



KURDISTAN REGIONAL GOVERNMENT

Ministry of Planning

Explanatory note on sustainable procurement

June 2016

Explanatory note on sustainable procurement

The concept of “sustainable procurement”¹ flows from the Increasing recognition of the strategic, cross-cutting role that public procurement should play in promoting sustainable development of the society that the procurement system serves, including in the environmental, economic and social welfare dimensions of development².

First- Main types of sustainable procurement policies and practices

A. *Environmentally friendly public procurement*

Sometimes referred to as “green procurement”, this is in many cases the most visible face of the sustainable procurement family of issues. The green procurement policy objectives include:

- 1- Reducing and eliminating unnecessary procurement;
- 2- Achieving improved energy efficiency;
- 3- Reduction of carbon footprint and climate change impacts of procurement spending;
- 4- Reduction/elimination of toxic materials;
- 5- Reduction of waste stream, e.g. by use of recycled or recyclable materials;
- 6- Efficiency in use of water
- 7- Use of biologically-based products that incorporate sustainably-managed raw materials and natural resources.
- 8- Green buildings (e.g., use of low carbon materials and recycled materials, recycling of construction waste, water and energy conservation features).

B. *Economic development*

Procurement policies can be formulated to promote economic development in various ways, including:

¹ According to *Procuring the Future – the report of the UK Sustainable Procurement Task Force* (June 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.” That definition also adopted by Marrakech Task Force on Sustainable Public Procurement, which is an intergovernmental initiative to develop sustainable procurement policies and practices, organized pursuant to promotion of sustainable procurement policies by the United Nations Environmental Programme (UNEP). <http://www.unep.fr/scp/procurement/whatispp/>

² For example, the following statement appears in the introductory notes to the 2014 EU Directive on public sector procurement: “Public authorities should make the best strategic use of public procurement to spur innovation. Buying innovative products, works and services plays a key role in improving the efficiency and quality of public services while addressing major societal challenges. It contributes to achieving best value for public money as well as wider economic, environmental and societal benefits in terms of generating new ideas, translating them into innovative products and services and thus promoting sustainable economic growth.”

- 1- Technological innovation and shifting markets (e.g., spurring the private sector to develop technological innovation and align their products with cutting-edge market demand, thereby promoting competitiveness).
- 2- Promotion of small businesses (private sector);
- 3- Promotion of development at the Region's level;
- 4- Support for economically depressed regions;
- 5- Ensure continuing availability of certain strategic industrial capacities.

C. Social wellbeing

A variety of issues related to social welfare are targeted in sustainable procurement policies and practices, including:

- 1- Fair labor practices, including the health and safety of workers performing procurement contracts (e.g., compliance with core ILO conventions);
- 2- Gender equality;
- 3- Fair trade policies (e.g., fair share of the price goes to actual producers³);
- 4- Preferences for businesses owned by or employing disabled or disadvantaged persons;
- 5- Public health and social care (e.g., involving third sector (mixed sector) and social care organizations);
- 6- Animal welfare.

Second- Implementation of sustainable procurement in the procurement process

Devising and implementing sustainable procurement policies is integrally related to the introduction of modernized procurement practices and procedures, which may pertain to entry-points in various stages and aspects of the procurement cycle. Those include:

- a. procurement planning (e.g., ascertaining the need for the procurement; supply chain risks and opportunities such as choice of materials, compliance by subcontractors);
- b. formulation of technical specifications (e.g., recyclability or biodegradability requirements, use of non-toxic materials, required energy efficiency, reference to eco-labels);
- c. qualifications of bidders (e.g., track record as to compliance with environmental, social and other sustainability requirements; certified environmental management program);
- d. bid evaluation (formulation and application of bid evaluation criteria based on value for money principles, which may involve a weighted combination of evaluation criteria quantified in monetary terms (e.g., life-cycle cost), mandatory criteria assessed on a pass/fail basis, and

³ The notion of acquisition of "fair trade" products is one of core possible elements of a sustainable procurement policy (in the social welfare dimension of a sustainable procurement policy program). It "aims to guarantee that producers in less developed countries receive a fair price that not only reflects the true costs of their production and work, but also makes socially just and environmentally sound production possible" (from BUY FAIR - A Guide to the public purchasing of Fair Trade products, p. 2 http://www.fairtrade.net/fileadmin/user_upload/content/Buy_Fair_Guide.pdf). Procurement systems/entities can adopt and apply in procurement proceedings fair trade policies and criteria, including in technical specifications as well as in bid evaluation criteria.

quality criteria applied on a rated basis (merit points); in the case of abnormally low-priced bids, procuring entities to ensure that environmental, social and labor standards are not being violated;

- e. comprehensive cost and impact assessment methodology -- application of a life-cycle cost approach, which involves the assessment of bids looking beyond the mere bid prices, but assessing also the costs of operation (e.g., fuel consumption), ownership (e.g., maintenance, repair, refurbishment), and eventual residual value or disposal costs of the goods at the end of their operational life (see examples in annex). More broadly, the “whole of life” assessment method (“cradle to grave”) assesses the resource consumption and environmental and other impacts of the supply chain process from the extraction of raw materials, through the manufacturing and procurement processes, all the way to disposal or recycling;
- f. contract management (e.g., procurement contract may require contractors to meet environmental performance standards and/or other sustainability-related requirements disclosed in the bidding documents; supply chain perspectives, including compliance by sub-contractors; as in the case of award criteria, those may be required to be related to the procurement contract (e.g., as regards manufacturing processes for supplies being procured)⁴. At the same time, apart from any sustainability policies that may be devised, as a basic principle, performance of procurement contracts should be in compliance with environmental, social and labor conditions required pursuant to the applicable law.

Third- Supportive resources

Effectiveness in the planning and implementation of sustainable procurement policies and practices may be facilitated by a number of steps:

- a. Sustainable procurement strategy – It is important properly to plan, systematically implement and formally promulgate the sustainable procurement policy. Development of a sustainable procurement strategy with an implementation plan is a useful planning and organizing tool. The sustainable procurement strategy should be subject to periodic review and revision in order to provide mid-course adjustments should those be necessitated.
- b. Introduction of e-Procurement – Apart from transaction efficiencies, e-procurement can also have a developmental multiplier effect by promoting the uptake of e-commerce by the Region’s companies, in particular SMEs, and increase their participation in procurement.
- c. Performance monitoring and measurement – An important tool for managing a sustainable procurement policy program is measurement of the quantitative and qualitative impacts of the sustainable procurement policies that are put into practice⁵. It is crucial, in advance, to set clear objectives and to define related performance measurement indicators. Social Return on investment measurement (SROI) is an example of an analytical tool that measures in monetary terms the value of positive social and environmental impacts, and can be useful for planning,

⁴ The 2014 EU Directive on public sector procurement contains the requirement that sustainability criteria and requirements applicable in the award and performance of procurement contracts must be related to the contract (art. 67.3 and 70).

evaluating and reporting on the results of sustainability-related programs (e.g., improved employment levels in targeted communities).

- d. Citizen engagement – At all stages of the procurement process, citizen participation can make an indispensable contribution to defining and achieving sustainability objectives, including through active monitoring of contract implementation.
- e. Capacity building – in order to properly devise and implement a sustainable procurement policy, it is necessary to provide training to the procurement workforce (e.g., in application of life-cycle costing analysis). Training should also be provided to other stakeholders, including the private sector and civil society.

⁵ British Standards Institute BS 8903:2010 (on sustainable procurement) (p. 13) refers to two types of performance indicators: management performance indicators, which measure an organization's capacity and efforts to manage sustainability issues, and operational indicators, which measure the actual outcomes of sustainability initiatives.

**Annex – Examples of life-cycle costing analysis
Energy efficient light bulbs**



	Traditional 100 W	Eco efficient 20 W
Life cycle	1 year	8 years
Energy consumption	100 W x 8000 h = 800 kW	20 w x 8000 h = 160 kW
Price	8 x 1.25 euros = 10 euros	12 euros
Usage cost (0.11 euros / kWh)	0.11 x 800 = 88 euros	0.11 x 160 = 17.6 euros
Total cost for consumer	10 + 88 = 98 euros	12 + 17.6 = 29.6 euros

Source: "Sustainable Procurement –Key Concepts-UNEP's Experience" (Brussels, 20 September 2011), http://www.irfnet.ch/files-upload/news-gallery/green_public_procurement/2.YAKER_UNEP.pdf

Bid evaluation approach – life-cycle cost of buses (price in dollars)

1. Initial costs

Bid prices (read publicly at bid opening)			
	Bid prices EXW//CIF	65,000	70,000
	Adjustment for delivery date	6,000	
			1,000
	Total	71,000	71,000

2. Cost of operation and maintenance

	Fuel cost per year	(8,000)	(6,000)
	Net present value for 6 years (discount rate is 10%)	34,840	26,130
	Spare parts – guaranteed price (average) for each year	(5,000)	(4,000)
	Net present value for 6 years	21,775	17,420
	Total	56,615	43,550

3. VALEUR DEPRECEIE (-- to be subtract)

	Operational life	(6 years)	(8 years)
	Residual value	0	2,500

4. Total life-cycle cost

	127,615	112,050
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Final ranking of bids	2	1
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