GENERAL CATALYST INSTITUTE

Accelerating European Innovation Through Public Procurement

PROCUREMENT

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Foreword

Turning up to EUR 2.6 trillion of annual public demand into Europe's most powerful scaleup lever

Public procurement is the most important lever Europe has to boost the innovative startups and scaleups on which the continent's future depends. It is also the one Europe reaches for least.

Since the Draghi and Letta reports on the future of the EU, the diagnosis is clear: Europe's prosperity and security depend on its ability to grow competitive tech companies at-scale globally. The debate has since moved to levers like scaleup funds or talent visas. These initiatives are welcome but tend to be worth single-digit billions and have limited impact in isolation.

Meanwhile, the lever with the largest potential remains severely underutilised. European public authorities spend over 2.6 trillion EUR every year on goods and services, most of them at regional and local levels. That is around 15% of the Union's GDP and the largest source of demand in the economy. Of that sum, startups and scaleups win an estimated 1%. This is a major problem: to reach significant scale, startups and scaleups need contracts, not grants.

The money is already being spent. What excludes innovative challengers is the process: tenders decided on lowest price instead of outcomes, qualification requirements written for incumbents, and fragmented demand that is hard for new entrants to navigate. Long timelines compound the problem: procurement cycles impose significant administrative burdens on buyers and sellers alike. While an established supplier has the ability to finance from its balance sheet, a startup must pull resources from an already limited runway.

The reward of getting procurement right is immense. Shifting one percentage point of Europe's public spending towards innovative companies would redirect some EUR 25 billion a year to startups and scaleups. This is more than every current EU innovation funding instrument combined. And real revenue is the best capital a young, innovative company can receive because it is non-dilutive, repeatable and carries the endorsement of a reference customer. Every euro of credible contract value can pull several euros of private capital behind it.

We see this dynamic play out every day through our portfolio companies that are building the technologies European governments urgently need in defence, space, healthcare, energy and AI. Many find it easier to sell to a private multinational, or to a government abroad, than to public buyers in their home market. These experiences are detailed throughout this report; the strongest evidence for reform comes from the companies navigating the system first-hand.

Others have shown what happens when the state buys differently. In the United States, open procurement pathways, Small Business Innovation Research set-asides and the wider use of Other Transaction Authority awards through the 2010s turned small defence suppliers into global leaders. Positive examples can be found within Europe too. In France, institutional reform lifted the share of defence contracts reaching new suppliers from 14 to 25% in two years.

This report sets out how Europe can do the same across industries at a continental scale. Drawing on the experience of founders, procurement practitioners and officials across member states, it proposes four pillars, upon which Europe can construct a more competitive innovation ecosystem and prosperous future: (1) build a European procurement market, (2) buy together, (3) buy innovation faster and (4) buy outcomes, rather than inputs.

The time to act is now. The Public Procurement Act, proposed by the Commission in September 2026, is a once-in-a-decade chance to rewrite the rules. Europe must use it to ensure that the best technology, not the cheapest bid, reaches the public sector and the citizens it serves. For European tech companies to be globally competitive, they must first be able to reach scale at home. Europe does not need to invent anything new to make that possible. We need to decide that the trillions of euros we are already allocating each year are better spent on our future than our past.

Jeannette zu Fürstenberg

President & Managing Director at General Catalyst

Executive Summary

Public buyers in Europe spend around EUR 2.6 trillion a year, around 15% of EU GDP, most of it managed at the regional and local level. Yet, startups and scaleups in Europe win roughly 1% of it. Of course, there are many reasons for this, and the nature of some products and services requires an existing scale. Nevertheless, increasing the share of public procurement among startups and scaleups by just 1 percentage point would be worth over EUR 25 billion a year in contracts, more than every EU innovation instrument combined.

To turn public demand into a powerful driver of growth and innovation, European policymakers should take bold action across four pillars:

1. Build a European procurement market. Today, cross-border procurement sits around 5%, barely up from 2% before the single market was created in 1992. One reason is that the qualification of government contractors is national, so that a win in, say, France produces revenue but no standardised, portable proof. European policymakers should create a digital procurement identity – register once, qualify once, compete everywhere – carried by supervised, insured attestation bodies that take equivalence decisions off the desk of the individual official.

This is the enabling condition for the other three, because economic behaviour does not change until liability and risk frameworks change. Building a true European procurement market requires parallel action from all three levels. EU legislators should write an enabling clause into the Public Procurement Act, set an 18-month implementation roadmap and make the identity operational on the Commission's pre-2030 timetable, with recognition by default. Member states should run cross-border pilots and resist gold-plating. Buyers should accept the passport as the entry ticket.

2. Buy together. Europe runs the largest public demand in the world through more than 250,000 separate contracting authorities, so the biggest buyer on earth behaves, for a supplier, like one of the smallest. Joint procurement is a synthetic EU budget: it aggregates national money into a single demand signal without moving a euro to Brussels.

Making multi-supplier awards and the qualification passport defaults would mean that aggregation does not just hand bigger contracts to the same incumbents. EU legislators should give aggregated demand a standing home by extending the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), the European Defence Industry Programme (EDIP) and Security Action for Europe (SAFE). Requiring machine-readable publication of contract-level awards to the EU's Public Procurement Data Space will increase transparency and access to aggregated funding. Member states should build regional buyer pools. Buyers should adopt common reference specifications and treat interoperability as an award criterion.

3. Buy innovation faster. Public procurement cycles tend to be long and impose significant administrative burdens on buyers and sellers alike. For young companies, this is fatal. Many startups and scaleups have limited runway, often counted in months, not years, and hence fail in the gaps between prototype, first contract and revenue at scale.

The remedy is faster, more agile procurement processes, backed by a mandate to earmark funding. EU legislators should set a minimum innovation-procurement quota building on the Commission expert group's own 20% target. They should also create a simplified challenge route, guarantee 90-day awards below EUR 10 million and bind a startup share into every European Competitiveness Fund (ECF) and EDIP instrument, with first production orders eligible. Member states should commit to 90-day windows, name a single point of contact, and, in defence, use Article 346 within its scope to accelerate. Buyers should run problem-first tenders and milestone contracts.

4. Buy outcomes, not inputs. European public buyers procure time, materials and licences instead of results. In eight member states, more than 80% of contracts still go to the lowest price, which structurally favours whoever is cheapest at the old way of working.

EU legislators should establish a legal definition for managed-service and outcome-based procurement. They should also mandate whole-life cost accounting with a common methodology and require published outcome metrics above a defined contract value. Member states should build a commercial-expertise track on the French AID template and roll out reusable solution catalogues, starting with health and digital. Buyers should apply whole-life cost in evaluation and share one authority's evaluation work with the next.

PILLAR

01

Build a European Procurement Market

EU Institutions

Build a European procurement market by making qualification portable. Register once, qualify once, compete everywhere.

- Authorise supervised, insured third-party attestation bodies in one enabling clause, and make recognition of a validated passport the default with narrow documented grounds for refusal
- Create a dedicated category for high-growth companies without entrenched incumbent status
- Establish the EU digital procurement identity before 2030, interoperable with the European Business Wallet, on a published standard

Member States

- Run cross-border pilots, transpose without gold-plating, and place a startup contact point with bid-support advisers in every central purchasing body [Civilian]
- Recognise security clearances and equipment certifications by default, with a narrow reasoned derogation [Defence]

PILLAR

02

Buy Together

EU Institutions

Buy together, aggregating demand as a synthetic EU budget without moving a euro to Brussels.

- Legislate a standing aggregation facility for AI and cloud, health, energy and space, with multi-supplier awards and the passport as defaults in every aggregated vehicle [Civilian]
- Convene buyer groups in designated fields, and attach common reference specifications and service-oriented architecture to every aggregated tender [Civilian]
- Extend EDIRPA, EDIP and SAFE into a permanent joint-procurement architecture, formed by a coalition of the willing [Defence]
- Build governance safeguards into joint purchasing bodies
- Include a European preference for strategic procurement in the ongoing review of the Defence Procurement Directive [Defence]

Member States

- Pool demand across municipalities, hospitals and universities, with the passport as the entry condition [Civilian]
- Adopt the common reference specifications and treat interoperability as an award criterion [Civilian]
- Meet the Defence Readiness Roadmap target of at least 40% joint defence procurement by the end of 2027, concentrated on the capability priorities identified at the NATO Ankara Summit [Defence]

PILLAR

03

Buy Innovation Faster

EU Institutions

Buy innovation faster by mandating the procedure, earmarking the money and putting time-to-award on the scoreboard.

- Mandate a minimum innovation-procurement quota per member state above a novelty threshold, make innovation criteria binding, and replace the Innovation Partnership with a simplified challenge route
- Reserve legally binding startup and scaleup shares in ECF and EDIP instruments, with first production orders eligible, a genuine-participation test, no consortium requirement on bidders, and reserved tracks on autonomy, AI and space
- Require award decisions below EUR 10 million within 90 days, publish time-to-award per authority, and open a route from validated prototype to production order, with multi-producer frameworks inside one award
- Manage delivery risk by contract design, with escrow, step-in rights and dual sourcing
- Open an EU open-topic programme on the AFWERX model in the EIC, mirrored for defence

Member States

- Apply the 90-day window and name a contact for new entrants in every procurement agency
- Run problem-first tenders on milestone-based agile contracts, and use Article 346 within its scope to accelerate innovation instead of shielding incumbents [Defence]

PILLAR

04

Buy Outcomes, Not Inputs

EU Institutions

Buy outcomes, not inputs, pricing the result across its life instead of the inputs in the year of purchase.

- Define managed-service, subscription and outcome-based procurement in law
- Mandate whole-life cost accounting with a common Commission methodology, require published outcome metrics above a defined contract value, and make publication of outcome and lifecycle-cost data into the Public Procurement Data Space mandatory [Civilian]
- Create a central commercial-expertise facility authorities can draw on, with AI-assisted tools for specifying outcomes

Member States

- Build a commercial-expertise track in national procurement agencies on the France AID template
- Compile reusable solution catalogues, and publish outcome and lifecycle-cost data into the Public Procurement Data Space [Civilian]

Underneath all four pillars sits the evidence gap: startups and scaleups are not a category in European procurement statistics. So, an identifier in the data space, an annual Commission report on new-entrant shares and an independent observatory are the simplest asks in this paper for EU legislators. The Public Procurement Act is negotiated in 2026 and 2027 and applies two years after entry into force. It provides for its first evaluation seven years after entry into force, so a comprehensive revision is unlikely before the mid-2030s.

Evidence Base

EU Institutions

- **Count what Europe buys, making the new entrant visible in the data before judging reform.**
- Create a startup and scaleup identifier in the Public Procurement Data Space, and set up an independent observatory on it with published outcome metrics [Civilian]
- Make connection of national data to the Public Procurement Data Space mandatory in the Act, and publish an annual Commission report on new-entrant shares by member state and category

Member States

- Publish contract-level award data in machine-readable form, below the EU thresholds, with data-quality standards enforced at publication [Civilian]

Introduction

Europe's competitiveness problem is a scaleup problem. Europe has started producing companies of global ambition, but it has not yet built the home market that turns ambition into scale. Responses to date include new funds, programmes and pilot schemes. All of which are useful, yet none of them touches the largest commercial lever the European state actually holds: public procurement.

Public buyers in Europe spend over EUR 2.6 trillion a year, around 15% of EU GDP, and startups and scaleups win roughly 1% of it.[1] Public procurement is the most important and underutilised instrument Europe has to turn startups into globally relevant companies. Unlike grants and funds, public orders validate products against real requirements, create credible reference customers and finance growth from revenue. Increasing startups' share of that funding by just 1% would inject more than EUR 25 billion into the sector annually, more than every EU innovation instrument combined.[2]

This is not just a startup problem with a startup remedy. Europe's procurement market does not function as a single market, from multi-country infrastructure programmes down to the cross-border supply of standard products. That undermines startups particularly severely because they have the least capacity to absorb the system's fixed costs, but the fragmentation is general and so is the fix. Europe still debates startup levers worth single-digit billions, from the European Innovation Council (EIC) to scaleup funds to talent visas, while sitting on over EUR 2.6 trillion of annual public demand.

The problem's true scale is unknown: Surprisingly, startups and scaleups are not a category in European procurement statistics.[3] Therefore, the estimated 1% figure above is our estimate, built from the available data from member states.[4] The closing section returns to this gap and what to do about it.

This report identifies where the system fails challengers and sets out four pillars to fix it: build a European procurement market, buy together, buy innovation faster, and buy outcomes, not inputs. Implementing these reforms will not only boost startups and scaleups but also increase resilience. A state that can buy quickly, across borders, from multiple suppliers is a state that can respond to crisis.

The report's recommendations are addressed throughout to three actors: the EU legislator, for whom the 2026 Public Procurement Act is the window; member states, who can act without waiting for it; and public buyers, for whom most of what follows is practice rather than legislation. The evidence base combines primary sources with background interviews conducted for this paper with procurement practitioners, founders, officials and researchers across member states.

[1] European Commission, DG GROW (2026). https://single-market-economy.ec.europa.eu/single-market/public-procurement_en
[2] Around EUR 19 billion a year across Horizon Europe, the Digital Europe Programme, the Innovation Fund and the European Defence Fund, excluding budget guarantees and cohesion allocations. European Commission, Horizon Europe, EUR 93.5 billion for 2021 to 2027. https://commission.europa.eu/funding-and-tenders/find-funding/eu-funding-programmes/horizon-europe_en
[3] This paper defines startups and scaleups not by headcount but by lack of entrenched incumbent status in the relevant procurement market, with growth trajectory and technological differentiation as supporting indicators.
[4] Own estimate. France, 1 to 1.4% by value, 2021 to 2023, Médiateur des entreprises, https://www.economie.gouv.fr/files/files/directions_services/mediateur-des-entreprises/PDF/4_INNOVER_ENSEMBLE/ObservatoireFrenchTech_Web.pdf. Germany, 0.7% by number of awards, 2025, Startup-Beschaffungsindex 2026, https://www.koinno.de/fileadmin/user_upload/Aktuelles/Startup_Beschaffungsindex_2026.pdf.

The European Project Began As a Common Market For Strategic Inputs

From its beginning, the European project was founded on a common framework for strategic goods. The Schuman Declaration of 9 May 1950 proposed to place the entirety of Franco-German coal and steel production under a common high authority to make war between the two countries "not merely unthinkable, but materially impossible".[5] The Treaty of Paris of 1951 turned that proposal into the European Coal and Steel Community: a common market for the two most strategic industrial inputs of the age, open to European countries willing to join.[6] The founding insight was that a common approach creates both peace and prosperity.

Over 75 years later, the strategic inputs have changed, with ever-increasing demand for software, autonomous systems, satellites, AI models, medical technology and energy infrastructure. The Union that was built on common frameworks is today home to the largest public demand in the world. But that demand is managed by over 250,000 contracting authorities across the Union, each with its own standards and approaches.[7]

Procurement is the largest strategic instrument European governments hold, but it was left outside the common market by design. Mandatory Union-wide publication is triggered only above thresholds inherited from international trade law under the WTO Government Procurement Agreement.[8] EU procurement rules therefore reach only about a quarter of the spending, an average EUR 616 billion annually, a figure that is still three times the size of the EU budget.[9] Everything below the thresholds is visible across borders only where national law leads to its publication.

The new Public Procurement Act is poised to rewrite the EU's rules. The proposal, published on 9 September 2026, is a single, directly applicable regulation under Article 114 TFEU. It replaces the three 2014 directives and, with them, twenty-seven separate transpositions. The Commission's proposal points the right way: prior public-contract experience may no longer be demanded unless the subject matter justifies it, minimum turnover is capped at half the contract's estimated annual value, and start-ups and scale-ups are named as an innovation objective. What it does not create is visibility: the data space records whether a procurement suited SMEs, but has no field for start-ups and scale-ups, or for whether a winner had supplied the public sector before.[10]

[5]Schuman Declaration (1950) https://european-union.europa.eu/principles-countries-history/history-eu/1945-59/schuman-declaration-may-1950_en
[6]Treaty establishing the European Coal and Steel Community, signed in Paris on 18 April 1951.
[7] European Commission (2023), https://single-market-economy.ec.europa.eu/single-market/public-procurement_en.
[8]European Commission, Updated thresholds announcement for Y2026/7, 2025 https://public-buyers-community.ec.europa.eu/news/updated-public-procurement-thresholds-2026-2027-adopted-european-commission
[9]European Commission, Published evaluation of EU Public Procurement Directives, (2025). https://single-market-economy.ec.europa.eu/news/commission-publishes-evaluation-eu-public-procurement-directives-2025-10-14_en
[10]European Commission (2026). Public Procurement Act, Articles 3, 106 and 130 https://data.consilium.europa.eu/doc/document/ST-12969-2026-INIT/en/pdf

Two Legal Worlds: Civilian and Defence Procurement

Unless explicitly marked otherwise, every argument and recommendation in this paper assumes the civilian regime. Asks marked [Civilian] or [Defence] apply to one regime only, and unmarked asks can be mirrored in defence where the treaty allows.

Civilian and defence procurement follow different rules. Civilian procurement is single-market law. When above EU thresholds, it is governed by the 2014 directives (to be replaced by the 2026 Public Procurement Act): tenders are published EU-wide, discrimination on nationality is prohibited, and the Commission can act as legislator, enforcer and, in designated fields, as aggregator and buyer. Defence procurement is national by treaty design. It is governed by a separate directive (2009/81/EC); member states may exempt contracts touching their essential security interests under Article 346 TFEU, and the EU itself cannot purchase weapons. The Commission can fund, stimulate and coordinate, but the customer is always the member state.[11]

Civilian and defence procurement have opposite problems. The civilian side here has a common legal market without common demand; tens of thousands of authorities buy separately. On the defence side, national demand is concentrated, but there is no common market, because each state protects its own supplier base. Article 346 gives it the legal instrument for doing so.[12]

The 2026 Public Procurement Act excludes defence procurement. Contracts within the scope of Directive 2009/81/EC stay outside it, so the defence asks in this paper target that directive, its ongoing review and the EU's defence funding instruments.[13] Directive 2009/81/EC and Article 346 remain the defence framework, which is one reason why this paper primarily targets civilian procurement.

[11]Heuninck., 'The Law of Collaborative Defence Procurement in the European Union', Cambridge University Press, 2016
[12]European Parliamentary Research Service, 'Building a common market for European defence', September 2025
[13]Directive 2009/81/EC https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0081; Article 346 TFEU https://eur-lex.europa.eu/eli/treaty/tfeu_2016/art_346/oj/eng; on the limits of EU-level purchasing in defence and the Commission's enabling role, European Defence Industrial Strategy, JOIN(2024) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:-52024JC0010

The Basics of EU Procurement

The core procurement process is largely uniform across the 250,000+ public contracting authorities in the EU. A planning cycle translates strategic needs into specifications. Then, a dedicated procurement agency or department runs a competitive procedure. Finally, a contract is awarded. This process is multi-stakeholder, multi-layer, long in timeline and diffuse in accountability. It has become slower and less competitive over the past decade due to lack of skilled labour. The average duration of an award procedure rose from 62.5 days in 2011 to 96.4 days in 2021, and the share of procedures attracting only a single bidder almost doubled over the same period, from 23.5 to 41.8%.[14]

The core process fragments across and within twenty-seven national regimes. The 250,000+ contracting authorities, including municipalities, universities, hospitals and agencies, maintain their own systems, documentation requirements and established supplier networks. This is the direct consequence of subsidiarity: Europe chose to execute procurement locally, and local execution produced local supplier networks and personal relationships that no EU directive reaches.

Spotlight: encentive, energy software. The decision not to bid. encentive builds the software that controls and optimises battery storage, photovoltaic generation and other flexible assets on a site, cutting energy costs and CO2 in measurable terms. The software is proven with industrial and commercial customers across Europe, and it would work just as well in large public buildings such as barracks, parliaments or administrative complexes. encentive has nonetheless stayed away from classical public tenders, and the reason is the procurement process itself, not the technology and not the demand.

In complex service tenders of this kind a proposal routinely means 60 to 80 pages of concept documentation, several submission rounds and a timeline of a year or more. Large incumbents keep dedicated bid teams for exactly this work, a startup does not. Many tenders are also scoped for one large provider covering everything, which rules out a company of encentive's size from the start. And most are written around a predefined solution instead of the outcome, so a software approach that delivers the result differently cannot compete at all.

The rational choice today is to invest the same sales effort in closing several industrial clients, and the public contracts stay on the table. Outcome-based, technology-open tenders scaled for startups, with qualifications that carry across agencies and member states, would change that calculation, and they would put public buildings to work for cheaper energy and for Europe's independence from imported fossil fuels.

[14] *European Court of Auditors, Special Report 28/2023, https://www.eca.europa.eu/en/publications/sr-2023-28.*

The Economics of Entering the Procurement System Exclude Startups

Market entry in public procurement is a fixed cost, which many young companies struggle to meet. AI is already collapsing elements of that cost: finding tenders, assembling documentation and drafting bids can increasingly be automated. But it cannot automate away the institutional part, legally recognised cross-border qualifications and the liability that attaches to them, leaving significant barriers that startups rarely overcome. In Italy, a construction firm can hold a third-party-attested qualification, accepted by every public buyer in the country, for roughly EUR 2,000 a year on average.[15] The difference between a EUR 2,000 annual fee and a full-time compliance hire is the difference between a market a startup can enter and one it cannot.

The specification stage typically generates further structural exclusion. Requirement catalogues of several hundred pages are often based on the incumbent's product architecture, which is unlikely to resemble a startup's innovative solution. Where price alone decides, a company selling a lower total cost of ownership, a service instead of a unit or a capability instead of a thing has no field on the form in which to say so.

Time compounds the problem. A 96.4-day award procedure and a defence acquisition cycle that runs for years are an inconvenience for a prime contractor but often lethal for a startup. The same delay that costs an incumbent a quarter of its working capital costs a challenger the company.

Mutual Recognition Already Exists, and No Market Followed

Mutual recognition and equivalence are legally enshrined but problematic in practice. The European Single Procurement Document (ESPD) lets a firm self-declare that it meets selection criteria anywhere in the EU. But the ESPD does not create recognition of the validity of the proof submitted. So the self-declaration merely defers the paperwork rather than removing it.[16] Every document must be translated, its equivalence demonstrated, and its acceptance defended by an official who expects to face the consequences of that decision personally.

A recognition mandate alone will therefore not create the market, because recognition already exists and no market has followed. Portability must be built as infrastructure, with an identifiable actor who bears the risk of relying on that proof, which today paralyses both the bidding company and the accepting official.

In defence, there is no EU-wide mutual recognition of security clearances, only a patchwork of bilateral arrangements. Article 42(1)(j) of the defence procurement directive requires member states to recognise security clearances "which they consider equivalent", and the qualifying clause is the central issue. Consequently, certifications "are currently delivered by dedicated authorities at national level and not mutually recognised … which de facto fragments the market and hampers logistics".[17]

[15] *Nicoli, F., et al (2026), https://iris.polito.it/handle/11583/3007424*
[16] *Established standard form for the European Single Procurement Document, Commission Implementing Regulation (EU) 2016/7, January 2016. https://eur-lex.europa.eu/eli/reg_impl/2016/7/oj*
[17] European Commission and High Representative, 'A New European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry', March 2024. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:-52024JC0010

The Incentive Problem

The distinction between legal liability and personal consequence impacts procurement decisions. Legal liability for procurement decisions attaches to institutions and processes rather than individuals, except in exceptional circumstances. But in practice, the official who accepts a foreign certificate whose equivalence they interpreted themselves, or who runs an unfamiliar innovation procedure, expects the career consequences to land on their own desk, whatever the statute says.

Officers' perceptions drive behaviour and create a compliance culture. In most member states, procurement is compliance administration, governed by rules detailed enough that no judgement is required. Compliance cultures administered by officers who fear the risks of procuring from a new, foreign company are highly unlikely to procure innovation because innovation is a judgement call.

Ultimately, the existing procurement system deters new entrants. The bulk of the EUR 2.6 trillion therefore flows to established local networks by default. Addressing that issue to foster innovation and give Europe's startups and scaleups the chance to compete across the EU is the purpose of the four pillars detailed below.

Pillar 01: Build a European Procurement Market

Direct cross-border procurement has barely increased since the single market was created in 1992. According to a Court of Auditors' report from 2023, nearly 30 years of market-opening legislation saw such procurement increase from roughly 2% to just 5% of all contracts.[18]

The binding constraint is qualification.[19] Tenders are published across the Union in every official language, but proof that a company is fit to bid does not travel. References, certifications, financial standing and security clearances are all re-assessed from zero in every country, and often in every procedure.

Europe does not need to create the legal right to compete across borders. It needs to create the portable proof that makes that right usable, and it needs someone to be liable for that proof. Doing so would create a competitive, pan-European market large enough for a company to prove a product and earn a reference customer.

Solution

Establish a three-layered EU digital procurement identity: register once, qualify once, compete everywhere. Companies already have a European unique identifier issued through the interconnected business registers. And the Commission has already proposed fully digital registration and once-only data transmission for EU Inc.[20] Drawing on those sources, a qualification file could be populated from data the state already holds instead of being re-collected per tender. The new EU digital procurement identity this would create would consist of three layers.

- First, documents: the digital wallet already planned in the 2026 Public Procurement Act can become a validated, centralised home for a company's qualification file. This layer should be built alongside the European Business Wallet[21] and the digital product passport under the Ecodesign for Sustainable Products Regulation[22] rather than becoming a third, non-recognised credential. It should also include a dedicated qualification category for young, product-stage companies, in which demonstrated product capability and technical references substitute for multi-year turnover and prior public-contract references. The central digital platform created by the UK Procurement Act 2023 provides an example that could be followed.[23]
- Second, equivalence: EU-authorised, publicly supervised and insured attestation bodies that map a company's national qualifications onto other member states' requirements, turning one qualification into a portable passport with legal validity.
- Third, recognition by default: the Public Procurement Act should state that a validated passport must be accepted unless an authority documents a specific, narrow ground for refusal, reversing today's default in which every proof is independently re-examined. That documentation requirement is itself the enforcement mechanism, since an undocumented refusal becomes challengeable.

[18]European Court of Auditors, (2023). https://www.eca.europa.eu/en/publications/sr-2023-28
[19]Nicoli, F. et al (2026), identifies pre-qualification as the principal bottleneck to cross-border participation, deterred by information gaps and administrative duplication rather than discrimination at the award stage. https://iris.polito.it/handle/11583/3007424
[20]European Commission (2026). Proposal for a Regulation on a 28th regime for innovative companies (EU Inc.), COM(2026) 321 final, 18 March 2026. https://commission.europa.eu/document/download/3e9822aa-8cef-40a1-904e-a53fc68e7265_en
[21]European Commission, (November 2025) https://digital-strategy.ec.europa.eu/en/library/proposal-regulation-establishment-european-business-wallets

Crucially, this requires no harmonisation of national standards. One enabling clause should suffice: authorising supervised third-party bodies to perform equivalence and qualification work across borders. The design principle should be: do not harmonise the standards, harmonise the translation layer. Member states keep their own categories, their own thresholds and their own law. What becomes European is the institution that maps one onto another and carries the liability for getting it right.[24]

Italy provides an example of how this can work in practice. It has operated delegated third-party qualification under public supervision for over twenty-five years, and its procurement code already provides for extension to services, supplies and defence.[25] The economics are modest, and the liability is real: an average cost of around EUR 2,000 a year per firm, a levy to the supervisor of 2% of each body's prior-year revenue, and mandatory professional indemnity cover of at least six times revenue.[26] The insurance requirement is the mechanism that moves the risk of relying on foreign proof off the desk of an individual official and onto an institution that is capitalised to carry it.

Under the Italian model, attestation is not certification.[27] Authorised private third parties validate the evidence a company submits against qualification requirements set in law through a documented sequence of audits and verifications.[28] The standard stays statutory and public; the verification work and the liability for getting it right are delegated.[29]

AI changes the economics of the equivalence layer. Estimates suggest that mapping a single member state's qualification categories onto another's would require roughly 200 engineers and five universities. That level of complexity explains why a full 27x27 matrix of all member states has not been built. AI reduces this to a tractable task. And once operational, the European Business Wallet is a plausible channel to carry streamlined cross-border access to public administrations more broadly. What AI cannot do, however, is assume responsibility for the consequences: accelerating equivalence determinations increases legal exposure, which must be absorbed by an insured attestation body, not the software.

[22]Regulation (EU) 2024/1781 (June 2024) establishing a framework for the setting of ecodesign requirements for sustainable products, Article 1(1) and Articles 9 to 15. https://eur-lex.europa.eu/eli/reg/2024/1781/oj/eng
[23]A key objective of the Act is to reduce the burden on suppliers by storing 'core supplier information' in one place: the central digital platform." UK Cabinet Office, Procurement Act 2023 guidance, October 2024. https://www.gov.uk/government/publications/procurement-act-2023-guidance-documents-procure-phase/guidance-central-digital-platform-and-publication-of-information-html ; Procurement Act 2023. https://www.legislation.gov.uk/ukpga/2023/54/contents
[24]On harmonising the translation layer rather than the standards, see Berdini et al, February 2026. https://iep.unibocconi.eu/publications/policy-briefs/policy-brief-n60-go-european
[25]See Ibid. and the Italian Public Contracts Code, Legislative Decree No. 36, 2023, for extending the attestation system beyond works to services and supplies by regulation. https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2023-03-31;36!vig=~art100
[26]Cost and liability figures from Berdini et al, February 2026.
[27] The attestation body is best understood as a trust intermediary rather than a translator. Its function runs in sequence: establish provenance, then authenticity, then validity, then equivalence, then the scope on which a buyer may rely.
[28]See Italian Legislative Decree No.36, 2023
[29]Ibid, specifically Article 100(10) and Annex II.12

The Defence Extension

In defence, recognition must extend beyond commercial qualification to security clearances and equipment certification. Otherwise, joint programmes will continue to certify the same equipment in every single participating state. The legal hook already exists in Article 42(1)(j) of the defence procurement directive and needs only to be inverted: recognition by default of clearances issued by another member state, with a defined national derogation, rather than recognition at each state's discretion.[30]

Spotlight: PhysicsX. One programme, two qualifications. PhysicsX is building the physics AI platform for industrials, covering engineering, manufacturing and equipment asset productivity across aerospace, defence, semiconductors, data centres, energy production, automotive and materials. Its customers are primarily large industrial organisations, which increasingly work with public sector entities, particularly in defence.

PhysicsX's experience of multinational defence programmes illustrates the challenge. Supporting a prime contractor on a major multinational programme required several months of supplier onboarding, involving that prime contractor's national defence ministry. Supporting another prime contractor on the same programme, based in a different participating country, would require a separate qualification process with a different ministry, with no recognition of the first. The result is the same software, for the same programme, qualified twice.

PhysicsX would welcome a harmonised framework, with mutual recognition between participating states, that onboards key AI software providers once across major defence and public sector programmes. This would let Europe adopt critical technologies faster while strengthening its industrial and technological leadership.

The objection is subsidiarity, and behind it is the fear that European preference is protectionism by another name. The two are connected because critics interpret a European qualification passport as a first step towards a European preference regime, even though the passport itself confers no preference. The answer is that this pillar does not change member states' separate qualification regimes; all it changes is who is allowed to translate between them and who is insured for the translation.

The second objection is more serious: a unified marketplace that reproduces twenty-seven sets of rules behind one interface solves nothing. That is why the ask is an accountable liability holder rather than a portal. Europe should use procurement to create competitive European markets, not closed national champions, because that is what brings value creation, and the jobs that follow it, back to Europe.

[30]Directive 2009/81/EC, Article 42(1)(j); on the legal architecture of collaborative defence procurement, see Heuninckx, B., 'The Law of Collaborative Defence Procurement in the European Union', 2016.

Lines of Action

EU Level:

- Write one enabling clause into the Public Procurement Act authorising supervised, insured third-party attestation bodies to perform cross-border equivalence and qualification work;
- Make recognition by default the rule and verification the exception: a validated passport must be accepted unless the authority documents a specific, narrow ground for refusal, so that an undocumented refusal becomes challengeable;
- Establish the EU digital procurement identity on an interoperability standard led by the Commission's Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW): publish an implementation roadmap within 18 months of entry into force and bring the identity into full operation on the Commission's pre-2030 timetable, interoperable with the European Business Wallet;
- Create a dedicated qualification category for young, product-stage firms, in which demonstrated product capability and technical references substitute for multi-year turnover and prior public-contract references.

National level:

- Run cross-border procurement pilots and apply the regulation without gold-plating, a risk the shift from directives to a regulation largely forecloses;
- Place a startup contact point with bid-support advisers in every central purchasing body;
- Accept the validated qualification passport as the entry ticket for every procedure;
- Recognise security clearances and equipment certifications issued by another member state by default, with a narrow, reasoned national derogation. [Defence]

Time Horizon:

- The enabling clause passes with the 2026 to 2027 legislative act.
- The attestation infrastructure is built in 2028.
- The first measurable effect on cross-border bidding appears in 2029, once the Act applies.

Targeted outcome:

- A company qualified in one member state can bid in all twenty-seven without re-proving itself;
- Cross-border participation becomes the headline metric and starts moving by 2029.

Pillar 02: Buy Together

Europe runs the largest public demand in the world through more than 250,000 separate contracting authorities.[31] This severely limits startups' prospects for growth because market entry is a fixed cost that they often struggle to pay once, let alone a quarter of a million times. Aggregation is the mechanism that turns those separate decisions into a promising market. Not all of that demand can be pooled, however. Spending published at EU level shows what is centrally visible, not what could be bought together, because it spans very different goods, services and levels of government.

Joint procurement is best understood as a synthetic EU budget. The Union's own budget is capped near 1% of gross national income.[32] Joint procurement aggregates national money into a single demand signal without moving a euro to Brussels.[33] Aggregation is a purchasing decision with conventional returns: better prices through buyer power, coherent capability planning across states, and a domestic growth case, because a European reference customer allows a supplier to scale in Europe before competing internationally.[34]

Solution

Europe does not need to centralise procurement in order to aggregate it. What is needed is a standing capacity to pool demand wherever buyers want the same thing: framework contracts tendered once on behalf of many authorities, Commission-coordinated buyer groups in the fields where the Commission may already aggregate, and joint purchasing bodies where member states choose to build them. The design question is how challengers get in, because aggregation done badly risks simply handing bigger contracts to the same incumbents. Every aggregated vehicle should therefore carry two features by default: multi-supplier awards, so that one procurement can seed several producers, and the qualification passport of Pillar 1 as its entry ticket.

Coordination remains challenging within existing institutional infrastructure. The legal basis for buying together across borders already exists, including rules on which member state's law governs a joint award.[35] What is missing is the capacity to convene buyers, hold the pen on a common specification and manage the contract once it is signed. Joint vaccine purchasing worked, but through an emergency instrument and under an urgency that cannot be legislated for. The routine version looks more like the joint tender that the Estonian, Latvian and Lithuanian passenger operators launched in March 2026 for up to 20 Rail Baltica regional trains.[36] Aggregation therefore needs standing capacity, because a permission nobody is resourced to use produces no aggregated demand.

The soft form of joint procurement is common standardisation. Where authorities cannot buy together, they can specify together: common interfaces, modular and service-oriented architectures, and reusable reference specifications. Doing so would mean that one authority's evaluation work is available to the next and a product built for one buyer runs for all of them. Without common interfaces, portability stays theoretical and every award locks in one vendor, thus keeping challengers out. Standardisation costs almost nothing, threatens no competence and creates the conditions aggregation needs: demand that is expressed the same way twice. Letta has already supplied the formulation to build on: interoperability as a procurement criterion.[37]

Data is a key lever. Procurement data is critical market intelligence, but across Europe it is normally treated as an administrative by-product. Contract-value data is currently neither reliable nor comparable across member states, yet every reform proposed here depends on it.[38] Recognition by default presupposes verifiable track records; a European preference criterion is unenforceable by a municipal officer with no central registry, beneficial-ownership data or performance records; aggregation presupposes knowing who buys the same thing. Ukraine's Prozorro system shows the payoff: built on the Open Contracting Data Standard, it produced an estimated USD 6 billion in savings[39] by end of 2020 and generated a private analytics ecosystem, including tools that score every tender in real time, that no ministry commissioned.[40]

The EU has begun the plumbing, structured eForms mandatory since October 2023 and the Public Procurement Data Space (PPDS) launched in September 2024, but the design flaw is voluntariness. Member states connect their data at their own initiative and cost, and the roughly 80% of contracts below EU thresholds are covered only where national law chooses to publish.[41] A data space the data may not reach will reproduce the scoreboard it replaces, only faster. Voluntary EU data-sharing schemes have failed before because participation was left optional; the Data Space risks the same fate unless the Act makes connection mandatory.[42]

The Defence Case

In defence, the argument inverts and strengthens. Without a single market to fragment, aggregation cannot be inferred from existing law. Therefore, it must be built. And it can be built by the willing, because there is no pre-existing market whose rights a coalition would infringe. EDIRPA, EDIP and SAFE prove the demand for common purchasing, but all three are crisis instruments with end dates. Aggregated cross-border demand should be given a standing home, extending the EDIRPA, EDIP and SAFE logic beyond crisis into permanent infrastructure.[43] Buy together and, whenever possible, buy European. EDIRPA, EDIP and SAFE already tie EU-supported common purchases to European content. The ongoing review of the Defence Procurement Directive (2009/81/EC) is the moment to carry that logic into the framework itself, with a European preference for strategic procurement.

Concentration creates new risks and trade-offs. Aggregating demand aggregates the return on influence, so centralisation can raise the payoff for lobbying.[44] The answer is providing contract-level award data, disclosing beneficial ownership, and rotating and separating duties in any joint purchasing body.

Aggregation also raises concerns about the death of local ecosystems, i.e., the plurality of regional supplier bases that Europe's decentralised system also sustains. That trade-off should be accepted openly and managed through multi-supplier frameworks and reserved challenger lots. Where full joint procurement proves politically difficult, a lighter first step is a matchmaking mechanism that coordinates administrations wanting the same solution without requiring a single joint procedure.

[31]European Court of Auditors, (2023), https://single-market-economy.ec.europa.eu/single-market/public-procurement_en.
[32]Council Regulation (EU, Euratom) 2020/2093, 2020 http://data.europa.eu/eli/reg/2020/2093/oj.
[33]See Nicoli, F. and Beetsma, (2024), on the effectiveness gains, monopsony power and single-market benefits of joint purchasing without expanding the EU budget. https://www.bruegel.org/policy-brief/joint-public-procurement-tool-european-union-industrial-policy
[34]OECD,(2025), https://www.oecd.org/en/publications/implementing-the-oecd-recommendation-on-public-procurement-in-oecd-and-partner-countries_02a46a58-en/full-report/implementation-of-the-oecd-recommendation-in-member-and-partner-countries_2305bb1b.html
[35] Directive 2014/24/EU, Article 39. https://eur-lex.europa.eu/eli/dir/2014/24/oj/eng
[36]Rail Baltica (2026). Baltic passenger train operators announced joint procurement of Rail Baltica regional trains. https://www.railbaltica.org/news/baltic-passenger-train-operators-announced-joint-procurement-of-rail-baltica-regional-trains/
[37]Letta, "Much more than a market", April 2024, https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf.
[38] Cernat, L., Guinea, O. and Preuss, H., (2025), finds that only 10% of total EU defence spending is captured in TED; on the information gaps deterring cross-border participation, Granickas, K. et al. (2026), as referenced in Berdini, Granickas, Hafner and Nicoli, (2026). https://ecipe.org/publications/openness-and-fragmentation-in-eu-defence-procurement/
[39] Open Contracting Partnership, https://www.open-contracting.org/impact-stories/impact-ukraine/ ; on the standard underlying the platform, European Commission (Interoperable Europe), (2017) https://interoperable-europe.ec.europa.eu/collection/eprocurement/document/prozorro-public-procurement-platform-spreads-its-wings-prozorro
[40] The standard is getting implemented already: Germany, Italy, France and the United Kingdom have each begun publishing procurement data to OCDS on their own initiative, so the Union's task is to converge on a standard that already exists rather than to invent a new one
[41] Commission Implementing Regulation (EU) 2019/1780, (2019); EU commission Communications, (2023) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023XC0316(02)
[42]It requires information on concluded contracts worth EUR 10,000 or more to reach the national data spaces, but publication of open competitions below the thresholds stays voluntary.# Connection should therefore be mandatory for open competitions as well as for concluded contracts.
[43] EDIRPA: EUR 300 million, applicable until 31 December 2025. https://eur-lex.europa.eu/eli/reg/2023/2418/oj/eng. EDIP: Regulation EUR 1.2 billion plus EUR 300 million for Ukraine, running to 31 December 2027 http://data.europa.eu/eli/reg/2025/2643/oj. SAFE: EUR 150 billion in loans, loan availability ending 31 December 2030. https://eur-lex.europa.eu/eli/reg/2025/1106/oj/eng
[44]On the governance requirements of joint purchasing bodies, see Nicoli and Beetsma, (2024) https://www.bruegel.org/policy-brief/joint-public-procurement-tool-european-union-industrial-policy.

Lines of Action

EU Level:

- Legislate a standing aggregation facility for the civilian strategic categories (AI and cloud, health technology, energy infrastructure and space), operating through multi-supplier framework contracts open to qualified challengers;
- Make two features the default in every aggregated vehicle: multi-supplier awards, so that one procurement can seed several producers, and the Pillar 1 qualification passport as the entry ticket;
- Convene Commission-coordinated buyer groups in the fields where the Commission may already aggregate, and attach common reference specifications and service-oriented architecture requirements to every aggregated tender;
- Build governance safeguards into joint purchasing bodies: contract-level award data, beneficial-ownership disclosure, and rotation and separation of duties;
- Extend EDIRPA, EDIP and SAFE into a permanent joint-procurement architecture, giving aggregated cross-border demand a standing home, built by a coalition of the willing and open to later joiners. [Defence]
- Write a European preference for strategic procurement into the ongoing review of the Defence Procurement Directive (2009/81/EC), so that aggregated European demand also builds European supply. [Defence]

National level:

- Pool demand regionally across municipalities, hospitals and universities through shared framework contracts, with the qualification passport as an award criterion;
- Adopt the common reference specifications and treat interoperability as an award criterion.
- Meet the Defence Readiness Roadmap target of at least 40% joint defence procurement by the end of 2027, concentrated on the capability priorities identified at the NATO Ankara Summit.[45] [Defence]

Time horizon:

- Buyer groups and reference specifications launch under existing authority inside 12 months.
- The standing facility is legislated with the 2026 to 2027 package.
- The first aggregated awards land in 2028.

Targeted outcome:

- A European demand signal large enough to justify a challenger's fixed cost of entry, expressed once instead of 250,000 times.

[45] European Parliamentary Research Service (2026). EU joint defence procurement, citing the Defence Readiness Roadmap 2030. https://www.europarl.europa.eu/RegData/etudes/BRIE/2026/785665/EPRS_BRI(2026)785665_EN.pdf; NATO (2026). The Ankara Summit Declaration. https://www.nato.int/en/about-us/official-texts-and-resources/official-texts/2026/07/08/the-ankara-summit-declaration

Pillar 03: Buy Innovation Faster

EU innovation procurement instruments exist but are barely used. Innovation procurement comes in two categories. Pre-commercial procurement finances research and development and is the instrument for needs that are still far from a market-ready solution. The procurement of innovative solutions buys the first deployment at scale of something that exists but has no track record. Both sit before the point at which a normal tender for a known product becomes possible.[46]

Innovation procurement accounts for roughly 10% of EU procurement expenditure, against a benchmark of at least 20% set by the Commission's expert group. The Commission's assessment is that innovation procurement is "underutilised in Europe".[47] The Innovation Partnership procedure, created by the 2014 directives as the flagship route to buying something that does not yet exist, was used only 173 times across the entire EU and EEA between 2016 and 2022, and the annual count fell during that time.[48]

Increasing innovation procurement would favour challengers and promote their growth. Pre-commercial procurement awards 71.5% of contract value directly to SMEs (86% once indirect awards are included), against an average of 29% across European public procurement as a whole.[49] Not all SMEs are startups, but that data shows that when a public buyer procures the development of a solution instead of the delivery of a known product, smaller suppliers take most of the money. Pre-commercial procurement is also more expensive to run and demands more of buyers than a standard tender, which is why it is rarely used despite the advantages it offers to challengers.

Startup-specific data from Germany supports the above argument. Only 4% of German startups have ever bid for a tender carrying functional criteria, which is the single procurement design best suited to them.[50] Therefore, the instrument that works for challengers is the one they almost never encounter.

The evidence suggests that the instruments fail because they are too complex. A national defence ministry official interviewed for this paper reported that the Innovation Partnership procedure creates too many opportunities for procedural mistakes for which an official can be sued. The low share of contracts is a rational response to a badly designed instrument by officials who bear its risks personally.

[46] See OECD, (2024): "in the cases of pre-commercial procurement (PCP) and innovation partnership (IP), the R&D is financed within the procurement process... This method is suitable when the public institution needs to create new solutions far from being market-ready". https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/12/public-procurement-for-public-sector-innovation_93d920fc/9aad76b7-en.pdf

[47] European Commission, "Innovation procurement", (2024): "compared to other parts of the world, PCP and PPI are underutilised in Europe". https://research-and-innovation.ec.europa.eu/strategy/support-policy-making/shaping-eu-research-and-innovation-policy/new-european-innovation-agenda/innovation-procurement_en

[48] European Commission 2024 update report, based on TED data https://public-buyers-community.ec.europa.eu/resources/innovation-partnerships-between-2016-2022

[49] European Commission (2023) https://digital-strategy.ec.europa.eu/en/news/impacts-eu-funded-pre-commercial-procurements

[50] Krieger, B., Füner, L. and Prüfer, M., (2024). https://www.zew.de/fileadmin/FTP/dp/dp24072.pdf

Spotlight: ICEYE, defence and government. Facing procurement cycles of decades - successfully delivering within a year. The barrier is often the same: national procurement tends to take time. However, there are examples where innovative companies, and a focus on product instead of programme meet strong national commitment resulting in speedy procurement. In 2025, ICEYE delivered a fully operational sovereign satellite constellation to the Polish Armed Forces, contracted in less than one year through the Polish Armaments Agency. It is one of many sovereign constellations the company has delivered to European governments. Its systems are built to be fielded and used now, which is the standard the war in Ukraine has set for every European army. However, in some member states procurement has yet to catch up.

Most approval layers and planning cycles were built for a different era, when decisions were made once a decade and procurement programmes were meant to run for years. ICEYE brings to the table a product oriented approach: proven systems are delivered, and upgraded, within a single year. That approach is cutting real costs putting an end to a sustained administrative burden, months of senior leadership and legal time spent on paperwork. The lesson learned for the EU is clear: when possible, follow a product based approach and design the procurement process accordingly.

European startups that survive to produce prototypes face a second "valley of death" as they move towards series production. Research and development is exempt from procurement rules, but buying the resulting product requires a full, fresh procedure. So, public money pays for the prototype and stops at the point where a first order would create a company. Startups with demonstrated, field-tested products cannot raise production finance without order books, and they lack order books because member states buy off the shelf. Therefore, current EU funding carries companies into the second valley of death and leaves them there.

The next multiannual financial framework (MFF) will determine whether the second valley gets a bridge or a bigger sign. In July 2025, the Commission proposed to pool fourteen spending programmes into a European Competitiveness Fund of EUR 234 billion, EUR 409 billion together with Horizon Europe, with a defence and space window of EUR 131 billion and the declared purpose of a seamless investment journey from research to startup, scale-up, deployment and manufacturing.[51] The solution proposed below explains how that aspiration can be turned into a reality.

Mandate the procedure, earmark the money. Experts interviewed for this paper were divided on whether to use mandates or regulation to change behaviour. One view was that only mandates work, because a risk-minimising official will never voluntarily choose an unfamiliar procedure. The other was that regulation has consistently underperformed funding incentives: the 2009 defence procurement directive was judged a failure by the Commission and the Parliament alike, while funding instruments such as SAFE were oversubscribed almost immediately.[52]

[51]DG GROW, https://single-market-economy.ec.europa.eu/access-finance/european-competitiveness-fund_en
[52]European Commission, Evaluation of Directive 2009/81/EC, and the European Parliament's corresponding assessment, (2025) https://www.europarl.europa.eu/thinktank/en/document/EPRS_STU(2020)654171, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52016SC040

Both readings are correct about different levers, and the resolution should be to use them together. Mandating a minimum share of innovation procurement obliges the buyer to act. Setting aside a legally reserved share of every new funding instrument for startups and scaleups makes acting attractive. Neither works alone: a mandate without money produces compliance theatre; money without a mandate is absorbed by the incumbents who already know how to apply for it. The contrast with the United States is instructive: American defence procurement has been used deliberately to create challengers and innovation, while European practice has tended to support incumbents and business as usual.

There is a real opportunity to learn from what is already working well elsewhere. US agencies with large research budgets must reserve 3.2% of extramural R&D for the Small Business Innovation Research programme, and since 2018 the Department of Defense alone has awarded USD 38 billion in SBIR and STTR contracts to small companies.[53] Other Transaction agreements, which let it contract for prototypes outside the normal procurement system, reached USD 18 billion in FY2024, with 93% of awards involving non-traditional defence contractors.[54] Europe can move too. In France, the share of defence spending reaching small and mid-sized companies rose from 14% in 2022 to 25% in 2024 after the defence procurement agency strengthened its action plan for them.[55]

The negotiation of the European Competitiveness Fund (ECF) through 2026 and 2027 offers an opportunity to reach new entrants rather than the incumbents who already know how to apply. Two key procurement decisions will determine whether that opportunity is taken. The first is setting a legally binding startup and scaleup share in every ECF and EDIP instrument, verified against a genuine-participation test. Where a consortium claims a startup share, the smaller partner's technical work packages and intellectual property must be identified in the award and verified ex post. The second is confirming the eligibility of first production orders, not only research and development, so that public money no longer stops at the point where a first order would create a company.

Three design choices translate directly into European asks: publish the problem rather than the specification; hold a fixed set-aside of research budget by statute; and treat time-to-award as the headline performance metric of the procurement system rather than as an administrative footnote. A tripling of throughput and a tripling of new-entrant share came from procedure design, not from money. The US evidence points the same way. Open-topic SBIR awards, introduced by the US Air Force in 2018 and run through AFWERX, raised small firms' later sales to the Department of Defense, their patents and their venture funding, while conventional SBIR awards had no significant effect on sales.[56]

The Defence Extension

The "second valley of death" problem identified above is especially evident for startups in the defence sector. BraveTechEU,[57] a specialised grant programme designed to help defence tech startups move from early prototypes into mass production, allocated EUR 35.3 million within an EDIP envelope of EUR 1.5 billion for 2025 to 2027. At the same time, SAFE makes up to EUR 150 billion in loans available, with no startup provision in the instrument at all.[58] Europe has committed more than four thousand times more capital to lending member states money to procure military equipment than to helping new entrants survive the gap between prototype and production.

[53]Small Business Act, 15 U.S.C. 638(f); Kapstein, E., Ospital, J. and Wolff, G. (2026). Reforming European defence procurement to boost military innovation and startups, Bruegel Policy Brief 04/2026. https://www.bruegel.org/policy-brief/reforming-european-defence-procurement-boost-military-innovation-and-startups

Again, the ECF provides an opportunity to implement a solution. The Commission's July 2025 proposals to pool spending programmes into that fund included a defence and space window of EUR 131 billion.[59] Setting a legally binding startup and scaleup share for that money and confirming the eligibility of first production orders would ensure that innovation in the defence sector is supported with funding.

Lines of Action

EU Level:

- Mandate a minimum innovation-procurement quota per member state in the Public Procurement Regulation, above a defined novelty threshold, building on the Commission expert group's 20% target;
- Make innovation criteria binding, and retire the Innovation Partnership as the default instrument in favour of a simplified challenge route;
- Reserve legally binding startup and scaleup shares in every new EU funding instrument, including the ECF and EDIP, with first production orders eligible alongside research and development;
- Attach design conditions to every set-aside: a genuine-participation test that identifies the smaller partner's technical work packages and intellectual property in the award and verifies them ex post; no supplier-side consortium requirement; and reserved tracks concentrated on emerging capability categories — autonomy, AI applications and space services — where no incumbent architecture is yet entrenched;
- Require award decisions below EUR 10 million within 90 days, and publish time-to-award per contracting authority;
- Open a legal route from a publicly funded, validated prototype to a production order without a fresh full procedure, with multi-producer framework contracts carrying several suppliers inside one award;
- Manage delivery risk by contract design rather than by excluding young suppliers: milestone-based agile contracts that let scope move without a new procedure, escrow of source code and design data, step-in and continuity rights, and dual sourcing for critical capabilities;
- Establish an EU open-topic programme on the US Air Force's AFWERX model, housed in the EIC for civilian applications and mirrored for defence.

National level:

- Apply the 90-day decision window and name a point of contact for new entrants in every procurement agency;
- Run problem-first tenders on milestone-based agile contracts, publishing the problem rather than the specification;
- Use Article 346, within its defence-and-security scope, to accelerate innovation rather than to shield incumbents. [Defence]

Time horizon:

- Quota and set-asides pass with the 2026 to 2027 legislative package.
- The open-topic pilot launches inside 12 months under existing EIC and EDIP authority.
- Time-to-award falls measurably by 2028.

Targeted outcome:

- Startups and scaleups take a significantly larger share of innovation funding;
- Time-to-award becomes a published performance metric of the procurement system.

[54]US Department of Defense. Other Transactions for Prototype Projects, Report to Congress FY2024. https://www.acq.osd.mil/asda/dpc/cp/policy/docs/pa/DoD%20OT%20for%20Prototype%20Reports%20to%20Congress%20FY2024.pdf
[55]Kapstein et al. (2026), citing Direction générale de l'armement, press release of 18 June 2024. https://www.bruegel.org/policy-brief/reforming-european-defence-procurement-boost-military-innovation-and-startups
[56] Kapstein et al. (2026), citing Howell, S. et al. (2021). https://www.bruegel.org/policy-brief/reforming-european-defence-procurement-boost-military-innovation-and-startups
[57] DG Defence Industry and Space, (2025) https://defence-industry-space.ec.europa.eu/eu-defence-industry/edip-forging-europes-defence_en.
[58] EU council regulation 2025/1106, (2025), https://eur-lex.europa.eu/eli/reg/2025/1106/oj/eng
[59]EU commission budget data https://commission.europa.eu/topics/budget/eu-budget-2028-2034-explained/protecting-europe_en

Pillar 04: Buy Outcomes, Not Inputs

European public buyers procure things: time, material, licences; they do not procure outcomes. Any innovation that reduces the number of things needed is structurally locked out. Requirement catalogues presuppose the incumbent product architecture, and whole-life cost accounting is largely absent. The OECD reports that, as of 2022, twelve of its adherent countries had no methodology for estimating full lifecycle costs, which means the question is not whether buyers weigh lifecycle cost correctly but whether they can compute it.[60] Lifecycle costing has been legally available in EU procurement since 2014.

The absence is measurable. In eight member states, more than 80% of contracts are still awarded on lowest price alone, and the Court of Auditors found that the share of procedures using any award criterion other than price remains "very limited" despite the 2014 reforms.[61] Consequently, a startup selling a managed service, a subscription, an outcome or an avoided cost is competing in a category that does not exist on the form in Europe.

Spotlight: the three framework problems, named by a supplier. Doccla is building Europe's leading AI-powered Proactive Care Service capable of keeping people well at home, preventing unnecessary hospital admissions and taking pressure off local health systems. They are working across the English, Scottish and Irish health services in addition to a growing presence in Germany. Our services are procured by public bodies, usually through established procurement frameworks. These frameworks suffer from three key problems: the length of the buying cycle, over-specification and a poor focus on value. Typically the full buying cycle is over six months, which imposes costs on suppliers and increases uncertainty. Procurements are often highly specified, reducing the scope for innovation. Finally, these frameworks often focus mainly on cost or price. Doccla is trying to link payment to delivering value (outcomes/cost). However, current purchasing approaches struggle to permit risk/gain-sharing arrangements even if these would benefit health services. Value-based procurement would unlock a much better way to contract with companies like Doccla.

[60]OECD (2025) https://www.oecd.org/en/publications/implementing-the-oecd-recommendation-on-public-procurement-in-oecd-and-partner-countries_02a46a58-en/full-report/implementation-of-the-oecd-recommendation-in-member-and-partner-countries_2305bb1b.html
[61]European Court of Auditors, Special Report 28/2023,(2023) https://www.eca.europa.eu/ECAPublications/SR-2023-28/SR-2023-28_EN.pdf

Solution

Lifecycle and outcome-based contracting as the default for services and digital procurement should be introduced as a deliberate ladder. Managed services and subscriptions are not yet outcome contracts; they price inputs on a recurring basis, but they are the bridge: they move a buyer from owning units to buying availability. The genuine outcome contract is the destination, in which payment scales with a result actually achieved, such as a throughput, an avoided cost or a clinical improvement.

Outcome-based contracting requires a buyer capable of defining an outcome, pricing risk and managing a supplier relationship over years. That is a commercial skill, and most European contracting authorities are staffed for compliance rather than commerce. Many also simply lack the technical grounding to specify an outcome in measurable terms, so some of this specification work will itself need central support, plausibly through the Public Procurement Data Space.

A small, well-paid commercial cadre inside each central purchasing body, with the authority to make and defend judgement calls, is the cheapest available intervention here. Capacity is the binding constraint. Authorities that already have commercial capability buy outcomes today, and a mandate adds nothing to their ability to do so. Authorities that do not have that capability will not acquire it by being obliged to try. Sequencing the commercial cadre ahead of the obligation is therefore the condition that will make the obligation work.

Outcome metrics can be defined badly and gamed, and transition is hard for authorities that have bought inputs for decades. The answer is sequencing. Start where outcomes are already measured, which is health and digital services. Then, publish the metrics so that gaming is visible. Next, build commercial capability before extending the obligation.[62] A phased rollout with published data is defensible. A universal mandate imposed on authorities without commercial staff is not.

[62]The sequencing logic has a published defence-side counterpart: Cernat, L., Guinea, O. and Preuss, H., Openness and Fragmentation in EU Defence Procurement, ECIPE Policy Brief No. 20/2025, December 2025, recommend breaking home bias first in non-sensitive procurement categories, building institutional capability before extending reform to sensitive programmes.

Spotlight: Mistral, sovereign AI. Delivering public value through AI.

Mistral's work with the Government of Luxembourg illustrates how AI can deliver tangible public value through iterative development. Citizens and legal experts in Luxembourg had been navigating fragmented and sometimes unreliable sources of legal information, which bred confusion among non-specialists and left a heavy administrative burden on the public bodies fielding their questions.

The Government of Luxembourg set out to give every citizen reliable access to legal knowledge directly through the government website, and within three months Mistral delivered a retrieval-augmented generation agent that answers legal questions and is fully integrated into that website. It was co-built with legal experts to guarantee relevance, accuracy and safety, it now serves as a single point of contact for experts and citizens alike, it supports over 600,000 users a year, and it has measurably improved administrative processes.

The deployment demonstrates clear public-sector value. Making such applications more widely available requires procurement frameworks that accommodate iterative AI development. Most public procurement frameworks are designed to acquire mature, off-the-shelf products with guaranteed, predictable outcomes, and they rarely accommodate research and development driven projects. Artificial intelligence is fast-moving and still emerging, so committing to fixed results at the outset is inherently difficult, and meaningful progress depends on iterative development, experimentation and discovery.

Where procurement frameworks lack this flexibility, the mismatch can limit opportunities, reduce delivery agility and erode margins, particularly where Mistral is required to operate as a subcontractor instead of a prime technology partner, and it forces a significant educational effort in the pre-sales phase to explain why AI projects are approached without hard commitments to results.

For procurement frameworks to unlock the full potential of AI in the public sector, they must recognise iterative, research and development based delivery as legitimate and complementary to traditional off-the-shelf purchasing. Buying outcomes means setting clear public-service objectives and linking payment to measurable milestones, while allowing the technical approach to evolve through development and testing.

Lines of Action

EU Level:

- Define managed-service, subscription and outcome-based procurement in law;
- Mandate whole-life cost accounting in evaluation above a threshold, and issue a common Commission methodology so that authorities can compute it;
- Extend the standard contractual clauses beyond AI to managed services;
- Require published outcome metrics above a defined contract value, so that gaming is visible;
- Create a centralised commercial-expertise facility that national and regional authorities can draw on where domestic capacity is thin, paired with AI-assisted tools that help authorities specify outcomes directly;
- Mandate publication of outcome and lifecycle-cost data into the Public Procurement Data Space.

National level:

- Build a commercial-expertise track inside national procurement agencies on the template of France's Agence de l'innovation de défense (AID), phased in through health and digital, with the cadre in place before the obligation binds;
- Compile reusable solution catalogues so that one authority's evaluation work is available to the next;
- Apply whole-life cost in evaluation;
- Publish outcome and lifecycle-cost data into the Public Procurement Data Space.

Time horizon:

- Methodology and contractual clauses pass with the 2026 to 2027 package.
- Commercial cadres are recruited during 2027.
- The first outcome data is published in 2029.

Targeted Outcome:

- A category on the form for companies that sell results, and outcome data public enough that gaming is visible.

Where to start: Count What Europe Buys

Europe is running its largest-scale-up lever blind. Startups and scaleups are not a category in European procurement data. More than half of the experts approached for this paper said, unprompted, that no reliable literature or dataset exists on how startups and procurement interact. One researcher had to negotiate access to restricted national records because startups do not exist as a class in the official statistics.

The 1% share of public spending reaching startups and scaleups cited throughout this paper is the best available estimate, and the fact that it must be estimated is itself a finding. Startups and scaleups are invisible in the data for the same reason they are rare in the contracts: no one is required to look for them. The ask here is simple and relatively low-cost: mandatory connection of national procurement data to the Public Procurement Data Space, a startup and scaleup identifier within it, an annual Commission report on new-entrant shares by member state and category, and an independent observatory able to analyse the results.

The machinery itself is older than the Union. The gap in the data has a deeper cause than reporting. The procedural core of public procurement, the sealed competitive tender, the written specification and the formal equivalence of documents, descends from rules designed some 200 to 250 years ago for a paper world. It has never been institutionally rethought since. Digitisation, where it has arrived, has merely been laid on top of that inheritance as an efficiency layer. What has not happened anywhere in Europe is a redesign of the process itself for a state that can, with modern data and AI, understand market conditions in real time, discover suppliers it has never met, and pool demand across borders before a tender is ever written.

Today the rules constrain the technology before it can be applied. The recommendations in this paper are written for the near-term window of the 2026 Act. The data infrastructure asked for is the first, cheapest step of the redesign; the redesign itself is the work of the decade that follows.

Lines of Action

EU Level:

- Create a startup and scaleup identifier in the Public Procurement Data Space, so that new-entrant shares can be measured;
- Make connection of national procurement data to the Public Procurement Data Space mandatory in the Act, ending the voluntary design;
- Publish an annual Commission report on new-entrant shares by member state and category;
- Set up an independent procurement-data observatory on the data space infrastructure, able to analyse the published outcome and lifecycle-cost data.

National level:

- Publish contract-level award data in machine-readable form, extending below the EU thresholds, with common data-quality standards enforced at publication.

Time horizon:

- The identifier, the mandatory connection and the publication obligation pass with the 2026 to 2027 legislative package.
- The observatory builds on infrastructure that already exists: eForms mandatory since October 2023, the data space live since September 2024.

Expected Result:

- Startups and scaleups become a measured category in European procurement data, replacing the estimated 1% with published new-entrant shares by member state and category.

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