

Sustainable Public Procurement for an Inclusive Green Economy

Policy Brief

INTRODUCTION

Public authorities wield enormous purchasing power worldwide. In Europe, public authorities are major consumers, representing 14% of the EU's GDP with €1.8 trillion in annual spending (European Commission, 2016). Public procurement accounts for 12% of GDP and 29% of total government expenditures on average in OECD countries (Figure 1), and up to 30% of GDP in developing countries.

Leveraging this purchasing power by choosing more sustainable goods, services and works can drive markets in the direction of sustainability, reduce the negative impacts of an organization, and also produce positive benefits for the environment, the economy and society. In fact, SDG 12 on sustainable consumption and production includes a target specifically emphasizing the advancement of SPP practices as a critical strategy to achieve that goal. (Target 12.7: "Promote public procurement practices that are sustainable, in accordance with national policies and priorities.") Governments have increasingly become involved in making their procurement more sustainable: SPP has been implemented in many European and other OECD countries, including South Korea, and increasingly

in emerging markets such as China, Thailand and the Philippines (UNEP, 2017a).

SPP is defined as "a process whereby organisations 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 organisation, but also to society and the economy, whilst minimising damage to the environment" (UNEP, 2012a)¹.

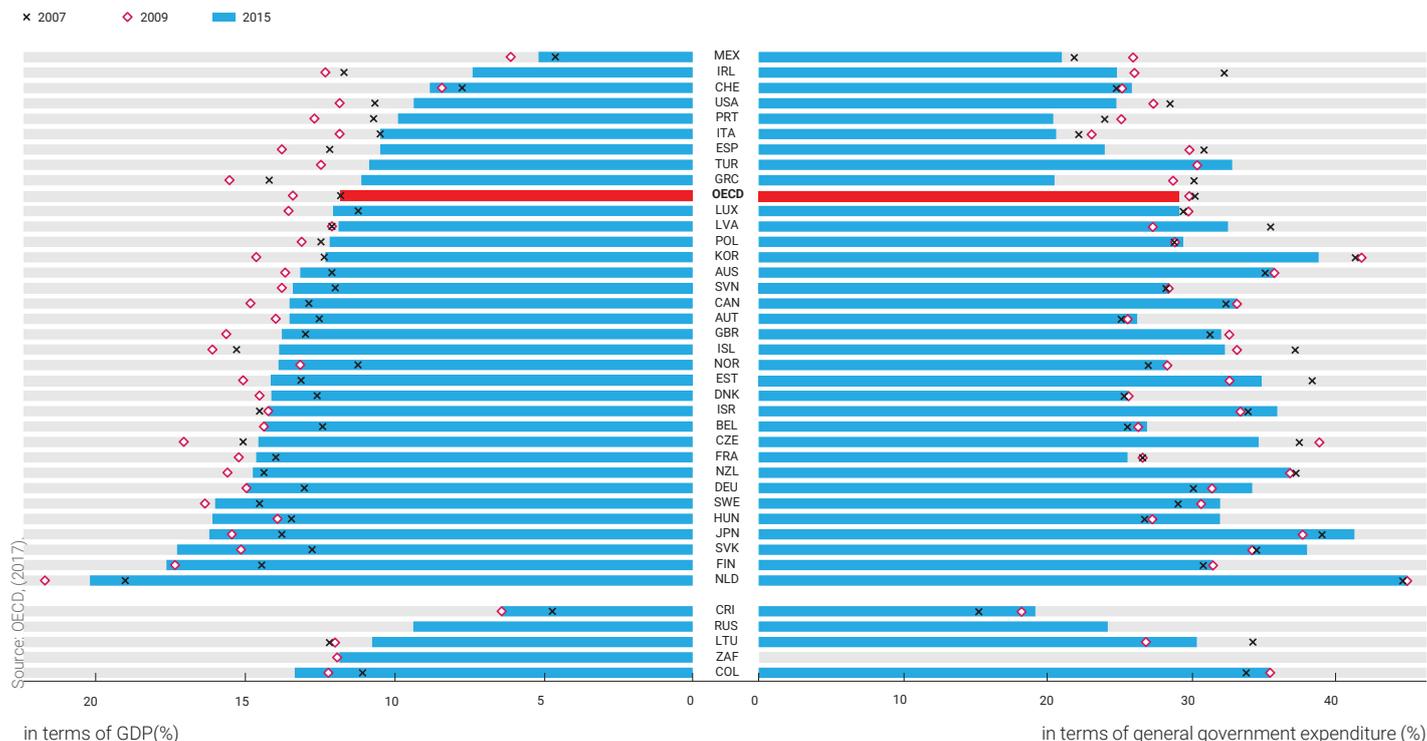
Beyond the initial expenditure, SPP can create markets for sustainable goods and services, as well as yield positive economic multipliers as funds are re-spent and flow through the local economy, contributing to investment (both foreign and domestic), technological and industrial innovation, and job creation (Saks, 2002). On the investment side, governments can signal to foreign companies that there will be a favourable and stable market for their sustainable goods and services, as well as leverage private finance for climate-friendly projects by improving risk-return profiles by assuming some risks. This can result in new technology development, as the public sector represents a key source of demand, as well as skills transfer, new job opportunities, and improved working conditions (IISD, 2015).

KEY MESSAGES

- There is growing agreement among public authorities that Sustainable Public Procurement (SPP) can be used as a strategic instrument to deliver environmental, economic, and social benefits, with a shift from focusing exclusively on the environmental dimension to achieving a balance between all three fundamental pillars of sustainable development.
- Public authorities wield enormous purchasing power worldwide. In Europe, public authorities are major consumers, representing 14% of the EU's GDP with €1.8 trillion in annual spending (European Commission, 2016). Public procurement accounts for 12% of GDP and 29% of total government expenditures on average in OECD countries, and up to 30% of GDP in developing countries.
- Beyond the initial expenditure, SPP can create positive economic multipliers as funds are re-spent and flow through the economy, contributing to investment (both foreign and domestic), technological and industrial innovation, and job creation.
- SPP relies on clear and justifiable criteria for products and services as guidelines for bid specifications and contracts. However, to date neither such common SPP criteria, nor a comprehensive methodology for measuring and communicating the benefits have been established.
- Although sustainable goods and services often have higher upfront prices, they are often more cost-effective from a life-cycle perspective. However, this misleading perception has been identified as one of the key barriers to SPP uptake. More widespread deployment of methodologies based on life-cycle costing will contribute to more extensive implementation of SPP.
- In addition, fiscal policies such as special tax provisions in the forms of subsidies, grants, tax credits, tax deductions, and exemptions can help overcome key barriers. These incentives aim at promoting market development and consumption of sustainable goods and services, while making them more competitive and affordable for all consumers including government authorities.

¹ There are other common terms for SPP, including green public procurement, environmentally preferable procurement, socially responsible procurement, and responsible procurement (UNEP, 2016).

Figure 1. General government procurement spending as a percentage of GDP and total government expenditures



Countries are using different policy vehicles to drive SPP implementation, ranging from single-aspect regulations – such as focusing on specific social groups, or buying recycled-content products – to comprehensive action plans and policies dedicated to SPP.

WHY SPP IS NEEDED

There is a growing consensus that SPP raises the opportunity for achieving policy targets, including improved environmental performance, market development for more sustainable products and services, and delivery of skills and technologies. Public authorities have identified a number of benefits of SPP that correspond to specific concerns, which can be incorporated throughout the procurement process.

Environmental benefits

- **Greenhouse gas (GHG) emissions reductions and improved resource efficiency:** By switching to energy-efficient office and household devices, lightning, and IT products, total energy consumption can be reduced, translating into lower GHG emissions. Similarly, procuring products with a lower material footprint reduces total resource use.
- **Improvement of waste management:** SPP practices often start with switching to recyclable office stationary and then proceed to waste management services (UNEP, 2017a). By awarding contracts to companies offering integrated services, e.g. better recycling and maintenance for IT devices, electronic waste can be reduced and in some cases almost completely eliminated (OECD, 2015).

- **Reduced emissions of hazardous substances and pollutants:** This contributes to the quality of water, ecosystems, and biodiversity.

Economic benefits

- **Cost savings:** By applying a life-cycle costing approach, public authorities take into consideration the cost of resource use, maintenance, and disposal, which are not reflected upfront (European Commission, 2016). Often products and services with lower life-cycle costs will lead to reduced environmental damages and costs throughout their lifetimes due to higher resource efficiency.
- **Innovation multipliers:** By procuring more sustainable products and services, the increasing demand would incentivize green technology innovation and develop markets for sustainable goods and services, providing more opportunities for employment and business opportunities for small and medium-sized enterprises (SMEs), with large potential multiplier effects in the local economy (European Commission, 2012; Saks, 2002). This builds on the broader strategic objective of governments to use procurement to stimulate innovative industries and technologies (Appelt and Galindo-Rueda, 2016).
- **Competitiveness:** This market development can make sustainability-minded companies more competitive, as firms that supply sustainable goods and services can expand their market shares in both domestic and international markets.

Social benefits

- **Employment and wellbeing:** The focus on SPP has broadened from concerns with economic performance (e.g. employment) towards the inclusion of issues associated with social justice and human wellbeing (UNEP, 2017b). SPP can promote equal opportunity employment by recruiting people who have less access to the labour market.
- **Public health:** Improved public health is widely identified as a positive social impact of SPP, resulting from reduced emission of pollutants and hazardous substances.
- **Skill development:** SPP requires specific knowledge and skills to generate the intended benefits. It thereby contributes to the spread of training and skill building, which not only benefits workers professionally, but also raises awareness about sustainability (OECD, 2015).

There are many examples of good practices in designing and implementing SPP emerging across countries, several of which are highlighted in Box 1.

BARRIERS TO ADOPTING SPP

While the potential benefits of SPP are recognized, several obstacles that compromise the intended objectives pervade current practices.

- There are variations in the level of enforcement prescribed by SPP policies, which leads to a mixed image of penetration across countries. SPP can be mandatory, voluntary or mixed, with a mandatory framework only at the national level, or only mandatory for certain product groups. The inclusion of all three SPP dimensions – environmental, economic, and social – also varies among countries. Even though the consensus has evolved to be more inclusive, some governments remain narrowly focused solely on the environmental impacts of SPP (UNEP, 2017a).
- The effective implementation of SPP relies on ambitious, clear and justifiable criteria for products and services, and common SPP criteria can benefit both public authorities and contractors to reap larger economic rewards. Having common criteria reduces the administrative burden for both sides, avoids distortions in the market, and benefits companies operating across regions (particularly SMEs who have limited capacity to manage disparate procurement criteria). However, common criteria are yet to be established worldwide or even region-wide. Despite the presence of international trade agreements involving relevant standards for 'green' products, the coverage of products is patchy and there remains an absence of dedicated standards for public procurement. Since 2008, the European Commission has developed more than 20 common "GPP criteria" which attempt to balance environmental performance against cost considerations, market availability, and ease of verification, leaving authorities wide discretion about how to apply the requirements (European Commission, 2017).

- The misleading perception that sustainable goods and services are more costly and the lack of specialized expertise on SPP also remain key obstacles. It is true that many sustainable goods and services are more expensive at the point of purchase, but this will be justified if the costs are rather calculated on a life-cycle basis, as multiplier effects can substantially exceed the initial outlay both for the public authorities as well as society (UNEP, 2017b). More widespread uptake of life-cycle costing awareness and methodologies will play a vital role.
- Many public authorities in Europe lack awareness of SPP, resulting in low political support. This results partly from the lack of communication of SPP impacts, which in turn results partly from the lack of a comprehensive assessment framework. Indeed, despite the fact that governments have been developing and implementing SPP for about 20 years, a standardized and comprehensive methodology for measuring and communicating the benefits is lacking (UNEP, 2016). The current scope of assessment is limited to a few potential SPP impacts, typically a handful of indicators impacting the environment (e.g. CO₂ reduction, energy and resource savings, and waste reduction) and the economy (e.g. cost savings from an life-cycle perspective, job creation, and innova-

BOX 1 GOOD PRACTICES OF COUNTRY EXPERIENCE WITH SPP IMPLEMENTATION

1. Environment. Environmental impacts can be reaped in different ways. In addition to procuring energy-efficient office and household devices, CO₂ emissions can be reduced by choosing contractors providing services favouring emissions reductions. Costa Rica called for tenders incorporating integrated distribution, management and collection services for new and waste tires in 2009. This successfully improved transport efficiency and translated into emissions reductions of nearly 7,000 t CO₂ equivalent by 2010. By procuring paper made of 60% recycled fibre, the state of São Paulo, Brazil saved around 8 million litres of water and reduced over 1,700 tonnes of waste. Similarly in France, by increasing procurement of remanufactured toner cartridges from 6% to 40%, electronic waste was reduced by over 7.5 tonnes in 2009-2011.

2. Economy. Economic benefits have been commonly realized so far by cost-savings based on a life-cycle analysis. The Hong Kong LED Traffic Light Retrofit project is estimated to save US\$48,500 annually from a life-cycle perspective. Likewise, regional economic impacts can be seen through increased inclusion of local companies, especially SMEs, in the supply chain. In the U.K., the YORbuild sustainable construction project sources building materials and plant machinery produced locally and then inserts strong environmental and social criteria, thereby promoting a key sector in the local economy.

3. Society. While employment is an economic benefit from SPP, it is commonly designed to target certain social groups. In the São Paulo case, demand for paper made of recycled fibre indirectly improved the income level of waste pickers. In the case of procuring remanufactured toner cartridge, the French government selected companies employing exclusively disabled people, promoting both development of such companies and access to labour markets for a marginalized group.

tion), while social impacts largely remain under-assessed. This raises a strong need for a comprehensive assessment framework to make a compelling business case for the potential of SPP, and to evaluate outcomes from its implementation.

Fiscal policies can play a role in minimizing some of these barriers. Aligning with sustainability criteria, fiscal incentives, such as subsidies and tax expenditures, can enable public authorities to overcome obstacles concerning costs and to consider the best outcome for the environment, the economy, and society, rather than simply picking the lowest cost option (UN/DESA, 2008). Several Asian countries have deployed fiscal incentives to promote SPP (UNEP, 2017c). In China, public offices receive price subsidies for procuring low-carbon vehicles. In Thailand and South Korea, public institutions receive performance bonuses for reducing environmental damages through procurement. In addition to environmental concerns, Japan promotes innovation in the marketplace by offering Eco-Products Awards to suppliers.

WHAT UN ENVIRONMENT IS DOING

UN Environment undertakes analyses on green fiscal policies, and provides advice to countries on how fiscal reforms can mobilise public finances for green investment, while addressing environmental and social externalities. Given its potential economic, environmental and social impacts, SPP is a significant government expenditure and a driver for green investment. In this context, UN Environment supports countries in expanding and implementing SPP by addressing the key barriers and assessing the economic, environmental, and social impacts.

In addition, UN Environment is a founding member of the Green Fiscal Policy Network. The Green Fiscal Policy Network² is a web-based platform which aims to disseminate knowledge and share country experiences of green fiscal policy reforms to deliver the SDGs. It also promotes policy dialogue on green fiscal policy in order to shape the global agenda in this area.

Further reading

Appelt, S. and F. Galindo-Rueda (2016), Measuring the Link between Public Procurement and Innovation, OECD Science, Technology and Industry Working Papers, 2016/03, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jlvc7sl1w7h-en>

European Commission (2012), Green Public Procurement—A collection of good practices. http://ec.europa.eu/environment/gpp/pdf/GPP_Good_Practices_Brochure.pdf

European Commission (2016), Life-cycle costing. <http://ec.europa.eu/environment/gpp/lcc.htm>

European Commission (2016), Green and Sustainable Procurement. http://ec.europa.eu/environment/gpp/versus_en.htm

IISD (2015), Implementing Sustainable Public Procurement in Latin America and the Caribbean, Optimizing Value-for-Money across asset lifecycles. <https://www.iisd.org/sites/default/files/publications/iisd-handbook-ingp-en.pdf>

OECD (2015), Going Green— Best Practices For Sustainable Procurement, OECD Publishing, Paris. https://www.oecd.org/gov/ethics/Going_Green_Best_Practices_for_Sustainable_Procurement.pdf

OECD (2017), Government at a Glance 2017, OECD Publishing, Paris. http://dx.doi.org/10.1787/gov_glance-2017-en

PwC (2016), SDG12: Responsible consumption and production—Ensure responsible consumption and production patterns. <https://dm.pwc.com/SDGSelector/Resources/12.pdf>

Saks, J. (2002), the Money Trail: Measuring your Impact on the Local Economy Using LM3, The New Economics Foundation, London. <http://neweconomics.org/2002/12/the-money-trail/>

UN/DESA (2008), Sustainable Development Innovation Briefs, Public Procurement as a tool for promoting more Sustainable Consumption and Production patterns. <https://sustainabledevelopment.un.org/content/documents/no5.pdf>

UNEP (2012a), Sustainable Public Procurement Implementation Guidelines: Introducing UNEP's approach, UN Environment Programme, Nairobi. <http://www.unep.org/resourceefficiency/Portals/24147/scp/procurement/docsres/ProjectInfo/UNEPImplementationGuidelines.pdf>

UNEP (2012b), The Impacts of Sustainable Public Procurement—Eight Illustrative Case Studies, UN Environment Programme, Paris, <http://www.unep.fr/scp/procurement/docsres/projectinfo/studyonimpactsofspp.pdf>

UNEP (2016), Measuring and communicating the benefits of Sustainable Public Procurement (SPP): Baseline Review and Development of a Guidance Framework, UN Environment Programme, Paris. http://www.scpclearinghouse.org/sites/default/files/measuring_and_communicating_the_benefits_of_sustainable_public_procurement_spp_baseline_review_and_development_of_a_guidance_framework_1.pdf

UNEP (2017a), Global Review of Sustainable Public Procurement. UN Environment Programme, Nairobi. https://wedocs.unep.org/bitstream/handle/20.500.11822/20919/GlobalReview_Sust_Procurement.pdf

UNEP (2017b), Factsheets on sustainable public procurement in national governments, UN Environment Programme, Nairobi. <http://www.scpclearinghouse.org/sites/default/files/factsheets2017.pdf>

UNEP (2017c), Comparative Analysis of Green Public Procurement and Ecolabelling Programmes in China, Japan, Thailand and the Republic of Korea, UN Environment Programme, Nairobi. http://www.greengrowthknowledge.org/sites/default/files/downloads/resource/UNEP_green_public_procurement_ecolabelling_China_Japan_Korea_Thailand_report.pdf

For information:

UN Environment

Economy Division/Resources and Markets Branch
11-13, chemin des Anémones
1219 Châtelaine/Geneva
Switzerland
T: +41 (0)22 917 82 43
F: +41 (0)22 917 80 76
E: gei@unep.org
www.unep.org/greeneconomy