

Developing Public Procurement Policies for Sustainable Development and Innovation

Report from the International Roundtable

Hamar, Norway

8th-9th November 2006

Integrating environmental and innovation goal in public procurement policies

90 participants from Government and Business, representing 28 countries and 6 international organisations, met for two days in Hamar, Norway, to discuss how Public Procurement Policies can integrate the goals of competitive innovation and sustainable development:

- What is the state of play?
- What barriers need to be surmounted?
- How to do it in practice?

This report summarising the conclusions has been developed by GRIP based on presentations and discussions during the International Roundtable held in Hamar. This report does not attempt to summarise all the presentations that were made which are available at www.grip.no/hamar2006. The conclusions cannot be attributed to any of the individual participants or the funding agencies: the Nordic Council of Ministers' Integrated Product Policies Group, the Finnish EU Presidency and the Norwegian Ministry of the Environment.

The plenary session

The Roundtable opened with a morning plenary session providing an overview of the state of play regarding Sustainable Public Procurement and Innovation from two perspectives: government and business.

1 The Government perspective

Speakers emphasised the significant role that Public Procurement plays in the market: about 16% of Gross National Product in European countries. It is therefore understandable that Public Procurement is seen as a potential policy instrument by diverse policy makers.

Sustainable Public Procurement is viewed as a relatively new progression from Green Public Procurement (GPP). Whilst GPP involves taking environmental considerations into account in Public Procurement, SPP builds further by also including social and ethical criteria, like, for example, workers rights. There is general consensus that GPP is still at a relatively early stage of development and that SPP is even less understood.

The International communities are promoting GPP and SPP strongly as strategies for sustainable development. This was reflected in the presentations on behalf of the UN Marrakech task Force, the European Commission and the OECD.

Many countries have launched various programmes for “Greening” public procurement. Whilst there is agreement on what GPP means, implementation strategies vary considerably. Some focus on greening specific product groups, whilst others prioritise general competence in procuring organisations so as to allow them to take environmental considerations in all their procurements. The choice of prioritised product areas may in some cases be influenced by non-environmental political agendas.

Typical measures for implementing GPP strategies include:

- Education and training opportunities for procurement officers
- Information material (e.g. on procurement processes or product/market information)
- Voluntary standards (e.g. criteria sets)
- Tools: e.g. life cycle cost calculations, award criteria weighting
- Policy signals
- Regulatory (legal requirements on procurement)
- Awards for best practice

At present, it is difficult to evaluate results quantitatively due to the lack of standard indicators. National indicators for the proportion of public procurements that include environmental criteria supposedly range from 6-60%, but these are unsure figures. Even when concrete figures for the rate of inclusion of environmental criteria in requests for tenders exist, these give little indication of what level of environmental quality has been achieved or the scale of the environmental improvement that was achieved.

There seem to be indications that GPP promotes innovation in itself by opening up the procurement process and focusing on life cycle costs. Examples from Japan show that consistent application of environmental criteria can lead to innovation and cost reductions.

Although we lack hard, quantifiable results, the following barriers to implementation of GPP have been identified:

- Public procurement officers need more training and support
- The benefits of GPP – both environmental and financial have not been communicated enough
- There is little focus on life cycle costs in procurement. Many organisations separate “investments” (incl. procurement) from “operations” in their budgets and this is probably discouraging thinking in life cycle costs as each budget manager sub-optimises decision making.

- The legal interpretation of how one includes environmental considerations into procurement is uncertain, although the legal framework itself seems to be much clear. The challenge therefore lies in training and communication rather than new legislation.

As reflected in the EU Lisbon strategy, political interest in using innovation to give business a competitive edge is significant, and public procurement is perceived as a relevant instrument for achieving this. The challenge is to organise measures aimed at public procurement so as to have the greatest effect on both the environment and innovation.

2 The business perspective

The business sector is dependent on innovation. New products are being developed continuously and play a central role in generating profits. Good communication between demanding customers and innovative suppliers is a key element. Traditionally, private and public sector have often had the necessary long term relationships. New procurement regulations, enacted in order to ensure more open markets and avoid discrimination, discourage such close relationships. This often leads to more uncertain relationships and, as a result, a reduced willingness to risk the development investments necessary for innovation.

There is therefore a need to take account of the new procurement regulations so as to open for innovation and take environmental considerations into account. Some concrete input to procurement officers:

- Keep communication channels open... when this is allowed. Indicate what you expect to need in the future.
- Find out what is happening in the market and what alternatives are available – functionally and environmentally. Business is interested in having competent buyers.
- Use tools for doing the difficult parts of procurement – like calculating life cycle costs and weighting award criteria. Such tools are often available from suppliers.
- Use functional specifications, not detailed technical specifications. Specify what needs are to be satisfied – let the supplier find out how.
- Allow for weighting environmental considerations against other factors, like health, by using award criteria rather than technical specifications.

The plenary session was followed by 4 parallel sessions:

1. Developing national GPP strategies that contribute to innovation
2. Stimulating radical market and product innovation
3. Supporting the tender process through common criteria
4. Moving from GPP to Sustainable Public Procurement (SPP) – applying social criteria

As the presentations (see contributor list on back cover) are all available on www.grip.no/hamar2006, we will now summarise the conclusions from the 4 parallel groups.

Parallel Session 1 – Developing national GPP strategies that contribute to sustainable innovation

This session was the most popular, with over 30 participants, probably due to the fact that it was covering the integration of GPP with innovation at the highest/most general level.

As a result of the presentations and discussions, the group concluded that

- the business sector is positive to increasing the focus on stimulating innovation through GPP
- the definition of innovation is broad and includes, for example, development of new products, market access for new products, new ways of using existing products, new ways of making existing products, etc)
- measurement of innovation is therefore a challenge.

The following general success factors for stimulating innovation were:

- Communication and dialogue between buyer and seller
- Clear, long term signals about requirements and priorities
- Frameworks for handling risk and ownership of intellectual property
- Competent procurement officers (innovative procurement is more challenging)
- Management acceptance/motivation in the buyers' organisations

In order to stimulate innovation, GPP policies should encourage procurement officers to take the following steps in the procurement process by providing signals and necessary resources:

- At the start of the procurement process:
 - Needs assessment: do they really specify needs or are they over-specified (and thereby exclude alternative solutions)? Do you need to buy or rent?
 - Market analysis and communication: find out what the alternatives are, communicate long term plans and needs to suppliers as early as possible, investigate funding alternatives for innovation
 - Review your choice of procurement process (e.g. open for alternative bids)
 - Check for the possibility of
- During the competitive dialogue, use:
 - Performance based technical specifications to set minimum standards.
 - Award criteria to give an advantage to the best a competitive advantage without excluding too many bidders.
 - Life cycle cost calculations
- Review contract clauses, e.g. to include more post sales services

Outstanding issues:

- **Measurement:** lack of standardised indicators for both GPP and innovation
- **Strategic approach:** should one focus on organisational development for procurers or on specific products/needs and take the whole value chain?
- **Dialogue between suppliers and buyers:** how should one stimulate this effectively and when?
- **Risk Management:** innovation involves risk. Who takes it? What mechanisms should be available to take the risk away from procurement officers (or increase the rewards for him of taking the risk).
- **Budget mechanisms:** innovative solutions may often change how costs are spread across the organisation and in time. Does the budgetary framework handle this?
- **Tools and competence for procurers:** use of e.g. award criteria is more demanding for procurers. What tools are available? What training is required?

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Parallel session 2 - Stimulating radical market and product innovation

Parallel session 2 focussed on how GPP policies should stimulate radical innovation (i.e. quantum jumps”).

After hearing presentations from successful examples (see www.grip.no/hamar2006), the group concluded that radical innovation is characterised by:

- Large scale
- Coupled to policies/politics
- Long term horizon
- Paradigm shifts
- Solution is not necessarily at present developed into practical solutions (products and services)
- Sometimes, but not always coupled to advanced technology/knowledge
- Procurements supported innovation can be more effective than grants/subsidies

They identified the following examples of initiatives that can stimulate innovation through GPP?

- Buying energy services rather than energy
- Technology procurement – often coupled to forward commitments
- Setting standards
- PFI and PPP – Private Financing Initiative and Private Public Partnerships

When should radical innovation be stimulated through GPP?

- Critical mass of the procurement for larger prospects. (Energy efficiency)
- Scope in smaller prospects may be easier, dialogue....
- Champions are essential for small projects
- Larger projects have critical mass.
- Lack of volume may be compensated by believe in easier/ part of future market
- Available/willing market

The most important critical success factors were

- **Procurement competence:** Competent customer/procurer and highly professional procurement function
- **Commitment and planning:** Forward commitments, clear signals, early involvement, Setting targets/measurements, clear goals
- **Relationship management:** ensuring good communication between procurers and suppliers... and between suppliers – especially early in the process
- **Managing risk:** Have critical mass/volume in the procurements. Be open about the risks involved and discuss how these are to be managed. Ensure that risk-taker is adequately compensated.

Appropriate measures:

- Supply potential
- Commitment
- Targets in key priorities/ signalling, legislation
- Top Class/Expert level/professionalism/step change

Current barriers as seen from a business perspective:

- Poor specifications (detailed rather than pointing at the actual need)
- Poor planning and communication
- Bureaucracy/amateurism
- Risk aversion/specification of inputs

Parallel session 3 - Supporting the tender process through common criteria

The third parallel session focused specifically on whether a database for common procurement criteria would be an effective tool for promoting innovation. This is particularly relevant as the Nordic Council has funded a project focusing on increasing the commonality of environmental criteria by implementing a common format (as a first step).

The group concluded that the advantages of a common criteria base were:

- Common criteria have a stronger effect on the market by giving consistent signals – thereby promoting innovation
- Don't want free riders in the tender process – good to focus on fulfilling legal requirements
- Reduced costs of developing criteria by sharing background information and avoiding some duplication.
- A common criteria base is a tool for purchasers – thereby increasing the quality of bids and reducing costs of sales.

But they also saw some potential disadvantages:

- The necessary coordination could lead to unnecessary increased costs?
- The focus on the common database could threaten more effective ways of influencing procurement.

What geographical area should such a database cover?

- An international DB would compete with national databases – how should one secure national support for something which could be perceived as a threat to national criteria?
- Goal: whole EU (supply chain scope), but could start nationally
- Larger area gives resource efficiency (applies for eco-labels as well)
- Conclusion: it would be good if we could develop core criteria for a greater area.

How should one cooperate on development?

- Base oneself on existing criteria (e.g. eco-label)
- Focus on common environmental problems
- Use the same award criteria but allow for different national weighting
- Criteria should promote new markets
- The challenge is to get purchasers to use it. Maybe one should use suppliers to market.
- Suppliers can help in monitoring
- Focus on a few core criteria
- The database must be developed in collaboration between purchasers and suppliers
- Use the experience that we do have

How to ensure that common criteria promote innovation:

- Award criteria are the way forward: Award criteria are less time critical, are less sensitive to complaints about being too exclusive and therefore do not have to be updated so often.
- Dilemma: how to both ensure competition and go for what only one supplier can deliver
- Shift to LCC will contribute to eco-fa
- Use performance based specifications

Tender requirements:

- Important that there is an effect in the resulting decision (goal: 20%)

Parallel session 4 -

Moving from GPP to Sustainable Public Procurement (SPP) – applying social criteria

The focus of the fourth parallel session differed radically from the other three, which all looked at matching GPP with innovation. Parallel 4 also started from GPP but looked at how one could move forwards from Green to Sustainable Public Procurement by adding the Social pillar of sustainability to the Economic and Ecological pillars that are a part of GPP.

If we compare GPP with SPP, we see that:

- With GPP: much is in place (e.g. legal framework, guidelines). Ecological requirements have been mainly related to the product (legally simpler)
- With SPP: unclear legal framework. Few guidelines and recommendations. Requirements are related to production and have little/no impact on the product (more challenging legally).

As the social aspects of public procurement are usually already covered by national legislation in the developed countries, the questions of applying social criteria arises in the context of the global market. This is intrinsically a complex area and the first question that arises is whether one can do anything now? The group's conclusion was: yes, we can do much now. One example is just ensuring that local laws and international norms are applied.

The challenge is to create a wider and better space for incorporation of social/ethical standards and mitigate as much as possible the legal uncertainties as to how far one can go within existing public procurement legislation (e.g. EU and WTO/GPA). In the Swiss example presented at Hamar, one saw the use of transparency as a tool: to be open from start to finish. As social standards, one primarily used local rules + core labour rights, no influence when not related to product/service + conditions of contract <<< check with Kjerstin >>>.

How to do it? Choose a code of conduct, include it in the contract conditions and define how to audit it:

- social minimum standard (ILO)
- ecological

Recommendations:

- Establish procedures for identification of products and services that meet minimum standards for the whole production line and its life cycle (social and ecological)
- Developing tool for action plans for training, education and information
- more countries should develop standards.

➔ Direct recommendation to the Marrakech Task Force on SPP: establish minimum social and environmental standards (general conditions not related to products).

The Hamar International Roundtable - Contributors

The Roundtable was a meeting place, a place for discussion, so all participants contributed and, hopefully, everybody learnt, but the basis for discussion was provided by an impressive collection of presentations providing the background picture and influencing focus and priorities:

- **How to make Public Procurement Sustainable** - Helen Bjørnøy, Norwegian Minister of the Environment
- **Developing an International Tool Kit for SPP** - Philip Christensen, Swiss Federal Department of the Environment, Transport and Communications.
- **OECD's experience in improving the environmental performance of public procurement** - Soizick de Tilly, OECD
- **How can GPP contribute to the EU Lisbon and Sustainable Development strategies? National Action Plans, targets, capacity building** - Jill Michielsen, DG-Environment, European Commission
- **GPP Policies in Japan** - Kazuyuki Harada, Japanese Ministry of the Environment
- **A business view of the Role of Public Procurement in stimulating Innovation: experience and opportunities** - Dr. Anders Nordström, Group Advisor, Sustainability Affairs, ABB
- **What kind of market demands make Håg greener?** - Hilde Britt Melbye, Director of R&D , Håg ASA
- **Policy needs assessment: what are the major elements in a national GPP policy and how do they relate to innovation?** - Mark Hidson (ICLEI) and Isabella Marras (UNEP/DTIE)
- **Measuring progress: the UK flexible framework and how this approach can stimulate innovation** - Barbara Morton, Department of Environment, Food and Rural Affairs, UK
- **GPP issues in China – stimulating innovation** - Zhang Xiaodan, China Green Purchasing Network, China
- **A comparison of Japanese, US and Swedish Green Procurement Policies in the context of Innovation** - Izumi Tanaka, the Swedish Institute for Growth Policy Studies, ITPS, Sweden
- **Experience in using public procurement to stimulate innovation in the private sector** – Anna Katrine Hvardal on behalf of Bjørn Strandli, Leader of the Norwegian GPP panel
- **How should the business sector be stimulated to promote GPP?** Erik Lundeby, Confederation of Norwegian Business and Industry/WBCSD Regional partner
- **Energy Star – how did it start, how was it implemented, why was it such a success?** Rachel Schmeltz, US EPA/Energy Star, USA
- **EUROCONTRACT - Guaranteed Energy Performance: An example of harmonized procurement power to stimulate energy efficiency and eco-innovation in buildings** - Ralf Goldmann, Berlin Energy Agency, Germany
- **Technology procurement as instrument for removing hazardous chemicals – an example from Sweden** - Ulf von Sydow, Jegrelius Research Centre, Sweden
- **EU and UK policies aimed at promoting innovation through public procurement** - Colin Cram, North West Centre of Excellence, UK
- **Public research and development contracts (PRD) – integrating procurement and product development - cooperation between public sector and Norwegian SME's** - Tom Gulbrandsen, Innovation Norway
- **Presentation of the Nordic Council of Ministers' Pilot Project on Environmental Criteria – focus on the criteria format and illustrations through practical examples** - Øystein Sætrang, GRIP
- **How the Swedish energy authorities are using common procurement criteria to promote innovation in the energy area** - Egil Ofverholm, Swedish Energy Agency
- **Why GPP is not promoting innovation now, and what should be done to change this?** Hans Wendschlag, Hewlett Packard
- **What influence can good criteria have on promoting innovation? How should the criteria be formulated? Concrete examples from 3 branches.** - Preben Kristensen, Danish Council For Sustainable Business Development
- **Ethical and Social Criteria in Public Procurement. Any limitations?** - Kjerstin Ongre - GRIP Foundation for sustainable production and consumption, Norway
- **Integration of social considerations in public procurement - perspectives and constraints** George Jadoun, International Training Centre of the ILO
- **SPP issues in China** - Wu Yuping, State Environmental Protection Administration, China
- **What has been achieved at this Roundtable? Reflections** - Tarcisio Alvarez-Rivero, UN/DESA

The presentations are available at www.grip.no/hamar2006.

The Roundtable was funded by the Nordic Council of Ministers' Integrated Product Policy Group, the Finnish EU Presidency and the Norwegian Ministries of the Environment and of Foreign Affairs.