



SPEND SMARTER, NOT MORE

Leveraging the Power
of Public Procurement



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Spend Smarter, Not More: Leveraging the Power of Public Procurement

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Executive Summary

In a context of fiscal restraint, public procurement is one of the primary tools with which government can have a material impact on growth and innovation in the broader economy. However, the government's current approach to procurement undermines its capacity to do so.

The Government of Ontario continues to view most public procurement through a narrow lens, resulting in a transactional approach that favours low, short-term cost instead of long-term value creation. While this framework may be appropriate when procuring for simple goods and services, this narrow focus is inadequate in maximizing value across the range of goods and services that government procures.

By improving the efficiency and effectiveness of procurement, the Government has an opportunity not only to save the taxpayer significant sums of money, but also to drive economic growth.

Commons Public Administration Committee, 2013

By some measures, the Government of Ontario is the single largest contributor to the provincial economy; government spending represents about 20 percent of the province's economic output. The provincial government has the potential to leverage this spending in order to create value in the economy in the form of job creation, long-term savings and investment, innovation, and cluster growth.

Over the last few years, the Government of Ontario has made some progress in improving the effectiveness of public procurement policies to support government priorities and maximize value for dollars. However, more can still be done. This report urges the Government of Ontario to adopt a new, strategic approach to public procurement. Strategic procurement provides government with an opportunity to diversify its procurement model in order to spend smarter, but not necessarily more.

Successful implementation of strategic procurement depends on overcoming four key barriers highlighted in this report. Ontario can learn from other jurisdictions that have faced similar challenges, and have since reformed their procurement models to better address their diverse needs. Australia, the United Kingdom and the United States offer examples of how a strategic approach to public procurement can be used as a tool for economic growth and innovation.

In order to adopt a strategic approach to procurement, the Ontario Chamber of Commerce (OCC), in partnership with Canadian Manufacturers and Exporters (CME), recommends that the Government of Ontario take six pivotal steps. These steps are not limited to the Ontario context. Our provincial counterparts, as well as the Government of Canada and municipal governments, can benefit from taking a strategic approach to procurement.

Steps

- 1 Build internal capacity by creating a centralized, independent body with the goal of improving government's capacity to undertake strategic and complex procurement
- 2 Develop evaluative tools that can be employed to differentiate between simple and strategic procurement based on the complexity of desired outcomes
- 3 Actively collaborate with industry to define the problems, outcomes, and solutions necessary to meet complex needs throughout the procurement process
- 4 Improve access to procurement opportunities for small and medium enterprises (SMEs)
- 5 Integrate local knowledge as a criterion in strategic procurement
- 6 Designate a portion of procurement funds to assist the development of innovative products and services in response to complex public needs

Introduction

In April 2014, the OCC, in collaboration with KPMG and MAXIMUS Canada, released *Unlocking the Public Service Economy in Ontario: A New Approach to Public-Private Partnership in Services*. The report emphasizes the large role that the public service economy—the mix of public, private, and not-for-profit providers who deliver public services—plays in the broader Ontario economy. It presents tangible recommendations to the provincial government on how to better commission and partner with third parties in the delivery of services in the broader public sector.

Spend Smarter, Not More builds on these recommendations, with a focus on strategic procurement as a key component of realizing the untapped potential of the public service economy and leveraging the government's economic weight. Provincial government spending constitutes about 20 percent of Ontario's annual economic output. As such, it is imperative that procurement be aligned with the government's strategic economic priorities, such as job creation, cost-savings, and increases in innovation and research and development (R&D) (Ontario Ministry of Finance, 2014; Ontario Ministry of Finance 2013, 208).

Currently, the Government of Ontario's approach to procurement undermines its capacity to spur growth and innovation. According to Ministry of Government and Consumer Services Guidelines, the Government of Ontario procures based on the following principles:

- Vendor access, transparency, and fairness;
- Geographical neutrality and reciprocal non-discrimination;
- Value for money; and
- Responsible management (Ontario Ministry of Finance 2011, 2).

In practice, these principles often result in a cheaper-is-better, transactional approach to procurement. While this framework may be appropriate within the context of procuring for simple goods and services, its narrow focus is inadequate in maximizing value across the range of goods and services that government procures. The approach can also lead to procurement arrangements and contracts with vendors that end up costing government more over the long-term when compared to more innovative and sophisticated solutions.

The OCC, in partnership with CME, highlights six pivotal steps the Government of Ontario should take in order to create value in the economy through strategic procurement. In the long run, implementing these recommendations and adopting a strategic approach to procurement will enable government to spend less, save more, and generate greater return on investment over the long-term and across a range of economic multipliers.

What is Strategic Procurement?

Put simply, procurement is the purchase of goods and services. Typically, it is a transaction where a purchaser seeks products and services at the lowest cost. The Government of Ontario spends billions of dollars annually to procure a wide range of goods and services, making public procurement a significant component of the provincial economy.

Simple public procurement is largely captured by a transactional relationship where a purchaser (a government agency, department, or broader public sector actor) seeks low-cost products and services. This approach is characterized by limited interaction between buyer and seller. In contrast, a strategic approach to procurement, sometimes referred to as commissioning, requires government to expand its role beyond a simple ‘buyer’ of goods and services.

The table below summarizes the nuances of each approach. Strategic public procurement covers two sets of broad objectives. The first is to maximize the return on investment across a broader range of economic multipliers, including job creation, private sector innovation, cluster development, and attracting and retaining human capital (The Asian Development Bank, The Inter-American Development Bank and The World Bank 2004, 15).

The second objective is to enable transformational change in the public services or goods that are procured and delivered. In this context, strategic procurement is “the process of assessing the needs of people or users in an area, designing and specifying the services to meet those needs, and choosing the delivery mechanism to secure an appropriate service while making the best use of total available resources” (Gash et al. 2012, 20).

In a simple approach to procurement, the parameters are clear: all things being equal, government should purchase those goods that cost the least. Strategic procurement, however, is better suited for areas where parameters are often undefined, solutions are sometimes not readily apparent, and desired outcomes are frequently unclear. Many jurisdictions have used strategic procurement as a tool for transformation where services are floundering and public needs are not being met (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014).

Simple Procurement	Strategic Procurement
transaction-based contracts	collaboration-based contracts
output-focused	outcome and solution-focused
“shopping” for lowest cost good or service	assessing public need and desired outcomes to decide ‘what to buy and how’
arm’s length commercial relationships with vendors	active engagement with industry and vendors
government as contract monitor	government as market steward

The Case for Strategic Procurement in Ontario

A strategic approach to procurement can produce a number of related and significant benefits for Ontario's economy.

First, strategic procurement saves money over the long-term.

Simple procurement is typically characterized by shorter time horizons and an emphasis on lowest costs per unit. Strategic procurement is outcomes-based with less emphasis on cost and more emphasis on a broader range of solutions.

While a procured good or service may be cheaper over the short-term, the cost to taxpayers in the long-term may be high if it needs to be replaced more quickly, or becomes out-of-date sooner. In some sectors, such as medical technology and infrastructure, successful procurement is contingent on the quality of the goods and services that are procured.

For complex services and goods, procuring for outcomes (as opposed to unit inputs) gives vendors the flexibility to apply innovative solutions and business processes to problems, often lowering costs over the long-term and producing innovative cost savings that can be applied in other government departments.

For example, in 2005, British Columbia's Health and Benefits Processing was contracted out to a private operator, MAXIMUS Canada. This partnership has led to significant service improvements, such as shorter caller wait times and a higher percentage of calls answered. According to the Government of British Columbia, "all service requirements have been met or exceeded" (Government of British Columbia Ministry of Health, 2013). The innovation

introduced by MAXIMUS Canada has been applied to additional projects and led to the deployment of the new BC Services Card, which provides residents secure access to a range of provincial government services.

This partnership has also resulted in hundreds of millions of dollars in cost-savings for the Government of British Columbia, and has improved service quality and service levels dramatically.

Second, strategic procurement can foster innovation in the economy.

Experience elsewhere demonstrates that government spending can be leveraged to create markets and drive demand for innovative products and solutions. A strategic approach to procurement enables governments to consider innovation and commercialization potential as criteria in tendering decisions. This enables government to act as a 'launch customer' for innovative solutions that may have the potential to succeed commercially.

For example, dike inspections are a critical aspect of the Netherlands' infrastructure. Through a Small Business Innovation Research (SBIR) program, the government invited businesses to compete for the development of an innovative dike inspection system. This led to the creation of a new satellite radar technology by the company Hansje Brinker. The new technology enables dike managers to pre-inspect dikes based on radar footage and assess where further analysis is needed (Ministry of Economic Affairs, Agriculture and Innovation 2011, 7). The net result was the development and commercialization of a globally successful technology.

Third, strategic procurement facilitates value-added job creation and the cultivation of local expertise.

A strategic approach to procurement incorporates broader government objectives in the tendering process. Governments, including here in Ontario, have successfully leveraged their spending power to address priorities, such as long-term employment and job creation.

A 2014 study by the Canadian Centre for Public Private Partnerships, for example, tracked the employment and broader economic benefits of Public Private Partnerships (P3s) over a 10-year period in Canada. The report states P3s generated \$51.2 billion in direct economic output and nearly 300,000 direct full-time jobs in the period between 2003 and 2012 across the country.

Another result is that Ontario has become a global hub of P3 expertise. It's "developers, financiers and advisors increasingly participat[e] in major projects in the U.S., Europe and emerging markets" (Dunsky and Stougiannos, 2013).

Fourth, strategic procurement enables government to leverage public sector buying capacity in order to support cluster development.

Clusters are geographic concentrations of connected companies, specialized suppliers, and postsecondary researchers, with a specific industry focus. They enable high-value and targeted linkages between small and large businesses, including networking with potential industry partners abroad (The U.S. Small Business

Administration, 2014). Clusters are often built around export-oriented firms. As such, they bring new wealth into a region and help drive economic growth (The World Bank, Local Economic Development, n.d.).

A number of countries, including Austria, Denmark, and the Netherlands, have included cluster development as a specific objective in their public procurement process. In Canada, the National Shipbuilding Procurement Strategy (NSPS) aims to support the domestic shipbuilding cluster. Launched in 2010 by the Government of Canada, the NSPS constitutes a \$35 billion investment in ship construction, maintenance, and repair.

The vendor selection for the project is based on an Industrial Regional Benefit (IRB) requirement and a 'value proposition' model. The IRB requires that contracts above a certain monetary threshold provide "direct or indirect offsets" in the local economy (Canadian Manufacturers and Exporters 2012, 2).

Barriers to Strategic Procurement

Despite the obvious benefits, there are a number of barriers that deter governments from adopting a strategic approach to procurement. We identify four key barriers below.

#1 Governments' tendency to be risk averse

Typically, the more complex the procurement, the higher the degree of risk. This is due to a combination of factors, including higher costs, overlapping and competing public policy objectives, and an often-tangled network of front and back office services and a diffuse network of engaged stakeholders. In such a context, successful tendering could meet a multitude of public needs, while failure could generate a broad-range of repercussions. For example, the risk associated with procuring for staplers is significantly lower than the risk related to procuring for an innovative medical technology that has a direct impact on peoples' lives.

In both scenarios, government is held accountable for the distribution of public funds. Governments tend to be risk averse due to public expectations around value for taxpayer dollars, 'gotcha' media, and a lack of public understanding around economic multipliers. Government is not encouraged to experiment in the same ways as their private sector counterparts, which has led to a more conservative approach to procurement.

In a commercial setting, 70% success and 30% failure across all ventures would be celebrated; In the state sector where public money is being risked, every failure is scrutinised.

Armitt, 2014

#2 Skills gaps within government and the broader public sector

Public procurement procedures are conducted across a range of provincial and municipal governments, the broader public sector, and within Crown Corporations. Many of these organizations have insufficient capacity to engage in complex or strategic approaches to procurement.

Strategic procurement requires skills that are often missing within government and the broader public sector, including the capacity to identify desired outcomes and tailor procurement solutions to best achieve those outcomes.

#3 A misalignment of vision around conceptions of value, among government and the private sector

Government often applies a narrow definition of value to tendering processes, focused exclusively on per unit price. It discounts the broader multiplier benefits discussed above. This misalignment is often compounded by insufficient collaboration and dialogue between government and the private sector.

Government shows a lack of trust that it is receiving value for money from new innovations; meanwhile, industry shows a lack of trust that government understands the value for money the government is receiving.

Ontario Bioscience Innovation Organization, 2013

For example, in strategic procurement, industry stakeholders assess value in the broader sense, including benefits to the economy such as job creation and investment in capital, both human and physical. The current procurement model common across Ontario's broader public sector does not, for the most part, account for these benefits in its assessment.

#4 Limited access to procurement opportunities for small and medium enterprises (SMEs)

Financial and administrative barriers and lack of scale impede SMEs from accessing government procurement opportunities, despite the emphasis on vendor access in the current procurement model. Since SMEs play such a pivotal role in Ontario's economy, barriers to access have repercussions for local employment, economic growth, innovation, and cluster development.

These challenges are common across jurisdictions. Yet, a number of governments have recognized the value in adopting a more strategic approach to procurement as a means to generate greater returns from public dollars and leverage government investments for job creation and growth (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014, 26; New South Wales Government: ProcurePoint, 2014).

Given the fiscal pressures facing the province, striving for a higher return on public dollars is critical. The provincial government needs to learn from the efforts undertaken by comparable jurisdictions. The United Kingdom (UK) and Australia are two examples cited throughout this report.

Steps

This report recognizes that the Government of Ontario has made progress in improving its current procurement process. For example, through the Vendor of Record program, government has adapted procurement strategies to enable broader strategic outcomes (e.g. electronic tendering). As well, the Ministry of Government and Consumer Services is currently developing strategies to support the more effective management of public procurements and contracts, reflecting differing levels of complexity and risk.

However, government continues to view most public procurement through a narrow lens, resulting in a transactional approach, which favours low, short-term cost versus value creation. In order to leverage government spending power and drive economic growth, this report recommends that the Government of Ontario adopt a new, strategic framework for public procurement.

This report identifies six pivotal steps that government can take to successfully operationalize a new, strategic approach to procurement. These steps address the four key barriers to implementing strategic procurement in Ontario and provide operational insight, which will enable government to leverage its procurement model to spend smarter, not more.

STEP 1: Build internal capacity by creating a centralized, independent body with the goal of improving government's capacity to undertake strategic and complex procurement

Procuring for complex public services and new technologies leverages a broad range of business models, focuses on outcomes rather than process or inputs, relies on partnership and collaboration between government and provider, and “demands a great deal more of government procurement officers than in the past” (Sturgess 2012, 9).

Government must ensure that officials in charge of procurement, including those in the broader public sector, have the appropriate skill set for devising and implementing strategic procurement policies.

To that end, the government should create a centralised, independent body whose mandate is to provide senior government officials with the skills needed to pursue strategic procurement. This body should also provide a platform for the sharing of best practices, include information on pricing, and help generate scale for the procurement of commonly used and less context-specific services (such as back office payroll and IT).

A similar recommendation was made in *Unlocking the Public Service Economy in Ontario*, calling on the government to establish an Alternative Service Delivery (ASD) Centre of Expertise (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014 2014, 18). Though the Centre would include a broader scope of activities, its mandate is rooted in the same need to overcome the skills gap in some government departments and to prepare officials to exercise proper oversight and governance over the life of an ASD contract. Given the similarities of their mandates, the body proposed in this report should be integrated into the larger ASD Centre of Expertise in order to optimize efficiency and strengthen internal capacity.

This body would be accessible to all government ministries, agencies, and broader public sector partners, including those already engaged in strategic procurement.. The body should facilitate communication between government and industry leaders, which would contribute to a greater exchange of information and more transparency. Government should also task the body to develop a risk management framework, under the broader mandate of the ASD Centre of Expertise, which can be used by procurement officials in implementing strategic procurement (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014 2014, 26).

Two examples outlined below provide guidance to the Government of Ontario on how they could design and operate this body.

1. UK Commissioning Academy

Funded by the UK's Cabinet Office, the Academy provides a virtual development program for senior public sector commissioners featuring workshops, guest speakers, site visits, and peer challenges. The Academy enables participating civil servants to stay abreast of the latest developments in outcomes-based commissioning and ensure that their organizations keep up with innovations in funding and delivery models (UK Cabinet Office and Efficiency and Reform Group, 2014).

2. Infrastructure Ontario (IO)

IO is a homegrown example of a government body with strong internal capacity. As a Government of Ontario Crown Corporation, IO is responsible for the delivery and oversight of public-private partnerships (P3s) in infrastructure across the province. Infrastructure Ontario is a world-renowned leader in alternative financing and procurement for major capital projects. Through its 'Risk Template', the corporation helps Ministries and the broader public sector assess whether their projects are suitable candidates for P3 ventures (Infrastructure Ontario, 2014).

STEP 2: Develop evaluative tools that can be employed to differentiate between simple and strategic procurement based on the complexity of desired outcomes

The immediate task of the independent body should be to develop evaluative tools that can be used to assess whether a simple or strategic approach should be employed in a particular procurement context.

The delineation between simple and strategic procurement is not likely to be consistent across the vast range of goods and services that government procures. Instead, the choice to employ a particular approach should be guided by the nature of the goods and services being purchased. For example, when procuring for basic goods like pencils, government is better off adopting a transactional and simple approach. When procuring for complex products and services, such as medical technology and health services, government should adopt a strategic approach that focuses on outcomes and value creation in the broader economy.

As well, the desired outcomes and the complexity of a public need often determine whether the approach to procurement should be simple or strategic. In the case of simple procurement, the public need is typically met by utilizing inputs that already exist in the marketplace. For example, when procuring for office supplies the outputs and inputs are clear: the buyer purchases office supplies from a suitable vendor. In the case of complex services, however, parameters are often undefined, solutions are sometimes not readily apparent, and desired outcomes are frequently unclear (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014 2014, 21).

Infrastructure Ontario (IO) offers an example of a set of industry-specific evaluation tools that are used to assess whether a project is suitable for strategic procurement. When procuring for a project in the construction sector, IO assesses the appropriate approach based on the following:

1. Whether the project is complex and of a large scale, and allows for the possibility to leverage its magnitude to meet multiple objectives.
2. Whether a strategic procurement approach is in line with the existing government and ministry agency direction.
3. Whether the project is compliant with Ontario's legal framework.
4. Whether the project has the potential to integrate private sector innovation in order to improve the delivery and design of the final outcome. This consideration also evaluates whether there is a possibility to spur commercial innovation, such as new construction methods or alternative business opportunities.
5. Whether there is potential for risk transfer to the private sector based on clearly defined risks associated with the project, and whether there are complexities that make a risk transfer desirable (Infrastructure Ontario, 2014).

STEP 3: Actively collaborate with industry to define the problems, outcomes, and solutions necessary to meet complex needs throughout the procurement process

Typically when procuring for simple goods and services, the relationship between government and vendors is at arm's length (Ontario Chamber of Commerce, KPMG, and MAXIMUS Canada, 2014 2014, 22). However, the arm's length model is not appropriate when government must address complex issues that do not have an obvious or previously defined solution.

Collaboration with the private sector allows for outside the box solutions that government may not have on their radar.

Ontario Chamber of Commerce, 2014

Collaboration throughout the stages of the procurement process, including the initial phases, is an essential ingredient to strategic procurement for two reasons.

First, government suffers from information asymmetries. Due to limited resources, government lacks capacity to stay on top of the marketplace, including innovation in the goods and services that it procures. Government is often not aware of the range of solutions available to them to meet particular needs.

Second, a static set of criteria for selecting vendors is inadequate and can contribute to suboptimal outcomes given the vast range of goods and services that government procures. Collaboration with industry partners can help by aligning selection criteria with the existing government agenda. For example, integrating shorter wait times as a selection criterion is fitting in the context of procuring for technology in the healthcare sector. However, this criterion would be ill-suited when procuring, for example, for infrastructure and information and communication technology (ICT).

Infrastructure Ontario attributes some of its success to the high degree of collaboration with industry stakeholders at all stages of the procurement process (Infrastructure Ontario, 2012). This facilitates information sharing and ensures that Infrastructure Ontario is aware of key developments in the applicable sectors. This process should be replicated across the range of goods and services that the provincial government procures. Each government department and/or agency, with the assistance of the specialized body identified in step 1, will need to apply a flexible process for selecting vendors, managing relationships, and ensuring that outcomes are met.

Collaborating with industry can also go a long way in correcting some of the informational asymmetries government faces. Specifically in developing criteria for selecting vendors, government can integrate industry-specific rankings such as innovation. For example, in the medical technology field, medical devices are ranked one through four based on their complexity and alignment to health care objectives. Levels three and four are typically the most innovative and complex devices. Through consultations with the private sector, government agencies can adopt such qualifying criteria in order to facilitate the procurement process.

STEP 4: Improve access to public procurement opportunities for small and medium enterprises (SMEs)

A strategic approach to procurement would improve the ability of SMEs to provide goods and services to government. SMEs are the backbone of local economies. Between 2005 and 2010, 95 percent of the highest growing businesses in the country were SMEs (Industry Canada, 2012). Ontario is home to more than one-third of these SMEs, representing nearly half of all employment in the province (Ontario Ministry of Economic Development, Trade, and Employment and Canadian Federation of Independent Business, 2012).

In Ontario, SMEs often face key roadblocks preventing them from competing for public procurement projects, including complicated procedures, large contracts, and lack of information.

Improving access to public procurement for SMEs is critical for cluster development, innovation, and the bevy of additional benefits previously highlighted. Government can take strategic steps to ensure SMEs have access to procurement opportunities by lowering financial and administrative barriers to entry through strategic procurement.

The New South Wales SME Framework is a timely step in the right direction. Improving SME engagement in public procurement opportunities and reducing contracting complexity will maximize value for the taxpayer dollar.

New South Wales Business Chamber, 2014

Facing similar challenges, the Government of New South Wales (NSW), Australia, instituted a SME Policy Framework as part of its wider procurement reform (New South Wales Government: ProcurePoint, 2014). The aim of this framework is to improve access for SMEs to government procurement by opening up opportunities, supporting competition, and reducing administrative burdens (See Table on page 13 for more details).

Other jurisdictions have also helped SMEs to overcome these barriers and have seen positive results. A European Commission report published in 2012 attributes part of the success of the SME sector in Sweden to the relative ease with which SMEs can compete for public procurement contracts, compared to their EU peers. In fact, Swedish SMEs are more successful in winning procurement contracts than their other EU peers (47 percent versus 38 percent), with prompt payment and an accessible e-procurement process noted as contributing success factors (European Commission 2012, 3,7).

Governments are also encouraging bids from a consortia of SMEs to enable the creation of economies of scale (Ascher, 2013). Some strides have already been made in the province. Toronto 2015—the organizing body for the Pan Am and Parapan American games—has built provisions into its bidding process that award points to minority groups and joint bids in order to encourage non-traditional stakeholders to participate as vendors (Ontario Chamber of Commerce, 2014).

New South Wales SME Policy Framework for Public Procurement:

Procuring agencies must take preventative measures to reduce financial burdens on SMEs that wish to make a bid

All public procurement solicitations are described in the simplest, most accessible manner

Procurement agencies must assess whether collaborative procurement is the best option for buyers and vendors alike

A 30 day payment plan is part of the NSW's procurement reform. The OCC has urged the Government of Ontario to also adopt a strict 30 day payment plan (See Appendix: OCC Policy Resolutions)

STEP 5: Integrate local knowledge as a selection criterion in strategic procurement

Successful strategic procurement is often contingent on sufficient local knowledge by the selected vendors. As such, including local knowledge as a criterion in all strategic procurement holds the potential to improve outcomes and spur local economic growth.

Broadly speaking, demonstrating local knowledge means suppliers must provide a detailed understanding of the work involved, within the economic and legal context of the sector in which the procurement takes place. Details such as awareness of the market dynamics, including sourcing of materials, and work safety regulations, are all indicative of a bidder's familiarity with the local context.

Beginning in 2012, Infrastructure Ontario integrated a local knowledge criterion into its selection and scoring system (Infrastructure Ontario, 2012).¹ This does not disqualify

international competitors but instead recognizes those vendors who are able to demonstrate an in-depth understanding of key regional conditions applicable to each project. According to Bert Clark, President of Infrastructure Ontario, local knowledge is a, "demonstrated understanding of critical project management expertise, such as municipal permitting, utilities, building codes, health and safety requirements and skilled trades" (Clark, 2014).

In fact, the integration of local knowledge as a criterion can be used to incentivize long-term foreign investment, which in turn, can lead to job gains and increased economic activity. As such, the introduction of local knowledge will not violate existing trade agreements but simply seek to provide opportunities to those vendors who are more likely to succeed in achieving key outcomes.

¹ Following industry consultations in 2012, Infrastructure Ontario amended its scoring system in November 2012 to include local knowledge as criteria in its request for quotation (RFQ). This effectively integrated the local knowledge criteria into the organization's Alternative Financing and Procurement (AFP) approach.

A 10 Percent Preference for Transportation and Transit-related Procurement

Different from local knowledge criteria, instituting a 10 percent preference for Canadian value added products on transportation and transit-related procurement would offer government an additional measure to spur local economic growth. As recommended by the Thunder Bay Chamber of Commerce, government could introduce legislation that requires all public procurement of goods to include a criteria for 'domestic end products', whereby local expertise and regional economic activity are acknowledged as assets in the selection process (Luckey 2012, 2). The Government of Ontario could take advantage of the existing exclusions in both internal (Agreement on Internal Trade (AIT), Trade and Cooperation between Ontario and Quebec) and international trade agreements (NAFTA, WTO Agreement on Government Procurement). This would ensure any preference is aligned with the objective of attracting and retaining long-term investment in this \$130 billion infrastructure spend (See Appendix).

STEP 6: Designate a portion of procurement funds to assist the development of innovative products and services in response to complex public needs

With strong internal capacity, adaptable yet robust evaluative tools, and greater government-industry collaboration, pursuing strategic procurement will allow the government to better leverage its substantial economic impact. Specifically in the realm of innovative technologies, strategic procurement can generate new high-tech solutions to meet existing public needs.

The effect of public procurement in this process is two-fold. First, by creating the demand for innovative products and services, the government uses its spending power to steer existing markets and create ones where none exist (Aschhoff and Sofka 2008, 3). Second, the size of the government as a client legitimizes the new product or service in the broader

commercial market (The Innovation Policy Forum, 2013). Public procurement targeting new technologies is a determining factor in their successful commercialization (SCI-Network Sustainable Construction & Innovation through Procurement, 2011).

In addition to creating the demand for and legitimizing new technology and processes, certain governments have extended their procurement power to providing initial financing to innovative SMEs. For example, in the United States, the Small Business Innovation Research (SBIR) program constitutes a three-phase process through which government assists the emergence and commercialization of domestic R&D and technological innovations (United States Government, 2014). Under this program, each of the participating government agencies administers its own distribution and commits to allocating 2.5 percent of its R&D budget towards the SBIR program (OECD 2010, 2). Agencies with R&D budgets over \$100 million are eligible to participate.

The first two stages of the SBIR program distribute government funding to eligible SMEs for the purpose of conducting feasibility studies and full R&D development. The final stage, commercialization, is not funded by the government. However successful commercialization is often linked to having government as a 'first-backer'. The success of SBIR-inspired programs in the UK, Netherlands, and Japan, should push the Government of Ontario to consider whether adopting a similar program would aid the success of emerging innovative solutions to public sector needs (OECD 2010, 2).

SBIR success in the United States

Empirical analysis of SBIR awardees in the United States reveals positive benefits for SMEs. A 2007 National Research Council (NRC) study of the five largest SBIR programs in the U.S. found that 78 percent of surveyed SBIR awardees reported that "obtaining Phase I and Phase II SBIR funding was the key to obtaining further non-SBIR investment" (NRC, 2007). Nearly 70 percent of respondents stated they would not have been able to initiate product development without SBIR funding. The report concludes the SBIR program is successful in improving access to commercialization for high-risk products developed by SMEs. The examined SBIR programs were characterized by "excellent commercialization and licensing outcomes" (NRC 2007 in Bauer and Asthanat 2010, 45).

Conclusion

Government spending constitutes about 20 percent of the provincial GDP. As such, the Government of Ontario must use all of the tools at its disposal to create value in the economy by leveraging public dollars. Adopting a strategic approach to procurement is an opportunity for the government to spend public funds smarter while also fostering economic growth, innovation, and cluster development, among other government priorities. Implementing the steps outlined in this report would enable the government to generate greater value and return on investment for the goods and services that it procures.

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Appendix: OCC Policy Resolutions

A. Improving Provincial Payment Times

Submitted by the Thunder Bay Chamber of Commerce

Issue:

The Province is placing an extraordinary burden on small business through the slow payment of invoices.

Recommendations:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Pay invoices received within 30 days; and
2. Where payment is not possible within 30 days of invoice receipt due to processing delays, provide 25% advance payment of the invoice total.

B. Increasing Value and Spurring Innovation Through Public Sector Procurement in Transportation

Submitted by the Thunder Bay Chamber of Commerce

Issue:

The Province of Ontario should increase value to taxpayers and spur innovation by leveraging public sector procurement to support Canadian manufacturers and drive the development of innovative products for highway projects, and urban rail and transportation equipment.

Recommendations:

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Implement public sector procurement policies that increase value to the Ontario economy and spur innovation by according a ten percent preference to Canadian value-added economic activity including research and development and/or engineering activities on transportation and transit related procurements that are not subject to international trade agreements.



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