



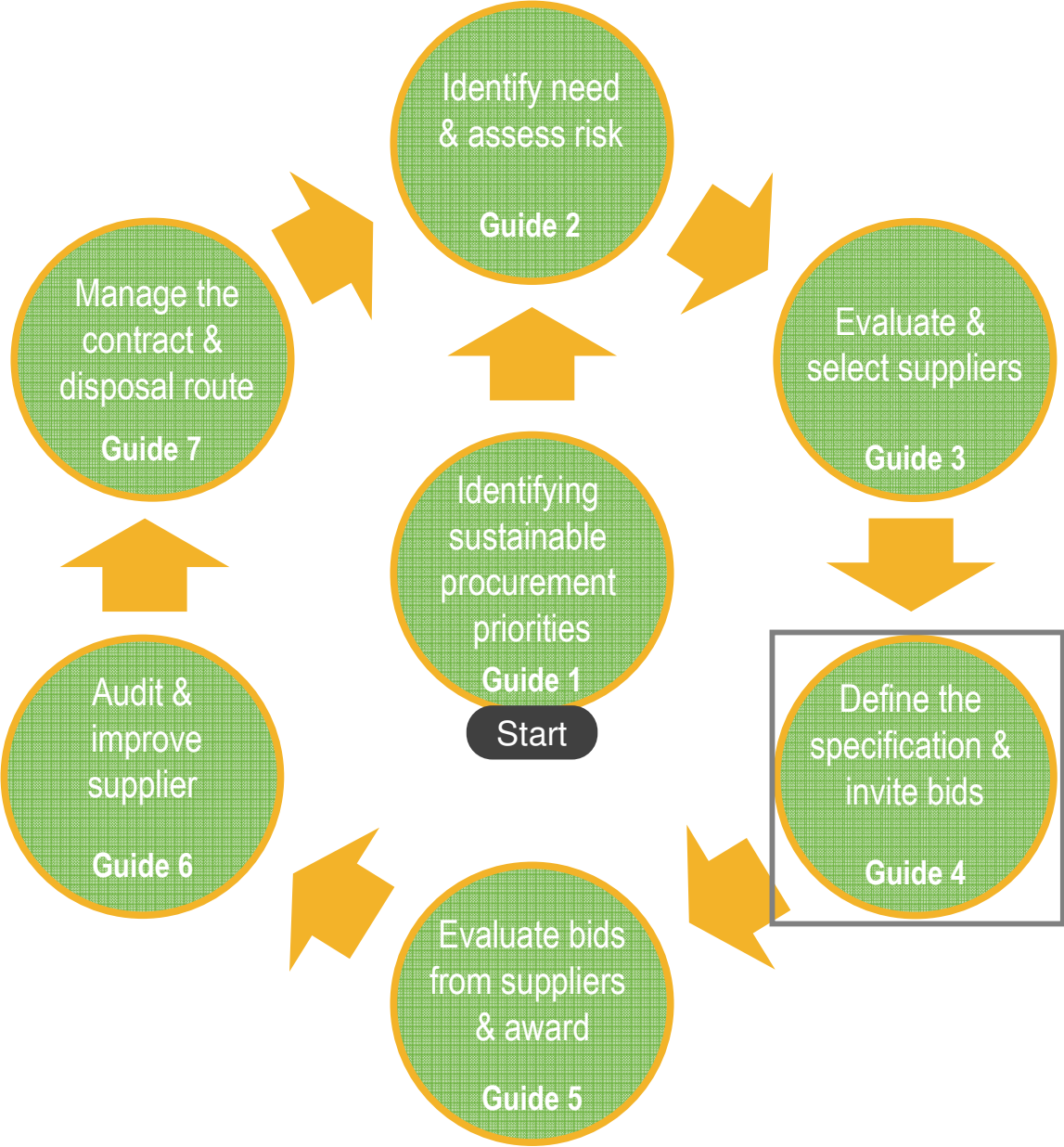
Guide 4 to Sustainable Procurement

Define specifications and invite tenders

A guide for agencies

July 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.

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TO WHAT EXTENT DOES YOUR AGENCY APPLY SUSTAINABILITY CRITERIA WHEN BUYING PRODUCTS/ SERVICES?

Background

This guidance document details the key issues involved in identifying and determining sustainability criteria when buying goods (products) or services. Specifically it details how different sustainability issues can be dealt with at different stages of the procurement process:

- Supplier selection criteria
- Specification criteria
- Bid evaluation criteria
- Contract Management criteria

Whilst highlighting other procurement stages, this guide primarily focuses on the development of specification criteria. This is primarily informed through a sustainability risk assessment process. See Guide 1 *Identifying Sustainable Procurement Priorities* and Guide 2 *Identify Need and Assess Risk*. Sustainability risks that are best managed in the specification need to be turned into criteria that suppliers can bid against. This guide highlights the key issues that need to be considered in that process as well as some of the principles involved in writing an effective specification.

Why is this important?

All contracts require a specification, in effect the need that must be fulfilled through the contract. What changes, is the depth of the specification, the specification for a train ticket is quite straight forward, get me from A to B, however for a new school construction the specification would be very detailed. Sustainability criteria are the clauses within the specification that manage the sustainability impacts identified in the risk assessment that are of most concern to your agency. Specification setting is critical as it is the definition of need and presents the most scope to drive the sustainability agenda with suppliers and show the market that you are a serious sustainable procurer. Criteria in specification, dictate the proposals from suppliers and the information needed to select the best bid. If the specification is written correctly it will ensure sustainability and value for money can be delivered.

How to use this guide

The guide is structured by subject, so it can either be read fully in order to obtain a complete overview of the issues in setting sustainability criteria or the reader can jump to a specific subject area (see above). However, the guide does follow a logical order so it is recommended to start at the beginning and work through to avoid any confusion.

Determine Sustainability Criteria

The use of sustainability criteria when buying goods (products) or services should be informed by risk assessment. See also Guide 1 *Identifying Sustainable Procurement Priorities* and Guide 2 *Identify Need and Assess Risk*. By determining the key sustainability risks and the actions necessary to manage them, sustainability criteria will soon become apparent.

Generally, people think of sustainability criteria as a specification issue and indeed for many sustainability risks a specification clause may be the best solution. However, it is also possible to have sustainability criteria relating to all stages of the procurement process.

For example, if you decided that you needed to ensure that the suppliers' procurement of softwood¹ timber was as sustainable as possible you could deal with this issue in a number of ways as follows:

Table 1 - Illustrative example of possible options to manage the sustainability of softwood timber

Option	Procurement Stage	Possible Action to manage the sustainability issue identified
1	Supplier Selection	Only allow suppliers to bid who have been approved by FSC ² (Forestry Stewardship Council)
2	Specification	Specify that you will only buy sustainable timber that has been certified by FSC
3	Bid Evaluation	Ask the suppliers to propose the most sustainable timber possible and evaluate which you believe is best
4	Contract Management	Ask the supplier to provide timber, then work with them during the contract to improve sustainability

Another example, could be the issue of energy efficiency and CO² reduction. This again could be dealt with in a number of ways as follows.

Table 2 - Illustrative example of possible options to manage the sustainability issue of energy efficiency and CO₂ reduction

Options	Procurement Stage	Possible Action to manage the sustainability issue identified
1	Supplier Selection	Only allow suppliers to bid who have an Environmental Management System with CO ² reduction targets.
2	Specification	Specify that you will only buy rated energy efficient equipment such as Energy Star etc.
3	Bid Evaluation	Ask the suppliers to propose the most energy efficient/lowest CO ² impact products.
4	Contract Management	Ask the supplier to provide any equipment, then work with them during the contract to reduce CO ² impacts.

¹ **Softwood** is a generic term used in [woodworking](#) and the [lumber](#) industries for [wood](#) from [conifers](#) (needle-bearing trees from the order [Pinales](#)). Softwood-producing trees include [pine](#), [spruce](#), [cedar](#), [fir](#), [larch](#), [douglas-fir](#), [hemlock](#), [cypress](#), [redwood](#) and [yew](#). As the name suggests, softwoods are obviously softer than [hardwoods](#), but there are notable exceptions; Douglas fir, a softwood, is harder and stronger than many hardwoods, while [balsa](#), technically a hardwood, is much softer than even most softwoods. Definition © Wikipedia 2007

² The **Forest Stewardship Council (FSC)** is a [non-profit organization](#) based in [Bonn, Germany](#). The Council's stated mission is "to promote [environmentally](#) appropriate, socially beneficial and [economically](#) viable management of the [world's forests](#)". This membership association was founded in [1993](#) and is funded by various [businesses](#), [governments](#), foundations, and environmental organizations such as [Greenpeace](#), [FERN](#) and the [WWF](#), as well as by accreditation fees through a stakeholder owned system. 6,000 companies around the world now participate in the FSC scheme, and over 73 million hectares in more than 72 countries have been certified according to FSC standards. FSC develops standards and policy for sustainable management of forests, and accredits certification bodies to assess candidate forests for certification. Source - © Wikipedia 2007

The most demanding positions are those taken in supplier selection and specification, as suppliers who do not meet the requirement cannot bid. Actions that support sustainability in bid evaluation, give more options to the supplier to demonstrate innovation and allow buyers to evaluate various options including their cost impacts. Actions in contract management are potentially the weakest actions, as they rely on a positive attitude from both supplier and buyer to deliver them.

When determining which stage of the procurement process is best to manage a particular sustainability issue, it is worth considering which stage of the product or service life cycle the issue relates to. For example, issues that relate to:

- **Raw materials:** should ideally be focused on either the specification and/or the suppliers own supply chain management techniques
- **Manufacture/Service delivery:** should ideally be focussed on the supplier selection stage, examining the suppliers sustainability management of their business and products/service delivery
- **Use of the product/service:** should ideally focus on the specification and your own users awareness of the sustainability issues they need to manage themselves when they use the product/service
- **Disposal of the product/Conclusion of the service:** should ideally focus on the suppliers responsibility for disposal, your own users must also be aware of any long-term disposal legacy.

This is not an exact science and indeed it is possible to apply sustainability criteria at all stages of the procurement process, the issue is to think about the specific sustainability risk and where you believe it is best to manage it

Before starting any sustainability criteria, you must ensure that the market is able to satisfy your requirements. *Guide 2 Identify Need and Assess Risk*, details a possible approach to determine the degree of influence you may have with the supplier. Supplier or market consultation is also useful to ascertain market readiness for any sustainability criteria you may wish to apply. 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 may also true for internal clients and is symptomatic of any criteria that pushes boundaries.

Use of Eco-labels

Eco-labels primarily deal with the environmental aspects of a good (product) or service. Some manufacturers eco-label their own products and identify the environmental benefits associated with them. These products may or may not have had any independent verification and therefore must be treated with caution. A number of independently verified eco-labels exist such as:

- European Union Eco-Flower
- Energy Star (United States Environmental Protection Agency)
- Blue Angel (Blau Angel)
- Nordic Swan (Svanen)
- Good Environmental Choice (Bra Miljöval)
- Caribbean Tourism Ecolabel
- Rainforest Alliance Certified
- Marine Stewardship Council
- Dolphin safe label
- Eugene Green Energy Standard

Eco-labels are a useful source of information and can make it easier for consumers to make the more environmental choice. However, there is no common standard applied across the eco-labels and each one will focus more or less on different environmental issues. Additionally, eco-labels do not usually include any broader socio-economic factors so cannot be used to deal with the broader sustainability agenda.

For public procurers, eco-labels can be helpful in easily managing the environmental criteria associated with a product or service. However, it is recommended that procurers review the standards applied within the product/service specific eco-label and determine if the approach is either rigorous enough or indeed may be too tough for the majority of suppliers in a market.

Use of Social Labels

Though not as numerous as eco-labels, some social labels exist within the market.

Social labels such as “Fairtrade³” are also a useful source of information and can make it easier for consumers to make the more ethical choice. However, again there is no common standard applied across the social labels and each one will focus more or less on different socio-economic issues. In many instances, social labels have even less scrutiny applied than eco-labels and as such need thorough research before use.

For public procurers, social labels such as “Fairtrade” can be helpful in easily managing the social criteria associated with a product or service. However, it is recommended that procurers review the standards applied within the product/service specific social-label and determine if the approach is either rigorous enough or indeed may be too tough for the majority of suppliers in a market.

Principles to apply writing a specification/sustainability criteria

The specification is an important step in the procurement process and is a key factor in ensuring best value for money and the most sustainable outcome. Simply, a specification is a description of the product or service required, reflecting your sustainability demands. The quality of the specification determines the quality of the resulting supplier work.

It is important to resist the temptation to just take the specification that was used last time and issue that, if you do this you are running a high risk of failure. The specification may not reflect today’s approach to this product or service or indeed your new requirements. Also you must not just take the specification of the specific product you like and copy that out, competitor suppliers will see through this quickly. When writing the specification and the sustainability criteria within it, consider:

- The risk assessment you have undertaken
- Identify what are your key success factors for this contract
- Consult the previous specification (if available)
- Enquire with a range of suppliers and obtain their fact sheets/ approach
- See if another colleague or organisation has done something similar

Use all the above as a base to work from, do not reinvent the wheel, but equally don’t take the quick option that may result in failure. Think carefully about what is really important to you and what would cause problems if it went wrong. Taking all this into account start to write the specification.

³ **Fair trade** is an organized [social movement](#) which promotes standards for international [labor](#), [environmentalism](#), and social policy in areas related to production of [Fairtrade](#) labeled and unlabeled [goods](#). The movement focuses in particular on exports from developing countries to developed countries. Fair trade’s strategic intent is to deliberately work with marginalised producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency. It also aims at empowering them to become stakeholders in their own organizations and actively play a wider role in the global arena to achieve greater equity in [international trade](#). © Wikipedia 2007

Different types of specification, encouraging innovation

There is no right or wrong choice in the type of specification to use, it depends on the risks identified, the maturity of the supply market and the degree of innovation you require from suppliers. The three different types of specification are detailed below:

Technical Specifications

If you know everything there is to know about the work or product required, write a detailed specification describing the requirement. You are the expert, you tell the supplier exactly what is required. The risk here is if you get it wrong there's no redress with the supplier unless they have failed to meet your specification. The positive side is that you know exactly what you are getting. You must however, be aware that there is often little motivation for supplier innovation in technical specifications.

Functional specification

If you know what you want to achieve, but are uncertain of the steps by which you can achieve it, you should write down all you know about the problem, describe the outcome needed and invite suppliers to propose solutions. This essentially makes use of the suppliers' expertise in their field. They are the experts; let them tell you what is required. There is often great scope for variation in this approach, but it does encourage supplier innovation. You however have to think very carefully about how you will evaluate the bids received. You are likely to receive a wide variance so you must have a structured method of determining which is the most appropriate. See Guide 5 *Evaluate Bids from Suppliers and Award*.

Performance specification

If you know what the performance requirements are, you then define the performance parameters and little else. In this approach you are using the suppliers expertise, inviting them to submit a solution to the problem. For example, if a desired outcome is control room temperature between 19 and 24 degrees Celsius, within tolerances of +/- 1 degree, suppliers may suggest an air conditioning system or fresh air pipes and ventilation. There is great scope for variation in this approach, but it really encourages supplier innovation. You must however think very carefully about how you will evaluate the bids received. You are likely to receive a wide variance so you must have a structured method of determining which is the most appropriate. See Guide 5 *Evaluate Bids from Suppliers and Award*.

Setting the specification scope

Think very carefully about the scope of the specification, what is your requirement now and into the future? Take at least a 5 year view. Is this something you will only buy once and will never need again? or is it something that needs a long term commitment from the supplier? or is it a continual need? etc. In particular consider if you need to include:

- Flexibility for future purchases of the same item/ service
- Maintenance
- Spares
- Training on how to use the product, both now and in the future
- Licensing
- Upgrades
- Takeback at disposal stage

Note: The above list is not exhaustive.

It is quite common for specifiers to forget to include issues like maintenance. Maintenance can be a critical factor in ensuring sustainability of a product, maximising its' life in use. It is important to

include maintenance in the original specification to ensure costs and service are market tested and that the contract is evaluated on total cost grounds. Unscrupulous suppliers sell the product at a competitive price, then once its installed charge over the top for maintenance. This may cause products to be disposed earlier than necessary as maintenance is prohibitively expensive. This mistake is easily avoided by thinking about the future needs.

What specifications should and shouldn't do

Specifications should:

- Address the sustainability risks you have identified in risk assessment
- Identify key deliverables
- Clearly state your real requirements
- Think about the future needs, is more of the same required soon, maintenance etc
- Use plain and simple language
- Ensure technical accuracy
- Contain clear time-scales/ programme
- Set performance criteria
 - Use appropriate international standards where they exist
 - Reflect whole-life costs
 - Try to encourage bids from SME organisations
 - Support the diversity/equal opportunities agenda
 - Include health and safety considerations
 - Provide flexibility for subsequent requirements

Note: The above list is not exhaustive

Specifications must not:

- Exclude areas of risk that are best addressed in the specification
- Use trade names
- Use Brands e.g. Landrover, Compaq etc
- Exclude any site implications
 - Breach copyright
 - Use needless acronyms
 - Discriminate on the basis of nation state/ region e.g. French companies only
 - Be ambiguous
 - Be biased towards any particular supplier
 - Exclude relevant sustainability criteria

Minimum sustainability criteria in specifications

When determining sustainability criteria for a specification a useful approach can be to set minimum standards in the specification. Minimum standards are usually influenced by both market availability, as well as the sustainability level below which you would not consider buying the good (product) or service. This approach will typically allow more suppliers to bid, as the criteria will be more easily addressed.

Minimum criteria may also include any standards set the government, www.procurement.govt.nz. Procurers are advised to investigate whether such criteria exist in their country and apply them as a minimum standard accordingly. It must be recognised that by setting minimum sustainability criteria that you are signalling to suppliers that you will not award the contract to a supplier that does not meet this criteria. Therefore, you must ensure that the minimum criteria are attainable.

Use of preferred criteria in specifications/alternate solutions

In addition to minimum criteria specified, you can also detail additional (preferred) sustainability criteria. Such criteria are in effect optional and allow the supplier to detail which additional criteria they can meet and the costs associated with delivering them. This allows procurers to make an informed decision about sustainability criteria and whether to apply them or not. It can also be preferable to ask the suppliers to propose more sustainable solutions than those detailed in the specification, thereby encouraging innovation. However, only encourage innovation if you are open to an alternate solution. Finally, you must think very carefully about how you will evaluate the different supplier proposals and make/justify the award decision. See Guide 5 *Evaluate Bids from Suppliers and Award*.

Summary

The setting of sustainability criteria must be founded in the risk assessment process. In essence identifying sustainability risks and determining the appropriate criteria to manage them. Criteria can be applied at any stage of the procurement process from supplier selection, specification, bid evaluation to contract management. This guide primarily focuses on specification criteria.

Procurers need to consider the applicability of both eco and social labels in their criteria, whether they will help the process and manage the risks or if they are either too tough or too weak to deal with the sustainability issues of concern as identified in the risk assessment.

Different types of specification (technical, functional, performance) encourage different levels of innovation from the supplier and procurers must consider which is most appropriate for the specific contract need. Innovation should only be encouraged if the procuring organisation is truly open minded about alternate solutions as suppliers will become frustrated if their ideas are not given due consideration.

Procurers must also consider whether their specification will set minimum criteria that must be met, effectively giving a clear signal to all suppliers that unless they meet this minimum level their bid will not be considered. Additional (preferred) criteria are used where the procurer is unsure if the market can respond to the requirement or where the procurer wishes to see a breakdown of the additional costs involved in applying a tougher sustainability approach.

Specification criteria naturally inform bid evaluation criteria and procurers must consider how they will evaluate suppliers proposals and in particular how they will reward suppliers who either offer more sustainable solutions and/or meet their preferred criteria.

Finally, procurers must take into account the legal framework within which they operate and ensure that any sustainability criteria they apply can be justified from a legal perspective if challenged.

Producing a specification is not a simple task, but it is extremely important to ensure the organisation gets what it needs at the optimum cost and has maximised sustainability. The sustainability criteria applied in the specification will often be the primary route for consideration of sustainability issues and procurers must ensure that the sustainability risks they have identified have been fully managed through the setting of appropriate sustainability criteria. This will then ensure that the appropriate level of sustainability is applied, that risks are managed and that the organisation is actually practicing sustainable procurement.