



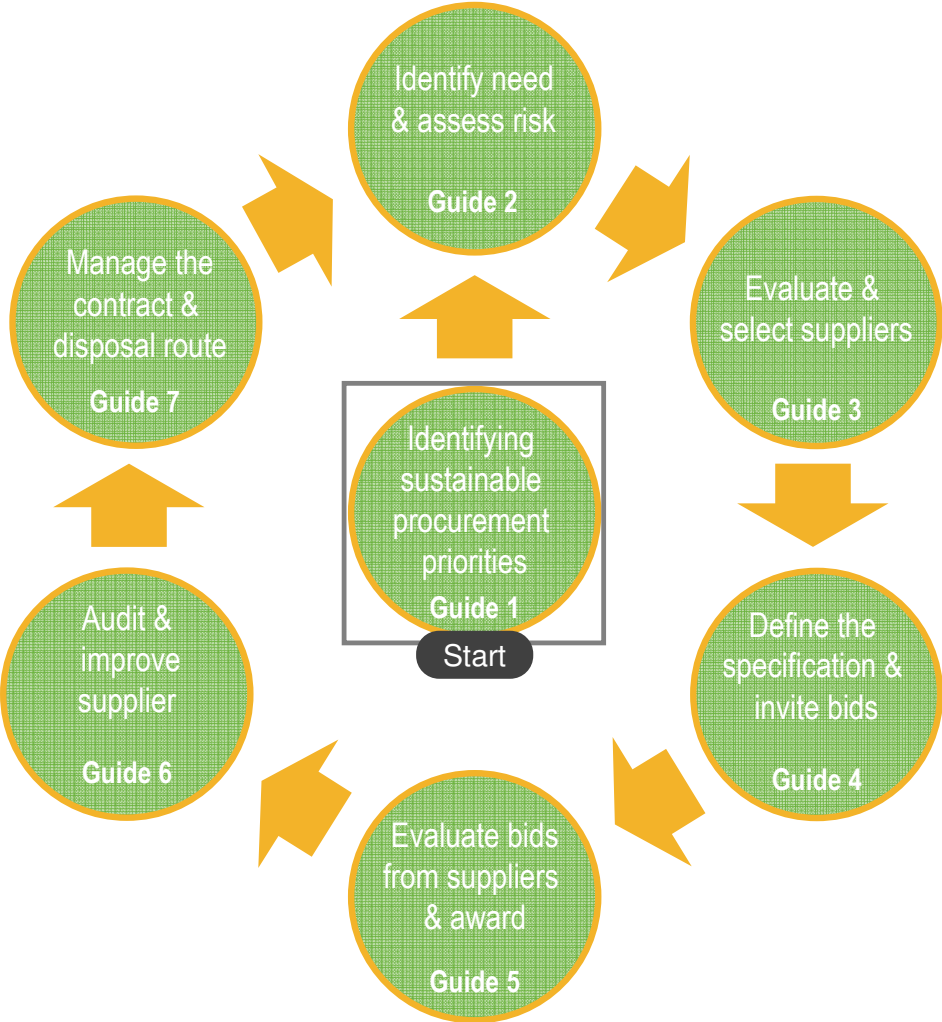
Guide 1 to Sustainable Procurement

Identifying Sustainable Procurement Priorities

A guide for agencies

June 2010

This guide is part of a series of documents focussed on ‘Integrating Sustainable Procurement into Practice’. This material was developed by Sustainable Procurement Limited for the United Nations Marrakech Taskforce for Sustainable Procurement of which the New Zealand government is a member. The series is based around a typical procurement process with a guide for each relevant stage as identified below:



Please see the separate guidance notes referenced for other stages of the procurement process.

First Published June 2010
 Government Procurement Development Group | Ministry of Economic Development
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Has your agency identified the products/ services that have the highest economic, environmental or social impact?

Background

This guidance document gives a step-by-step explanation of the process, to identify and prioritise key sustainability impacts to inform your sustainable procurement approach. It then details how to turn these sustainability impacts into procurement risk questions, so that they can be used to prioritise commodities (goods, services and works) for sustainability improvement. Finally, it uses the prioritisation of these commodities to inform the procurement strategy that should be applied during the procurement process.

Why is this Important?

By determining the areas of sustainability concern for your agency and then applying these to your procurement activities you can ensure that you are focussing your efforts in the right areas. It is therefore absolutely critical that you undertake an assessment of sustainability impacts and apply this to your procurement expenditure to determine priorities.

Once completed, you may decide to focus on a range of issues from those that are high impact and high priority, but may be difficult to address such as construction. Coupled with a range of simpler, easier to address issues such as paper, energy efficient computers etc so that you can show some early success.

There is no, right or wrong answer to the mix of priorities you identify and each country and organisation will have different needs. However, it is critical to ensure that high impact areas are not dismissed as too difficult and that the key sustainability concerns of the government and organisation are used to develop risk questions to guide procurers actions.

This initial risk assessment forms the basis of the 'Integrating Sustainable Procurement into Practice' series. Using a risk based approach ensures that decisions taken by procurement are logical, structured and defensible under scrutiny. It is therefore essential that agencies undertake the actions detailed in this guidance as it informs all other aspects of sustainable procurement activity.

Can it be made Simpler and Quicker?

The steps in the guide are as simple as possible given the importance of the task. However, what makes this assessment quick or slow is how much you deliberate on the specific issues. It is recommended that you make quick judgments on issues. If you have missed or misjudged anything it should be identified in consultation. It is also suggested that the assessment is undertaken by a small working group, say 3 people, working together quickly to brainstorm issues. If you can keep this group together, the task will get much faster as they begin to appreciate that many products and services have similar sustainability impacts.

Problems Identifying Expenditure

This is a common problem in many agencies as to be able to easily identify expenditure you really need a computer system that categorises every procurement order against a common set of expenditure codes e.g. construction, management consultants, lap tops, stationery. Most agencies have some kind of expenditure coding, at its most basic form it may just be at a budget code level.

The approach is to just get the best information you can, however basic it may be. If the information is too high level then, you will need to consult with Finance and other colleagues in the agency and estimate how much you spend on what. It must be recognised that expenditure analysis is as much about good procurement as sustainable procurement, because if you don't know how much you spend, how do you know you are getting the best deal from suppliers?

How to use this guide

The guide is structured in a chronological process, so you need to determine your current status in this activity and start at the appropriate stage of the guide. However, the guide does follow a logical order so it is recommended to start at the beginning and work through to avoid any confusion..

Steps within This Guide



Identifying sustainability impacts

In taking a prioritised approach to sustainable procurement, one of the first actions necessary is to determine the key impacts or issues that you require your sustainable procurement approach to address. Sustainable procurement encompasses social, environmental and economic aspects and for any approach to be truly sustainable it must deal with all three aspects.

In developing an approach for a public sector organisation you first need to identify:

- Government sustainable procurement objectives (see www.procurement.govt.nz)
- Your individual agency's sustainable development objectives

In this initial research you are trying to identify key sustainability themes or issues that could be delivered by a more sustainable procurement approach. This is an area that can be influenced through procurement by placing an increased focus on energy efficiency, logistics or the manufacturers own production processes. At an agency level, objectives may be placed on such issues as supporting local business or protecting the organisations reputation etc.

The approach here is to create a long-list of possible issues and impacts that your approach to sustainable procurement could support, for instance:

- Climate change
- Ozone depleting chemical eradication
- Natural resource use optimisation
- Waste minimisation
- Job creation
- Equality of people
- Fair pay for suppliers staff
- Economic regeneration
- Legal compliance
- Public image enhancement

The above list is just a few examples of the issues that a more sustainable approach to procurement could begin to support.

The next stage is to refine the long-list of possible sustainability issues to a short-list by prioritising these sustainability issues. The approach here is to eventually turn these issues into specific risk questions that a procurer can assess any purchase for. It also prioritises effort into the areas that are of greatest concern and have the highest scope for improvement.

Prioritise sustainability issues into a short-list

There is no exact science to this and indeed much of it may depend on the resource you have available or the political environment in which your agency operates. For example, you may have no choice but to deal with economic regeneration issues because that fits with your agency's focus; or indeed if you have limited resources you may decide just to focus on one issue such as climate change. However, to truly practice sustainable procurement the approach needs to be balanced, addressing social, environmental and economic issues.

To prioritise issues you need to create a ranking system, rank each issue simply as Low, Medium or High, scoring 1, 2 or 3 points respectively and consider the following points:

a) How important is this issue to the government?

What you are looking for here are specific targets or objectives that the government has made on an issue e.g. to reduce carbon dioxide emissions to 1990 levels or to create 10,000 new jobs etc

b) How important is this issue to my agency?

What you are looking for here are specific targets or objectives that your agency has made on an issue e.g. to improve energy efficiency or to support apprenticeships to reduce local unemployment etc

c) What scope is there to improve?

Here you need to think about how well the issue is currently addressed, if it is already well managed then there may be little scope to deliver any improvement. However, if the issue is not currently managed very well, you may be able to deliver increased benefits.

d) Will the market be able to respond to this issue?

Rank this issue simply as unlikely, possible or definitely, scoring 1, 2 or 3 points respectively. You need to consider if suppliers will be able to support this initiative, this is not a popularity test as suppliers may be resistant to change. It is however, your judgement as to whether the industry in your location could deliver improvement in this issue.

So effectively you should end up with something that looks like this:

Table 1 – Illustration of sustainability impact prioritisation

Issue	Government Priority	Agency Priority	Scope to Improve	Market Responsiveness	Total
CO² Reduction	High = 3	High = 3	High = 3	Definitely = 3	12
Ozone Protection	Medium = 2	Medium = 2	Low = 1	Definitely = 3	8
Natural Resource Use	High = 3	High = 3	Medium = 2	Possible = 2	10
Public Image	High = 3	High = 3	High = 3	Possible = 2	11
Fair Pay	Medium = 2	High = 3	High = 3	Low = 1	9
Legal Compliance	High = 3	High = 3	Low = 1	High = 3	10
Economic Regeneration	High = 3	Medium = 2	Medium = 2	Low = 1	8
Waste minimisation	Medium = 2	Medium = 2	Medium = 2	Possible = 2	8

Note: this list is an example only.

Once you have this basic chart, you may wish to add additional criteria to refine the selection of sustainability issues depending on your operating environment. For most agencies there will be many issues and the above list should not be taken as the answer.

Based on the example above (table 1), the rank order of issues for sustainable procurement in this agency would be:

1. CO² (Carbon dioxide) reduction
2. Public image protection and enhancement
3. Natural resource use efficiency
4. Legal compliance
5. Fair pay
6. Economic regeneration
7. Waste minimisation
8. Ozone protection

Now you have determined the proposed short-list of key sustainability issues, it is time to begin consultation with the stakeholders on the issues you plan to address. These stakeholders may include both internal colleagues as well as external organisations. The number of stakeholders will vary from agency to agency, but the point of this consultation is to check that the issues you have identified are appropriate to stakeholders needs. It is important that all are in agreement before proceeding to the next level. Once the short-list has been agreed, the next task is to turn the issues into procurement specific questions that can be used to assess proposed contracts or agency-wide spend for a specific good, service or work (commodity).

Developing sustainability risk questions

Having rationalised the sustainability issues to a short-list it is now necessary to turn these issues into specific questions that are more applicable to procurers. Let's use the following short-list as an example to take you through the logic, short-listed issues are:

1. CO² reduction

2. Public image protection and enhancement
3. Efficient use of Natural resources uses
4. Legal compliance
5. Fair pay

Firstly, remember, this is not an exact science, the best approach is to think about each issue and how procurement could support improvement. Using CO² reduction as an example, Procurement could focus on any of, energy in use, energy in production, distance goods travel, mode of transport for goods, energy impacts of raw materials etc. However, the approach in starting sustainable procurement is to keep the issues as simple as possible to begin with, enhancing them over time.

When deciding which aspect of the CO₂ reduction issues to focus on you must determine where you believe you have the biggest opportunity to make a difference, where the market will be most responsive and where the issue will be simplest to address. For this example let's look at CO₂ during use.

Using this approach of examining options it should be possible to determine key questions that could be applied to any procurement and form the basis of an initial risk assessment. These should ideally be kept generic to avoid unnecessary complexity for procurers. See example on Table 2 below.

Table 2 – Illustrative example of possible risk questions

Issue	Risk Question	Notes
CO ² reduction	Does the purchase have potential for high-energy consumption?	<i>Consider if the item or service being contracted for is typically a high energy use such as a pump, a bus, a service provider of power washing services etc.</i>
Public image protection and enhancement	Is there a sustainability risk to our organisations reputation?	<i>Taking the answers to all the risk questions into account, is there the potential for negative press through the letting of this contract, possible areas include timber, buying from big polluters, child labour in the supply chain, switching suppliers and causing a supplier to go out of business etc</i>
Efficient use of natural resources	Is the product made of or does the service provider use unsustainable material?	<i>This is a potentially complex question, in the first instance consider if the materials that the product is made or the service provider uses actually regenerates itself within 50 years such as softwood timber, as opposed to metals/ plastics which do not regenerate</i>
Legislative compliance	Is the industry that supplies this inspected by Government to ensure compliance with environmental standards?	<i>In many instances, the most environmentally damaging industries are inspected regularly.</i>
Fair Pay	Is there the likelihood of a developing world supply chain?	<i>Is this supplier operating in the developing world or in a country that has difficulty enforcing a minimum wage? E.g. Africa, South America, parts of Asia. This is often the case for electronic components, metals, hardwoods, textiles etc.</i>

NOTE: The questions highlighted in table 2 above are just an example designed to illustrate typical sustainability issues that could be addressed through a more sustainable approach to procurement.

The questions in this example are generic so that they are equally applicable to all commodities (goods, services and works). However, it is important to recognise the limitations of this simplistic approach. The issues highlighted in table 2 are not going to be sufficient as the only sustainability assessment for many purchases, therefore a more detailed sustainability risk assessment will be needed for each case. See Guide 2 of this series.

Assess risk vs spend

Procurement in any agency has limited resource and cannot be expected to deal with all sustainability issues for all purchases. To avoid wasting time, it is important to have some form of prioritisation. This ensures that limited resources are not expended on commodities/contracts that are perceived to be high sustainability risk, but are in fact not as important as others.

To prioritise procurement effort it is first necessary to undertake an agency wide expenditure analysis. Basically, to determine how much money is spent each year on different commodities within your agency. The ease or difficulty of this task will be dependent upon the degree of management information available from any information technology system. At best, it will be possible to get a very detailed list of precise expenditure for a vast range of commodities, at worst it may be nothing at all, in which case agencies are advised to estimate key expenditure using any budgetary information available. It is however, essential to determine as accurately as possible how much the agency spends and on what, in as much detail as possible. For example:

Civil Engineering Construction	-	\$1,000,000,000
Buses	-	\$10,000,000
Computer Equipment	-	\$8,000,000
Software Development	-	\$7,500,000
Electricity	-	\$5,000,000
Furniture	-	\$4,000,000
Textiles	-	\$3,000,000
Paper	-	\$1,000,000

Note: The above example is for illustrative purposes only.

Agencies who lead in this field can analyse their exact expenditure to a cent level over thousands of specific items.

Having analysed the agency's annual expenditure it is necessary to undertake a research/consultation exercise to determine if there are any forecast changes in expenditure patterns or indeed if any historic expenditure was a one off that may have distorted figures. For example, a new building project or major investment in IT infrastructure etc. The list should then be reviewed and amended to smooth out any peaks or troughs in expenditure, adding in any additional forecast expenditure patterns for the coming year. The expenditure list should then be ranked in spend order. For example:

Civil Engineering Construction	-	\$825,000,000
New School Construction	-	\$25,000,000
Buses	-	\$8,500,000
Computer Equipment	-	\$8,000,000
Software Development	-	\$7,000,000
Softwood Timber	-	\$5,000,000
Hardwood	-	\$990,000
Textiles	-	\$900,000
Recycled Paper	-	\$700,000

Having determined the amount of expenditure, it is now necessary to determine the indicative sustainability risk inherent in each commodity. This could be a lengthy and complex exercise and indeed to assess each area for all its sustainability impacts would be a huge exercise. However, the approach here is to apply the short-listed key sustainability questions identified earlier (see section 3) to all areas of expenditure to determine priorities.

This exercise cannot be undertaken in isolation and needs to be delivered by a small group, ideally the group should include someone who has expertise in sustainability issues. However, if such a person is not available, it is still possible to assess risks, but the process may be slower due to a lack of technical knowledge. In such a scenario it is suggested that additional consultation is undertaken to verify the assessments made.

The approach is to take each expenditure area in turn and answer the key risk questions identified. For example:

Table 3 – Illustrative example of simple risk assessment

Computer Equipment - \$8,000,000 annual spend

Risk Question	Answer	Notes
Does the purchase have potential for high-energy (Gas, Water, Electric, Petroleum derivatives etc) consumption?	Yes	<i>Computer equipment includes both desktops and lap tops as well as peripherals and servers. Due to the volumes consumed, power use is a key factor.</i>
Is there a sustainability risk to our organisations reputation?	No	<i>Whilst computer equipment has a developing world supply chain, uses energy and is often made of unsustainable materials it is not typically subject to pressure group scrutiny,</i>
Is the product made of or does the service provider use unsustainable material?	Yes	<i>Computer equipment is often made from virgin non-renewable materials such as plastic, metals etc.</i>
Is the industry that supplies this inspected by Government to ensure compliance with environmental standards?	No	<i>Given that the production of computer equipment tends to occur overseas it may be appropriate to consider whether there are other bodies which can inspect the supplier</i>
Is there the likelihood of a developing world supply chain?	Yes	<i>It is highly likely that both product assembly and component manufacture will be in the developing world.</i>

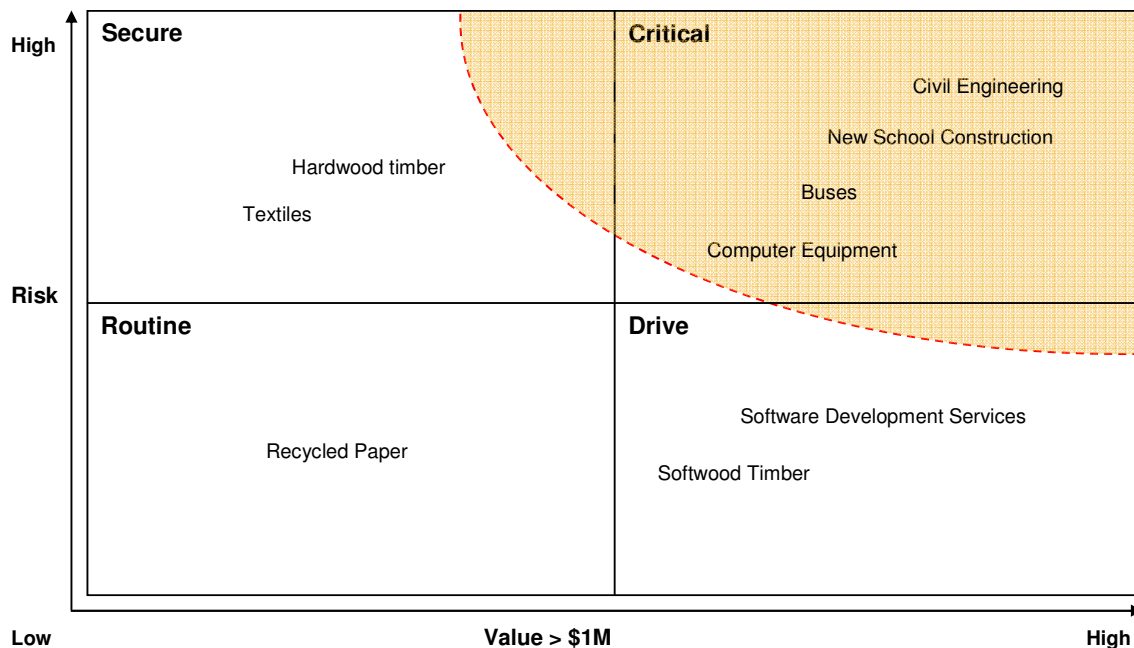
Whilst this exercise may seem difficult, it can be completed relatively quickly. For example, some of the issues identified for Computer Equipment are applicable to other Electronic Equipment and can therefore be duplicated, speeding up the assessment process.

To enable items to be ranked, it is suggested that questions answered “yes” are scored 1 point and “no” scored zero. The scores can then be totalled and ranked. It is suggested that the ranked commodities are consulted on within the organisation to verify the answers and the risk rank revised accordingly.

Agree a priority list

To summarise, having completed this expenditure and risk analysis exercise you now have two sources of key information, expenditure ranked by total spend and expenditure ranked by indicative sustainability risk. These two sources of information can now be used to identify sustainable procurement priorities by plotting specific commodities as precisely as possible on a matrix using expenditure and risks as follows.

Table 4 – Illustrative example of sustainable procurement matrix



Source: Matrix based on original works courtesy of PMMS Consulting Group

The value axis above is normally set at ½ percent of the organisations total external annual spend. In most organisations there will relatively few items that are above this level of spend, with numerous low expenditure items. Pareto¹ principles apply. The risk threshold is simply high and low, and judgement needs to be used on where to place specific commodities informed by the risk assessment undertaken.

The four segments in table 4 relate to the indicative procurement strategy that should be considered when dealing with the sustainability impacts of procurement. The dashed line, indicates commodities that should be prioritised for sustainable procurement activity first (those in the shaded area). This encompasses items beyond the “critical” box, as there can be items that are only marginally outside the priority area, but with a small change would cross the line and become clear priorities. Such commodities need to be kept under regular review.

The positioning of this dashed line to indicate priorities is not an exact science and judgement will have to be used to position it appropriately for each individual organisation. However, as an indication it should be positioned so that commodities that are very close to the “critical” box can be captured.

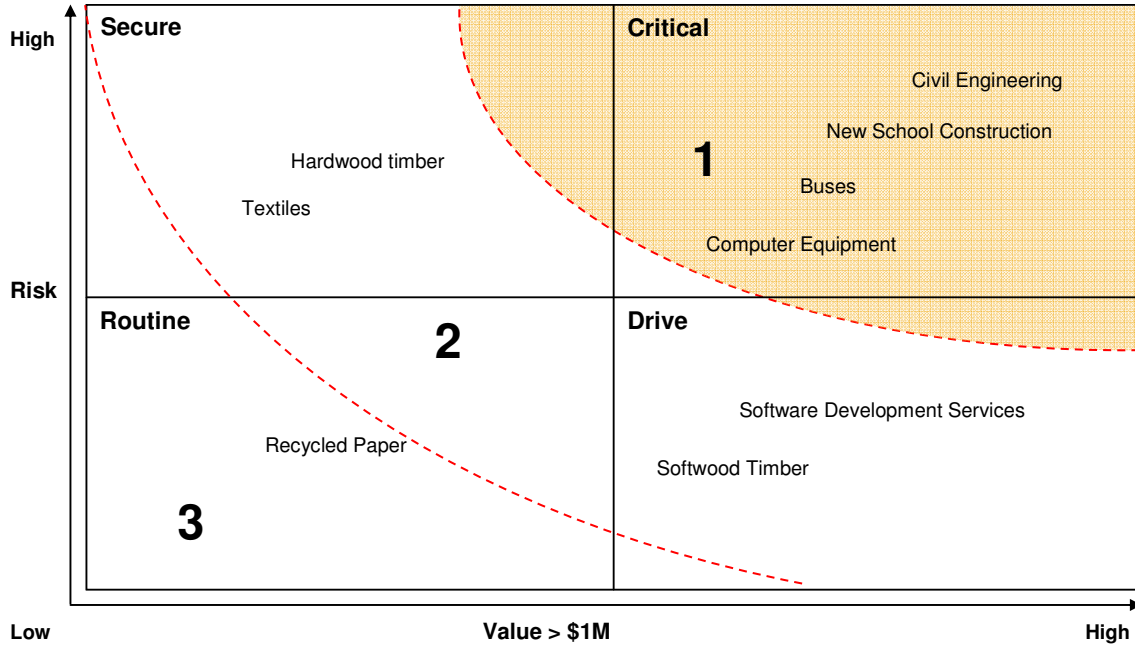
In terms of priorities, the approach is to allocate resource in diagonal sweeps from top right, to bottom left through the commodities in the diagram. See table 5 below:

- Section 1 - The highest priority items as they have both a high sustainability impact and are high spend for the agency.
- Section 2 - The medium priority items, as they encompass both higher risk, but low spend items and High value, but low risk items
- Section 3 - Lowest priority items, low risk and low value

¹ The **Pareto principle** (also known as the **80-20 rule**, the **law of the vital few** and the **principle of factor sparsity**) states that, for many events, 80% of the effects comes from 20% of the causes.

Spend is a factor in this assessment, as it is both instrumental in influencing the supplier, is often indicative of volume consumed and is a useful measure to show % of overall organisational spend where sustainable procurement is taking place.

Table 5 – Illustrative example of sustainable procurement prioritisation



Source: Matrix based on original works courtesy of PMMS Consulting Group

Determine the appropriate strategy

The analysis and positioning of commodities using a sustainability matrix does not only inform the priority that should be given to a particular commodity/spend area, but it also informs the indicative procurement strategy that should be applied as follows:

Table 6 Suggested procurement strategy for “Acquisition” commodities

Routine (Low Value & Low Sustainability Risk – Lowest priority for resource allocation)

- Specify simple sustainability criteria in the specification
- Numerous suppliers should exist, so prefer those with good sustainability practice
- Do not pay a price premium for sustainability
- Change suppliers to better cost/ sustainability regularly
- Minimise transaction cost as far as possible

Secure	Critical
Routine	Drive

Matrix based on original works courtesy of PMMS Consulting Group

Table 7 Suggested procurement strategy for “Drive” commodities

Secure	Critical
Routine	Drive

Drive (High Value, but Low Sustainability Risk – Medium to High, priority for resource allocation)

- Really tough focus on total cost reduction
- Drive cost down, drive sustainability as far as possible (Minimal sustainability issues)
- Specify the sustainability criteria in the specification
- Numerous suppliers should exist, so prefer those with good sustainability practice
- Change suppliers to better cost/ sustainability regularly

Table 8 Suggested procurement strategy for “Secure” commodities

Secure (Low Value, but High Sustainability Risk – Medium to High priority for resource allocation)

- Specify either detailed sustainability criteria in the specification and/or ask the suppliers for proposals to improve sustainability
- Include sustainability in pre-tender and tender assessments
- Select the most sustainable supplier
- Few suppliers will typically exist, so ensure you are a preferred client for their business
- Identify alternate suppliers/products/services you could utilise if this contract goes wrong

Secure	Critical
Routine	Drive

Table 9 Suggested procurement strategy for “Critical” commodities

Secure	Critical
Routine	Drive

Critical (High Value and High Sustainability Risk – Highest priority for resource allocation)

- Focus on both sustainability and cost
- Develop a close supplier relationship
- Ensure suppliers selected operate in a sustainable manner
- Specify minimum sustainability criteria in the specification
- Challenge the suppliers for proposals to improve sustainability and cost
- Negotiate hard to improve sustainability and minimise cost
- Ensure supplier has a culture you can work with to improve sustainability year on year
- Identify alternate suppliers/products/services you could utilise if this contract goes wrong

The strategies shown above are indicative and give a general guide to overarching principles that should be considered when determining a sustainable procurement strategy for any given commodity. It is however, important to recognise that Procurement need to balance costs with other sustainability needs. As such the approach outlined is to drive costs down in low

sustainability risk commodities. It must however, be recognised that the more sustainable solution is not necessarily more expensive and Procurers must always have a tough focus on cost.

Minimising subjectivity in analysis

It must be recognised that sustainable procurement requires both quantitative and qualitative judgements to be made. Subjectivity is inevitable in a subject as broad ranging as sustainable procurement. It can however be minimised in two ways, firstly by comprehensive analysis of sustainability issues using a life cycle approach. That is examining in detail the sustainability impacts associated with every component at every stage of its life (raw material, manufacture, use and disposal) for a given good, service or work. However, this is rarely applied as it is time consuming and expensive to complete.

Practically subjectivity is best minimised through consultation and teamwork, with a broad range of parties including suppliers. By combining different experiences, views and opinions this acts as a “sense check” and helps to ensure that any judgements made are as reasoned as possible.

It is recommended that wide ranging consultation is undertaken to determine agency spend analysis, expenditure pattern verification (historic and forward planned) as well as sustainability risks in specific commodities and the finalised positioning of the commodity area on the sustainable procurement matrix.

For day-to-day procurement activity consultation requirements can be minimal, in effect just liaising with the specifier or other experts concerning any proposed sustainability criteria. The degree of consultation necessary tends to increase as the procurement activity becomes more strategic, with items in the critical area often requiring much wider consultation on the proposed approach. As these items are both high value and high risk, it is crucial that the strategy adopted meets the needs of the organisation and therefore numerous stakeholders may need to be bought into the procurement strategy developed.

Supplier or market consultation is also useful to ascertain market readiness to any sustainable procurement initiative. It must however be recognised that some suppliers may be resistant to change and to take their council without validating views more widely could constrain a sustainable procurement approach. The same is also true for internal clients and is symptomatic of any initiative that pushes boundaries.

Summary

Identification of sustainability impacts is a critical activity as it informs numerous actions throughout the procurement process. Importantly, it identifies the key areas of concern to the organisation and enables Procurement to focus its efforts for maximum return against any corporate sustainable development agenda. Furthermore, by having clear impacts identified it is possible for these to be turned into key risk questions for procurers that can then be applied to all commodities/expenditure areas to prioritise overall workload for a Procurement team.

The analysis of an agency’s expenditure is critical. If you are unable to identify what you buy, it is difficult to deliver improved commercial procurement and will be equally difficult to improve sustainability performance. In this sense, sustainable procurement is good procurement, it’s about focussing on risk and value and delivering benefit to the buying organisation.

By analysing the organisations expenditure patterns and assessing these for sustainability risk (using the key risk questions derived from the organisations sustainable development objectives), it is possible to prioritise procurement resource, focussing on highest risk/highest value expenditure first, delivering the highest benefit to the organisation. By segmenting this expenditure into a matrix:

- Critical - High Value and High Risk Expenditure
- Secure - High Risk, but Low Value Expenditure
- Drive - High Value, but Low Risk Expenditure
- Acquisition - Low Risk and Low Value Expenditure

It is also possible to identify indicative sustainable procurement strategies to assist procurers; from a cost driven strategy for lower impact sustainability expenditure, to a risk focussed approach to higher impact areas. This decision is essential as it informs all other actions taken in the procurement process to acquire the item.

The activity described in this guidance document is of paramount importance, as it informs resource allocation, priority setting of both sustainability impacts and expenditure areas for action, as well as the overall procurement strategy taken. It is therefore essential that close attention is applied to the analysis described in this guidance to ensure it is as accurate as possible and kept under periodic review to ensure priorities are still valid. If this approach is applied correctly, it will ensure that the maximum sustainability benefit is derived from the Procurement resource available, delivering optimum benefits for the buying organisation, public service and the wider society.