

Sustainable Public Procurement: Briefing Note

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Sustainable Public Procurement

Sustainable Public Procurement (SPP) is receiving an increasing amount of attention as a consequence of a rise in environmental, social, and economic challenges both in developed and in developing countries. Public procurement represents approximately 15 % of GDP in OECD countries and up to 25-30 % of GDP in developing countries, and governments progressively use this purchasing power to drive markets towards innovation and sustainability, leading by example to deliver key policy objectives.

The purpose of this briefing paper is to provide a contribution to the procurement community that enhances dialogue by providing a current understanding of SPP and to share approaches in the area of SPP, which could be adapted to the respective regional, national or local context.

Public procurement and sustainable development

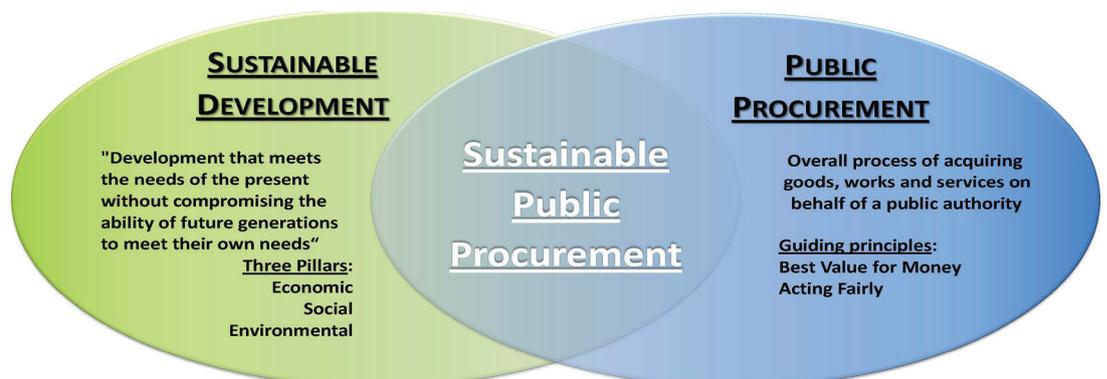
Public procurement is in essence a question of matching supply and demand, just as with any private procurement procedure. Public contracting authorities however, have to exercise special caution when awarding contracts, because they handle public funds and are accountable to tax payers. Procurement laws, which define the rules and procedures to be followed, are therefore generally based on two guiding principles: *Best value for money*¹ to ensure cost-efficiency

through competition and *acting fairly* to ensure a level playing field for market participants by applying procedures that safeguard non-discrimination, equal treatment, transparency, and proportionality. Over the years, procurement legislation and practices have been continuously refined worldwide to keep up with best practices and innovation. This is particularly the case in developing countries and recent publications of the OECD-DAC Task Force on Procurement demonstrate the progress that has been made in strengthening national procurement systems by following a structured approach to procurement reform and capacity development.

Parallel to this development, it has become increasingly clear among policy makers that public procurement can play a much more strategic role, and that specifically, it can contribute to achieving sustainable development goals. The Johannesburg Plan of Implementation of the 2002 World Summit on Sustainable Development encourages public procurement practices that stimulate development and diffusion of environmentally sound goods and services. It also promotes the integration of the three components of sustainable development – economic development, social development and environmental protection – as interdependent and mutually reinforcing pillars. Based on this commitment, the OECD, the

¹*Best value for money does not necessarily mean going for the cheapest offer but to get the best deal within the parameters set. Subject to the applicable procurement legislation, this can include environmental and social considerations.*

Sustainable Development based on definition of the World Commission on Environment and Development (WCED) and Public Procurement



European Commission, many governments as well as international organizations are increasingly implementing strategies to use public procurement to achieve environmental goals or social justice, effectively institutionalizing Sustainable Public Procurement.

■ What is sustainable procurement?

Sustainable procurement builds on the principles and good practices of “traditional” procurement and considers additional factors to maximize social, environmental and economic benefits for the procuring organization, its supply chain and society as a whole. The mostly cited definition is:

“Sustainable procurement is a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy whilst minimizing damage to the environment.” Defra (2006), UK Sustainable Procurement Task Force².

In other words, Sustainable Public Procurement integrates:

- **Economic factors:** which include the cost of products and services over their entire life time as well as cost for society as a whole to ensure real value for money over the longer term (“Whole life costing, WLC”);
- **Environmental factors** to reduce the environmental impact of goods, works, and services (impacts on health and well being, air quality, generation and disposal of hazardous material) and to minimize the use of resources (reduce, recycle, reuse) throughout the supply chain (also referred to as “green procurement”³).
- **Social factors:** which include recognizing equality and diversity; observing core labor standards; ensuring fair working conditions; increasing employment and skills; and developing local communities (also referred to as “socially responsible procurement”)

²<http://www.defra.gov.uk/publications/files/pb11710-procuring-the-future-060607.pdf>

³Green Public Procurement is defined by the European Commission as “a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured” <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0400:FIN:EN:PDF>

■ What are the potential benefits of procuring sustainably?

The benefits of SPP can be manifold and often they are mutually reinforcing. For example, green technologies can generate economic benefits (job and wealth creation), social benefits (employment, skills development) and environmental benefits (more efficient use of resources).

Potential economic benefits

Financial savings: Reduced total cost for purchase, use, maintenance and disposal by using WLC. In some cases even upfront cost for sustainable products are lower due to sustainable production processes. Cost for societies caused by pollution, global warming, etc. can also be reduced (externalities).

Driving markets to more innovative solutions: SPP can drive markets to shift more rapidly to cleaner technologies resulting in the generation of income, improved competitiveness of suppliers nationally or internationally, and ultimately lowering cost/prices due to economies of scale.

Increased access to markets: Promotion of small and medium-sized companies, supplier diversity.

More indirectly, by promoting SPP, public authorities can demonstrate responsible governance and improve their public image and legitimacy. They can mitigate risks and better respond to public pressure groups as well as lead by example, raising consumer awareness about the environmental and social implications associated with different types of purchases and promoting behavioral change.

Potential social benefits

Improved compliance with social and labor law: Compliance with provisions of the basic ILO Conventions which ban forced labor and child labor, establish right to freedom of association and collective bargaining, and non-discrimination in terms of employment and occupation.

Improved living conditions: Promoting voluntary social standards such as Fair Trade, Poverty alleviation.

Improved social justice: Integration of people with disabilities or improved gender and ethnic equity.

Potential environmental benefits

Contributing to meeting environmental challenges: Responding to climate change, soil degradation, biodiversity loss, access to fresh water, etc.

Contributing to achieving binding targets: Reduction of greenhouse gas emissions, energy efficiency, national environmental objectives.

Local environment - Example By providing non-toxic cleaning products, create healthier conditions for school children or by using low-emission buses, improve local air quality.

■ A glance at sustainable procurement initiatives

Sustainable public procurement is increasingly being implemented as a policy instrument to support national, regional and international policies and programs aimed at promoting sustainable development. The **European Union** has adopted a range of legal and policy instruments to enable the consideration of environmental and social criteria in public procurement in EU and has set ambitious targets for its member states. While the initial program has focused on environmental criteria, a growing number of member states is using or considering the inclusion of social criteria (France, UK, Netherlands, Austria, Germany, Belgium). Similar frameworks have been developed in **Australia, United States and Japan**. There are also many SPP initiatives at the **local government level** and ICLEI (Local Governments for Sustainability), a non-profit association of over 1200 local government organizations, supports local governments in SPP implementation.

Activities connected with SPP can also be found in **emerging markets** (Mexico, Argentina, Brazil, etc.) and some **developing countries**. The **United Nations Environment Programme (UNEP)** is currently assisting seven countries

Some examples for linking public procurement to social goals

'Affirmative action' in the US in the 1960s seeking greater equality for Africa-Americans; Promotion of aboriginal business development through federal procurement in Canada including selective set-asides; Preference point system in South Africa addressing several policy goals dealing with historically disadvantaged categories of persons by unfair discrimination on the basis of race, gender or disability.

(Chile, Costa Rica, Columbia, Uruguay, Tunisia, Mauritius, and Lebanon) in developing SPP policies and action plans, using a methodology developed by the Marrakech Task Force on Sustainable Public Procurement in the framework of a global effort to promote more sustainable consumption and production patterns (the "Marrakech Process"). Also, the **International Institute for Sustainable Development (ISSD)** has supported several countries in designing and implementing SPP policies, among others Vietnam, India, South Africa, and Ghana.

Some international initiatives promoting green/sustainable procurement

European Commission: Buying green and Buying social initiatives.
<http://ec.europa.eu/environment>

ICLEI: Non-profit association of over 1200 local government organizations from 70 countries supporting SPP
<http://www.procuraplus.org>

International Green Purchasing Network (IGPN): Based in Tokyo, platform for networking and collaboration for international organizations, local authorities and NGOs active in procurement
<http://www.igpn.org>

North American Green Purchasing Initiative (NAPGI): Engages manufacturers, purchasers and stakeholders; develops tools and conducts research
<http://www.cec.org>

UNEP: Capacity Building for Sustainable Public Procurement in Developing Countries
<http://www.unep.fr/scp/procurement/>

International Organizations such as the United Nations, the World Bank and Asian Development Bank, have committed to purchasing products that promote social and environmental sustainability through their corporate procurement practices.

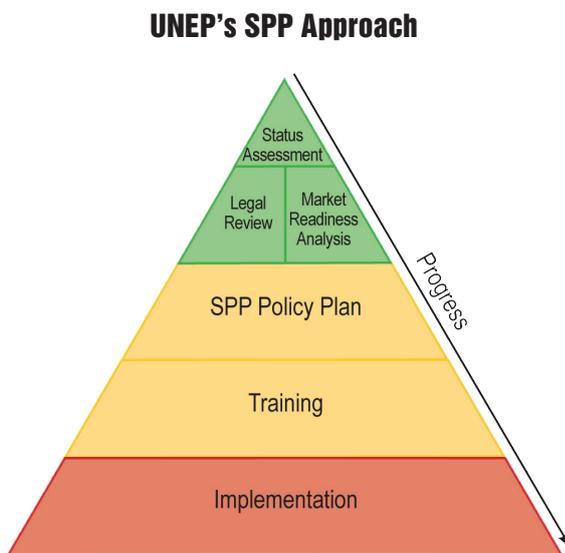
However, there are still a number of barriers to overcome: The perception that SPP is too complex and that SPP may increase the cost for public procurement; Inflexible budgetary mechanisms; Lack of knowledge related to environmental and social policies; Lack of information regarding legal options to include sustainability criteria in tender documents; and lack of practical tools. Other challenges point to the level of management support and the level of cooperation across departments. Particularly important in developing countries are issues such as market preparedness;

potential impacts of SPP on small and medium sized local companies; and public awareness about the importance of sustainability in general.

■ **Approaches to SPP**

There are different entry points for SPP, which can be grouped as follows: Development and implementation of national SPP policies; establishing SPP in a public procuring entity; integrating sustainability considerations throughout the procurement process; and ensuring competencies, practices and techniques that should be in place to enable the successful implementation of SPP. Depending on the objective, different approaches are required. Ideally, a holistic approach should be followed addressing all levels in order to align organizational goals and practices with national development objectives. Some good practices are briefly outlined below.

UNEP's SPP Approach supports the development and implementation of national SPP policies and consists of three building blocks: Assessment phase: Status assessment (online questionnaire); identification of policy priorities; review of the legislative framework to analyze the possibilities for integrating social and environmental criteria into procurement activities; market readiness analysis to identify the potential responsiveness of the market to SPP tenders. Strategic planning phase: Development of a national SPP policy including priorities, capacity building and training. Implementation: Implementation in priority sectors/pilots; Market engagement; Procurement Cycle Management.

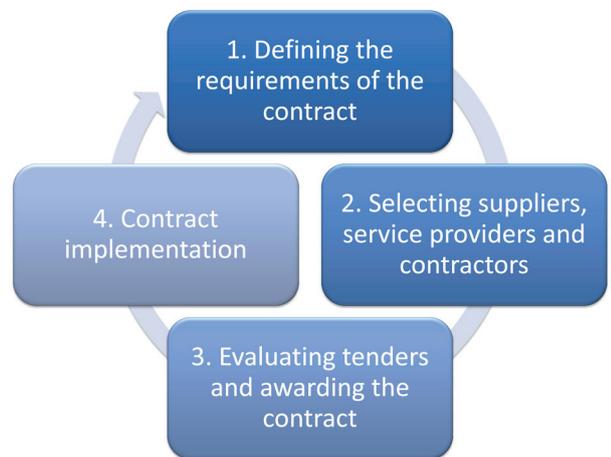


The recently published British Standard **BS 8903 Principles and framework for procuring sustainably** presents a generic framework suitable for private enterprises or public agencies,

focusing on the procuring entity level. It builds on higher-level organizational and procurement strategies (“fundamentals”), the procurement process, and “enablers” which are ways of working, competencies, practices and techniques that should be utilized on an ongoing basis. Similarly, ICLEI has developed its **Procura+ Milestone Process**. It is based upon the typical management cycle of “Plan, Do, Check, Act” and comprises the following phases: Preparation; target setting; development and implementation of action plan; monitor progress and report results.

The public procurement process usually starts with a planning phase and then follows four stages: (i) Defining the requirements of the contract; (ii) selecting suppliers, service providers, and contractors; (iii) evaluating tenders and awarding the contract; (iv) and contract implementation. How and when to consider sustainability criteria requires judgment on behalf of the buyer, since each procurement has different sustainability impacts, and each country or organization has different sustainability priorities, goals and legal frameworks that have to be complied with. Annex 1 illustrates some key considerations at each stage of the process.

The Public Procurement Process



■ **Developing countries and SPP – Challenges and opportunities**

The OECD-DAC Task Force on Procurement which consists of representatives of developing countries and multilateral and bilateral development organizations stresses in its recent declaration on **Strong Procurement Systems for Effective States** (“Cusco Declaration”) that efficient and effective public procurement is a fundamental component of good governance, a key driver of economic growth and development. It also recognizes that most developing countries have engaged in procurement reforms, with some

countries making significant progress and others demonstrating a commitment to improve their procurement systems.

A more detailed analysis shows that countries usually commence their procurement reform process with legal and regulatory reform including supporting tools and documents, establishment of institutions, training of officials, and initiatives to ensure transparency and access to information as well as monitoring compliance, so-called “first generation reforms”. SPP clearly belongs to “second generation reforms” which go beyond the basic structures upon which a system relies, often including the use of technology to improve efficiency and effectiveness, focus on performance measurement and management and on efforts to communicate to stakeholders the contribution of procurement to the achievement of government’s priorities. To date, only few developing countries have embarked on national SPP programs, although many countries are doing this to some extent through efforts to develop increased access to the market or by considering environmental criteria in some individual procurement transactions.

Although it is too early to draw lessons learned, some opportunities are emerging that could lead the way forward:

- UNEP currently assesses the impacts of SPP. This analysis includes case studies from developed and developing countries and evidence provided could be used to increase awareness, commitment and a better understanding of the “how to” and the “why” of SPP.
- Programs and instruments aimed at strengthening public procurement systems in general and programs supporting SPP could be better aligned to be mutually reinforcing. The inclusion of sustainability criteria should become good practice.
- Given the importance of multilateral and bilateral donors in public procurement reform processes, it should be further explored how donors could support SPP in developing countries.

Annex 1

The Sustainable Procurement Process Some Key Considerations

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Preparation of the process

- Define the need, avoid unnecessary purchases
- Conduct market research to determine if new technologies, new products or new innovative suppliers could meet operational requirements
- Explore options to increase efficiency such as joint procurement or framework agreements to pool environmental, social, technical or market knowledge
- Ensure compliance with the legal/institutional framework throughout the SPP process

Defining the requirements of a contract

- Define performance requirements and desired outcomes
- Identify sustainable impacts/opportunities such as use of renewable raw materials, energy and water consumption during use, greenhouse gas emissions and air pollutants, durability/lifespan, recycling/reuse at end of product life, packaging and transport, waste, accessibility standards for people with disabilities, measures to avoid accidents at work and conditions for safe storage of hazardous material to safeguard health and safety for workers in service or works contracts, etc.
- Consider use of output based specifications to promote innovation; use variants
- Use existing criteria sets or eco-/sustainability labels for helpful suggestions

Selecting suppliers, service providers and contractors

- Ensure qualification and tender documents include sustainability requirements, link criteria to subject-matter of the contract
- Keep the process simple to encourage bids from small and medium sized enterprises
- Advertise widely and in local media to promote supplier diversity
- Communicate evaluation criteria to foster competition

Evaluation of tenders and award of contracts

- Use appropriate techniques, such as matrix comparisons, relative weightings, bonus/malus systems to determine best value for money, in line with published criteria
- Use whole-life costing approaches where relevant to evaluate bids, consider lifespan of products and determine the net present value
- Include the cost of externalities (such as greenhouse gas emissions), if they can be expressed in monetary terms
- Debrief unsuccessful bidders

Contract Implementation

- Consider contract performance clauses to include social considerations (should be linked to the tasks which are necessary to execute the contract). For example, obligation to recruit unemployed persons or persons with disabilities; to set up training programs; comply with fundamental human rights guaranteed by the ILO core conventions if the supply chain is likely to involve production where these problems occur
- Consider including environmental considerations at the performance stage, for example: Having products delivered in the most appropriate quantity and outside peak traffic to reduce transport impact; reuse/recycling of packaging; reporting on greenhouse gas emissions caused in delivering products; minimization of waste and efficient use of resources such as electricity or water on a construction site; or the application of a specific environmental management measure for construction works such as EMAS or ISO 14001
- Define key performance indicators, measurable targets and stipulate acceptable performance levels
- Provide financial incentives for exceeding baseline targets/disincentives for poor performance
- Consider using the balanced scorecard methodology to monitor sustainability criteria
- Continuously improve sustainable procurement practices

Annex 2 References and further information

Several handbooks and manuals have been published mainly in OECD countries during the past few years providing guidance on how to integrate sustainability considerations in public procurement. This information has been gratefully drawn upon when preparing this briefing note and, although an adaptation to the respective country and institutional context would be required, the following material could be useful to advance SPP in developing countries:

- United Nations Procurement Capacity Development Centre
<http://www.unpcdc.org/>
- PCDC Online Guide to Procurement Capacity Development
<http://www.unpcdc.org/home/procurement-guide.aspx>
- United Nation Environment Programme: Sustainable Public Procurement
<http://www.unep.fr/scp/procurement/>
- UNEP/FOEN, 2011: Marrakech Task Force on Sustainable Public Procurement. Activity Report.
<http://www.sustainableprocurement.eu.com/documents/MTPonSPPReportCSD19/FINAL.pdf>
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http://www.unep.fr/scp/sun/facility/reduce/procurement/PDFs/BFABW_Final_web.pdf
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<http://www.bsigroup.com/>
- Defra, 2006: Procuring the Future. Sustainable National Action Plan: Recommendations from the Sustainable Procurement Task Force.
<http://www.defra.gov.uk/publications/files/pb11710-procuring-the-future-060607.pdf>
- European Commission, 2011: Buying green! A handbook on green public procurement. 2nd Edition.
<http://ec.europa.eu/environment/gpp/pdf/handbook.summary.pdf>
- European Commission, 2010: Buying social. A Guide to Taking Account of Social Considerations in Public Procurement.
<http://www.ec.europa.eu/social/BlobServlet?docId=6457&langId=en>
- ICLEI, 2007. The Procura+ Manual: A Guide to Cost-Effective Sustainable Public Procurement.
<http://www.procuraplus.org/index.php?id=4611>
- OECD, 2011: Strengthening Country Procurement Systems: Results and Opportunities.
<http://www.unpcdc.org/media/225306/strengthening-country-procurement-systems-oecd-dac-hlf4-2011.pdf>
- OECD, 2011: A Practical Guide to Transforming Procurement Systems.
<http://www.unpcdc.org/media/225336/a%20practical%20guide%20to%20transforming%20procurement%20systems%20final%20formatted%2030oct%202011.pdf>