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## Economic Commission for Europe

### Committee on Innovation, Competitiveness and Public-Private Partnerships

#### Fourteenth session

Geneva, 2-4 June 2021

Item 4 of the provisional agenda

#### Implementation of the Programme of Work

## Chair's conclusions on the informal consultations of the Team of Specialists on Innovation and Competitiveness Policies

### Note by the secretariat

#### I. Introduction

1. Members of the Team of Specialists on Innovation and Competitiveness Policies met informally at three on-line webinars, as the current COVID-19 epidemic and related travel restrictions prevented a regular, physical meeting from taking place.<sup>1</sup>
2. The objective of the informal consultations was to:
  - (a) discuss and address topical, substantive issues related to the programme of work of the Team;
  - (b) review the outputs and activities carried out since the twelfth session in 2019; and
  - (c) discuss the implementation plan up until the thirteenth session in 2021.
3. The theme of the substantive segment was "Building Back Better after COVID-19: Promoting Innovation for a Sustainable Future". It discussed how government policy can harness the power of innovation to turn the pandemic into an opportunity and to build more resilient, more sustainable and more productive societies. By looking at the role of innovation in promoting a transition to a circular economy, the informal meeting also contributed to the preparations of the 69th Session of the Economic Commission for Europe on the theme "Promoting circular economy and sustainable use of natural resources in the ECE region", scheduled to take place in April 2021.
4. The present note presents observations and conclusions on behalf of the chair of the Team of Specialists.

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<sup>1</sup> Because of the informal nature of the consultations, the thirteenth formal session of the Team will be held in November 2021.



## II. Observations and conclusions

5. The Team very much appreciated the timely and innovative nature of the topic and the fact that discussions could take place despite COVID-19 restrictions.

6. The substantive segment was held through two thematic webinars. The first one was “Building Back Better: Using Platforms to Enable Sharing and Progress towards the Circular Economy” on 21 October.

### *Using Platforms to Enable Sharing and Progress towards the Circular Economy*

7. The members of the Team discussed the implication of a platform economy, the benefits, the challenges and the policies required to maximize the benefits and address the challenges.

8. Digital platforms have the potential to transform economic exchanges by significantly reducing the costs of (1) matching consumers and suppliers, as well as producers searching for the most suitable suppliers (“triangulation”), (2) establishing trust between market participants, and (3) transferring payments and goods or services between suppliers and consumers. By reducing these transaction costs, digital platforms can commodify excess capacity, i.e. enable existing physical and financial assets, as well as labour and human capital to be used more efficiently.

9. In particular, the ability to transact more easily – to find what is needed when it is needed – can make it more economically attractive and convenient to rent assets rather than owning them, with ultimately better use of excess capacity. This is because to own an asset, and then use it whenever it is needed, requires a relatively large capital outlay but only one transaction, the purchase; whereas renting an asset each time it is needed, and then returning it, requires no initial, up-front capital outlay but multiple transactions. Platforms have significant potential in enabling a shift from owning assets to renting or “sharing”.

10. By shifting the economy from owning to sharing, platforms can help replace products with services, and allow to consume more while using fewer resources in the spirit of the circular economy transition. This creates economic opportunities for both production and consumption while reducing resource intensity and environmental footprints – a substantial contribution to resolving potential short-term trade-offs between economic growth and poverty reduction on the one hand and environmental sustainability on the other. In particular, it can help foster a transition to a circular economy and achieving some of the United Nations Sustainable Development Goals (SDGs), such as SDG 7 on Affordable and Clean Energy, SDG 11 on Sustainable Cities and Communities and SDG 12 on Responsible Consumption and Production.

11. Among the challenges of the platform economy that policy needs to address are the digital divide, both between and within countries, data security, privacy and sovereignty issues, competition issues, and the concern that innovations around the platform economy might lead to job losses, at least initially.

12. On the one hand, innovation is and will be essential for using surplus capacity and creating other opportunities. To facilitate this the platform economy requires a rethink of the approach to regulation with a new focus on impact rather than technical specifications and regulations that reflect the status quo and protect entrenched interests. To incentivize innovations that benefit the circular economy transition, it was argued that producer responsibility for recycling should be strengthened, common technology standards that facilitate platform-based exchange should be developed, and harmful subsidies to non-circular activities should be phased out.

13. While a new approach to enabling regulation is required, the network externalities and economies of scale and scope of platforms inevitably creates problems of monopolies and dominant market positions, and a new approach to regulating these may also be needed. To respond to these needs, *governments need to be innovative themselves*, trying different approaches, monitoring developments carefully, and scaling up what works.

14. On the other hand, the disruptive innovation driving the platform economy may create winners and losers, at least in the short term. The “gig economy” fostered by platforms can

reduce job stability and security. To the extent that platforms can get more services out of a given stock of physical assets, fewer assets are needed, and jobs may be lost in the production of those assets. Job opportunities may also be lost for those who lack the skills or digital access to fully participate in the platform economy. The digital divide can also lead to increasing inequality between leading cities and rural areas, and between developed and transition economies. *Social policy should address the vulnerabilities arising from contract work and ensure continuous investment in education and training for the right skills to ensure entrepreneurship and opportunities for all.* It was also argued that tax codes should be reformed to shift the tax burden from labour to resource use.

15. Some of the most well-known and influential platforms today are global, and this is a big part of their appeal. At the same time, some sharing activities and circular economy initiatives work best at the city or local level, and the benefits of global platforms may go disproportionately to big players rather than to households and Small and Medium Size Enterprises (SMEs). In particular, users of digital platforms generate vast amounts of commercially valuable data, either by creating content for these platforms, or simply through their usage patterns, yet the users often do not retain ownership or control of these data. Instead these data are often controlled and commercially exploited by the owners of global platforms. *Enabling broad use and trade of data requires frameworks at the national and international level that resolve data security, privacy and sovereignty issues.*

#### ***Innovation-enhancing Procurement for Sustainable Development***

16. The second webinar was held on 23 October and was dedicated to the topic “Building Back Better: Innovation-enhancing Procurement for Sustainable Development”. It explored how countries can better use the potential of public procurement to catalyse innovation for the circular economy transition and for sustainable development more broadly.

17. Public procurement spending in the ECE region often amounts to 15 percent and more of national Gross Domestic Product, and it can become a powerful tool to stimulate innovation. It can be used as a strategic instrument to achieve socio-economic and environmental objectives and as a lever to facilitate the transition to the circular economy and achieve sustainable production and consumption in line with Sustainable Development Goal 12. As Governments are increasing public spending in response to the COVID-19 pandemic, they have an opportunity to use Innovation-enhancing Procurement to Build Back Better.

18. The members of the Team explored the best approaches and practices on Innovation-enhancing Procurement in the ECE region, the challenges and obstacles to overcome, and they identified policy options as well as their pros and cons.

19. “Innovation-enhancing Procurement” is an emerging new approach with its own specific set of policy tools aiming to spur innovation that is new to the world and that has the potential to solve grand challenges and perhaps even to become the foundation of entirely new markets.

20. The two central policy tools are:

- (i) *pre-commercial procurement*, where procurement agencies award grants to innovative companies for early-stage, proof-of-concept research and development that may eventually lead to innovative solutions to be procured at scale, and;
- (ii) *competitive dialogue*, where procurement agencies engage with a possibly large number of innovative companies to learn about the current state of technology and the potential for developing innovative solutions to specific challenges.

21. Innovation-enhancing Procurement is demanding in terms of the governance of the process, the skills needed at procurement agencies, and the risks that need to be managed.

22. At the same time, traditional, less demanding modes of public procurement can be highly effective in introducing and scaling innovative solutions that are not new to the world, but new to the country, or new to the public sector in the country, provided that legal frameworks allow the necessary flexibility and set the right incentives.

23. So far only a fraction of total public procurement spending, typically less than 10 per cent even in advanced countries, is going to Innovation-enhancing Procurement, targeting innovation systematically. Several challenges and barriers are still prominent especially in economies in transition, including the lack of appropriate legal frameworks; risk aversion; concerns about possible lack of transparency and corruption when procurement agencies engage closely with potential suppliers before issuing tenders; lack of capacity in procurement agencies, including capacity to monitor performance over the course of a project's life and to act in case of under-performance; lack of high-level political support; high costs.

24. While the speakers emphasized that solutions should be tailored to different national needs, there were several recommendations with broad applicability.

25. *Legal frameworks should be a central element in the reforms.* Most advanced economies do have provisions for Innovation-enhancing Procurement in their procurement strategies or legal frameworks, but even in these countries, implementation is frequently still lacking. Legal frameworks should ensure procedural fairness and non-discrimination and should allow procurement agencies the flexibility to pursue environmental, circular and social objectives in addition to purely economic ones.

26. To create this flexibility, legal frameworks should allow tenders to be awarded based on a life-cycle-cost approach rather than on the basis of the lowest price. This allows procurement agencies to take a long-term perspective and to address problems of the prices quoted by potential suppliers being distorted by negative externalities. It was argued that rather than merely allowing the use of life-cycle costs as an award criterion, this should be made mandatory so as to counteract the incentives often built into public budgets to minimize current expenditures.

27. Another essential flexibility that should be built into legal frameworks for public procurement is the use of functional rather than technical specifications in tenders. Functional specifications describe the performance the product or service to be procured should deliver, rather than describing the product or service itself. It opens up opportunities for potential providers to propose new innovative solutions, rather than locking them into any given technological solution.

28. *Public procurement should be part of broader national environmental and digital strategies* linked to innovation and sustainable development as well as to promoting the circular economy.

29. Particularly for Innovation-enhancing Procurement narrowly construed, public agencies should learn to understand the market, as well as defining their own needs clearly, in cooperation between procurement agencies and the government entities requesting the procurement. Governments need to employ a strategic approach, including technology foresight exercises, and ensure dialogue with innovators and investors. Procurement procedures should also be innovator-friendly, including to start-ups and SMEs. E-government platforms can be very useful in this regard.

30. To manage these relationships successfully and in a transparent way, government agencies also need *to improve the skills and capacities of public procurement officials*, in data collection and results monitoring and risk-management. To create incentives for investing in these skills, Innovation-enhancing Procurement should be done regularly and systematically and, it should be supported at high political level.

31. *New forms of partnerships and cooperation* both at the national level between buyers and suppliers, and at regional and international level, *are crucial* to overcome the challenges.

32. The recommendations and good practices identified at the substantive segment will be reflected in a policy paper which will be submitted to the next session of the Committee on Innovation, Competitiveness and Public-Private Partnerships and will feed into the deliberations at the 69<sup>th</sup> session of the Economic Commission for Europe on the theme "Promoting circular economy and sustainable use of natural resources in the ECE region" in April 2021.

*Review of Work and Plans for 2021*

33. On 27 October, the members of the Team reviewed the work since its twelfth session.

34. The secretariat presented the findings and recommendations of the Innovation Policy Outlook (IPO) for Eastern Europe and the South Caucasus. The publication will be launched at a high-level online event on 25 November 2020. The participating countries thanked the secretariat for the excellent work on the IPO, which they considered very helpful and timely to identify where the countries stand in the process of advancing and reforming innovation policies and institutions. The Outlook was also considered instrumental as a mutual learning exercise and for transferring essential knowledge about analysing innovation policies. It was suggested that the network of focal points created for the Outlook should continue to work together. It was also suggested to consider the combination of innovation policy with other policy areas as a topic for future analyses, e.g. smart specialization. The secretariat suggested that the methodology of the Outlook could be applied to other sub-regions subject to demand and extra-budgetary resources.

35. The secretariat also presented the findings and policy recommendations of the Innovation for Sustainable Development Review of Georgia. The publication will be launched at a high-level online event on 9 December 2020. The representatives of Georgia thanked the secretariat for the excellent work on the Review and welcomed the complementary nature of the national assessment in the Review and the comparative assessment in the Innovation Policy Outlook, in which Georgia participated in parallel. They also stressed the importance to design a capacity building programme on the basis of the Review recommendations, and welcomed the assistance of ECE, including on implementing policy reforms in the area of Innovation-enhancing Procurement.

36. The secretariat also presented other areas of work, among which the capacity building programme on “State science, technology and innovation policy and risk” for Belarus, a regional capacity building on Innovative High Growth Enterprises for Eastern Europe and the South Caucasus region; the work in support of the Special Programme for the Economies of Central Asia (SPECA) Working Group on Innovation and Technology for Sustainable Development, including a Science, Technology and Innovation (STI) gap analysis to identify priority areas for cooperation between the SPECA countries in support of the implementation of the SPECA Innovation Strategy; and a publication on ECE Smart Sustainable Cities nexus in cooperation with other ECE divisions.

37. The members of the Team thanked the Russian Federation and Sweden for their financial support to the Team’s work and welcomed the results achieved. In particular, Belarus expressed high appreciation for the above capacity building programme and suggested that it could be relevant also for other countries. The Team appreciated the solid work undertaken by the secretariat, the usefulness of the policy options provided in the past and the targeted and impactful capacity building.

38. Finally, the secretariat presented the inter-sessional implementation plan 2020-2021 of the Team of Specialists. The activities proposed include: a policy paper on “Building Back Better after COVID-19: Innovation Policies for a Sustainable Future”; the establishment and first meeting of the Task Force on Innovation Policy Principles; a survey on the impact of the COVID-19 pandemic on innovation and the policy response; a session of the Working Group on Innovation and Technology for Sustainable Development of SPECA, together with UNESCAP in 2021; the launch of the Innovation Policy Outlook for Eastern Europe and the South Caucasus; the launch of the Innovation for Sustainable Development Review of Georgia; the initiation of the Innovation for Sustainable Development Reviews of Uzbekistan and of Moldova; a STI gap analysis under the SPECA Strategy on Innovation for Sustainable Development. On capacity building, a programme will be development for Georgia on the basis of the recommendations of the review and a pilot virtual capacity building on selected aspects of innovation policy will be carried in the framework of the Inter-Agency Task Team on Science, Technology and Innovation for Sustainable Development. Armenia requested to add capacity building activities based on the findings and recommendations of the Innovation Policy Outlook. Belarus requested continuing collaboration on risk financing and venture capital funding as well as on Innovation-

enhancing Procurement. Georgia offered to host a subregional event in 2021 if and when the travel restrictions relating to the COVID-19 pandemic would be lifted.

39. The following studies will also be published: a handbook on policies for Innovative High Growth Enterprises for Eastern Europe and the South Caucasus; a policy handbook on incubators for the SPECA member countries, and a collection of good policy practices developed by the Team of Specialists in recent years.

40. The members of the Team welcomed the inter-sessional implementation plan 2020-2021.

41. The secretariat noted that the COVID-19 pandemic does and will continue to affect the work of the Team in several ways in the coming months. Travel restrictions being the main factor of risks, business-critical intergovernmental decisions will be taken by inter-sessional silence procedures and webinars will replace physical meetings as necessary. Funding will also be reallocated from travel to webinar support. In all activities, the role of innovation policy in Building Back Better and fostering a transition to a circular economy will be included as appropriate.

42. The Team suggested building on the positive experiences with virtual meetings for the future, further harnessing the benefits of cooperation with many of the partner agencies.

43. Decisions in relation to the work reported and the inter-sessional implementation plan 2020-2021 will be taken by silence procedure.

44. The next meeting of the Team of Specialists is tentatively scheduled for 14-15 November 2021.

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