



# 2008 Annual Statistical Report on United Nations Procurement

## Sustainable procurement supplement

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- Sustainable procurement is making its mark at the UN
  - Case studies from South Africa, China and Indonesia
  - Looking ahead: balancing environmental, social and economic objectives
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## **Supplement to the 2008 Annual Statistical Report on United Nations Procurement**

UNOPS would like to acknowledge the contribution of the various authors to this supplement to the 2008 Annual Statistical Report on United Nations Procurement. The views expressed in this publication are not necessarily shared by each of the authors. Furthermore, the views expressed in this publication are those of the authors and do not necessarily reflect those of the United Nations.

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# Foreword



**W**e live in a time of unprecedented global challenges, when vision and action to protect our planet are needed as never before. This is why I am so pleased to introduce this publication on sustainable procurement.

Two years ago on World Environment Day, I called on United Nations agencies to join me in moving the UN toward climate neutrality and toward more sustainable management operations. Today, I am pleased to see we have taken some important steps in this direction. I welcome the efforts undertaken by several UN agencies, funds and programmes to find new ways of making sustainability part of our everyday work.

Sustainable procurement and operations is one such example. Together, we are continuing to use this market-based tool to reduce harmful impacts.

However, much more needs to be done – and soon. The world’s leading scientists warn that the climate is changing faster than predicted due to the continued increase in global greenhouse gas emissions. Building a more sustainable, low-carbon economy is a matter of scientific urgency. But it is also an opportunity to invest in the clean energy sources of the future, expand energy access, protect development gains, and build more climate-resilient societies.

Action is needed at all levels – from Heads of State and Government to national and municipal authorities, the business community and local citizens’ organisations. As this report makes clear, promising initiatives are emerging everywhere, including many in the developing world.

In this “year of climate change,” I am urging the United Nations family to take further steps towards overall sustainability by greening our procurement and aligning it to the highest ethical standards of the organization.

We must lead by example and become a greener, more environmentally responsible organization. We have no time to lose, and much to gain for this and future generations.

*Ban Ki-moon*  
**Ban Ki-moon**  
Secretary-General of the United Nations

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# Introduction

The theme of this supplement to the Annual Statistical Report on UN Procurement 2008 is *sustainable procurement*. The aim of the supplement is to provide an overview of the current debate on sustainable procurement, and on the latest policy development in this emerging field.

The concept of sustainable procurement is closely connected to sustainable development. It promotes consumption patterns that are mindful of environmental impacts, beneficial to the society at large and economically sound. Sustainable procurement is the most complete definition for these practices, however many other terms are used, such as sustainable public procurement, ethical purchasing, sustainable supply chain management and ethical supply.

Green procurement – also called environmental procurement, green purchasing, eco-procurement or green government procurement – is not synonymous with sustainable procurement, but rather a sub-concept that refers to the environmental dimension only. The term socially responsible procurement, used less frequently, is also a sub-concept used to indicate purchasing practices that advance social values.

This publication is introduced by UN Secretary-General Ban Ki-moon, highlighting the key role that procurement has to play in promoting and facilitating sustainable development.

Next Michael Cora – chair of the UN procurement network, the HLCM PN – describes the rapid progress of many UN agencies towards the creation of a policy framework and the practical implementation of sustainable procurement. Following these articles, a general introduction to sustainable procurement is provided by Mónica Kjällström, of the United Nations Department of Economic and Social Affairs (UNDESA). Next, the social aspect of sustainable procurement is discussed in an article by Professor Christopher McCrudden, where it is argued that sustainable procurement can be a legitimate and effective means of achieving social justice.

A series of case studies in developing countries follow. Jonathon Hanks and Incite Sustainability present the recent developments of sustainable procurement in South Africa. Professors Yong Geng and Brent Doberstein emphasize the potential contribution of green procurement in addressing environmental issues in China. Susy Rizki Sadikin traces the early developments of the sustainable procurement practice in Indonesia – especially through the use of ecolabels – and discusses potential benefits for the achievement of the goal of sustainable development in the country.

Finally Professor Helen Walker explores emerging issues in the sustainable procurement policy agenda.



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# The UN High Level Committee on Management's Procurement Network approach to sustainable procurement

— Michael Cora



Michael Cora is the Chairperson of the UN High Level Committee on Management's Procurement Network (HLCM PN). He is also the Director of UNESCO's Procurement Division. Dealing with procurement since 1983, in four different UN agencies and various geographical locations has made him conversant with all aspects of modern purchasing, including the principles, policies and practices of sustainable procurement.

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Procurement in the United Nations exceeded \$13 billion in 2008. This annual procurement volume represents a significant market to the business communities in industrialized and developing countries, as well as those in economies in transition. Today, procurement is called upon to bring its contribution to another challenge: that of supporting the sustainable development objectives of the international community through sustainable procurement.

Two interagency mechanisms are collaborating on sustainable procurement and share a common programme of work: the UN High Level Committee on Management's Procurement Network (HLCM PN) and the Environment Management Group (EMG). The latter operates through the Sustainable UN Initiative (SUN) anchored in the United Nations Environment Programme (UNEP) and ensures the links between the two groups.

This partnership fits within existing work on efficiency and effectiveness of the purchasing function within the UN system. It works through collaborative arrangements, simplification and harmonization of procurement procedures and practices, and by fostering professionalism amongst the staff involved in procurement proceedings. Procurement experts from thirty one organizations participate in the implementation of this programme of work. At the Network's bi-annual meetings, these organizations are represented by their high-level procurement managers as well as experts from EMG and the UNEP SUN Initiative for the sustainable procurement related discussions.

Defining how sustainable procurement is interpreted within the UN family is fundamental if we are to ensure that we speak a common language, and that this language reflects our values. Therefore, one of the first tasks for the HLCM PN in addressing this issue was providing the community of UN agencies with a definition of what we mean by sustainable procurement, together with a policy statement to guide our collective action.

Thus, we agreed in February 2009 that:

Sustainable procurement practices integrate requirements, specifications and criteria that are compatible with and in favour of the protection of the environment, of social progress and in support of economic development, namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs.

Furthermore, sustainable procurement bases its choice of goods and services on:

- economic considerations: such as value for money, life-cycle costs, quality, availability, functionality and innovation;
- environmental aspects (green procurement): meaning the impacts on the environment that the product and/or service has over its whole life-cycle; and
- social aspects: from the consideration of human rights, labour conditions and employees' health and insurance, small and medium enterprises and local vendors, to the ban of companies involved in child labour and military production (landmines in particular).

It is important to note that the definition adopted by the HLCM PN encompasses all three pillars of sustainable development, and that it highlights pro-developmental aspects. Consequently, sustainable procurement should not be considered a market distortion or a barrier to competition, but rather a valuable tool to develop markets and capabilities. Furthermore, public opinion is about to change and the beneficiaries of our services are more and more sensitive to sustainability aspects, thus forcing us to change as well.

The HLCM PN relies on the cooperation among agencies and organizations – a mechanism that has been working outstandingly for the development of our sustainable procurement know-how. We have combined UNEP expertise in sustainable consumption and production together with the procurement skills of organizations such as UNOPS and the UN Procurement Division. We have started joint initiatives with the EMG to ensure consistency with the UN Climate Neutrality objective. Results achieved through this collective effort are quite impressive.



To advance sustainable procurement, the number of training sessions will be expanded to reach a higher number of procurers within the UN.

The priority for HLCM PN action so far has been to create an enabling environment to favour sustainable procurement and climate neutrality interventions in the procurement processes of the UN system. The adoption of a common definition is part of this effort, as is the drafting of a *Sustainable Procurement Statement* that defines our commitment.

The EMG and the SUN Initiative on the other hand concentrated their work on the provision of practical tools and capacity building. A series of *Sustainable Procurement Product Guidelines* have been developed and tested in several UN locations around the world. They have been produced to facilitate the inclusion of sustainability aspects in UN tenders and sustainable procurement training courses. A *Guide to Environmental Labels for Procurement Practitioners* has jointly been released. These resources, together with many others, have been gathered in the Sustainable Procurement Knowledge Centre, on the online platform of the UN Global Marketplace and on the EMG and UNEP SUN websites. Finally, we want to be able to capture the extent of our efforts and measure our results; this is why from this year onwards the *Annual Statistical Report on UN Procurement* will contain a sustainability reporting section.

The working programme for the advancement of sustainable procurement in the next months is intensive. Besides the expansion of the *Sustainable Procurement Product Guidelines* series to include other frequently purchased products, the HLCM PN, the EMG and SUN are about to finalize a *Sustainable Procurement Guide* and a training module on sustainable procurement for requisitioners. At the

same time, the number of training sessions on sustainable procurement is going to be expanded to reach a higher number of procurers within the UN.

Ample attention is and will continue to be devoted to the expansion of sustainable procurement in developing countries and those with economies in transition. This all helps to highlight how they can benefit from this practice. Here, one of the main challenges of sustainable procurement is the harmonization of environmental and social concerns with a fair and equal access to the UN procurement market. Significant progress has been made and we are quite proud to report that the volume of orders awarded to suppliers from developing countries and those with economies in transition has exceeded 50 percent since 2006.

Concerns have been voiced that sustainable procurement might disturb this balance. To respond, the HLCM PN, the EMG and SUN have adopted a very mindful approach. In particular, we have been very firm in highlighting that sustainable procurement is not about ‘burdening’ the market with extra requirements. Rather is it a well-defined strategy that gradually phases in sustainable requirements in bids and promotes dialogue and open communication between suppliers and procurers.

Even though, the immense efforts and the progress made are well visible, we are still at the beginning of a long road. But we will go forward in a new, practical and – most of all – sustainable way.

# Public procurement: a tool for promoting more sustainable consumption and production patterns



— Mónica Kjellerström, UNDESA

This article is a summary of the Sustainable Development Innovation Brief written by Mónica Kjellerström and previously published by the Division for Sustainable Development of the United Nations Department of Economic and Social Affairs (UNDESA). The original brief can be accessed at [http://www.un.org/esa/dsd/resources/res\\_pdfs/publications/ib/no7.pdf](http://www.un.org/esa/dsd/resources/res_pdfs/publications/ib/no7.pdf).

A significant share of the world's gross domestic product (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 percent of GDP in Organisation for Economic Co-operation and Development (OECD) countries, and roughly 15 percent in non-OECD countries. Governments have increasingly become involved in making their procurement 'greener' or more sustainable.

## Why should governments engage in sustainable procurement?

The first reason to get involved in sustainable procurement is based on cost effectiveness. Some 'greener' products and services are less costly in terms of their use, maintenance and disposal despite higher upfront investment costs. A second reason is that governments, due to their importance as customers in some markets, can make a difference in environmental outcomes by choosing environmentally

friendly options. A third reason, 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. 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.

## Sustainable procurement 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. In the mid-1990s, various governments started taking steps towards adopting green procurement. Since then, there has been considerable progress, although full implementation at the central government level remains limited to some countries (see Figure 1).

## What is sustainable procurement?

Environmentally responsible or 'green' procurement is the selection of products and services that minimize negative environmental impacts. It requires a government 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.

Sustainable procurement incorporates social considerations along with environmental impacts. 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."

**Figure 1:  
Using public  
procurement  
to achieve  
environmental  
goals: some  
country examples**



#### ● Canada

A policy on green procurement issued in April 2006 requires that environmental performance considerations be embedded into the procurement decision-making process in the same manner as price, performance, quality and availability. Guidelines, toolkits and training have been made available to facilitate this process. It is estimated that three quarters of government departments or agencies had green purchasing policies in place as of 2006/2007.

#### ● Japan

The 2000 Law on Promoting Green Purchasing makes it compulsory for government institutions to implement green procurement, while encouraging local authorities, private companies and individuals to make efforts for purchasing environmentally sound products and services. All state ministries, departments and agencies have to define procurement targets every fiscal year and make the results of green procurement efforts publicly available. 90 percent of central government agencies implement green procurement. Although by 2005 all sub-national governments had developed procurement policies, implementation has been slower.

#### ● European Union

By early 2007, 9 out of 26 EU member-states had adopted national sustainable or green procurement action plans, five had drafted a national action plan but it had not yet been adopted, and two were in the process of preparing one. In Austria, Denmark, Finland, Germany, Netherlands, Sweden and the UK, 40 to 70 per cent of all tenders published on Tenders Electronic Daily incorporated some environmental criteria, although in the remaining 18 countries, this figure was below 30 percent.

#### ● United States

A 2007 Executive Order integrates and updates prior practices and requirements with the goal of increasing federal purchasing of energy efficient, recycled content, biobased, and environmentally preferable products and services. Federal agencies must also ensure that: at least half of renewable energy comes from new renewable sources; water consumption is reduced by two percent annually through 2015; fleet total petroleum consumption is reduced by two percent annually; use of alternative fuels is increased by 10 percent a year and plug-in hybrid vehicles are used when available at reasonable costs.

#### ● Brazil

Proof of the legality of the source of wood used in public construction and infrastructure projects is required by law. More broadly, a 2007 bill establishes that public purchases should take environmental criteria into consideration whenever possible.

#### ● Argentina

Argentina has developed an action plan to implement sustainable procurement, and carried out research and training activities for procurement officials and policy-makers with the support of the Marrakech Task Force on sustainable procurement.

#### ● Mexico

The 2007-2012 National Development Plan created the scope for changes in procurement policy that allow for the incorporation of sustainability criteria. Recent changes in procurement law in Mexico include the requirement that all wood and furniture purchased by public agencies possess a certificate demonstrating its legal origin (since September 2007) and paper should have at least 50 percent recycled content.

#### ● China

From January 2007, the central government and provincial governments are asked to give priority to environment-friendly products listed in a 'green product inventory'. The list, released in late 2006, includes products ranging from cars to construction materials that have been approved by the China Certification Committee for Environmental Labelling. Products are required to meet the environmental protection and energy saving standards set by the State Environmental Protection Administration in order to obtain the environmental label.

#### ● Republic of Korea

The Act on the Promotion of the Purchase of Environment-Friendly Products, passed in 2005, requires public agencies at national and local levels to publish green procurement policies and implementation plans, carry out the latter, and report results. The Environment Ministry is asked to publish guidelines, designated items and evaluation criteria. Although green public procurement is still relatively small (roughly 6 percent of total public procurement in 2003), it has been growing very rapidly during recent years.

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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. 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 and several local governments in Italy use Fair Trade specifications in procuring food products for public school canteens.

In Japan, green procurement activities were first led by civil society organizations, local authorities and companies, culminating in the establishment of the Green Purchasing Network 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.

### **Potential obstacles to sustainable procurement implementation**

An obstacle to the implementation of sustainable procurement can be the legal framework. More than half of the OECD countries that responded to a survey carried out in 2007 modified their legislation in order to introduce environmental criteria into public procurement. The budget and accounting frameworks under which public institutions operate, which differ between (and often within) countries, can also lead to economic inefficiencies in public expenditure management.

The experience in several countries demonstrates that high level political commitment is key to sustainable procurement 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.

Lack of training for public procurement officers, even in OECD countries, has been identified as an important obstacle to the implementation of green purchasing policies. In addition, supply constraints may be a key barrier to implementation. For instance, in Mexico in 2008, the government set a requirement that all paper purchased by public agencies have at least 50 percent recycled content, but at the time there was not enough local supply of such paper.

### **Policies that work: a brief overview**

Many of the organizations that promote sustainable or green public procurement have documented best practices, based on the experience of successful countries. These include leadership and commitment from senior managers and policy makers, setting and agreeing on sustainability priorities and mandatory sustainable procurement requirements. In the UK, one of the countries where implementation is most advanced,

the establishment of a national multi-stakeholder task force on sustainable procurement helped raise the profile of the issue and ensured high-level political engagement.

Other successful policies include budget reforms that allow for longer planning horizons, joint procurement by public administration agencies, pilot projects and early engagement with the private sector and other stakeholders to determine the extent to which local suppliers can respond to new standards.

Sustainable procurement tools are needed to provide guidance to decision-making, along with practical tools for procurement officers such as template contracts and specifications for green products. Staff and suppliers can also both benefit from awareness raising activities and training.

**“Procurement is a significant lever for governments to accelerate the shift towards more sustainable consumption and production.”**

### **Conclusion: public procurement is a tool for promoting sustainable consumption and production**

Procurement is 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.

Sustainable procurement should be one of the many tools at the disposal of governments, ideally 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 procurement policy.

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# Buying social justice: using public procurement to advance social, ethical and human rights goals

— Christopher McCrudden



Christopher McCrudden is a Professor of Human Rights Law from Oxford University and is the author of *Buying Social Justice* (Oxford University Press, 2007), which provides a detailed analysis of how governments use their purchasing power to advance social and ethical values, such as sustainable procurement. He looks at a range of countries, including the UK, the USA, Malaysia, Canada and South Africa, and the challenges they come up against based on international and regional regulatory developments.

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This article provides a short analysis of how governments use their purchasing power to advance social and ethical values, such as sustainable procurement, and considers whether they can do so consistent with the international and regional trade and investment regulation.

Although ‘green’ procurement is currently better known, the social uses of public procurement date from at least the mid-19th century in Europe and North America, and soon became an established part of the pre-World War II regulatory landscape. Examples included the use of public procurement to do away with sweat shops and provide for ‘fair wages’ in England in the 1890s, to reduce unemployment during the New Deal in the United States in the 1930s, to ensure the inclusion of disabled veterans, and most famously as part of moves to ensure equality for black Americans at various times throughout history.

Since the 1980s, the use of public procurement to address social issues has multiplied. Canada uses procurement as one tool to address aboriginal economic disadvantage. Malaysia controversially uses the distribution of public procurement contracts as an important way of building up a native Malay entrepreneurial class. Several US states adopted ‘selective purchasing’ to demonstrate opposition to human rights abuses in Myanmar (until they were stopped by the US Supreme Court). Public procurement is also central to strategies of campaigners for ‘fair trade’, and ‘sustainable procurement’ has been promoted internationally by the United Nations as a key instrument to deliver sustainable development goals.

There appears to be a significant increase both in the proportion of countries adopting such uses of procurement and also in the types of issues which procurement is used to advance. The arguments in favour of this use of procurement tend to emphasize the inadequacy of securing compliance by using other regulatory methods, the political limits to seeing public contracting as simply a commercial activity, the need for government to supply public goods that would not otherwise be delivered, and the desirability of addressing externalities caused by the use of the procurement instrument itself.

Arguments against the social uses of public procurement are, however, often made: the perceived irrelevance of such goals to the appropriate functions of purchasing, the extra costs that such linkages are said to bring, the unfairness that such linkages are said to pose to particular stakeholders, the increased opportunities that such uses pose for abuses of power by government and increased corruption, and the fear that such uses bring with them greater protectionism disguised as social justice.

Despite (or perhaps because of) its domestic importance, the use of procurement was for much of the previous century left out of the growth of international and regional reforms of trade and investment. Now, however, the World Trade Organization’s (WTO) Government Procurement Agreement of 1994, the procurement chapters of the North American Free Trade Agreement (NAFTA), and the extensive set of European Union (EU) procurement directives, all establish important process requirements on how public procurement is organized and delivered.

Arising from these, there has frequently been concern from lawyers advising governments on the grounds that such social uses of procurement may breach principles of anti-protectionism and free competition encapsulated in international and regional trade agreements. Two major sets of legal issues arise: how far procurement linkages are consistent with the process requirements of this regulatory system, and how far they are consistent with the requirement of non-discrimination.

In the past, the use of public procurement to achieve social and ethical purposes of government has largely been under the political radar internationally. Increasingly, however, these uses of procurement are becoming controversial and even an irritant in international economic relations. In the late 1990s, the EU took the US to a dispute settlement panel over Massachusetts’ use of selective purchasing as a tool against Myanmar, a dispute only resolved by the US Supreme Court ruling against this use on constitutional grounds.



The use of public procurement to advance social goals, such as community development, is expanding significantly.

More recently, Malaysia successfully opposed the incorporation of a proposal on transparency in public procurement in the Doha Round negotiations. And the issue of how far states should be able to use procurement for development purposes has featured in the behind-the-scenes discussions over the current African, Caribbean and Pacific Group of States negotiations with the EU.

Several key questions can be identified: is a compromise possible between the economic and commercial functions of procurement and the political and ethical uses of procurement; what extra value (if any) do such linkages bring, and at what cost; what limits does regulatory globalization place on the uses of such linkages?

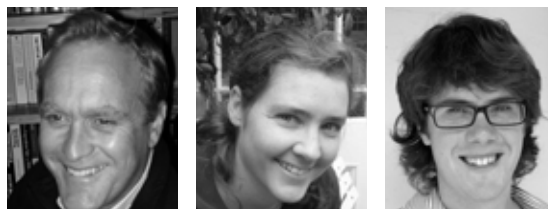
Answering these questions is crucial as the uses of procurement to advance social, ethical and human rights goals is likely to significantly increase in the near future, and that this use is likely to become more controversial, giving rise to increased numbers of transnational disputes.

European Community and the WTO law is an important context in which the tensions between the economic and social functions of procurement are mediated now and are likely to be resolved in the future. From an analysis of the outcomes of past controversies concerning the legitimacy of the integration of social values into procurement we can conclude that compromise is possible, not least because several principles that are common to both sides of the argument can be identified, and the adaptability of the procurement instrument itself can be capitalized on to enable apparently competing goals to be pursued successfully.

In conclusion, the use of public procurement by developing and developed states to advance social goals is expanding significantly. This can be a legitimate and effective means of achieving social justice, and one that is compatible with existing international and European regulatory requirements governing public procurement.

# Sustainable procurement in South Africa

— Incite Sustainability



Incite Sustainability is a South African based consultancy that provides strategy and implementation advice on sustainability policy and practice to the private and public sector. Combining substantial local and international experience across a broad range of industries and sectors, Incite Sustainability help their clients to identify the risks and market opportunities associated with sustainable development.

Jonathon Hanks is the managing partner at Incite Sustainability; Helen Davies an associate; and Anthony Dane a research analyst. Jonathon is also the Convenor of the international team responsible for drafting the International Organisation for Standardisation's global standard on social responsibility (ISO 26000).

Sustainable procurement in South Africa is about procuring goods and services in a manner that maximizes efficiency while achieving national governmental policy goals such as economic growth, job creation, poverty alleviation, trade and industry growth and sustainable development.

This article outlines a recent study which was undertaken to assess the current context of sustainable procurement in South Africa and then develop a business case to advance the implementation. The assessment of current context highlighted the lack of awareness of sustainable procurement in the country, and identified the fragmented nature of initiatives that have been implemented. While the social elements of sustainable procurement are addressed currently through the preferential procurement legislation, green procurement does not appear to be a current priority.

The second part of the study – the business case – is focused primarily on green procurement by providing a business case with the aim of illustrating how the green procurement agenda can assist government bodies in spending taxpayers' money wisely and in meeting certain goals and objectives.

**“While the social elements of sustainable procurement are addressed currently through the preferential procurement legislation, green procurement does not appear to be a current priority”**

## **The current context of sustainable procurement in South Africa**

The social elements of sustainable procurement are covered through the preferential procurement legislation – which includes the goal of ‘contracting with persons, or

categories of persons, historically disadvantaged by unfair discrimination on the basis of race, gender or disability’. Several interviewees emphasized the benefits of the policies, such as the increased opportunities for previously disadvantaged individuals, and how public procurement is an opportunity to promote socio-economic objectives. The extent of its implementation appears to be varied however, with officials struggling to weigh up preferential procurement criteria against criteria such as price.

Green procurement is still a relatively new concept, playing only a small role in public procurement decisions in South Africa. For larger development projects all state entities are required to do environmental impact assessments by national law. Beyond this, several provinces and municipalities are pursuing the development and/or implementation of a green procurement policy. For example, green procurement is currently being considered by City of Tshwane and the City of Cape Town in their plans for the 2010 FIFA World Cup infrastructure development and operations.

At the national level, while there are policies and laws that would support or be supported by green public procurement, these are not currently linked to the green procurement agenda and no green procurement policy is under development. Locally produced environmentally friendly products and services, local green verification schemes and expertise regarding green procurement are currently all lacking.

## *Challenges in implementing green procurement in South Africa*

A number of potential challenges to the successful implementation of green procurement have been identified, some of which could be overcome with minimal effort, while others would require strategic decisions and potentially the investment of time and money. The challenges are outlined in Figure 3, overleaf.

**Figure 3: Challenges in implementing sustainable procurement in South Africa**

<b>Market Challenges</b>	<ul style="list-style-type: none"> <li>• Limited environmental verification schemes</li> <li>• Limited availability of environmentally sound products (and the poor quality of some of these products)</li> <li>• Limited number of suppliers of green products</li> </ul>
<b>Institutional Challenges</b>	<ul style="list-style-type: none"> <li>• Limited experience</li> <li>• Limited management buy-in and unwillingness to change</li> <li>• Decentralised procurement structure of supply chain management in the country's public sector</li> </ul>
<b>Other Challenges</b>	<ul style="list-style-type: none"> <li>• Perceived price premium on green products</li> <li>• Fear has been expressed that with many green products being more durable, the threat of increasing theft would make the use of the lifecycle costing concepts invalid</li> <li>• Concern that small, medium and micro suppliers might be pushed out of business through not being able to supply green versions of products.</li> <li>• Potential areas of conflict between green and existing preferential procurement policy principles relating to transformation and equity</li> <li>• Aligning with supply chain and financial management legislation</li> </ul>

#### *Integrating social and environmental considerations into procurement legislation*

As discussed, South Africa is in a position where the social component of sustainable procurement is further advanced than the environmental component. The challenge in South Africa is to incorporate the environmental component into legislation in a way that does not conflict with the social one. It should also not be seen as an additional burden on government procurement officials.

#### **The business case for sustainable procurement in South Africa**

The business case highlights the costs and benefits of green procurement and recommends a way forward for sustainable procurement in South Africa.

##### *Cost benefit analysis*

The concept of life cycle costing was used to assess the costs and benefits of green procurement.

The study showed various examples of where cost savings, stimulation of the environmental goods and services market and improved service delivery have been realised by various South African government bodies through green procurement.

For example, local authorities in the Western Cape are exploring the compulsory installation of solar water heaters

in certain buildings due to the recent energy crisis. A pilot project was set up, involving 184 houses in Riversdale who were previously without hot water. The pilot demonstrated the heaters' reliability and increased awareness of the benefits of solar energy - including environmental benefits, cost savings and an improvement in the quality of lives of the energy poor. The supply of the units was also stimulated, both locally and internationally.

The analysis also shows how green procurement supports various elements of existing national legislation and strategic imperatives, particularly in relation to promoting energy stability, protecting the environment and promoting economic growth, job creation, trade expansion, water stability and waste management.

For example, sorting recycled waste at Oasis Recycling in Cape Town provides employment and income for intellectually disadvantaged men and women. Green procurement has the potential to create a steady demand for recycled products that will provide stability to the currently volatile recyclables market; allowing organizations such as Oasis Recycling to provide more sustainable job creation and empowerment.

The costs of implementing were also highlighted. This included higher capital resources required up front and increased financial and human resources required to roll out, to raise awareness of and to build capacity in the public sector and amongst suppliers. There were also higher costs



Sorting recycled waste at Oasis Recycling in Cape Town provides employment and income for intellectually disadvantaged men and women.

“The analysis also shows how green procurement supports various elements of existing national legislation and strategic imperatives.”

associated with managing the potential conflicts with local and small, medium and micro suppliers and the knock-on effects of certain technologies on landfills and the environment.

In addition, life cycle costing has a key role in assuring the success of green procurement. Without systems to encourage its use the financial benefits will be hard to quantify and defend. Life cycle costing should become a key principle of financial management frameworks in the public sector.

#### **Recommendations and way forward for sustainable procurement in South Africa**

Implementing sustainable procurement in South Africa would require both a top-down and bottom-up approach. For green procurement to be effectively implemented at all levels of government certain barriers need to be unblocked and support provided at a national level.



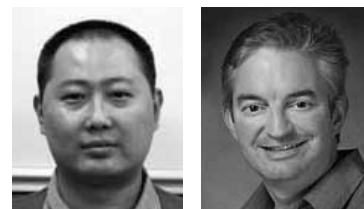
The business case puts forward proposals regarding the support that would be required by government bodies and businesses that supply goods and services to the government. It is proposed that these common needs would be best served by a sustainable procurement national support unit which has an initial focus on the environment elements.

Stakeholders – such as the various government departments – should also play a key role in providing this support. Discussion need to be held on the business case and to agree the priority actions for setting up a central support structure to drive sustainable procurement forward.

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# Greening government procurement in developing countries: Building capacity in China

— Yong Geng and Brent Doberstein



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Green procurement is more urgently needed and potentially can have greater impacts in the developing world, where many countries are facing both severe constraints on the availability of resources and complicated environmental challenges. In China, which is facing a severe environmental deterioration, due to its rapid industrialization, the government has adopted an ‘ecological modernization’ approach. This is a process of restructuring modern institutions to pursue environmental interests, perspectives, and rationalities. This article contends that within this process, green procurement should be adopted as a part of the overall sustainable development plan by government agencies at different levels.

Developed first and most completely in the Organisation for Economic Co-operation and Development (OECD) countries, green procurement began to spread to developing countries in the mid-1990s, particularly in East and South-East Asia. This process was encouraged and supported by bilateral and multilateral aid initiatives, such as the United Nations Industrial Development Organization (UNIDO)’s cleaner production programmes. However, perhaps the most important driver has been the recognition that positive economic and competitive benefits can accrue to Asian industries. These range from immediate benefits, such as reduced overall costs of procurement and disposal and avoiding green barriers to product export, to long-term competitive benefits such as facilitating higher export sales and ISO 9000 and ISO 14001 certification.

There is a wide range of approaches used in the expanding green procurement practice, several of which are noteworthy as they show promise for Asian countries. Firstly, in countries where environmentalism is not strongly developed, it is important for governments to provide leadership and example. Secondly, it is important to mandate that full-cost accounting of life cycle costs is used when buying decisions are made, as often green products do not appear on the

surface to be cost competitive with non-green alternatives until all costs are calculated. Thirdly, the establishment of green criteria against which products and services can be measured is a critical challenge in developing countries, even if it can be facilitated by the use of easy-to-use eco-labelling programmes. All these approaches show promises for the specific case of China. But what is the current approach to green procurement in the country?

**“In countries where environmentalism is not strongly developed, it is important for governments to provide leadership and example.”**

The government procurement law in China, enacted on 1 January 2003, does not have detailed stipulations on environmental protection. In 2005, a detailed list of energy-saving products that could be purchased by government bodies was released, and to date this is the only official detailed guidance on green procurement in China. But additional initiatives by the Chinese Government, such as the creation of the environmental labelling programme in 1993, have formed a solid foundation in China. Many certified green products are also found on government procurement lists, offering many new opportunities to those government procurement departments seeking green choices.

Even though the previous paragraph suggests that green procurement in China is very promising, there is still lack of necessary guidelines, information, performance indicators and even of an official definition. Another barrier to implementation is the number of loopholes existing within the environmental legal system: for instance, the cost of being a law-abiding corporation is often much higher than



Green procurement is urgently needed in China, which is facing severe environmental deterioration due to rapid industrialization.

simply operating illegally and paying fines when caught. A third barrier is the issue of cost, especially when only market costs rather than life cycle costs are taken into consideration. The last barrier is the generally low environmental awareness of government procurement personnel and suppliers.

Although the above barriers exist, encouraging green procurement is very useful and valuable since leadership by government can also help create a green consumption market and support green technologies, products and services. Wider application can help China and other developing countries avoid potential green trade barriers while improving their overall eco-efficiency.

In order to promote green procurement in China, governments at various levels should establish a legal framework, including the prioritization of green products and services in procurement contracts, the establishment of standards to define what are the minimum criteria for green procurement, the development of a system to reward those who purchase products and services with low life cycle costs, and a mechanism to regularly evaluate the real performance of green products and services. Finally, an information platform should be established. Awareness-raising activities, including newsletters and workshops, should be carried out periodically in order to build green procurement

understanding. Capacity building should be a long-term process, with clear short, medium and long-term goals that can be evaluated periodically.

In conclusion, government procurement in China should not only consider economic factors. Other factors, such as environmental protection and sustainable development, should also be considered. Due to lack of guidelines and lower environmental awareness, China is still in its infancy in terms of promoting green procurement. Revising current environmental legal regulations and carrying out appropriate capacity building initiatives will help toward its implementation. Green procurement should be a key part of China's ecological modernization projects, improving overall eco-efficiency.

# Sustainable Public Procurement in Indonesia

— Susy Rizki Sadikin



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Indonesia is facing several problems common to countries that are trying to achieve sustainable development: public health issues, unemployment, national debt, poverty, corruption, a low Human Development Index ranking and environment deterioration. By encouraging effective development, sustainable public procurement can help to address some of these problems. However, whilst Indonesia is undergoing economic transformation, serious weaknesses have persisted in the public procurement system, such as lack of professional expertise, lack of transparency and corruption.

The adoption of sustainable procurement practices in the Indonesian central government was analysed for this article through the distribution of a questionnaire to 12 ministries and governmental institutions, followed by in-depth interviews with the respondents. From the results it emerged that all respondents were aware of and committed to

sustainable development, with 42 percent considering social or environmental issues in their procurement, even if only 17 percent had received training in sustainable procurement. The ministries tended to concentrate on issues that were relevant to their mandate, such as gender equity for the Ministry of Women Empowerment, or support to small and medium enterprises for the Ministry of Trade. The Ministry for Social Affairs was on the forefront of the introduction of social concerns in procurement.

Ecolabels are an important tool, and measure, of sustainable procurement. Many of the Indonesian ministries acknowledged that they purchase environmentally friendly products and use ecolabels, however the national ecolabelling programme is at the initial stages of its development. Figure 2 below summarizes the diffusion and awareness of environmental labels among Indonesian procurers:

**Figure 2: Awareness of ecolabels among Indonesian procurers**

Do you understand this logo?		Yes	Yes	No	No
Do you purchase products bearing this label?		Yes	No	Yes	No
	Ekolabel Indonesia (Indonesian ecolabel). Relatively unknown as only used currently for paper, purchased by many of the ministries.	1		9	2
	This logo certifies that the product does not contain chlorofluorocarbon (CFC), an ozone depleting substance.	6	5		1
	This logo certifies that the product does not contain halon and chlorofluorocarbon (CFC), ozone depletion substances.	1	4		7
	This logo indicates that the product can be recycled.	12			
	The Energy Star label is awarded to energy efficient products.	3	5	3	1



By encouraging effective development, sustainable public procurement can help to address issues such as public health, poverty and environment deterioration in Indonesia.

Compared to other Asian countries, Indonesia is still lagging behind in the development of its ecolabelling programme, and information about these products on the market is limited. However, the fact that a national ecolabelling programme is in place is promising for the future of sustainable procurement. Consumer interest for eco-labelled products is also rising, but without the support of public institutions purchasers there is a risk that this awareness remains limited at the individual level.

International assessments indicate that there has been some progress in public procurement management in Indonesia, even if certain flaws persist. Despite the current weaknesses, there are many good reasons why Indonesia should promote sustainable procurement. Indonesia – like other developing countries – is pursuing the goal of sustainable development, and is a member of the Sustainable Public Procurement Task Force, established under the Marrakech Process. Furthermore, the procurement legislation already deals with social concerns and the Ministry of Environment is studying how to expand this to environmental aspects. Indonesia has ratified several International Labour Organization (ILO) conventions, and is a member of environmental agreements such as the Convention on International Trade in Endangered Species of Wild Flora and Fauna, Stockholm Convention on Persistent Organic Pollutants and the Kyoto Protocol. With the considerable amount of funds allocated for public procurement purposes in Indonesia, the government should acknowledge that many of these important issues can be addressed through sustainable procurement.

“Despite the current weaknesses, there are many good reasons why Indonesia should promote sustainable procurement.”

The weaknesses of Indonesian public procurement highlighted above could also be seen as an opportunity, since a conventional procurement system can be developed in parallel with sustainable procurement. The government should form a sustainable procurement task force, with the ministries involved in this study and other stakeholders including universities and international agencies. Pilot projects should be developed that include social and environmental aspects and a network created for sharing good practices and know-how. For governments committed to achieving sustainable development, sustainable procurement is no more an option but a mandate.

For more information on eco/environmental labels, more complete data are available in the *Guide to Environmental labels for Procurement Practitioners of the United Nations System*, downloadable from [www.ungm.org](http://www.ungm.org).

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# Sustainable procurement: looking ahead

— Dr Helen Walker



Dr Helen Walker is Associate Professor in Operations Management at Warwick Business School, and her research focuses on sustainability and corporate social responsibility in purchasing and supply. She was previously Deputy Director of the Centre for Research in Strategic Purchasing and Supply at the University Of Bath School Of Management. Helen is also a Visiting Professor at Arizona State University, in the W.P. Carey Business School. Previous research includes investigating supply strategy, e-procurement and outsourcing with the NHS Purchasing and Supply Agency and the United Nations. Current research activities include investigating sustainable supply chain management in the public and private sectors.

She has also had a number of roles supporting governmental policy development in the UK. She was a member of the expert panel for the National Audit Office sustainable procurement review. She is a member of the Supply Sustainable/Responsible Procurement group of the Chartered Institute of Purchasing.

In 2009 she won the *Journal of Purchasing and Supply Management* Best Paper Award, and the International Purchasing and Supply Education and Research Association Best Conference Paper Award. Both awards were given for papers addressing sustainable procurement issues.

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Organizations are increasingly concerned with the sustainability impacts they have in their supply chains. By employing sustainable procurement they can pursue social, economic and environmental benefits through the purchasing and supply process, rather than just value for money. However sustainable procurement faces challenges in the future, including a decline in interest due to the global recession, problems in balancing its various aspects (social, economic, environmental) and difficulties in extension of responsibility throughout the supply chain.

## Examples of sustainable procurement

The following activities can all be considered sustainable procurement:

- Greening the specification of products and services
- Working with suppliers to reduce packaging and waste
- Buying from local suppliers to reduce carbon emissions and support local economies
- Ensuring that suppliers have good health and safety records
- Avoiding buying from suppliers that use child labour
- Ensuring suppliers have environmental management systems
- Buying from minority owned businesses
- Considering ethical issues in the supply chain

The motivations of organizations to develop sustainable procurement practices are varied. One compelling reason for pursuing sustainable procurement is when the activity also results in reducing costs or brings some economic benefit. Examples include working with suppliers to reduce waste which also increases resource productivity and efficiency; or redesigning logistics with suppliers to reduce mileage and fuel consumption.

## Challenges for the future

*Is sustainable procurement just a passing fad?*

Organizations are prone to following fads and fashions in management. Sustainable procurement may be such a fad, reflecting current concern with climate change. However, it has been argued that western countries are interested in sustainability because they can afford to be, and are imposing such trends on suppliers in developing countries, without appreciating that these countries have their own norms and values. The current global recession is likely to decline interest in sustainability issues, whilst organizations focus on keeping afloat financially. In the longer term, it is likely that what makes good business sense will endure, and if the current consumer interest in ethical and environmentally friendly goods and services continues, this demand will 'pull' sustainability practices along global supply chains.

**“Balancing the social, economic and environmental aspects of sustainable procurement is an important challenge, and tools in the future should help procurement practitioners make informed decisions.”**

*How do we balance sustainable procurement objectives?*

A sustainable procurement initiative may have a benefit in one aspect of sustainability, but a loss in another. An example of this is that of European supermarkets debating whether to buy roses from Holland or Kenya. The Kenyan flowers are



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Ensuring these cotton growers in Mali receive a fair price for their products is an example of considering ethical issues in the supply chain.

cheaper, and buying from suppliers in Kenya supports jobs for farmers in this developing country, but the roses have a higher carbon footprint when flown to Europe. The flowers are more expensive to produce in Holland, with higher labour costs, but have a lower carbon footprint. Balancing the social, economic and environmental aspects of sustainable procurement is an important challenge, and tools in the future should help procurement practitioners make informed decisions.

#### *How far does responsibility extend along supply chains?*

If organizations conduct vendor assessments and work with suppliers on sustainability issues, how can they be sure such practices extends to suppliers' suppliers, and on to third and fourth tier suppliers along the supply chain? Sustainable procurement is difficult to police along supply chains, but increasingly organizations are expected to know about how suppliers perform in responsible investment initiatives such as FTSE4Good and Dow Jones Sustainability Index. The reputations (and profits) of many organizations have suffered because of the bad practices of suppliers (such

as sweat shops in the fashion industry and pollution in the chemical industry), and in the future, it is likely that claiming ignorance will not be sufficient. Proactive management of sustainability issues all along the supply chain is desirable, for example from the suppliers of raw materials ensuring a living wage, to the end consumers choosing to buy fair trade.

#### *Who should take the lead in sustainable procurement?*

Governments, public sector bodies, not-for-profit organizations, private sector organizations, business customers and consumers can all contribute to the sustainability agenda. Supranational bodies such as the United Nations have a great opportunity to lead by example, ensuring sustainable procurement processes are put in place in their procurement activities. This will influence suppliers to the UN to consider sustainability issues, and stimulate the market. Sustainable procurement is about making choices that make sense in the longer term and protect resources for future generations, and the purchasing and supply community can make an important contribution to the sustainability agenda.



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Sustainable procurement supplement

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