

Policy Brief

# Achieving the Digital Double Dividend

How Building a Single Govtech Market Can Deliver Excellent Public Services and Grow the European Startup Ecosystem



By David Osimo and Alessandro Paciaroni



### **About GovTech4All**

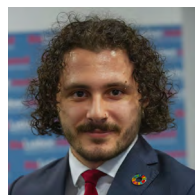
The GovTech4All initiative is a four-year, € 14 million partnership under the Digital Europe programme. It brings together 32 top-tier govtech organisations from 20 European countries, pooling their expertise, resources, and networks to foster a single govtech market. The consortium partners share best practices and collaborate on 12 pilot projects that tap into Europe's wealth of top-tier startups and outstanding digital solutions from other governments. For more information, see <https://interoperable-europe.ec.europa.eu/collection/govtechconnect/govtech4all>.

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## About the authors

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The views expressed in this policy brief are those of the authors alone and do not necessarily represent the view of the members of the GovTech4All consortium or the European Commission.

In an increasingly confrontational world, Europe is called upon to step up its competitive performance, particularly in the digital economy. Policymakers are actively exploring strategies to achieve this, sparking intense debate over public spending versus fiscal restraint and regulation versus deregulation. However, a key solution may lie in improving how governments adopt and procure technology.

“Govtech” has quickly become the latest trend among digital government enthusiasts and technology experts. At its core, it represents a genuinely innovative approach to government digital services. It is characterised by the infusion of user-centric and agile startup culture into government operations, aiming to make public digital services as easy to use, engaging, reliable and cost-effective as those developed by private tech startups. This new mindset replaces the long-standing “not invented here” syndrome within governments with a relentless focus on meeting citizens' needs.

The govtech revolution implies that governments regularly procure innovative services developed by startups – which they currently rarely do. This would pave the way to a “double dividend” of govtech: a much-needed market opportunity for finance-starved European

startups and high-quality digital services that serve European citizens effectively.

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***‘The govtech revolution implies that governments regularly procure innovative services developed by startups – which they currently rarely do’***

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However, as with any emerging trend, there is a risk of it being reduced to a mere buzzword.

As George Orwell put it,

political language is designed “to give an appearance of solidity to pure wind.” The issue of “govtechwashing” looms large – a term referring to the superficial application of the govtech label to traditional government digital practices without enacting meaningful change. This risk is all too real, especially considering that governments traditionally are faster to adopt trendy terms than to implement substantive reforms.

So, the question is: how do we ensure that govtech delivers results and does not become “pure wind”?<sup>1</sup> How do we deliver impact at scale and avoid “govtechwashing”?

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<sup>1</sup> See George Orwell, “Politics and the English Language,” *Horizon*, April 1946.

Based on the experience of the ongoing pilots of the GovTech4All project, on a wide range of interviews with leaders in the field and public administrations and on a high-level workshop held in Brussels on 26 June 2024, this policy brief starts off by describing why govtech is crucial to addressing some of Europe’s fundamental challenges. It then provides an in-depth analysis of the GovTech4All pilots to extract lessons learnt. Finally, it identifies eight priority actions:

- 1. Create an advisory board to the Interoperable Europe Act with leading European digital entrepreneurs**
- 2. Develop a “startup challenge-as-a-service” for public administrations**
- 3. Establish procurement eligibility “passports”**
- 4. Launch a regtech programme for digital-ready policymaking**
- 5. Create a govtech investment fund through govtech bonds**
- 6. Use cascade funding extensively for digital government initiatives**
- 7. The European Commission should launch its own govtech procurement**
- 8. Standardise procurement reporting**

These are not utopian goals. Europe at its best has often been able to remove barriers to the single market and open markets to newcomers. Govtech is, in many ways, just the continuation of Jacques Delors’ single market vision.

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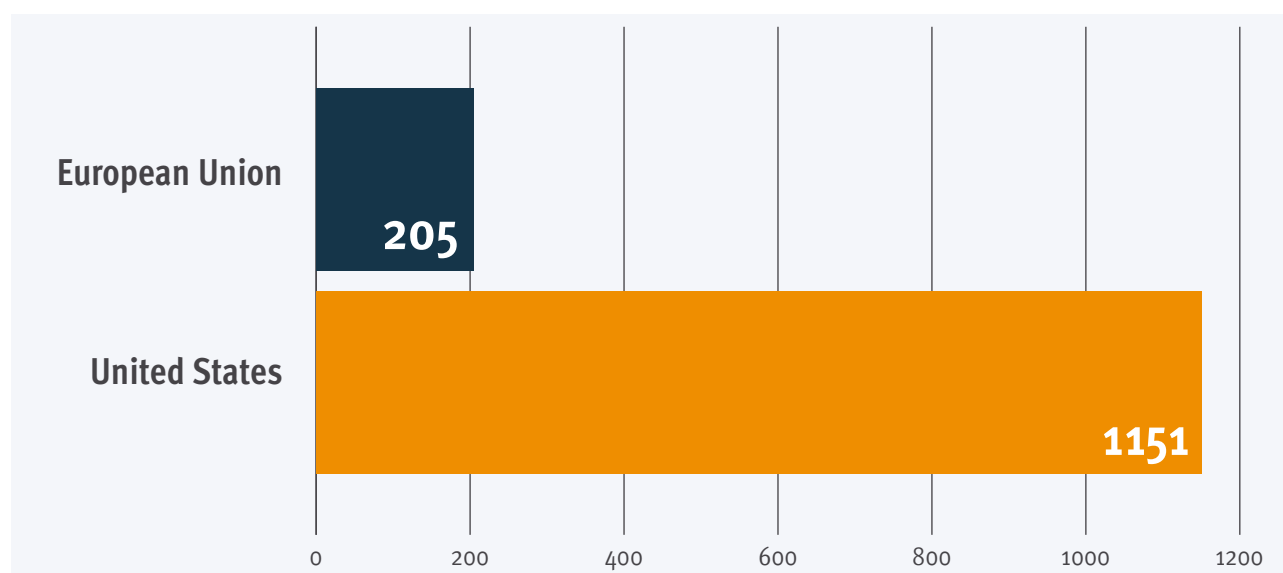
***‘Govtech is, in many ways, just the continuation of Jacques Delors’ single market vision’***

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# Waking Up the Sleeping Giant of Public Procurement

One of the worrying signs of Europe's lagging competitiveness is the lack of fast-growing digital companies; as of 2024, there are 205 European unicorns (startups valued at \$1 billion) versus 1151 in the U.S.

**Figure 1. Number of unicorns, U.S. and EU, 2024.**



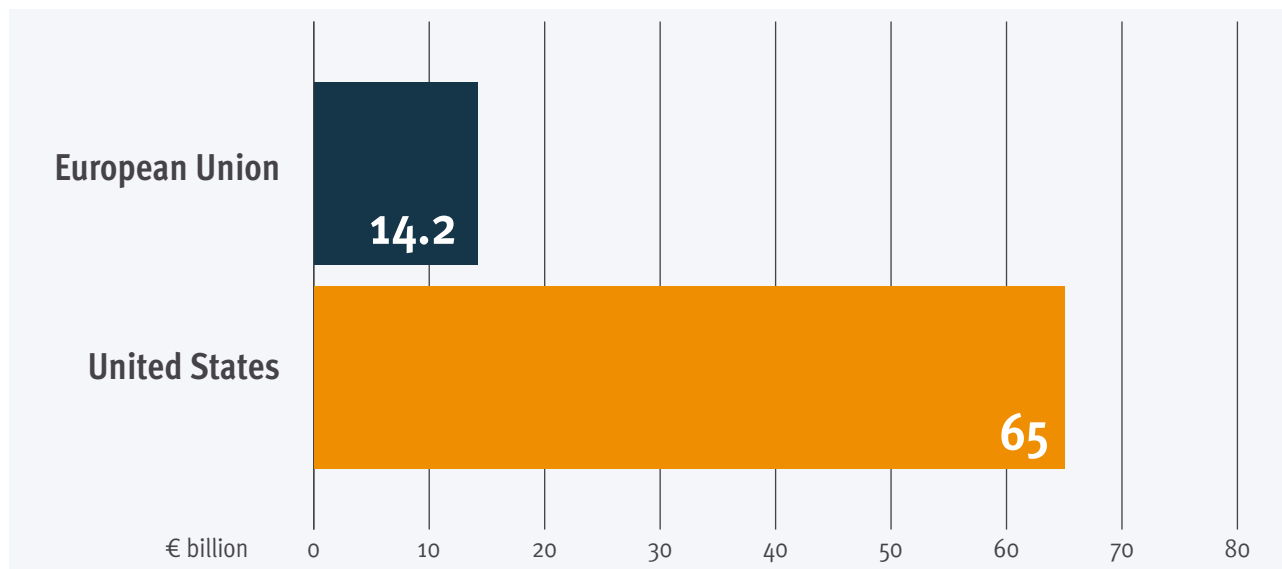
(Source: Authors calculations based on Dealroom database)

As both Enrico Letta and Mario Draghi make clear in their respective reports, one of the main reasons is the underdeveloped financial system. In 2023, European venture capital funds raised €14.2 billion, compared to the equivalent of €65 billion in the U.S. Policymakers intervened to address this issue, and an outsized proportion of investment in Europe came from government agencies: 37% of European venture capital (€5.25 billion) versus around 4% in the US.<sup>2</sup>

***‘An outsized proportion of VC investment in Europe came from government agencies’***

<sup>2</sup> See Invest Europe, *Investing in Europe: Private Equity Activity in 2023*. (Brussels: Invest Europe, 2023).

**Figure 2. Venture capital raised by EU and U.S. venture capital funds, 2023.**



(Source: Invest Europe)

Yet, strikingly, alongside these efforts to invest in startups through public funding lies the €2 trillion sleeping giant of the public procurement market, 400 times bigger than public investment in venture capital as it accounts for a staggering 14% of European gross domestic product (GDP) but mostly stuck in the purchase of mature solutions from known companies that are often more expert in tendering than in delivering innovation.

Mr Draghi and Mr Letta also put forward a second fundamental reason for the lack of European scaleups: the fragmentation of the internal market. Only 6% of European small and medium-sized enterprises (SMEs) export because they have to face not only different markets but very different regulatory requirements and obligations, from VAT to labelling and packaging.<sup>3</sup>

In other words, public procurement can have a massive impact on two major challenges European startups face: funding and a single market. Unfortunately, it is far from achieving this.

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***‘Public procurement can have a massive impact on two major challenges European startups face: funding and a single market’***

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Recent research shows that “in 2018, the 30 countries around Europe devoted only 9,3% of their total public procurement expenditure (10% when including defence) to the purchase of innovative solutions, which is only just above half of the ambition level.”<sup>4</sup> Recent research by GovTech4All partner Govmind confirms this. By crossing their unique database of govtech solutions with the

<sup>3</sup> See Paul Hofheinz, Cristina Moise and David Osimo, *Green, Digital and Competitive: An SME Agenda for the 21st Century – 2023 Edition*. (Brussels: The Lisbon Council, 2023).

<sup>4</sup> European Commission: Directorate-General for Communications Networks, Content and Technology, *The Strategic Use of Public Procurement for Innovation in the Digital Economy*. (Brussels: European Commission, 2021).



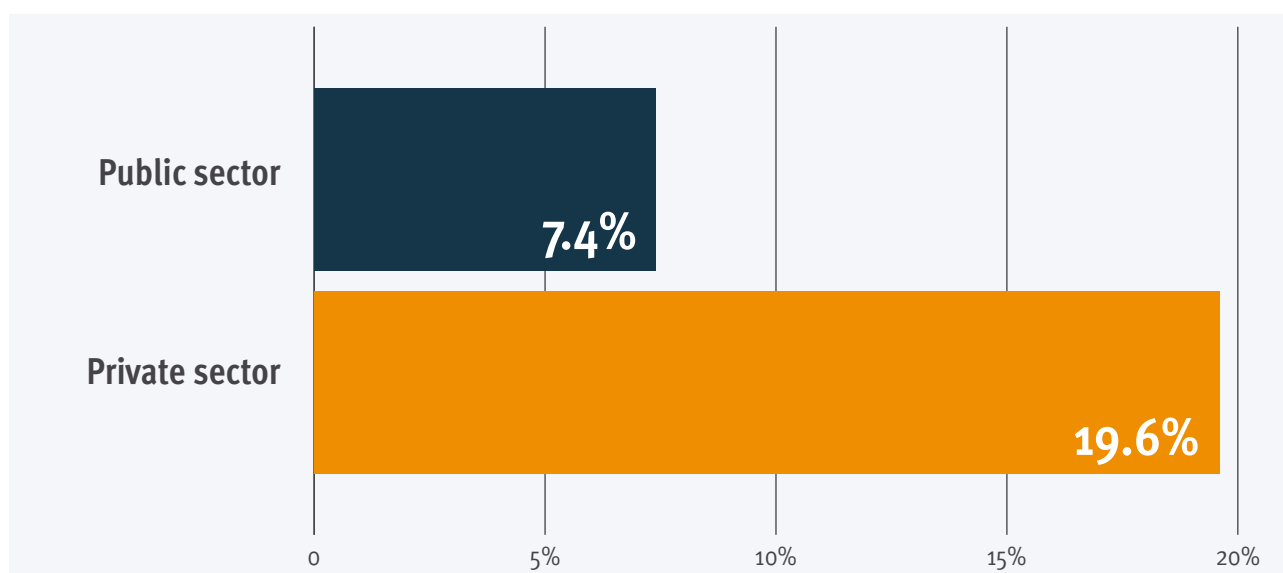
European Commission's database of European public procurement tenders, they found that of the approximately 15,000 contracts awarded in the software industry between 2014 and 2021 in Germany, startups won only 165 contracts. This corresponds to a share of only 1%.

***‘If the single market remains a work in progress for Europe, in terms of public procurement it is a downright chimera’***

Similarly low values can be seen when it comes to cross-border public procurement. According to the European Court of Auditors, cross-border procurement amounts to 5% of total procurement in the period 2011-2021, up only from 2% in 1992. Other studies for the European Commission arrive at 7.4%, which is still a very low share, especially when

compared to the value of 19.6% for the private sector. If the single market remains a work in progress for Europe, in terms of public procurement it is a downright chimera.<sup>5</sup>

**Figure 3. Import penetration in public and private sector (2015-2017).**



(Source: Directorate General for Internal Market, Industry, Entrepreneurship and SMEs, *Study on the Measurement of Cross-Border Penetration in the EU Public Procurement Market: Final Report* (Luxembourg: Publications Office of the European Union, 2021))

Govtech promises precisely to overcome the “not invented here” syndrome and make governments adopt the best solutions from the most innovative companies, regardless of their location in Europe and their capacity to write appealing responses to tenders. Were this to happen, the whole European govtech ecosystem could become the success story of European scaleups, just as fintech did.<sup>6</sup>

<sup>5</sup> For data on cross-border public procurement, see European Court of Auditors, *Special Report 28/2023: Public Procurement in the EU*; European Commission: Directorate General for Internal Market, Industry, Entrepreneurship and SMEs, *Study on the Measurement of Cross-Border Penetration in the EU Public Procurement Market: Final Report*. (Luxembourg: Publications Office of the European Union, 2021).

<sup>6</sup> Fintech is the market where European startups have been more successful. There are currently 48 European unicorns, and Europe accounts for about 30% of the global market size. This is thanks to pro-innovation regulation that removed barriers to the single market through “passporting” and ensured data access for startups. See Oscar Fast et al., *Rapid Growth and Strategic Location: Analysing the Rise of FinTechs in the EU*. (European Central Bank, 2024).



The literature provides many definitions of govtech, and this policy brief is certainly not the place for a debate on definition. But it is worth noting that the experts consulted prefer to define govtech as an approach, a way of doing things founded mainly on user-centricity and delivering results. It starts from a thorough analysis of pain points and problems, requiring an in-depth and iterative understanding of them. It then calls for the best technological solution available wherever it comes from, locally or globally, mature or novel, from commercial or open-source solutions, without prescribing the solution and avoiding the “not invented here” syndrome. It pilots fast, and it iterates based on the needs of users.

This “technology-second” approach might seem at odds with the “tech” suffix. But just like the case where the suffix was first used, in fintech, the main focus is on service redesign, not new technologies. By harnessing technology, fintech companies were able for instance to democratise financial advice, making it available to a broader audience at a fraction of the cost. While technological innovation certainly plays a crucial role – take, for instance, the advancements behind robo-advisors or blockchain-based financial solutions – the starting point is always user needs. In the case of robo-advisors, the driving force behind their development was not the sophisticated algorithm alone, but the demand for accessible, affordable, and straightforward financial advice. Traditional investment advisory services were often costly and inaccessible to many individuals.

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***‘Just like in fintech, the main focus of govtech is service redesign, not new technologies’***

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So, while the underlying technology is important, it is not the starting point. The process begins by identifying a pain point – such as the difficulty of accessing affordable investment advice – and then using technology to create a solution that directly addresses that need. This user-first approach is key to fintech's success: it does not innovate for the sake of innovation, but rather to solve real-world problems in a more efficient, user-friendly way. Govtech, similarly, uses technology as a means to an end – improving the quality of public services – rather than focusing on technology itself as the central goal.

This focus on user-centricity is a long-standing challenge of digital government. Put simply, digital public services are not centred enough on user needs. User research remains an exception rather than the rule. So, the increased collaboration with startups, and the increased adoption of agile ways of working in the public sector, are simply necessary to make public services better.<sup>7</sup>

But besides these theoretical points, how do govtech initiatives work in practice? To address this question, this policy brief looks at the concrete pilots being carried out in the context of GovTech4All and explore the barriers encountered by participating organisations. Specifically, the startup challenge pilot implements design contests and open innovation for procurement in local governments.

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<sup>7</sup> For a full discussion of the issue, see Chrysoula Mitta, Charlotte van Ooijen and David Osimo. *User-Centricity: What It Means, How It Works, Why It's Needed: How Relentless Focus on End-Users Raises Adoption and Delivers Better Services to Citizens* (Brussels: The Lisbon Council, 2021).

# Govtech in practice: open innovation in the public sector

Pre-commercial environments foster open innovation. In this space, public sector teams can explore and test new digital solutions, shaping their future technology needs in a way that is open, transparent and competitive. Such environments are not so different from laboratories, where public servants can use an array of tools and methods to explore the technological landscape and refine their needs. One of these methods is the design contest: a procurement method largely used in urban planning but so far overlooked for technology and innovation procurement.<sup>8</sup>

Uncertainty is inherent to innovation, but traditional procurement processes do not leave any room for uncertainty. While the specific software or product that will make it through the procurement process is not predefined, its characteristics are. This used to work well when information and communication technologies (ICT) were used to execute certain functions, like accountancy or document management. Today, though, with the advent of digital technologies, this approach is fundamentally flawed. By tying procurement to hard requirements, this approach hampers innovation (or constrains it at best) instead of enabling it.

Design contests are a way to deal with uncertainty. This is a procurement method used by public authorities to select the best design for a project, such as a building, infrastructure or digital service. By inviting designers to submit proposals, public authorities can tap

into a wide pool of creativity and innovation.

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***‘The five benefits of design contests are flexibility, anonymity, openness, inclusivity and streamlining’***

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Design contests were originally conceived for architectural and urban planning procurement processes. In a nutshell, this method enables the owner of the procurement process to focus on the problem definition, leaving the solution development to the providers. The five benefits of design contests are flexibility, anonymity, openness, inclusivity and streamlining.

Additionally, this approach values the broader innovation ecosystem and includes the award of financial compensation - in the form of economic prizes - to solutions that are not chosen. Design contests emerge as a great way for public servants to explore technological trends and innovation ecosystems and seize opportunities for meaningful innovation.

What is so special about the challenges addressed through design contests and open innovation that traditional procurement cannot deliver? First, the nature of the challenges themselves. The problems faced by these municipalities sit in complex adaptive environments where multiple factors are changing, sometimes very quickly, like in the case of power outages, heatwaves and extreme natural events. Buying a solution based on a set of requirements defined up front, on paper, and without testing is akin to gambling at best.

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<sup>8</sup> While other procurement methods for innovation exist, these show limitations. For instance, pre-commercial procurement (PcP) is typically designed for more fundamental innovation and research and development (R&D) activities. However, many public sector challenges require solutions already developed by startups, and used by other governments or by the private sector, which makes it difficult to meet the strict requirements of pre-commercial procurement as well as to provide the required flexibility.

Second: the data. These challenges involve heterogeneous data like temperature, pressure and biodiversity data and more. Concomitantly, computational resources needs greatly vary. Availability of this data can vary between organisations, buildings and areas of the city. Even when sufficient data is available to run a piece of software, the volume or quality of data available may be insufficient to train the software. Different startups may have innovative approaches to deal with scarce or suboptimal data. It is quite impossible to know how different solutions will perform in these contexts unless they have been tested. Third: the technology. Requirements may vary both in terms of hardware and software. In particular, sensors and other technologies used for example for monitoring the green areas are relatively new, and it can be difficult for a small municipality to know, let alone navigate all the options. When it comes to software, complex adaptive environments open to a range of options. Take artificial intelligence (AI) for instance. AI consistently outperforms any other technology for resource management thanks to its capacity for learning, adapting and optimising systems; there are several learning techniques and models that can be used, and this makes a choice based on predefined hard requirements counterproductive, albeit possible.

The situation for local governments facing these issues is rather clear: they have the expertise and in-depth knowledge of the issue in question, but lack the broad view of the opportunities to solve it. The best way forward is to open up to potential solutions, test them, talk to the providers, adapt and come up with a better understanding of what can be done and how. This is precisely why startup challenges work well in these cases.

## The GovTech4All Startup Challenges

The GovTech4All consortium delivers new forms of ‘variable geometry’ collaboration between govtech actors with the support of the European Commission. Among the govtech pilots running within the realm of GovTech4All is the startup challenge pilot. This pilot goes directly to the core of govtech processes to introduce new ways for public servants to explore the technological landscape, to get to know the providers that characterise the ecosystem of innovation in their region and across Europe and to test their solutions and buy them.

The startup challenge pilot implements open innovation and design contest approaches to innovation procurement at the local level in four different member states across Europe: Sweden, Lithuania, Spain and Greece. The municipalities are Örnköldsvik (Sweden), Siauliai and Tauragė (Lithuania), Madrid and Catalonia (Spain) and Kalamata (Greece). In the implementation of open innovation and design contests, all municipalities follow an internal process to choose the challenges to present to the startups. In the GovTech4All pilot, municipalities chose challenges related to energy and environment, showing how local governments are on the front line in dealing with complex issues, despite often lacking capacity. This is not a simple procedural note. Understanding why, when and how a municipality uses this approach is crucial. This is because it touches on both the importance of getting innovation procurement right and the difference made by startup challenges in helping local governments find the right solution to a problem that affects people’s lives.

A deep dive into two of the cases will show in greater detail how startup challenges work.

## Background

The Government of Catalonia, in collaboration with Gobe Studio, has been at the forefront of Spanish govtech innovation. It has adopted a problem-solving mindset and a focus on citizens' needs to improve public services. Through design thinking sprints and direct citizen engagement, the government identifies and prioritises problems. Once a challenge is defined, it leverages open innovation and design contests to collaborate with startups. This process fosters co-creation, where startups and public teams work together to develop and

implement innovative solutions. This approach not only improves public services but also strengthens the startup ecosystem.

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*‘The startup challenge pilot implements open innovation and design contest approaches to innovation procurement at the local level in four different member states’*

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Catalonia's commitment to innovation is evident in its focus on citizen experience and accessible solutions. By prioritising citizen needs and adopting a problem-solving approach,

it is transforming the way public services are delivered. Collaboration with startups through open innovation initiatives empowers both the public sector and the startup community, leading to more efficient and effective public services.

The govtech ecosystem in Lithuania, similar to Spain, is working on innovative solutions for public services. Govtech Lab Lithuania, a key player, is fostering collaboration between the public sector and startups through pre-commercial environments. Design thinking is central to the approach, with Tauragė, a municipality aiming to be the first carbon-neutral European city, serving as a prime example. By iteratively identifying and prioritising challenges through citizen feedback and brainstorming, Tauragė is focusing on incremental innovations aligned with Lithuania's Development Plan until 2030.

Smaller municipalities like Tauragė benefit from startup challenges to explore emerging technologies like drones and AI for image recognition. Tauragė also highlights the importance of biodiversity preservation and restoration. Through structured innovation contests, the municipality invites startups to develop solutions for mapping trees and vegetation. While design thinking is still emerging in Tauragė, the district is fostering cross-departmental collaboration and engaging external stakeholders to ensure user-focused and practical solutions.

## What has happened concretely?

**Catalonia:** The Government of Catalonia launched govtech startup challenges to tackle energy management in public buildings – a critical need driven by the Mediterranean's rising temperatures and the climate crisis. The public IT company *infraestructuras.cat* is responsible for around 6,000 public buildings and directly manages 600 of them. To address energy management challenges, the government focused on solutions for predictive maintenance, efficient data management and automated energy-saving measures. The pre-application phase of the open call allowed the Government of Catalonia to gauge interest from startups,

gathering momentum before publishing an official design contest on their procurement portal.

**Tauragė:** The city of Tauragė targeted green area management to enhance urban resilience and climate response as part of its commitment to climate neutrality. This govtech startup challenge aimed to integrate digital 3D mapping solutions and maintain an accurate tree inventory to support shading and heat zone projections, which are crucial for preventing further climate impacts. By leveraging the pre-application open call, Tauragė gathered proposals and showcased their challenges to the entrepreneurial community, laying the groundwork for the design contest.

## How did it work?

After the challenges were defined, public administrations participated in a challenge demo day to pitch their challenges to interested startups and SMEs. This was crucial to raise awareness and attract the interest of potential solution providers. Both Catalonia and Tauragė engaged in a structured pre-application phase through an open call for solutions published on JoinUp. This phase served to capture interest from potential solution providers following the challenge demo day and notify startups when municipalities launched their design contests.

**Catalonia:** Catalonia proceeded to publish their design contests on official procurement portals throughout June and July 2024. This competitive process was designed to source the best solutions for energy management challenges, focusing on solutions that could predict equipment lifespan, streamline data management and automate energy-saving practices.

**Tauragė:** Similarly, Tauragė's design contest was launched on official procurement portals. This phase sought innovative technology for mapping and monitoring green spaces and biodiversity, selecting proposals that could support shading projections, heat zone management and strategic greenery planting.

## Who participated?

The open call for solutions to six challenges resulted in 60 applications from 13 EU countries and eight non-EU countries, demonstrating strong international interest in the challenges presented by both Catalonia and Tauragė. The challenge demo day, live-streamed from Vilnius, was instrumental in raising awareness and attracting participants from the entrepreneurial community, including startups and scaleups.

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***'The open call for solutions to six challenges resulted in 60 applications from 13 EU countries and eight non-EU countries'***

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## What is different to traditional procurement?

The startup challenge process, which includes challenge definition, design contests and pre-procurement open calls, presents significant advantages over traditional procurement approaches. These methods enable public institutions to engage in more adaptive, innovative, and transparent procurement practices compared to the conventional, rigid framework. Each component differs from standard procurement as follows:

1. **Challenge definition:** Traditional procurement often involves setting fixed requirements for solutions, which are decided in advance without room for exploration or adaptation. In contrast, the govtech startup challenge definition process focuses on clearly outlining the problem rather than prescribing the solution. This approach allows municipalities to define their needs in a flexible manner, facilitating more innovative responses from solution providers.
2. **Design contests:** Unlike conventional procurement, where solution criteria and outcomes are predetermined, design contests encourage a wider variety of proposals by allowing solution providers to interpret and develop creative approaches to meet the defined challenge. These contests prioritise openness, flexibility and inclusivity, enabling municipalities to explore multiple potential solutions in a competitive format. The contests often come with incentives for participation, such as awarding financial compensation for valuable proposals that did not win, which is not common in standard procurement.
3. **Pre-procurement and open calls:** Standard procurement processes typically jump directly into detailed requirements and the bidding phase. The pre-procurement phase, in the form of an open call, however, engages potential solution providers early, allowing for better alignment with the challenge's goals and objectives. This phase captures the attention of startups and SMEs before the official procurement begins, creating a pipeline of interested and well-prepared participants. The open call is crucial for ensuring that when the formal design contest is launched, participants are already familiar with the context and motivated to contribute high-quality solutions.

## Success factors

Govtech holds the promise of excellent public services and innovative startups. Many government agencies have realised this and have launched dedicated govtech initiatives to bridge cultural and organisational gaps between governments and startups. Digital teams have emerged and re-focused digital government services on users by bringing in excellence in digital expertise, providing state-of-the-art digital training and launching collaborations

with startups. At the time of writing the [catalogue of govtech initiatives](#) published in the JoinUp portal identifies 78 such initiatives. But too often these initiatives remain marginal or short-lived. So how do we scale up govtech beyond government labs? What stands in the way of a single govtech ecosystem?

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***‘A public servant, more often than not, has to juggle between daily case handling, mid-term strategies, financial planning and the desire to help citizens’***

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## 1. Complex, adaptive and multi-stakeholder ecosystems

“What do you need?” The answer to this question can vary greatly from one stakeholder to another. A startup tends to be looking for opportunities to improve and showcase its solutions. An SME is likely to be looking for a stable cash inflow and opportunities for growth while managing a pressing economic outlook. A public servant, more often than not, has to juggle between daily case handling, mid-term strategies, financial planning and the desire to help citizens. Citizens, on the other hand, are trying to grapple with today’s economic and social uncertainties, surrounded by a lot of noise that tells them technology may steal their jobs; the last thing they want is to have to spend hours to enrol a child in school or receive financial support. Working in the govtech ecosystem means trying to provide an answer to all this while delivering tangible results and demonstrating its value to people. Clear frameworks and appropriate incentives are key to successfully implementing govtech; otherwise, efforts can become an unjustified overhead.

## 2. Ownership

“Who do I call if I want to call govtech?” Paraphrasing former U.S. Secretary of State Henry Kissinger. The answer clearly is no one, or is it? Making govtech a success is, more than ever, about making it tangible. This happens by assigning responsibility for and ownership of different steps and processes. For example, assigning responsibility for implementing citizen-centricity across procurement processes to one agency or department may well make the difference between having a team doing systematic user research or someone being asked to make a one-off effort to conduct a few interviews. This includes killing a pilot if needed. Ownership is a complicated matter. Take, for example, a tender to improve the energy efficiency of public buildings such as schools and government offices. A tender like this involves traditional public IT providers, the ministry of infrastructure, the ministries whose buildings have to be renovated and so on. Ensuring clear ownership is a challenge as much as it is a necessity.

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*‘Defining how a project helps citizens is fundamental to ensuring that time and money are not wasted’*

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## 3. Citizen-centricity

“You need to do govtech for the users.” This is the first point that any project manager should address when presenting a proposal. Defining how a project helps citizens is fundamental to ensuring that time and money are not wasted. Moreover, this is also the best way to garner support. At the end of the day, people want to be helpful to others but often do not know how to go about it. This may appear simplistic, but in public administration, public servants are ultimately accountable to citizens. Government officials tasked with signing off on projects and assigning budgets are faced with this accountability. So as simple as it may sound, adopting a problem-solving approach and ensuring that people’s needs are clearly framed and addressed makes the difference between receiving a budget for a project or not. Citizen-centricity is a state of mind. It means conducting structured user research before and after the release of a service, not making assumptions about what users want. A truly citizen-centric approach also helps reduce the risk of “govtechwashing” or “old wine in new bottles.”



#### 4. Value creation

“Why? Why are we spending time and energy on this?” Demonstrating the value of govtech is essential. Value can be time saved, lower public expenses for service provision or satisfaction with the service experience. In fact, addressing a clear problem for a well-defined group of people is almost always a good starting point to show the value of a project. Value creation in innovation is a tricky matter, however. On the one hand, innovation implies exploring opportunities and experimenting with solutions. On the other hand, it needs to bring tangible results, otherwise it remains too theoretical and idealistic. The challenge lies in finding the right balance. Value creation in innovation is rooted in how tangible the potential result is, not in terms of the product itself but in how it will improve the lives of those impacted. Once this is defined, even a pilot that fails will have provided a valuable lesson on how to drive change.

#### 5. Capacity

“Do you have one hour every week to learn how to do this differently? Who has the capacity to come on board?” Capacity is as important as any other factor in govtech and is often lacking. Identifying and attracting those who are willing and have the means to act is critical. This is not to diminish the importance of onboarding others, but rather to stress that limited resources should be allocated wisely.

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*‘The success of govtech relies on the ability to create fruitful collaborations between its actors’*

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#### 6. Procurement system or procurement law

“Should we change procurement regulations?” The answer is simple: no, as merely changing regulations would not

solve the issue. Govtech is about creating a procurement system. Govtech and innovation in the public sector do not hinge on rules and laws. This is not to dismiss the importance of the regulatory landscape; quite the opposite. But regulations alone are insufficient. Govtech is, by nature, a socio-technical ecosystem and, as such, is more influenced by the relationships of stakeholders than by, say, procurement law. The success of govtech relies on the ability to create fruitful collaborations between its actors, not on implementing them within the bounds of strict legal frameworks.

# Policy Recommendations: Walk the Talk

Historically, many of Europe's economic success stories have involved opening up closed markets by removing barriers to a single market and tilting the playing field in favour of newcomers. For instance, Europe did so by enabling competition in the aviation industry, by allowing independent internet service providers in the telecom market and by opening up bank account data to fintech startups. Now, the time has come to open up the procurement market. This cannot be done by means of regulations as procurement is already fully open. The focus needs to shift to the skills, culture and practices of Europe's public sector. This is a slower process, based more on carrots than sticks, which aims to create a stronger European govtech ecosystem. But what concrete changes and measures can be implemented?

The one answer govtech practitioners give is: walk the talk. Govtech should not be just another policy priority to add to the usual policy instruments, or just another budget line. Govtech requires a change in approach: a focus on user needs, culture, enabling conditions, ecosystem building and transparency.

Accordingly, govtech should not be a tool pushed on to unwilling users, i.e. public administrations. It should gain traction by providing better value for money and a better user experience. Under the right conditions, govtech should naturally become the obvious choice for public administration. And it should be made convenient and easy.

Secondly, it has been argued at length in the current text that govtech is more an approach than a specific tool. It is about focusing on the needs of users and leveraging technology to address those needs, fostering a spirit of public and private collaboration. The success of govtech will not come from new regulations: generally speaking, existing regulations already favour a govtech approach by establishing competitive bids as the default option. The barriers to increased procurement from startups lie in how regulations are applied by individual public administrations, including selection criteria and pre-qualification requirements.

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***‘The barriers to increased procurement from startups lie in how regulations are applied by individual public administrations’***

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Thirdly, the govtech ecosystem will not emerge naturally by removing barriers. Like gardening, it needs to be tended and cultivated, mixing different incentives, supply and demand.

Lastly, govtech policy measures should focus on outcomes rather than processes: encouraging ex post transparency and assessment of results that act as an incentive to select the most effective solution. In this sense, reporting and transparency can be powerful tools.

The policy recommendations listed here are not major policy changes designed to redesign public sector innovation in Europe, but concrete actions that could make a difference within the existing regulatory framework.

## 1. Create a high-level advisory board to the Interoperable Europe Act with leading European digital entrepreneurs

The Interoperable Europe Act rightly calls for the creation of a govtech community and the establishment of a board composed of member state representatives. In addition, it should create an advisory board of leading European digital entrepreneurs to ensure the user-centric values of govtech are fully present. The board should be consulted on key decisions, notably concerning the “innovative actions” envisaged by the Act.

## 2. Create a “startup challenge-as-a-service” for public administrations

Startup challenges are a popular way to implement govtech. There is no formal method, and challenges can take different forms, from a design contest in procurement to other forms of open innovation. However, a good understanding of the startup ecosystem is required to design appropriate challenges and understand the incentives for startups.

Similar to cascading funds for startups, a “challenge as a service” model would enable public administrations (especially smaller administrations) to easily run startup challenges, participate in startup challenges organised by others, or receive advice on how to run such challenges.

Ideally, this service should be funded 100% through public funding, run by specialists selected through open contracts, and include an element of co-funding for the participating organisations. It should be easy to access, with limited paperwork and fast processing times.

## 3. Passporting of procurement eligibility

A passporting-like system should be introduced in public procurement to ensure that once a startup has successfully concluded a contract with one government or passed a pre-qualification process with one administration, it is automatically eligible to participate in other procurement and will not be required to enter a new pre-qualification process. This would address the issue that eligibility checks in pre-qualification vary from country to country and are cumbersome, often preventing foreign startups from participating in public procurement. The passporting system could also be linked to the “interoperable solutions” seal, as is the case in Brazil with the [“govtech seal.”](#)

## 4. Launch a regtech programme for digital-ready policymaking

Regtech, short for regulatory technology, refers to the use of technology to help companies comply with regulatory requirements more efficiently and effectively. It can be considered a

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*‘The European Commission should launch open innovation regtech challenges on digital-ready policymaking’*

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subsection of govtech, combining innovative software, big data analytics, AI, machine learning, and other advanced technologies to streamline, automate, and improve compliance processes. The European Commission should launch open innovation regtech challenges on digital-ready policymaking to achieve the long-promised 25% reduction in administrative

burden. Regtech startups should be involved in the design and execution of the method. Every regulation should become machine-readable to enable automated reporting and foster

the creation of innovative digital services. This should go together with a dedicated initiative to stimulate the European regtech ecosystem.

### **5. Create a govtech investment fund through govtech bonds**

The introduction of govtech bonds could unlock private capital and offer a way to collaborate with investors to fund the next generation of innovative startups in Europe and improve the Services of General Interest. This would not only address the development trap but also create a truly European market for govtech.

### **6. Use cascade funding extensively for digital government initiatives**

Cascade funding, where a body distributes public funding to third parties, is an efficient way to support startup pilots through competitive grants of up to €100,000. It should be used more widely, and the European Commission should adopt cascade

funding broadly across EU funding initiatives, including structural funds. Cascade funding could also be introduced as part of procurement practices, as in the case of Catalonia.

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***‘The European Commission should adopt cascade funding broadly across EU funding initiatives’***

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### **7. The European Commission should launch its own govtech procurement**

The European Commission should lead by example and directly implement startup challenges and procurement in its ICT procurement, as well as reserve a quota for startup challenges in strategic initiatives such as the digital identity wallet.

### **8. Standardise procurement reporting**

Public administrations should publish annual reports detailing the percentage of public procurement awarded to startups and to foreign providers in a standardised format (FAIR), which can then be collated at national and European level. At the same time, public administrations should automatically report data on the adoption of digital services to incentivise a genuine commitment to user-centricity.

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