, undermining competition and trust in outcomes. *(Also applies to regional level)*

At the regional level	**Absence of strategic approach** – Innovation through public procurement is rarely included in regional or municipal development strategies. *(Also applies to city level)*
	Lack of knowledge and experience at the regional level – Regional institutions lack information and understanding on innovation procurement opportunities and the flexibility within regulatory frameworks.
	Undefined regional innovation goals and KPIs – There are no clear targets or indicators for innovation investments in regions, reducing motivation and measurement of results.
At the national level	**Lack of clear intersectoral coordination** – The absence of coordination and clearly defined responsibilities across sectors hampers innovation potential.
	No impact assessment system – There is no mechanism in place to evaluate the results, effectiveness, and impact of innovation procurement initiatives.
	Superficial innovation procurement tracking system – Existing databases do not provide precise or analytically useful overviews of innovation procurements, hindering policy analysis and improvement.
	No unified support system – Without a support mechanism, municipalities and state institutions face difficulties in initiating innovation procurements, choosing appropriate procedures, and ensuring quality.
	Lack of official definition of 'innovation' – The absence of a consistent, practical definition creates uncertainty about what and at what scale constitutes as an innovation.

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Latvia has introduced several support tools and initiatives to foster PPI and these support tools aim to increase the capacity of public buyers and suppliers to engage in innovative procurement, while building a knowledge base to overcome existing barriers. The support tools are **methodological guidelines** providing structured steps for implementing innovation procurement, including need identification, market research, and evaluation criteria, and **online course "Strategic Procurement"** – Developed by the Procurement Monitoring Bureau to enhance knowledge and skills in innovation-focused procurement. **Informational Material "Innovation Procurement. Key Insights"** that offers practical advice and clarifies legal options, especially regarding the innovation partnership model. These support tools aim to capacity building for specialists.

LIAA Innovation Procurement Support provides financial support up to €50,000 for experimental development and testing of products procured under innovation partnership procedures, also LIAA and relevant partners organize **workshops and seminars** to promote knowledge exchange and sector-specific guidance, as well as strengthen networking.

The Procurement Monitoring Bureau's website hosts a dedicated section for innovation procurement with legal resources, tools, and examples providing **centralized info hub.**

4.2. ESTONIA

Public Procurement of Innovation is an essential driver of public sector transformation in Estonia. It enables the introduction of novel or significantly improved solutions, boosting the efficiency and quality of public services while also stimulating market demand and supporting private sector innovation. Through PPI, the Estonian government not only modernizes its service delivery but also enhances the country's competitiveness on the global stage.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION

Innovation procurement plays a vital role in Estonia's public sector transformation. It enables the introduction of new or significantly improved solutions, stimulating market demand and creating opportunities for private sector innovation. This approach not only increases the efficiency of public services but also contributes to the competitiveness of Estonia's economy on a global scale.

To guide and enable innovation procurement, Estonia has adopted a series of planning documents and strategies that promote sustainability, competitiveness, and digital transformation:

- **Estonian Research and Development, Innovation and Entrepreneurship Strategy 2021–2035 (TAIES)** - A comprehensive national framework that integrates research, innovation, and entrepreneurship. It promotes smart procurement and encourages the public sector to adopt innovative solutions to address national and global development needs.
- **Green Public Procurement Guidelines** - These guidelines support the adoption of environmentally friendly procurement practices, aligning procurement decisions with Estonia's climate and sustainability goals.
- **Public Procurement Strategy (2023, Ministry of Finance)** - This strategy aims to improve the efficiency, sustainability, and innovation potential of procurement processes across all levels of government.
- **Digital Agenda 2030** - Promotes the integration of digital tools into public procurement processes to enhance transparency, traceability, and operational efficiency.
- **National Artificial Intelligence Strategy (2019–2021)** - Supports the adoption of AI technologies within the public sector, including their use in procurement to enable smarter and more automated decision-making.

Initiatives Supporting Innovation Procurement:

- **Handbook for a Procurer of Innovation** - although it does not provide direct technical assistance, this government-published guide explains the principles, processes, and goals of innovation procurement, serving as an awareness and capacity-building tool.
- **Public Sector Innovation Team (Government Office)** - a cross-governmental team promoting people-centred, user-friendly services using methods like Innosprints, hackathons, experimentation, and design thinking. These formats engage stakeholders from all sectors and introduce a culture of experimentation in policy development and service delivery.
- **Public Sector Innovation Fund** - supports projects aimed at solving complex societal challenges through innovative solutions, often through procurement-based interventions. The fund promotes cross-sector collaboration between public institutions, researchers, and private entities to develop scalable innovations.

THE RELEVANT LEGAL FRAMEWORK

The regulatory framework that regulates PPI is Public Procurement Act (2017, last amended 2023), that establishes the legal foundation for all public procurement activities in Estonia and is supplemented by other government regulations.

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

In Estonia, innovative procurement is carried out across the entire public sector, including ministries, local governments, and various agencies. As of the end of 2024, the Estonian Business and Innovation Agency was designated as the official governmental body responsible for overseeing innovative procurements. This decision was made due to the Agency's extensive experience in innovative procurement and funding.

Sectors with Frequent PPI Implementation are mostly **digital services** with cloud-based solutions and AI-driven automation, **sustainable energy** with smart grids, energy-efficient technologies and **healthcare** with e-health systems and advanced medical devices.

Most frequently implemented PPI by classification type:

- **Organizational Innovations** - implementation of remote work policies in government agencies to enhance employee efficiency and improve working conditions.
- **Process Innovations** - AI-powered public service chatbots, AI-driven heating systems, and the FinEst Twins DigiAudit solution for real-time energy and climate monitoring in buildings.
- **Product Innovations** - procurement of next-generation cybersecurity systems for e-government platforms and the Sea Wolf project—a network of smart buoys for environmental monitoring of the seas.
- **Marketing Innovations** - digital transformation of government service portals to enhance accessibility and user experience.
- **Eco-Innovations** - investment in low-carbon transportation and circular economy initiatives, as well as developing innovative, eco-friendly packaging solutions.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	**Lack of Expertise** - many local authorities lack the necessary skills and experience to carry out innovative procurement processes, leading to cautious or traditional approaches that limit innovation
	Limited Financial Resources - smaller municipalities often face budget constraints, making it difficult to finance riskier or more complex innovative solutions.
At the regional level	**Uneven Innovation Ecosystems** - regions across Estonia show differing levels of development in their innovation infrastructure, leading to unequal opportunities and capabilities for engaging in PPI.
	Digital Tool Adoption Gaps - there is variability in how quickly and effectively digital procurement tools are adopted regionally, which affects the consistency and scalability of innovation efforts.

At the national level	**Bureaucratic Complexity** - the implementation of PPI often requires navigating complex legal and procedural frameworks, which can deter both procurers and suppliers from engaging in innovative projects
	Institutional Resistance to Change - public sector organizations may be reluctant to shift from traditional procurement models, due to cultural inertia or risk aversion.

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Public Procurement Register - an e-procurement platform ensuring transparency and efficiency.
Enterprise Estonia (EAS) - provides funding and consulting for innovative procurement.

4.3. LITHUANIA

Public Procurement of Innovation in Lithuania is gaining momentum through strategic planning, policy frameworks, and initiatives like the GovTech Lab. While public procurement of innovation is not yet mainstreamed across all sectors, progress has been driven by national strategies, dedicated institutions, and supportive tools. Challenges persist, including limited alignment with sectoral policies, low use of value-based criteria, and capacity gaps among smaller contracting authorities.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION

Lithuania's strategic framework for innovation procurement is built around several national documents that set goals, define targets, and provide the foundation for implementation. These planning documents highlight the role of innovation in public sector modernization and economic growth:

- **Lithuania 2050 Strategy** – Identifies innovation as a core development axis and sets a target to join the top 10 in the Global Innovation Index by 2050.
- **National Progress Plan 2021–2030** – Defines a 20% target for innovative procurement share by 2030.
- **Strategic Activity Plan 2025–2027** – Establishes intermediate milestones and implementation actions.
- **Innovation Agency Operational Strategy 2023–2025** – Focuses on strengthening the innovation ecosystem and supporting initiatives like the GovTech Lab.
- **Public Procurement Office's Innovation Procurement Guidelines** – Provide practical support for contracting authorities.

THE RELEVANT LEGAL FRAMEWORK

Lithuania's legal framework ensures a transparent and flexible environment for PPI. Several key laws regulate procurement practices, allow for innovative solutions, and promote research and development activities:

- **Law on Public Procurement** – Sets general rules and enables the use of innovation partnerships.
- **Law on Procurement in the Fields of Water Management, Energy, Transport, and Postal Services** – Grants sector-specific flexibility.
- **Law on Technology and Innovation** – Supports research, experimental development, and innovation promotion.

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

Lithuanian public sector institutions have started to actively engage in PPI practices, driven by national targets and support mechanisms. Larger institutions dominate due to their resources and administrative capacity, but programs like GovTech Lab are helping smaller municipalities explore innovative approaches.

Most frequently implemented PPI by classification:

- **Organizational Innovations** – e.g., digital tools for accessibility self-assessment;
- **Process Innovations** – e.g., automating tax complaint processes;
- **Product Innovations** – e.g., spectrum sharing solutions;
- **Marketing Innovations** – e.g., virtual experiences for local industries;
- **Eco-Innovations** – e.g., measuring CO2 footprints and greening cities with AI support.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	Limited administrative capacity and conservative procurement approaches.
At the regional level	The need for mentoring and peer learning to support small-scale initiatives.
At the national level	Absence of a national action plan, low use of value-based criteria, and partial alignment with EU standards.
	Monitoring and evaluation practices are still evolving.

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Lithuania's PPI ecosystem benefits from a range of support tools designed to build institutional capacity and foster innovation-friendly practices. These tools promote collaboration, provide training, and facilitate knowledge sharing. GovTech Lab – Provides challenge-based procurement support and fosters co-creation with tech developers and Innovation Academy that Offers training and expert guidance.

4.4. FINLAND

Public Procurement of Innovation (PPI) in Finland is advanced and well-integrated into the national policy landscape. Finland is a European leader in innovation procurement, backed by a comprehensive legal framework, strategic governance, and supportive organizations. PPI is widely recognized as a tool to improve public services, stimulate markets, and achieve sustainability goals. A mature policy mix and coordination by key ministries and organizations ensure that innovation procurement is systematically promoted and implemented across sectors.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION

Finland addresses innovation procurement through a set of interlinked planning documents and national strategies:

- **Operational and Financial Plans** – Updated annually for a four-year period, these plans align state finance frameworks with public procurement goals, ensuring consistency across government activities.
- **State Finance Frameworks** – Provide overarching financial guidance, including allocations for innovation-driven projects such as sustainable renovations.
- **National Innovation Strategy** – Supports the integration of innovation into procurement processes to drive sustainability, efficiency, and service quality. Key actors include Hansel Oy and the VAUHTI network (formerly KEINO).
- **National Strategy for Public Procurement** – Focuses on enhancing value for money through innovative, responsible procurement practices.
- **Sustainable Development Goals** – Guide procurement priorities in areas like energy efficiency and emissions reduction.
- **Sectoral Strategies** – For example, the health sector's Growth Strategy for Research and Innovation underlines the importance of innovation procurement to improve services.
- **Exploreadministration.fi** – Provides centralized data on procurement activities, allowing for monitoring and strategic alignment.

THE RELEVANT LEGAL FRAMEWORK

Finland's legal framework for public procurement is derived from EU directives and national legislation. These frameworks create a robust legal environment that encourages competition, innovation, and efficient use of public resources:

- **Public Procurement Act (1397/2016)** – Ensures transparency, fairness, and cost-effectiveness across public procurement, including innovation.
- **Act on Public Contracts in Special Sectors (1398/2016)** – Supports innovation in water, energy, transport, and postal services.
- **Government Decree on Public Procurement (614/2007)** – Offers practical guidelines for implementing the Procurement Act.
- **Act on Electronic Invoicing in Public Procurement (241/2019)** – Promotes efficiency through mandatory e-invoicing.
- **Act on Public Procurement in the Fields of Defence and Security (1531/2011)** – Regulates innovation procurement in sensitive sectors like defence.

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

In Finland, PPI is implemented across various levels of government, particularly by municipalities, schools, healthcare providers, and cultural institutions. Cities like Tampere are noted for their strategic application of PPI, especially in infrastructure and sustainability. Key sectors for PPI include **construction**, for example - lakeside Road Tunnel in Tampere used the alliance model to foster close collaboration and innovation in risk-sharing, **ICT and Digitalization** sector in which implemented procurement supports digital tools, cloud services, and data analytics to improve operations. Also onde of the key sectors are **healthcare, education, transport, and environment** where PPI is used to enhance service delivery and efficiency.

Most frequently implemented PPI by classification type:

- **Organizational Innovations** - reforms in workflows such as remote work to improve efficiency and employee well-being.
- **Process Innovations** - adoption of digital platforms and advanced analytics to streamline decision-making and service delivery.
- **Product Innovations** - new technologies and systems that outperform existing market solutions.
- **Marketing Innovations** - innovations in delivery and service models to better reach end-users.
- **Eco-Innovations** - procurement of low-emission, resource-efficient solutions supporting climate and environmental goals.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	**Uneven Focus** – Procurement units vary in their ability and willingness to prioritize PPI, with many treating it as a special rather than standard approach.
	Private Sector Limitations – Especially SMEs face challenges in capacity, expertise, and access to public tenders.
	Framework Contracts – Long-term agreements with suppliers may reduce the incentive to introduce new, innovative providers.
At the regional level	**Perceived Complexity** – PPI is often seen as costly, time-consuming, and vulnerable to appeals, deterring its adoption.
At the national level	**Regulatory Rigidities** – Complex procedures can hinder flexibility and discourage innovation.
	Risk Aversion – Public authorities may hesitate to engage in non-traditional procurement models.
	Lack of Expertise – Limited capability in designing and managing innovation-focused tenders.
	Market Gaps – Difficulties in specifying innovation outcomes when market offerings are limited or undefined.
	Regulatory Rigidities – Complex procedures can hinder flexibility and discourage innovation.

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Finland offers a range of tools and institutional support mechanisms for PPI, providing initiatives that ensure that public sector actors are equipped with the resources and knowledge to undertake innovation procurement effectively.

Finland's government actively promotes innovation procurement through policies and funding initiatives. The Ministry of Economic Affairs and Employment, along with the Ministry of Finance, plays a crucial role in this support, providing **tool for self-assessment for procurement expertise, criteria bank for sustainable procurement, handbook for public procurers, 22 steps to good leadership in public procurement, path to Effective ICT Procurement, low-carbon procurement playbook, innovation Broker pilot** and many more.

Finland has integrated innovation procurement into its economic, public procurement, R&D, innovation, entrepreneurship, and regional policies and also there is a **funding opportunities**, for example - business Finland provides funding for innovative public procurement projects, which can cover up to 50% of project costs. Also, VAUHTI network (former Competence Centre for Sustainable and Innovative Public Procurement KEINO) supports public buyers in implementing innovation procurement there for creating **Collaborative Environment**.

4.5. GERMANY

Public Procurement of Innovation in Germany is gradually gaining attention as a strategic instrument to address societal challenges and enhance public sector performance. While the legal and strategic framework for PPI is still evolving, key organizations and tools are emerging to support its uptake. PPI allows German public authorities to explore innovative solutions, improve service quality, and foster national competitiveness.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION

Although Germany's public procurement legislation lacks an explicit definition of innovation procurement, several planning documents and guidance materials help steer PPI efforts. These tools highlight the importance of PPI for modernizing public services, enhancing sustainability, and driving economic and technological advancement:

- **Leitfaden "Innovative öffentliche Beschaffung" (3rd edition)** – A national guideline offering practical support for innovation procurement in the public sector. Though not legally binding, it provides methodologies and case studies for implementation.
- **Leitfaden zur Innovationspartnerschaft** – A national guide focused specifically on innovation partnerships as a procedure within EU public procurement law.
- **KOINNO Guidance** – Developed by the Competence Centre for Innovative Procurement (KOINNO), this state-funded resource provides comprehensive support and promotes awareness among public buyers.

THE RELEVANT LEGAL FRAMEWORK

Germany's PPI-related regulations are rooted in national and EU procurement law, defining procedures while allowing flexibility for innovation-focused procurement, though without mandating it:

- **Competition Act (GWB)** – Establishes the general legal principles of public procurement. Regulation on the Award of Public Contracts (VgV) – Applies to procurement above EU thresholds.
- **Regulation on Sub-Threshold Contracts (UVgV)** – Applies to contracts below EU thresholds.
- **Special sectoral regulations** – Include VOB/A-EU (construction), SektVO (utilities), VSVgV (defense/security), and KonzVgV (concessions)

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

In Germany, PPI is not yet widespread across public institutions. Most implementations occur at regional or local levels, and comprehensive data is limited. However, innovation procurement is more common in the following sectors. Sectors with Frequent PPI Implementation are mostly construction and security and defense.

Most frequently implemented PPI by classification type:

- **Organizational Innovations** - a regional authority piloted innovation partnerships to strengthen local economic development through collaborative models.
- **Process Innovations** - an NGO developed a digital portal co-created with a startup to assist public buyers with complex ICT procurements.
- **Product Innovations** - a sensor network was deployed in Erlangen to monitor tree water needs during hot summers, enabling smarter urban water management.
- **Marketing Innovations** - a city launched a virtual reality walking tour app that promotes historical neighborhoods and future development ideas.
- **Eco-Innovations** - digital monitoring of water pipes through sensors helped detect leaks early, supporting sustainability and digitalization.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	**Limited Use of Active Innovation Tools** – While variant bids (Nebenangebote) are relatively common, they are typically passive forms of innovation integration.
	Limited Financial Resources - smaller municipalities often face budget constraints, making it difficult to finance riskier or more complex innovative solutions.
At the regional level	**Uneven Policy Support** – Some German states have innovation-focused procurement strategies, which encourage local authorities to pursue PPI, but this varies regionally.
At the national level	**Conservative IPR Environment** – The intellectual property rights regime lacks the dynamism to fully support innovation-driven procurement.

Source: Based on information compiled by the project partners.

Barriers across stakeholders	**Users** – Often reluctant to adopt unfamiliar technologies.
	Suppliers – Tend to propose conventional solutions and underuse lifecycle costing or alternative bids.
	Procurers – Face constraints such as limited knowledge, risk aversion, time pressures, and insufficient tools.
	Strategic Decision-Makers – Often lack awareness or fail to provide incentives, support, and clear innovation goals for procurers.

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Germany offers several support tools and organizations to promote PPI, for example - **Competence Centre for Innovative Procurement (KOINNO)**, that offers training, best practices, tools, and networking to enhance public buyer capacity and **Staat-Up e.V.** a network supporting innovative public sector employees aiming to expand procurement's strategic role.

Additionaly, there is **Circular Construction Marketplaces** which serves as a platform for trading recycled and surplus construction materials to promote sustainability and **Joint ICT Procurement Initiatives** – Organizations like Dataport help coordinate complex procurement efforts across public institutions.

Last but not least, there is a digital portal avalible, that assists smaller municipalities in procuring complex ICT infrastructure called **Ausschreibungspilot**.

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4.6. DENMARK

Public Procurement of Innovation in Denmark is gradually evolving but remains in a formative stage. While the country has a strong public procurement framework, innovation procurement has not yet become a mainstream practice. Decentralized procurement structures, sector-specific efforts, and emerging support systems form the backbone of Denmark's approach. PPI is seen as a strategic tool to address societal challenges and promote sustainability, though broader national coordination is still lacking.

STRATEGIES AND PLANNING DOCUMENTS THAT DETERMINES THE NECESSITY OF PPI IMPLEMENTATION

In Denmark, the need for PPI arises from complex societal and sectoral challenges such as healthcare modernization, climate change, and demographic shifts. While there is no overarching national action plan or spending target for PPI, several strategies and sectoral policies support its implementation:

- **Strategy for Life Science (2021)** – Encourages innovation in healthcare through value-based procurement and funding mechanisms for new solutions.
- **Green Procurement for a Green Future Strategy** – Promotes innovative and sustainable procurement in environmental sectors, supporting climate goals and resource efficiency.
- **Digitalisation Strategy 2022–2026** – Recognizes procurement as a tool for digital transformation across public services.
- **Joint Municipal Procurement Strategy 2024–2030** – Focuses on service innovation, circular procurement, and digital tools to streamline procurement at the municipal level.
- **Upcoming Bioeconomy Strategy** – Expected to strengthen PPI's role in supporting circular and bio-based technologies, particularly in sectors like agriculture and waste management.

THE RELEVANT LEGAL FRAMEWORK

Denmark's public procurement is governed by the following legal frameworks, these regulations provide a legal basis for innovation procurement, although their use in practice remains limited:

- **Public Procurement Act (Udbudsloven)** – Implements EU Directive 2014/24/EU and governs all public procurement practices, including innovation partnerships.
- **Act on Public-Private Partnerships** – Regulates cooperation models that enable co-development of innovative solutions.
- **Competition Act** – Ensures fair competition in public contracts.
- **Act on Procurement of R&D** – Encourages innovation through contracts for research and development services.
- **Environmental Protection Act** – Supports sustainable procurement practices.
- **Data Protection Act** – Ensures secure handling of personal data in procurement processes.

CURRENT SITUATION IN THE PUBLIC SECTOR REGARDING PUBLIC PROCUREMENT OF INNOVATIONS

PPI in Denmark is primarily implemented at the municipal and regional levels, with healthcare and welfare technology, environmental technologies supporting circular economy initiatives, green materials, and waste management solutions, digital public services with tools such as AI-driven platforms and digital case processing systems aim to enhance administrative efficiency.

Transport and Mobility with procured smart and sustainable mobility solutions in municipalities and education and research – Innovative infrastructure projects are growing through pilot initiatives and EU funding. The most common form of PPI in Denmark is functional or process innovation, where authorities define outcomes without prescribing specific solutions.

Most frequently implemented PPI by classification type:

- **Organizational Innovations** - Fredensborg and other municipalities used AI tools to anonymize public documents, reducing processing time and costs.
- **Process Innovations** - Copenhagen developed a case-support tool using AI to streamline building permit applications.
- **Product Innovations** - Aula, a nationwide communication platform for schools, improved digital communication across education sectors.
- **Marketing Innovations** - VisitData, a digital platform for the tourism sector, enables data-driven decision-making and strategy alignment.
- **Eco-Innovations** - projects like MoLo Hubs and FleXskrald promote sustainable urban logistics and waste management using electric vehicles and multifunctional infrastructure.

FACTORS AND BARRIERS AFFECTING PPI GROWTH AND DEVELOPMENT

At the city level	**Lack of Incentives and Mandates** – No legal or financial obligation to pursue PPI makes it a lower priority.
	Knowledge Gaps – Limited training and fragmented tools hinder PPI understanding among municipal buyers.
	Risk Aversion – Legal uncertainties and fear of failure discourage innovative approaches.
	Strategic Disconnect – Siloed operations limit early market engagement and innovation planning.
At the regional level	**Uneven Policy Integration** – Healthcare strategies mention PPI, but other sectors are inconsistent.
	Funding Constraints – No dedicated financial mechanisms for PPI at the regional level.
	Regulatory Complexity – Innovation partnerships and pre-commercial procurement are perceived as resource-intensive and risky.
At the national level	**No National Action Plan or Spending Targets** – Weak political support results in fragmented efforts.
	Poor Sectoral Integration – PPI is present in only a few national strategies.
	Lack of Central Coordination – No leading institution to guide, monitor, or scale PPI.
	Inadequate Capacity Building – Training exists but is not standardized or widely accessible.
	Absence of Monitoring Systems – No mechanism exists to track or evaluate PPI implementation

Source: Based on information compiled by the project partners.

AVAILABLE SUPPORT

Despite systemic challenges, Denmark has several support tools and organizations that promote PPI, but many of these resources are limited in scale, not freely accessible to all buyers, or apply only to specific sectors - **CO-PI (Centre for Public-Private Innovation)** that provides tools, guides, training, and case studies to foster innovation in public services, **KL (Local Government Denmark) & SKI** offering framework agreements, procurement tools, and training for municipalities, **Statens Indkøb** that manages standardized procurement templates and supports effective tender processes. Furthermore there is **Danish Industry (DI) & Dansk Erhverv** that represents and supports private sector engagement in public procurement and **Danish Competition and Consumer Authority** providing legal guidance and oversight to ensure fair and efficient procurement.

5. RECOMMENDATIONS FOR IMPROVING THE CURRENT SITUATION

Public procurement of innovation is recognized as one of the key instruments for modernizing the public sector, promoting sustainable development, and strengthening cooperation with innovative market actors. However, its effective implementation in practice continues to face a range of obstacles – institutional, regulatory, and those arising from limited capacity.

This chapter consolidates the jointly developed recommendations of the project partners, aimed at providing practically applicable solutions for overcoming the challenges of implementing innovation procurement in the Baltic Sea Region countries. The recommendations are structured in two mutually complementary parts:

- The first part presents an overview of the challenges identified across all partner countries and the proposed solutions. It synthesizes common findings, highlights recurring patterns, and outlines strategically important areas where coordinated action and support are required.
- The second part is dedicated to country-specific recommendations. Each partner provides a detailed account of the most pressing challenges at the national level and puts forward proposals for addressing them, taking into account the local context, experience, and previous initiatives.

This chapter serves as a practical guide for policymakers, procurement specialists, and innovation stakeholders who are seeking concrete and well-grounded steps to advance the development of innovation procurement systems both nationally and across the region as a whole.

COMMON RECOMMENDATIONS FOR IMPROVING THE CURRENT SITUATION

Across all project countries - Latvia, Estonia, Lithuania, Finland, Germany, and Denmark, a number of common barriers hinder the systematic implementation of innovation procurement. These include limited institutional capacity and professional skills, risk aversion, insufficient coordination among public institutions, and fragmented methodological or financial support systems. Many public authorities still lack the tools, expertise, and incentives to adopt innovation-oriented approaches, while overly complex procedures and the absence of clear strategic goals discourage experimentation. Given that common challenges have been identified, similar solutions have also been proposed.

STRENGTHEN INSTITUTIONAL COOPERATION AND PROFESSIONAL COMPETENCE

A recurring theme across all countries is the need to strengthen institutional cooperation and professional competence. The establishment of institutional working groups, competence centres, and innovation specialist positions is seen as a key step toward improving coordination, promoting knowledge exchange, and embedding innovation as an integral part of procurement processes.

SUPPORT:

Centralized support platforms, handbooks, and training programmes are widely recognized as effective instruments for providing guidance, sharing good practices, and reducing administrative and informational barriers.

STRATEGIC INTEGRATION AND POLICY ALIGNMENT:

Another common finding is the importance of strategic integration and policy alignment. Innovation procurement should be embedded into national and local development strategies, supported by measurable objectives, key performance indicators (KPIs), and dedicated funding instruments. Equally critical are transparent monitoring and evaluation systems, enabling data-driven decision-making and accountability in innovation procurement practices.

SUPPLIER ENGAGEMENT AND MARKET DEVELOPMENT:

All partner countries also underline the importance of supplier engagement and market development. Initiatives such as supplier development programmes, SME-oriented procurement lots, and the acceptance of variant offers can expand market participation and stimulate innovation. Enhanced dialogue between public buyers and suppliers, including through early market engagement and matchmaking platforms, can bridge knowledge gaps and promote co-creation of innovative solutions.

CROSS-BORDER COOPERATION:

Finally, cross-border and EU-level coordination is seen as an essential enabler of progress. Proposals such as a European Action Plan on Innovation Procurement and the development of National Action Plans (NAPs) can ensure greater coherence, shared learning, and collective advancement across Member States. It is also important to note that continued cooperation and cross-border knowledge exchange are essential preconditions for balanced and successful development in the field of innovation.

Taken together, these insights point toward the need for a coordinated, capacity-driven, and innovation-friendly public procurement ecosystem. Strengthening institutional skills, improving strategic coherence, and enhancing collaboration between public and private stakeholders are essential to making innovation procurement a sustainable driver of economic growth, competitiveness, and societal well-being across all partner countries.

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5.1. LATVIA

Based on an assessment of the current situation and the identified challenges or factors hindering development, the proposed recommendations envisage the implementation of several interlinked and complementary solutions. They emphasize the need for a coordinated, knowledge-based, and strategically integrated approach aimed at fostering innovation, including the advancement of innovation procurement in Latvia.

The principal solution is considered to be the strengthening of inter-institutional cooperation through the establishment of a national-level working group and a unified support framework for municipalities. At the same time, it is essential to develop a centralized, knowledge-based support platform that would provide practical tools, methodologies, and examples of good practice. Such a platform would help reduce risk aversion, strengthen institutional capacity, and ensure the availability of information in a single, accessible format.

For sustainable development, innovation procurement must be integrated into planning documents, complemented by clearly defined objectives, KPIs, and dedicated funding instruments. Equally important is the establishment of a transparent monitoring and impact assessment system to ensure data quality and enable evidence-based policymaking.

As a priority, a review of the current situation and available support mechanisms should be undertaken, with a view to improving and updating existing instruments, expanding their scope, and adapting conditions to make them more flexible and user-friendly.

Taken together, these measures would create the necessary preconditions for a more innovative, efficient, and socially responsive public procurement system in Latvia. They would also strengthen the implementation of innovations at the municipal level and position public procurement as a strategic tool for fostering innovation.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
	Review of the current situation and support resources

Description of the Solution

By identifying the existing support resources and materials, and assessing their quality, relevance, and suitability for the target audiences in order to avoid content duplication, new targeted informational and methodological materials would be developed on the basis of this evaluation. These materials would serve as capacity-building tools for procurement specialists at both the municipal and regional levels.

Defined challenge	Proposed solution
Lack of a comprehensive impact assessment framework; Innovation procurement reporting system remains underdeveloped; No officially established definition of the term	Establishment of an innovation procurement monitoring system and introduction of a clear definition of the term

Description of the Solution

To ensure an evidence-based innovation procurement policy, it is necessary to establish a comprehensive monitoring and evaluation system, including an official definition of innovation procurement, an improved data entry system with clear labeling, as well as an impact assessed framework with both quantitative and qualitative indicators. The collected data should be analyzed on a regular basis, and reports should be published to inform policymakers, municipalities, and the public about trends, results, and opportunities.

A clear definition of innovation and innovation procurement will provide legal and practical clarity by unambiguously determining what constitutes innovation and under what scope, scale, and context a procurement qualifies as innovation procurement. This will reduce ambiguity and legal risks while strengthening the confidence of procurement practitioners and decision-makers.

Defined challenge	Proposed solution
Lack of coordinated inter-institutional cooperation	Establishment of a national-level work group

Description of the Solution

To overcome systemic barriers in innovation procurement, a centralized and easily accessible knowledge support platform is needed, combining information on procurement opportunities, regulatory requirements, methodological tools, and practical examples. The platform should be transparent, user-friendly, dynamic, and multifunctional, offering both self-learning materials and direct expert support, as well as enabling various institutions to share examples of good practice, thereby promoting knowledge transfer and inter-institutional collaboration.

Building on the existing "PPI4cities" platform, it should be adapted to the needs of Latvia's public sector, taking into account regulations, institutional structures, and regional capacities, in order to reduce information barriers, strengthen the confidence of procurement practitioners, and facilitate targeted innovation implementation by providing all necessary information in a single, accessible location.

Defined challenge	Proposed solution
Lack of knowledge and experience; Lack of practical support; Risk aversion; High risk of failure and resource wastage; Conflict of interest; Absence of a unified support system	Development and adaptation of a knowledge-based support platform

Description of the Solution

To overcome systemic barriers in innovation procurement, a centralized and easily accessible knowledge support platform is needed, combining information on procurement opportunities, regulatory requirements, methodological tools, and practical examples. The platform should be transparent, user-friendly, dynamic, and multifunctional, offering both self-learning materials and direct expert support, as well as enabling various institutions to share examples of good practice, thereby promoting knowledge transfer and inter-institutional collaboration.

Building on the existing "PPI4cities" platform, it should be adapted to the needs of Latvia's public sector, taking into account regulations, institutional structures, and regional capacities, in order to reduce information barriers, strengthen the confidence of procurement practitioners, and facilitate targeted innovation implementation by providing all necessary information in a single, accessible location.

Defined challenge	Proposed solution
Lack of dedicated funding; Absence of a strategic approach; No defined regional innovation objectives and KPIs (Key Performance Indicators)	Integration of innovation procurement into development planning and establishment of a targeted support system

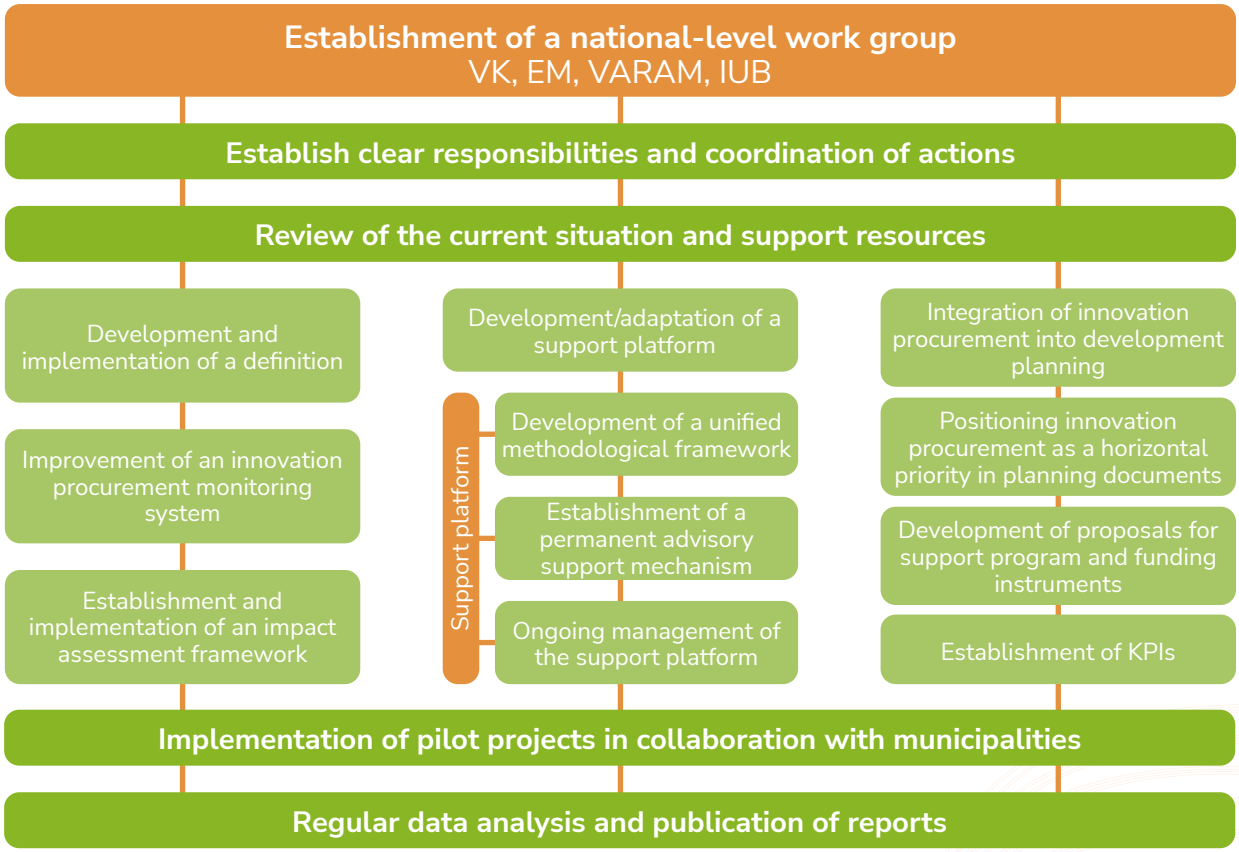
Description of the Solution

To promote the systematic application of innovation procurement in Latvia, it should be integrated as a strategic instrument in development planning and defined as part of a sustainable, knowledge-based policy. This involves embedding innovation procurement in national, regional, and municipal development documents, establishing specific support programs and funding instruments for pilot projects, market dialogues, and capacity building, as well as setting quantitative and qualitative objectives, KPIs, and accountability mechanisms.

In addition, inter-institutional coordination with the Competition Council (VK), the Ministry of Environmental Protection and Regional Development (VARAM), the Ministry of Economics (EM), the Procurement Monitoring Bureau (IUB), and other relevant bodies is required to develop a methodological framework, provide advisory support, and facilitate knowledge transfer to municipalities. This would strengthen innovation procurement as an effective policy instrument and remove structural barriers to its wider implementation.

Essentially, innovation procurement should be incorporated into development planning and the achievement of defined innovation and development objectives as a concrete, implementable action and a strategic tool for reaching the relevant goals.

Figure 1.10 summarizes the proposed solutions and activities for their implementation, highlighting the need for inter-institutional cooperation and its importance in improving the current situation.



1.10. Figure *Source: Based on information compiled by the project partners.*

5.2. ESTONIA

Estonia's innovation procurement ecosystem continues to face several structural challenges, including a lack of specialized skills and training, limited time and institutional capacity, risk aversion, and insufficient advisory and project management support. Many procurement officers lack both experience and incentives to engage in innovation procurement, as the process is perceived as complex and resource-intensive.

To address these issues, Estonia has introduced targeted measures aimed at professionalizing procurement processes and strengthening institutional capacity. One key development is the creation of Innovation Specialist positions within public organizations. Institutions that have established such roles report greater ability to navigate administrative complexity and integrate innovation into routine procurement practice.

At the national level, the Estonian Business and Innovation Agency (EIS) has become the central innovation procurer, providing comprehensive advisory support, methodological guidance, and hands-on assistance to contracting authorities. This institutional role ensures the availability of expertise and contributes to a more consistent and effective implementation of innovation procurement across sectors.

Further capacity building is supported through the Innovation Procurement Handbook and specialized training programmes developed with the OECD. These initiatives enhance competence, clarify complex aspects such as intellectual property and market research, and reduce the perceived risks of engaging in innovation procurement.

Additional improvements under consideration include the introduction of a professional certification system for procurement specialists, amendments to the Public Procurement Act to better reflect innovation priorities, and expanded advisory services for SMEs and startups to strengthen their participation in public tenders.

Collectively, these initiatives aim to establish a more skilled, confident, and innovation-oriented public procurement system in Estonia—one that supports sustainable development, enhances cooperation between public and private actors, and strengthens the country's overall competitiveness.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
Lack of Time; Project Team	Create Innovation Specialists positions

Description of the Solution

Establishing Innovation Specialist positions within public organizations would help overcome persistent capacity and time constraints in implementing innovation procurement. Research by Päike (2022) demonstrates that organizations with innovation-focused roles successfully addressed procedural barriers, improved coordination, and accelerated procurement processes.

The Estonian example, where the Estonian Business and Innovation Agency (EIS) acts as a central innovation procurer providing specialized support and advisory services, highlights the effectiveness of professional expertise in this field. To further strengthen this approach, Sehver (2024) recommends developing a professional certification for qualified Procurement Specialists, enhancing skills, standardizing quality, and fostering trust in the system. Together, these measures would professionalize innovation procurement, reduce risks, and create lasting institutional capacity.

Defined challenge	Proposed solution
Lack of skills; Risk Aversion; Lack of Training and Advisory Support	Innovation Procurement Handbook and Training

Description of the Solution

Developing a practical Innovation Procurement Handbook and training program would directly address limited skills and confidence among contracting authorities. The handbook provides step-by-step guidance through the innovation procurement process, covering key aspects. Standardized tools and guidance reduce uncertainty and help public buyers approach innovation procurement with greater confidence and competence.

In cooperation with the OECD, the Estonian Business and Innovation Agency (EIS) has launched training sessions (2024–2025) focused on building procurement capacity and integrating innovation into everyday practice. EIS also offers one-on-one advisory support and organizes sector-specific seminars that connect contracting authorities with businesses, promoting knowledge exchange and risk mitigation.

At the policy level, upcoming amendments to the Public Procurement Act, aim to clarify procedures and strengthen the legal basis for innovation procurement.

Together, these solutions enhance skills, reduce perceived risks, and establish innovation procurement as a routine and trusted element of public sector operations.

Defined challenge	Proposed solution
Fear of failure caused by complex procurement conditions and strict compliance requirements	Reducing challenges and bottlenecks, legislative developments and support for businesses

Description of the Solution

To help reduce common challenges, EIS offer one-on-one advisory services and organize sector-specific seminars twice a year. These events bring together entrepreneurs and contracting authorities to foster dialogue and help both sides overcome potential obstacles in the procurement process. In cooperation with the Ministry of Finance, EIS will continue to train contracting authorities with a focus on procuring innovative solutions and encourage the use of market research. EIS have also plans for improvement and expanding the Innovation Procurement Handbook.

It is important to note that the Public Procurement Act is currently open for amendments. A meeting with the Ministry of Finance is scheduled in the near future to review and propose changes specifically from the perspective of innovation procurement.

Also, EIS is also considering offering advisory services to companies—particularly SMEs and startups—to help them navigate the complexities of public procurement and understand what to focus on when preparing bids. Additionally, EIS participate in relevant networks to identify opportunities and guide Estonian companies in participating in procurement procedures in other EU member states.

5.3. LITHUANIA

In Lithuania, several interrelated factors continue to hinder the systematic use of innovation procurement. Public sector institutions—especially smaller municipalities and contracting authorities—face limited capacity, a low appetite for risk, and insufficient internal collaboration mechanisms. Many organizations lack the technical expertise, motivation, and institutional support structures necessary to engage effectively with the innovation ecosystem. Moreover, methodological support for innovation procurement remains fragmented across multiple institutions, leaving public buyers without a coherent source of guidance or practical assistance.

To address these challenges, the proposed solutions focus on establishing a Competence Centre for Innovation Procurement and creating a Community of Practice to foster collaboration and knowledge exchange.

The Competence Centre would serve as a national helpdesk, consolidating expertise in procurement and innovation while offering advice, tools, and practical guidance for public sector actors interested in innovation procurement. By bringing together experts, facilitating dialogue between government clients and industry, and providing methodological support, the centre would strengthen institutional capacity, enhance professionalization, and stimulate demand for innovative solutions.

Complementing this, a Community of Practice would enable continuous networking and peer learning among innovation-oriented public organizations. Through regular events, workshops, and showcase examples of successful innovation procurements, the network would promote information exchange, strengthen commitment at the managerial and political levels, and inspire wider adoption of innovative practices across public institutions.

Together, these initiatives would provide a coherent framework for professional support, capacity-building, and collaboration. This approach would help transform innovation procurement from an isolated practice into a mainstream, competence-driven process within Lithuania's public sector.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
Limited capacity of the procuring organizations; low-risk appetite; lack of internal collaboration mechanisms; Municipal institutions often lack both the technical expertise and motivation to engage with the innovation ecosystem	Establishing a competence centre (helpdesk for public procurement of innovation)

Description of the Solution

In Lithuania, methodological support for public procurement is fragmented. The National Procurement Office provides general guidance, while the Innovation Agency offers consultations on PCPs, GovTech challenges, and specific projects. As a result, responsibility for PPI support is divided between institutions, and innovation remains outside the scope of the recently established Sustainable Procurement Competence Centre.

To advance PPI, stronger professionalisation of public procurement and improved skills among procurers are essential. A dedicated competence centre for innovation procurement should consolidate expertise, offer practical tools and advice, and facilitate dialogue between public authorities and industry. By promoting knowledge exchange and providing structured support, such a centre could stimulate broader uptake of innovation procurement across Lithuania.

Defined challenge	Proposed solution
Limited capacity of the procuring organizations; low-risk appetite; lack of internal collaboration mechanisms; Municipal institutions often lack both the technical expertise and motivation to engage with the innovation ecosystem	Creating community of practice - networking

Description of the Solution

In addition to a competence centre, Lithuania needs a strong competence network to facilitate information exchange between procurers. Such networks, often supported by centres, typically organise events, conferences, and seminars. Building a community of practice requires early involvement of advanced procurers who are eager to champion innovation procurement, helping them become ambassadors of the initiative and inspiring others. Strong institutional commitment from public sector leadership is also essential to keep innovation procurement on the agenda.

To strengthen this ecosystem, it is important to create a network of innovation-oriented public organisations that can act as frontrunners, while providing extensive support to a few authorities to implement "showcase" PPI examples. These cases, backed by legal and procurement expertise, would serve as practical demonstrations, offering lessons, tips, and credibility that encourage wider adoption of innovation procurement.

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5.4. FINLAND

Based on the assessment of Finland's current innovation procurement landscape, several interrelated challenges have been identified that hinder the broader adoption and systemic integration of Public Procurement of Innovation (PPI). These include regulatory rigidity and perceived complexity, limited flexibility of existing framework contracts, uneven levels of expertise across institutions, market gaps that constrain SME participation, and the difficulty of linking procurement activities with strategic innovation objectives.

To address these barriers, the proposed solutions focus on creating a more enabling, knowledge-driven, and adaptive environment for innovation procurement. They emphasize simplification, inclusiveness, and data-informed decision-making as key levers for system-wide improvement.
A central measure involves the development of a modular PPI toolkit with standardized templates, checklists, and workflows tailored to different sectors. This would reduce legal uncertainty, lower administrative complexity, and make innovation procurement more accessible to smaller municipalities and procurement units.

In parallel, the introduction of dynamic purchasing systems (DPS) and innovation-friendly framework agreements would enhance flexibility, allowing new suppliers and innovative solutions to enter over time. This approach ensures that procurement remains open, competitive, and aligned with the evolving pace of technological change.

Recognizing the need for continuous skill development, the expansion of the VAUHTI network into a hands-on training ecosystem is proposed. Through simulation-based learning, innovation labs, and peer-to-peer mentoring, it would cultivate practical expertise and foster a culture of innovation across procurement institutions.

To strengthen the role of the private sector and bridge market gaps, the creation of a dedicated SME innovation portal is recommended. This platform would facilitate early market engagement, matchmaking between public buyers and suppliers, and simplify tendering procedures, thereby encouraging greater SME participation and expanding the innovation ecosystem.

Finally, to better align procurement with strategic goals, it is proposed to enhance existing digital platforms such as Exploreadministration.fi with AI-powered analytics. These tools would enable real-time insight into innovation trends, supplier capabilities, and the impact of procurement activities—supporting evidence-based decision-making and long-term strategic planning.

Taken together, these measures form a coherent framework for strengthening Finland's capacity to leverage public procurement as a strategic instrument for innovation.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
Regulatory rigidity; perceived complexity; risk aversion	Develop a modular PPI toolkit with standardized templates, checklists, and workflows tailored to different sectors *(e.g., healthcare, transport, education)*

Description of the Solution

This Proposed solution would reduce the perceived complexity and legal uncertainty. Standardized tools lower the entry barrier for smaller municipalities and procurement units with limited expertise. They also reduce the risk of appeals and delays.

By offering standardized templates, checklists, and workflows tailored to sector-specific needs, it transforms procurement from a legal minefield into a navigable landscape. It reduces legal ambiguity by embedding compliance into the design, makes innovation procurement feel routine rather than exceptional and encourages experimentation by lowering the perceived risk of failure. It has a strategic impact by democratizing access to innovation procurement, ensuring that even resource-constrained municipalities can participate meaningfully.

Defined challenge	Proposed solution
Framework contracts limiting innovation	Introduce dynamic purchasing systems (DPS) or innovation-friendly framework agreements that allow new suppliers and solutions to be added over time.

Description of the Solution

This approach maintains flexibility and encourages continuous innovation, especially from SMEs and startups. These mechanisms introduce fluidity into procurement structures, allowing new suppliers and solutions to enter over time. Unlike static frameworks that lock in vendors for years, DPS and flexible agreements reflect the evolving nature of innovation.

The approach keeps procurement open to emerging technologies and startups, it encourages continuous market engagement and responsiveness and reduces vendor lock-in and stimulates competition.

It aligns procurement with the tempo of innovation, ensuring that public services remain adaptive and future-ready.

Defined challenge	Proposed solution
Lack of expertise and uneven focus	Expand the VAUHTI network's role to include immersive training programs, such as simulation-based learning, innovation labs, and peer-to-peer mentoring between advanced and less experienced procurement units

Description of the Solution

Hands-on learning accelerates skill development and builds confidence in using PPI tools. This is about cultivating a learning culture within public procurement. Simulation-based learning, innovation labs, and peer mentoring shift training from passive instruction to experiential growth. It's not just about knowing the rules—it's about internalizing innovation as a mindset. Most importantly it creates a distributed expertise ecosystem, where innovation capacity is shared and scaled across regions.

Defined challenge	Proposed solution
Private sector limitations and market gaps	Create a dedicated SME innovation portal with early market engagement tools, matchmaking events, and simplified tendering processes. Expand pre-commercial procurement pilots with co-funding from Business Finland

Description of the Solution

This fosters a more inclusive innovation ecosystem and helps bridge the gap between public needs and market capabilities. By simplifying tendering, facilitating matchmaking, and co-funding pilots, it lowers the threshold for SMEs to engage with public buyers. It recognizes that innovation often resides in small, agile firms—and builds the infrastructure to connect them with public needs.

The portal encourages early dialogue between buyers and suppliers. It reduces administrative burdens for SME and hopefully accelerates market development in underserved areas.

Strategically it fosters a more inclusive and responsive innovation ecosystem, where public procurement becomes a catalyst for entrepreneurial growth.

Defined challenge	Proposed solution
Difficulty in specifying innovation outcomes and aligning procurement with strategic goals	Enhance platforms like Exploreadministration.fi with AI-powered analytics to identify innovation trends, supplier capabilities, and procurement impact

Description of the Solution

Data-driven insights support better decision-making and strategic alignment across sectors. AI-powered analytics can surface trends, map supplier capabilities, and assess procurement impact—transforming decision-making from reactive to proactive and evidence-based.

In practice it identifies gaps and opportunities in real time. It aligns procurement with broader policy goals and supports strategic planning across sectors.

Data-driven insight embeds intelligence into procurement, enabling smarter choices that reflect long-term societal value.

5.5. GERMANY

The analysis of innovation procurement practices in Germany highlights several interrelated challenges that hinder the uptake of innovative solutions in public procurement. Many users and need owners remain attached to conventional procedures and hesitate to adopt new technologies perceived as complex or risky. Suppliers, conditioned by past experience, often bid conservatively, while procurers lack sufficient time, market awareness, and technical knowledge to explore innovation opportunities. At the same time, decision-makers frequently fail to define clear innovation targets or provide strategic direction, limiting the potential for systematic innovation procurement.

To address these barriers, the proposed measures focus on fostering organisational learning, supplier engagement, and structural incentives that encourage innovation. The introduction of design thinking and focus group approaches would integrate procurement into a broader process of organisational innovation and user-driven learning. These participatory methods help align procurement with real user needs, increase openness to novel solutions, and build internal confidence in managing innovation-oriented processes.

Further support is proposed through national or regional supplier development programmes, designed to strengthen supplier capabilities in innovation procurement, sustainability assessment, and supply chain risk management. International experience, particularly from the United Kingdom and Norway, shows that such programmes significantly improve the quality and diversity of bids in innovation tenders.

Structural reforms are also recommended to create a more innovation-friendly tendering environment. These include the mandatory inclusion of variant offers in all tenders, which would enable innovative suppliers to participate without requiring major procedural changes, and incentives for dividing tenders into smaller lots to increase the participation of SMEs and start-ups. Such measures encourage competition, facilitate niche innovations, and ensure broader market access.

Finally, the introduction of a European Action Plan on Innovation Procurement, serving as a framework for the development of National Action Plans (NAPs), would create coherence across Member States and incentivize governments to set national innovation procurement targets. Evidence from countries such as Austria and Finland demonstrates that well-defined national strategies correlate strongly with higher innovation uptake in public procurement.

Collectively, these measures aim to enhance Germany's innovation procurement capacity by promoting openness to new solutions, strengthening supplier capabilities, and embedding innovation into public procurement as a strategic and systematic practice.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
Users / need owners who are accustomed to conventional procedures and are afraid of what they consider to be difficult-to-use, new technology	Applying design thinking and focus group approaches in procurement

Description of the Solution

When working with need owners who are reluctant to embrace new solutions, it is useful to embed the procurement process into a larger process of organisational innovation and learning. This can be done through design thinking workshops which address a plurality of user groups or more specific focus group workshops.

The time and resources needed to carry out these activities should be calculated for any innovation procurement.

Defined challenge	Proposed solution
Suppliers have been conditioned to bid conservatively because this has been a successful strategy in the past	Policy support for (national) supplier development programmes

Description of the Solution

Experience has shown that countries with national supplier development programmes (eg. United Kingdom and Norway) have more and better bids on their innovation tenders.

A supplier development programme at regional or national level would support (innovative) suppliers in building expertise on innovation procurement, in calculating sustainability indicators and assessing their supply chain risk. This would improve the replies to innovative tenders and reduce the risk for the buyers.

Defined challenge

Procurers who do not allow for alternative offers from suppliers, who do not have sufficient market and technology knowledge, who have too little time to deal with innovations in depth

Proposed solution

Mandatory inclusion of variant offers in all tenders; Incentivising tendering in lots to better address SMEs and Start-ups

Description of the Solution

Allowing for variant offers by default would enable a baseline of innovative suppliers to bid in any tender without specific expertise of the buyer or any further changes to the tendering process.

Incentivising public authorities to divide their tenders into (smaller) lots will increase participation of SMEs and Start-ups and can also allow for niche innovations as part of a lot.

Defined challenge

Decision makers who do not set clear targets for procurers and do not formulate strategies for innovation-oriented procurement

Proposed solution

European Action Plan on Innovation Procurement to incentivise NAPs on Innovation Procurement

Description of the Solution

This proposal for the EU Innovation Act includes a European Action Plan for Innovation Procurement. This could serve as a template for National Action Plans (NAP) on innovation procurement. National targets and / or NAPs are correlated to a larger share of innovation in overall procurement activity (see Austria and Finland in latest EU Innovation Procurement Benchmark). With a European counterpart more governments would start drafting NAPs.

5.6. DENMARK

The analysis of Denmark's innovation procurement landscape reveals that key challenges are rooted in organisational fragmentation, limited skills and mandates for cross-departmental cooperation, and the absence of financial incentives to support risk-taking in innovation. In many public authorities, development and procurement functions remain siloed—resulting in weak integration of innovation objectives into procurement processes. Smaller municipalities often lack dedicated innovation units or the capacity to engage with innovative suppliers, while the discontinuation of the *Market Development Fund* has left a financing gap that discourages experimentation and investment in new solutions.

To address these barriers, the proposed solutions focus on strengthening cooperation between innovation and procurement functions, expanding access to practical tools, and consolidating existing resources into a national knowledge platform. The *Center for Public-Private Innovation (CO-PI)* already plays a central role in facilitating this transition through activities such as innovation cafés, networking events, and capacity-building initiatives. Their tools—ranging from planning guides and dialogue games to scaling methods and the *Innovationsbarometeret*—support all stages of the innovation cycle, from idea generation to implementation and evaluation.

A key priority is to create stronger internal structures within public organisations to link innovation and procurement activities, ensuring that innovation becomes part of everyday practice rather than isolated pilot projects. Legislative and policy support should encourage earlier collaboration with suppliers and promote financial mechanisms that reward innovative approaches.

Furthermore, it is recommended to build upon and expand existing resources into a centralised national knowledge and support platform for innovation procurement, integrating national and EU-level guidance, model tender documents, and a searchable database of best practices. Such a platform would provide accessible, high-quality tools for all contracting authorities—particularly those in smaller municipalities—reducing perceived risks, improving competence, and fostering a shared understanding of innovation procurement across the public sector.

Collectively, these actions would strengthen Denmark's institutional capacity for innovation procurement, enhance cooperation across sectors, and create a sustainable framework for embedding innovation into everyday procurement practice.

The proposed solutions correspond to the challenges identified in the previous chapter:

Source: Based on information compiled by the project partners.

Defined challenge	Proposed solution
Development and procurement departments often operate in isolation; Smaller municipalities lack dedicated innovation units; Employees face insufficient resources, skills, and mandates to work across departmental boundaries; Lack of financing mechanisms or incentives for Public Procurement of Innovation (PPI)	Strengthen cross-departmental cooperation between innovation and procurement units, promote systematic needs identification and early collaboration with suppliers and reintroduce or develop new financing mechanisms to support PPI initiatives

Description of the Solution

Integrating procurement into innovation processes—and vice versa—would allow public organisations to address needs more strategically and creatively. Facilitated collaboration, such as supplier dialogues, hackathons, and innovation cafés, can generate better solutions when combined with early market engagement. At the same time, stable financing mechanisms are essential to reduce risk aversion and sustain long-term innovation efforts. Strengthening political and managerial support for innovative procurement, especially in areas such as the green transition, would help align organisational practices with strategic objectives and provide confidence for public buyers to move beyond conventional purchases.

Defined necessary improvements to already implemented solutions/support tools	Proposed solution
There are tools developed by different Danish stakeholders, including CO-PI, to support innovation in public procurement, that covers the entire innovation cycle, but there is a **need for centralised national knowledge and a support platform for innovation procurement, building on and expanding existing resources**	Strengthen cross-departmental cooperation between innovation and procurement units, promote systematic needs identification and early collaboration with suppliers and reintroduce or develop new financing mechanisms to support PPI initiatives

Description of the Solution

There is a need for a centralised national knowledge and support platform for innovation procurement, as existing resources are scattered and inconsistent in depth and applicability. This makes it particularly difficult for smaller municipalities and contracting authorities to access reliable and ready-to-use guidance, examples, and tools for innovation procurement.

A central platform should consolidate national and EU-level guidance, templates, and case studies, while also providing model tender documents, a searchable database of best practices, and on-demand advisory services. Such a platform would lower entry barriers, simplify access to resources, and build confidence among public buyers to engage in innovative yet legally sound procurement practices.

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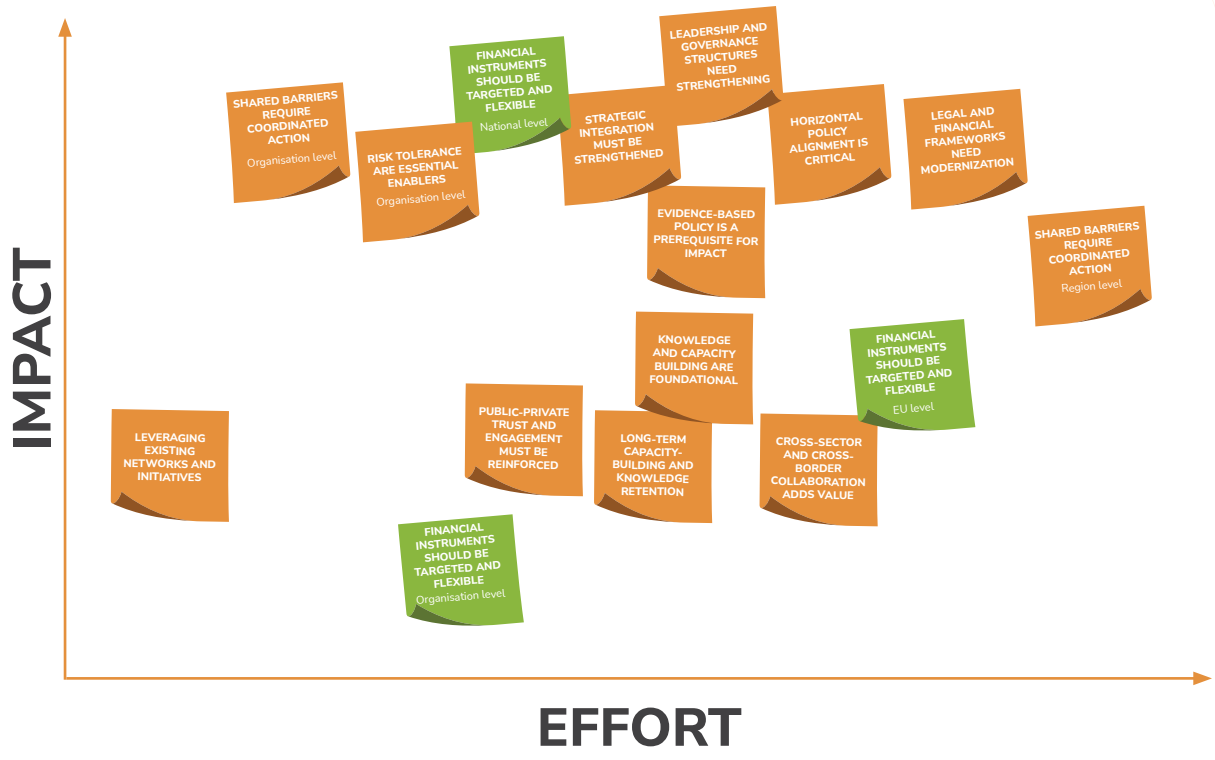
CONCLUSIONS (1)

Project partners categorized the conclusions using an Impact and Effort matrix. Conclusions that are marked in green represent conclusions split into three levels.



Source: Based on information compiled by the project partners.

Coordinating actions across multiple countries is perceived as a significant challenge4a complex and demanding task, largely due to bureaucratic procedures and administrative constraints. While regional cooperation is essential to address shared challenges, the effort required to align policies, procedures, and stakeholders across borders remains substantial.

When discussing financial instruments, a clear pattern emerged: the more localized the implementation, the greater the likelihood of success. Examples such as DenmarK's Innovation Clinic and Latvia'S Innovation Lab demonstrate that local or regional initiatives are often more agile and achievable. However, this comes with a trade-off4the impact tends to be smaller due to more limited funding and reach.

Risk tolerance was one of the most intensively discussed topics, both at the political and specialist levels. Across the BSR countries, there are notable cultural differences: for instance, failure is more acceptable in Denmark, whereas in other countries it is still stigmatized.

Overall, it is recognized that increasing risk tolerance will be a long-term endeavor. The challenge is not only reputational but also financial, as losing taxpayers' money carries tangible budgetary implications.

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A proposed way forward includes promoting a culture that accepts failure as part of learning. Practically, this could be supported by allocating additional “failure budgets” or flexible funding reserves for innovation projects, enabling teams to take calculated risks without jeopardizing their main budgets. It is concluded that the impact of existing networks and initiatives is closely tied to funding stability. When project-based funding ends, the activity and influence of these networks typically decline, rendering them unsustainable without continued financial support.

To ensure long-term impact, it is essential to build mechanisms for ongoing financing and institutional backing beyond individual project periods.

CONCLUSIONS (2)

KNOWLEDGE AND SKILLS

KNOWLEDGE AND CAPACITY BUILDING ARE FOUNDATIONAL:

Expanding training, professional certification, and peer-learning networks is essential to equip public authorities with the competence and confidence to design and manage innovation-oriented procurements.

LONG-TERM CAPACITY-BUILDING AND KNOWLEDGE RETENTION:

Institutional capacity must be maintained over time through structured training, certification programs, and continuous professional development. Establishing permanent competence centres ensures that expertise is not lost due to staff turnover or short-term projects.

INSTITUTIONAL CAPACITY

LEADERSHIP AND GOVERNANCE STRUCTURES NEED STRENGTHENING:

Effective implementation requires clear governance models, defined institutional roles, and inter-ministerial coordination. National-level task forces or steering groups could ensure alignment between ministries, procurement agencies, and innovation bodies, fostering consistent policy implementation.

RISK TOLERANCE ARE ESSENTIAL ENABLERS:

Public sector modernization requires shifting institutional mindsets toward experimentation and learning. Encouraging pilot projects, recognizing successful initiatives, and embedding risk-tolerant management practices can gradually normalize innovation procurement as part of standard operations.

ECOSYSTEM ASPECT

CROSS-SECTOR AND CROSS-BORDER COLLABORATION ADDS VALUE:

Enhanced cooperation between public and private actors, as well as among BSR countries, can create economies of scale, facilitate joint procurement, and strengthen innovation ecosystems across the region.

PUBLIC-PRIVATE TRUST AND ENGAGEMENT MUST BE REINFORCED:

Early market dialogues, transparent communication, and shared value creation between procurers and suppliers will increase trust, reduce perceived risks, and make innovation procurement more inclusive, especially for SMEs and startups.

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LEVERAGING EXISTING NETWORKS AND INITIATIVES:

It is necessary to conduct a review of the currently available support instruments in order to update or revise them, identifying which support tools are missing and needed. Stronger coordination with European-level programs, such as Horizon Europe, the European Innovation Council, and Interreg - can enhance transnational learning and support the scaling of innovative solutions developed through public procurement.

STRATEGY AND POLICY

STRATEGIC INTEGRATION MUST BE STRENGTHENED:

Innovation procurement should be embedded in national and municipal development strategies, with clear goals, indicators, and dedicated budgets to ensure long-term continuity.

HORIZONTAL POLICY ALIGNMENT IS CRITICAL:

Innovation procurement must be integrated across multiple policy domains - digital transformation, sustainability, green transition, and regional development to maximize synergies and avoid fragmented implementation. Aligning innovation procurement with broader EU objectives will amplify its policy relevance and funding opportunities.

EVIDENCE-BASED POLICY IS A PREREQUISITE FOR IMPACT:

The absence of systematic monitoring and evaluation mechanisms prevents data-driven decision-making. Establishing harmonized KPI frameworks and centralized data systems across BSR countries is essential to measure performance, share results, and demonstrate the socio-economic impact of innovation procurement.

FINANCIAL FRAMEWORK & INSTRUMENTS

FINANCIAL INSTRUMENTS SHOULD BE TARGETED AND FLEXIBLE:

Dedicated funding streams for innovation procurement - such as innovation vouchers, pre-commercial procurement grants, or co-financing schemes are crucial to de-risk participation for both public buyers and SMEs. Multi-level financing mechanisms could bridge gaps between national, regional, and municipal levels.

LEGAL AND FINANCIAL FRAMEWORKS NEED MODERNIZATION:

Simplified procedures, flexible procurement models (such as innovation partnerships and dynamic purchasing systems), and risk-sharing mechanisms will make innovation-oriented public procurement more accessible - particularly for the involvement of SMEs. Therefore, it is essential to strengthen inter-institutional cooperation for the modernization of such systems and to develop a plan for knowledge transfer and capacity building.

LEGAL FRAMEWORK

SHARED BARRIERS REQUIRE COORDINATED ACTION:

All six partner countries face similar obstacles - knowledge gaps, legal complexity, funding shortages, and weak coordination - indicating the need for region-wide solutions rather than isolated national initiatives.

INSTITUTIONAL

SUPPORT TOOLS AND DATA SYSTEMS ARE CRUCIAL:

Establishing national competence centres, digital platforms, and impact-assessment systems will provide ongoing methodological support, evidence-based policymaking, and transparency.