

AJPLSCM Vol. 1, Issue 7, Page: 91-97,
July 2019, ISSN: 2676-2730
Impact Factor (SJIF): 6.782
Journal DOI: 10.15373/22501991
International Peer Reviewed & Refereed
Journal with Indexed Journal Platforms

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Public Procurement as a tool for promoting more Sustainable Consumption and Production patterns

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Abstract

Sustainable public procurement (SPP) has emerged as a powerful way to stimulate more sustainable consumption and production patterns for society at large. This brief examines the reasons behind the current drive towards sustainable public procurement, and the barriers that have to be overcome in order to implement it. A significant share of the world's GDP is associated with expenditures by governments. On average, total public expenditures by central and local governments (including consumption and investment expenditures) are estimated to account for about 20% of GDP in OECD countries, and roughly 15% in non-OECD countries. Subtracting compensation to public employees, public procurement is estimated to represent 6% to 10% of GDP depending on countries. In addition, in some sectors, domestic government procurement tends to be the single most important source of sales (e.g. defence-, health- and research-related industries) or one of the most important (e.g. construction, energy, transport equipment). There are however significant differences between countries in the ranking of most other sectors and the size of public procurement market shares. For instance, purchases of office equipment in Canada by public authorities represented over one-third of total demand in the beginning of the nineties, but less than 5% in Japan or Austria. Governments have increasingly become involved in making their procurement "greener" or more sustainable. While green procurement and sustainable procurement refer to different concepts (see Box 1), the underlying idea is the same: to use public procurement in order to achieve desirable environmental and, in the case of sustainable public procurement, social outcomes.

Keywords: Public Procurement, Sustainable Consumption, Production Patterns

1.0 INTRODUCTION

While there is no universally accepted definition of sustainable public procurement (SPP), there is a clear distinction between SPP and green public procurement (GPP). Environmentally responsible or 'green' procurement is the selection of products and services that minimize environmental impacts. It requires a company or organization to carry out an assessment of the environmental impacts of a product at all the stages of its lifecycle. This means considering the environmental costs of securing raw materials, and manufacturing, transporting, storing, handling, using and disposing of the product. In addition to environmental concerns sustainable procurement also incorporates social considerations. As defined by the UK Sustainable Procurement Task Force in 2006, 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." Environmental considerations might include: the reduction of greenhouse gas emissions and air pollutants; improved energy and water efficiency; reduced waste and support for reuse and recycling; use of renewable resources; reduced hazardous waste; and reduced toxic and hazardous substances. Social considerations might include: gender and ethnic equity; poverty eradication; and respect for core labour standards.

2.0 LITERATURE REVIEW

2.1 Why engage in GPP or SPP?

The first reason to get involved in GPP is based on cost effectiveness. In many cases, public administrations can save money compared to a business as usual scenario. Some "greener" products and services are less costly in terms of their use, maintenance and disposal despite higher upfront investment costs. This is the case for bus services

in the EU and pest management in the US. For some products such as copying paper in Germany, the price of the green option itself is the same or below that of the conventional option. This, however, is true only for some products in some countries.

A second reason to promote green or sustainable procurement is that governments, due to their importance as customers in some markets, can make a difference in environmental outcomes by choosing environmentally friendly options, as opposed to classical options. For instance, it is estimated that if all public authorities in the European Union demanded green electricity, this would save the equivalent of roughly one-fifth of the EU's greenhouse gas reduction commitment under the Kyoto Protocol. The extent to which public procurement can deliver direct environmental and social improvements through purchases from particular industries or sectors will depend on the government market share in those sectors, as well as on the environmental and social impacts of the targeted sectors.

A third reason for involvement in green procurement, which is directly linked to the second one, is that governments can use their market power to influence producers to shift more rapidly to cleaner technologies. By lowering the costs of clean technologies due to scale economies, this can also help private consumers shift to environment-friendly products. In many industries, it may prove more economical to "green" a whole line of products rather than entertain two separate lines of products, especially when public orders of the green version of the products make up a substantial share of total sales. Public procurement has driven 'green' product innovation, including the development of energy efficient clothes dryers, electric motors, office copiers, computers and lighting, and low emission buses. A well-documented success story is the market transformation in the United States following a 1993 Executive Order which required that the federal government purchase only Energy Star computer equipment. Until then, such energy efficiency technologies had only been applied to laptop computers. The US government being the largest purchaser of computers worldwide, the Executive Order led to an overarching market transformation. By the end of the nineties, Energy Star computer equipment dominated the market. Moreover, this sparked the market development of other Energy Star products, which today include thousands of product categories. Stricter Energy Star energy-efficiency specifications became effective in July 2007.

Lastly, public demand for more sustainably produced goods and services can also have desirable indirect effects, such as raising consumer awareness about the environmental and social implications associated with different types of purchases. Governments wanting to promote more environmentally friendly consumption patterns may find it necessary and useful to lead by example by putting public procurement practices in line with their publicly advertised environmental goals.

2.2 International SPP/GPP Initiatives

Since the beginning of the decade, international initiatives on GPP and SPP have flourished. Public procurement was identified at the World Summit on Sustainable Development of September 2002 as one important instrument for stimulating more environmentally sound goods and services. In the same year, the OECD Council issued a recommendation on improving the environmental performance of public procurement which recommended that member countries take greater account of environmental considerations in public procurement of products and services, and take concrete steps to ensure the incorporation of environmental criteria into public procurement. In 2003, the European Commission adopted a Communication on Integrated Product Policy (IPP), which recommended that Member States increase the level of green public procurement and elaborate national action plans that set targets and outline the concrete measures to implement this policy.

Various international and regional organizations and networks have been active in promoting sustainable public procurement through awareness-raising, toolkit development and capacity-building activities. Those include among others: the OECD and the European Commission; the Japan-based organisation IGPN (International Green Purchasing Network), launched in 2005; ICLEI (Local Governments for Sustainability), an international association of local governments and national/regional local government organizations; the North American Green Purchasing Initiative of the Commission for Environmental Cooperation (CEC NAGPI); the Marrakech Task Force on SPP, an international team created in the context of the Marrakech Process (see **Box 2**); the United Nations Environment Programme (UNEP); the International Labour Organization's International Training Centre (ILO/ITC).

2.3 GPP and SPP Policies at the Country Level

Countries in both developed and developing regions have used public procurement to pursue social goals — to reduce unemployment, raise labour standards, provide employment opportunities for disabled persons, and promote gender, racial and ethnic equality (**Box 3**).

In the mid-nineties, various governments started taking steps towards adopting procurement policies that contribute to achieving environmentally desirable outcomes ("green" public procurement, or GPP). As of 2002, some countries, primarily from OECD, had in place or were developing procurement guidelines that encouraged the use of

recycled products as well as green procurement websites, and intended to phase out the use of non-recycled paper. But expanding such practices to other goods and services and going beyond the promotion of waste recovery and separation remained limited. Since then, there has been considerable progress, although meaningful implementation at the central government level remains limited to a handful of countries.

At the subnational level, a wide array of initiatives is under way. In the USA, actions to reduce greenhouse gas emissions are widespread among cities throughout the country. For instance, according to a survey released in 2007 by the U.S. Conference of Mayors, more than four in five of the 130 survey cities now use renewable energy, or are considering beginning by 2008, 97% are using more energy-efficient lighting technologies in public buildings, streetlights, traffic signals, and other applications, or expect to do so by 2008, and 72% of city fleets are already running on alternative fuels and/or use hybrid-electric technology.

In Europe, a large number of cities apply environmental criteria in the purchase of electricity, food, furniture, IT equipment, cleaning products, paper, construction, timber and transport. In Belgium and the Netherlands, several municipal governments require that contractors recruit the long-term unemployed. In the cities of München and Düsseldorf (Germany), some products should be tendered for with respect to international labour standards. Several local governments in Italy use Fair Trade specifications in procuring food products for public school canteens.

In Australia, the leading organization at the local level is the ECO-Buy programme of the Municipal

Association of Victoria, which works with local councils to increase the purchasing of recycled, climate-friendly, water saving, non-toxic and other green products. In Japan, green procurement activities were first led by civil society organizations, local authorities and companies. Front-runners such as the Prefecture of Shiga and the City of Sendai as well as environment and consumer activists started coordinating activities at a national level and bringing clients and suppliers together to develop common guidelines in the mid-nineties, culminating in the establishment of the Green Purchasing Network (GPN) in 1996, with the support of the Ministry of Environment.

Procurement initiatives are also multiplying at the state level in federal states such as Brazil, Mexico, the USA, and Canada. In Brazil, some states have started to promote SPP. Criteria for socially and environmentally responsible public procurement have been defined for a large number of products and services and are being incorporated in the electronic bidding system.

2.4 Potential obstacles to SPP Implementation

Legal framework. Countries may need to modify their legislation to be able to incorporate sustainability criteria into public procurement activities. More than half of the OECD countries responding to a survey carried out in 2007 modified their legislation in order to introduce environmental criteria in public procurement. In Argentina, although preparatory work has been taking place since 2006, broad deployment of sustainability criteria in public procurement will be conditioned by the enactment of domestic legislation permitting the use of non-price criteria. In Mexico, the 2007-2012 National Development Plan includes environmental sustainability as one of its five pillars, creating the scope for changes in procurement policy that allow for the incorporation of sustainability criteria.

Interpretation of public procurement legislation is not always straightforward, and procurement officials do not necessarily infer that the economically most advantageous tender should be the one with the lowest life-cycle cost. In Brazil, although the Attorney-General's office determined that the National Procurement Law (8666/93) did not prohibit the consideration of sustainability criteria in public purchases, it was still deemed desirable to amend the law to state explicitly that public purchases should take those criteria into consideration whenever possible (7709/2007). Constrained by the international legal framework in which a country operates. In states that have ratified the Government Procurement Agreement (GPA), a multilateral agreement of the World Trade Organization (WTO) limiting the use of discriminatory procurement provisions, the use of SPP provisions could be challenged by disappointed tenderers using the so-called domestic bid challenge procedure that is mandatory. States that are party to the GPA may also challenge a country adopting SPP provisions using the WTO dispute settlement procedures. Most developing countries are not parties to the GPA and would as a result be immune from direct challenge under international law for utilizing social and/or environmental criteria. Nevertheless, in practice they are often bound by similar restrictions as a result of GPA-like provisions being adopted in other contexts, such as bilateral free trade agreements.

However, legal experts seem to disagree on the seriousness of the potential obstacles created for sustainable procurement by WTO-related measures. A broad array of methods and approaches compatible with international and regional instruments on procurement is available to incorporate sustainable development goals into public procurement in all countries.

Several approaches have been utilized with success. For example, companies tendering for public works contracts in Paris (France) are required to adopt a code of practice at selection stage which includes a set of environmental measures for the delivery of works. The performance conditions require the winning bidder to

implement the code. In case of non-compliance, the contract can be terminated and the contractor excluded from future tendering procedures. Another approach is to include SPP in the technical specifications of the good or service to be procured. For example, in contracts for housing investments, the Sheffield City Council (UK) asks tenderers not only to set out how they would contribute to the creation of attractive neighborhoods, but also how they would contribute to training policies and work in partnership with social enterprises and small businesses.

Budget systems and accounting practices. The budget and accounting frameworks under which public institutions operate, which differ between (and often within) countries, can lead to economic inefficiencies in public expenditure management. Commonly encountered obstacles to more sustainable procurement decisions include single-year budgeting as well as the limited ability to carry over funds from one fiscal year to the next and to retain efficiency savings. The former exacerbates the focus on short-term outcomes and leads to discriminating against products with lower life-cycle costs but higher upfront costs; the latter limits the incentive to investigate trade-offs among resource inputs and make investment decisions accordingly.

Political commitment. The experience in several countries demonstrates that high level political commitment is key to SPP implementation, which is a lengthy process. In Canada, attempts to develop a government-wide approach to green procurement began in 1992. However, for a variety of reasons, by 2005 there was still no government-wide green procurement policy or strategy. In fact, according to a government-wide survey on procurement including questions such as “What should be the secondary objectives of contracting?” and “What constitutes effective procurement?”, only 12 of the 64 departments and agencies who responded made any reference to the environment, sustainable development, or green procurement. In 2004, the federal government finally committed to implementing a green procurement policy by 2006. This was followed by the Prime Minister giving the Minister of Public Works and Government Services Canada (PWGSC) the lead to make rapid progress in greening government operations, including greening procurement. To help fulfil this mandate, in April 2005 PWGSC launched the Office of Greening Government Operations. A Policy on Green Procurement was finally issued in April 2006.

It also appears fundamental that, from the very beginning, those responsible for procurement feel that there is a strong sustainability mandate. In the United States, an Environmental Protection Agency survey conducted at the end of the nineties concluded that Executive Order provisions (EO 13101 of 1998) on the ‘Greening of Government’ were not perceived by federal employees to be mandates, that few of them recognized the term ‘environmentally preferable purchasing’ (EPP) — although some did consider the environment in purchase decisions — and that awareness of EPA’s EPP tools and resources was low.

In Australia, the National Audit Office’s 2006 audit of Commonwealth green office procurement established that government agencies lacked a clear policy framework to drive better environmental outcomes in their purchasing activities, resulting in shortcomings in their green procurement performance. While the Commonwealth Greening of Government Policy encourages agencies to develop their own Environmental Management Systems (EMS) in accordance with ISO14001 or other internationally recognized standards, only 45% of agencies surveyed in the audit had an EMS of any sort in place in 2006, and only 7 were certified to ISO14001.

Technical capacity. Even in OECD countries, lack of training for public procurement officers has been identified in a 2007 survey as the single most important barrier to the implementation of green purchasing policies. In relation to the technical aspects of procurement, it is of paramount importance that clear criteria of sustainability are defined. Guidelines and training on how to incorporate such criteria throughout the procurement process, from bidding documents to monitoring and evaluation, must be provided to procurement officials.

Supply constraints. For individual countries, the supply side may be a key barrier to implementation because at least some domestic industries will have to undergo significant upgrading before an SPP policy can be put in place (**Box 5**). For instance, in Mexico, the government will require from March 2008 onwards that all paper purchased by public agencies have at least 50% recycled content, but there is currently not enough local supply of such paper.

Policies that work: a brief overview

Best practices based on the experience of successful countries have been documented by many of the organizations that promote sustainable or green public procurement. These practices relate to both management and strategic design and implementation of SPP or GPP policies.

Leadership and commitment from senior managers and policy-makers. In the United Kingdom, one of the countries where implementation is most advanced, the establishment of a national multi-stakeholder task force on SPP helped raise the profile of the issue and ensured high level political engagement. The Sustainable Procurement Action Plan issued in March 2007 seeks to demonstrate that the UK is amongst the leaders in Europe, but also identifies officials within government who will be held accountable for implementation of sustainable procurement. In general, impacts of SPP policies can be enhanced by making SPP an element of a broader sustainability policy.

Setting and agreeing on sustainability priorities (e.g. reducing carbon emissions) and priority expenditure sectors for action optimizes the allocation of resources, and enables structured decision making.

Mandatory SPP requirements make it clear that this is a priority for the government, and provide clear directives and expectations to politicians and procurement officials. Measurable targets, indicators and public reporting make public institutions accountable and enable benchmarking.

Public expenditure management frameworks may need to be adapted to be more supportive of SPP (e.g. budget reforms that allow for longer planning horizons).

Joint procurement by public administration authorities can increase bargaining power and help reduce prices associated with relatively more expensive green technologies and products, as well as administrative costs per contract. This is of practical importance as, in many countries, sub-national governments procure more than the central government. Moreover, procurement by central government bodies and agencies is increasingly decentralized, at least in OECD countries.

SPP tools are needed to provide guidance to decision-making. These might include clear guidelines and procedures, life cycle assessments and evaluation of impacts (e.g. on small and medium-sized enterprises), updated guidance on sustainability appraisal, and examples of procurement bidding documents that include sustainability provisions.

Practical tools for procurement officers such as template contracts, specifications for green products, electronic product databases and e-catalogues are key elements for developing sustainable procurement.

Awareness raising activities (for staff and suppliers) **and training** are needed to help change procurement culture and behaviour, assist procurement officials in making effective decisions, and encourage end users to make a sustainable use of products.

Pilot projects are important to demonstrate benefits, stimulate creativity and test implementation on a small scale and hence with limited risk-taking.

Early engagement with the private sector and other stakeholders helps to identify the scope for innovation and determine the extent to which local suppliers can respond to stricter standards. Targeted capacity building of suppliers, especially towards small and medium enterprises (SMEs), is often a necessary step to ensure that local supply can be brought up to new standards.

Incorporating sustainability considerations in the procurement process

A number of instruments that can facilitate the transition to GPP and SPP practices in developing countries have become available. In particular, toolkits developed by organizations such as ICLEI, IGPN, NAGPI, and the European Commission can provide practical guidance to countries interested in implementing green procurement policies. The Marrakech Task Force on SPP has developed toolkits and training materials for SPP that follow a step-by-step approach, also adopted by the UK.

The starting point should be to conduct an **assessment of the current state of affairs** — in terms of the existing legal framework, the nature and magnitude of public expenditures and their key sustainability impacts, and the market availability of sustainable products and services at competitive prices.

The assessment is then used to inform the **identification of priority sectors (Box 6)**. Prioritization ensures that limited resources are not wasted on expenditure sectors where, despite high environmental or socio-economic risk, there is very little scope to influence the market or where the government cannot expect to find environmentally-friendly alternatives at a competitive price.

The third step consists of a **needs assessment**. Needs should be defined in a functional manner, or as solutions to problems rather than concrete products or services, so as not to exclude any potential options available on the market. For instance, considering “need to disseminate information to the public” rather than “purchase

printed flyers, posters, and brochures” may ultimately lead to more environmentally friendly solutions being chosen, such as disseminating information electronically.

The fourth and **last step** consists of the actual **incorporation of sustainability considerations in the various stages of the procurement process**. Those in general include defining the subject matter of the contract; drawing up the technical specifications for the product/work/service; selecting candidates; awarding the contract; managing the contract; and monitoring and evaluation. Sustainability and environmental criteria can be present in procurement contracts at all stages of the process. However, such criteria are easier to introduce at the early stages, i.e. in the definition of the **subject matter of the contract** or in technical specifications. Clearly stating environmental and/or socio-economic requirements in the subject matter of the contract helps to inform potential bidders at the outset. For example, a contract could be titled “Contract for the supply of recycled paper for writing, printing and copying purposes”.

The **technical specifications**, which provide measurable requirements against which tenders can be evaluated, can also incorporate sustainability criteria, provided they are formulated in a way that does not lead to discriminating against certain suppliers. For example, requiring a product to have a given eco-label is discriminatory, but stating that the product should comply with the criteria underlying the eco-label (such as, “the paper is produced

without chlorine”) is acceptable, as long as more than one supplier is able to provide a product meeting the requirements.

At the **selection stage**, exclusion, technical and financial capacity criteria can be specified in tenders. Technical selection criteria should focus on a company’s ability to perform the contract for which it is tendering. Hence, environmental selection criteria can only be used if specific environmental experience is required to fulfill the contract. General exclusion criteria are typically defined in procurement laws and regulations. Procurement directives in the EU allow for a waste disposal company that has repeatedly breached environmental provisions under administrative law, resulting in several administrative fines, to be excluded on grounds of grave professional misconduct.

At the **award stage**, the quality of the offers that complied with the technical specifications is evaluated and the most appropriate one is chosen. Contracts can be awarded on the basis of lowest price or “most economically advantageous offer”. If the tender states that the lowest price is the award criterion, no other criteria may be used at this stage. The use of the second option allows for criteria other than price such as sustainability criteria to play a role in the decision, even at this late stage in the process. The criteria should however be related to the subject matter, quantifiable, weighted in relation to other award criteria, clearly defined in the tender and compliant with domestic law and international agreements. Introducing sustainability criteria only at this late stage of the procurement process might make sense if there is uncertainty regarding the availability or the cost of the more sustainable option. It still expresses a preference for sustainability but allows for more flexibility in rejecting an option that is too pricey. Except for very routine purchases, most contracts must be managed to ensure that suppliers keep the commitments they made in their bid, including compliance with labour standards or conditions specified in the contract.

Effective contract management ensures that all commitments are met and that any problems are managed and dealt with quickly. It can also help suppliers to improve their performance in terms of sustainability. For example, purchasing authorities may choose to add tougher targets for which the supplier receives a bonus payment. The importance of **monitoring and evaluation** should be stressed. Closely linked to contract management, monitoring allows overall performance against targets, such as “By 2010, ensure that 20% of electricity comes from renewable sources”, to be tracked over time and any necessary corrective measures to be undertaken. Reporting supports transparency both in relation to suppliers and to taxpayers.

3.0 CONCLUSION: USING SPP

Sustainable public procurement constitutes a significant lever for governments to accelerate the shift towards more sustainable consumption and production patterns, and more generally to contribute to the achievement of sustainable development goals. A number of programmes and initiatives all aiming to support the deployment of SPP practices are currently ongoing, which provides an opportunity for countries wanting to engage in sustainable public procurement to adopt successful practices while avoiding mistakes or delays in implementation that have been observed in other countries.

SPP is however only one of many tools at the disposal of governments and should ideally be part of a broader effort to induce consumers and producers to adopt more sustainable behaviours. Supporting increased social and environmental responsibility in the private sector through regulation, incentives and information, as well as providing training and capacity building to small and medium enterprises so that they can effectively supply sustainable products, are critical to the successful implementation of a sustainable public procurement policy.

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