Value for Money in Procurement for Sustainable Development

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Value for Money in Procurement for Sustainable Development
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Value for Money in Procurement for Sustainable Development

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MDB’S Workshop on Procurement Sustainable Development
IDB - Washington June 10, 2008

- Workshop Findings and Results
  - Summary
  - Conclusions
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  - Action Plan
Best Value for Money

- Primary objective of public procurement is: to achieve the best value for tax dollars spent
- Among general procurement principles due consideration must be given to Best Value for Money

“Best value for money” means selection of the offer, which presents the optimum combination of life-cycle costs and benefits, which meet the identified needs.

Best value for money demands a comprehensive evaluation of technical, organizational and pricing factors set by priority (reliability, quality, experience, reputation, performance). In addition, it can include social, environmental and other strategic objectives.

The principle of Best Value for Money is applied at the award stage to select the offer that effectively meets the stated requirement.

Best value for money should not be equated with the lowest initial price option.
Value for Money in Procurement for Sustainable Development

+ Value for money comes from the effective, efficient and economic use of resources:

+ Effectiveness = ‘doing the right things’. It is a measure of the extent to which objectives have been achieved;

+ Efficiency = ‘doing things right’. It is a comparison of output with the input required to produce it;

+ Economy = obtaining the same goods/services more cheaply.

+ Value for Money = trade-off between service quality and cost over the lifetime of the contract.

Evaluation of Value for Money

- When factors under analysis are mainly numerical it is possible to express the value/cost ratio very precisely.

- When more subjective analysis methods are required, it may be more difficult and less accurate to determine the concept of value.

- Evaluation of Value for money has to take into account:
  - Life Cycle Costs
  - Socio-Economic Outcomes
  - Competing Interests
Best Value for Money - Life Cycle Costs

– The quoted price is just the tip of the iceberg of life cycle costs.

– Life cycle costs include all costs:
  ….from Material input costs……to Product disposal costs

The Product Lifecycle:

1. Material inputs
2. Production processes & conditions
3. Product delivery
4. Product use
5. Product disposal

Total Sustainable quality
Value for Money in Procurement for Sustainable Development

Best Value for Money - Life Cycle Costs, include:

- Production Costs and Product Use Costs, like
  - operation and maintenance of a product over its life cycle.

- Product Use Costs Cycle consists of:
  - inspection, testing, repairs, upgrades, user training, as well as,
  - costs associated with downtime, diminished performance, disposal, etc.

Therefore, the lowest price does not necessarily translate into the lowest total cost in the long run.

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Socio-Economic Outcomes – Procurement as policy tool

- Governments use procurement as a policy tool to:
  - mandate environmental protection,
  - stimulate regional economies or industrial growth, and
  - prescribe fair employment practices on the part of their contractors.

- Using the Principle of Equity, governments also provide for targeted supplier groups special consideration through set-aside programs that require that a certain percentage of business be given to these groups.

- United States government has legislation that gives preference to Americans, local suppliers, small business and minority-owned businesses.

- Canadian government has a set-aside for Aboriginal businesses.
**Value for Money in Procurement for Sustainable Development**

**Competing Interests - Procurement as policy tool**
- The objectives of public procurement are numerous and procurement decisions are multi-faceted. Therefore, we have to look for trade-offs.

- While governments tend to maximize competition and obtain the best value for money through open competitive bidding, the ability to participate in this process can be so cumbersome and cost prohibitive that the supply base is actually reduced.

- In addition, governments’ interests regarding Environmental Protection Policy, can compete or be in conflict with Social Policy interests in some cases.

More and more Governments and Multilateral Development Banks (MDBs), like IDB, are studying and trying to define Value for Money in Procurement for Sustainable Development.

**Procurement for Sustainable Development**

- Concept of Sustainable Development:

  “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs”

  UN General Assembly 1987, World Commission on Environment & Development “Brundtland Commission”
Procurement for Sustainable Development

Concept of Sustainability incorporates three critical dimensions:

Economic Sustainability
- Refers to economic development that translates to long-term increases in financial well-being and economic stability, at both national and household level.

Environmental Sustainability
- Consists of human actions that maintain the capacity of ecosystems to produce the range of goods and services upon which life depends

Social Sustainability
- Relates to social development that results in greater social equity and access, respect for human rights, and improvements in health, education, opportunity, and other non-monetary aspects of well-being.

Sustainable Development is harmony of:

**Social progress:**
Human development, rights, education, reduction of poverty and inequality, security and social inclusion

**Environmental balance:**
Preservation of natural resources, ecosystems, biodiversity; reduction of the ecological footprint

**Economic sustainability:**
Economic development, employment, effectiveness, integration of social and environmental costs

...respecting the rules of good governance
What is Procurement for Sustainable Development?

Procurement for Sustainable Development occurs when

**Public Sector Purchasing Power**
Sends a signal to the market
in favor of targeted:

- work contracts,
- goods, and
- services

that comply with

**Sustainable Development Objectives**

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**Sustainable Development Objectives**

- **Economic considerations**: best value for money, price, quantity, availability, functionality.

- **Environmental considerations**: the effects on the environment that the product and/or service has over its whole lifecycle, from the cradle to grave.

- **Social equity considerations**: Effects of purchasing decisions on issues such as poverty eradication, international equity in the distribution of resources, labour conditions, human rights.
**Concept of SP - Background**

- Initially, a tool to pursue socially responsible policies
- In late 20th century it started to be used to achieve environmental sustainability as well
- With the concept of "sustainable development": concept of "green" procurement stimulates interests in social and ethical procurement
- Development of “corporate social responsibility” stimulates interest in sustainable procurement

**Concept of SP - Today**

- A number of governments have initiated “green” procurement programs, but less attention has been paid to social issues.
- Only a few countries have begun to make tentative steps towards SP - others just use SP as a new name for Green public procurement
- The challenge of sustainable procurement is to integrate both environmental and social considerations into the procurement process
The Product Lifecycle:

1. Material inputs
2. Production processes & conditions
3. Product delivery
4. Product use
5. Product disposal

Total Sustainable quality

Major Environmental Impacts

- Energy and use of energy
- Transport: logistics, packaging, greenhouse gases
- Waste
- Water
- Air pollution
- Natural resources: bio diversity
- Toxicity in general: hazardous waste chemicals, plastics, pollution, health impacts, safety
- Food
Major social impacts

- Working conditions
  - Child labor
  - Forced labor
  - Gender equality
  - Freedom of association and right to bargain
  - Wage
  - Health and safety in the workplace
- Small and Medium Enterprises (SMEs) and Minority Groups Enterprises
- Poverty eradication

Project Life Cycle and Procurement Actions

- Selection of Materials: Enhance Specifications /Biding docs
- Production processes & conditions: Manage through contract terms /supplier
- Product delivery: Enhance Specs of transport, packaging
- Product use: Enhance Specifications/contract terms
- Product disposal: Enhance Specifications/Biding docs
**Objective:**

+ to "redefine" Procurement for Sustainable Development
+ to harmonize the Procurement Process with Sustainable Development goals

**In Preparation for the Workshop**

We have:

+ Explored various trends of Governments and States primarily in Public Sector Procurement towards Sustainable Procurement.
+ Transposed those findings to the MDB’s responsibilities and opportunities to better adapt to our client’s needs in pursuing Sustainable Development.
+ Explored the opportunities of Procurement to add value to Sustainable Development goals of Countries, taking into account a compendium of current social and environmental standards, adopted by the different MDBs.
+ Analyzed an integrated procurement process by identifying the “points of intersection” of procurement related issues with social, environmental, legal, technical and other issues.
+ Explored some procurement solutions through case studies, and
+ Proposed Discussion Paper points to stimulate the discussion at the MDB’s June 10, 2008 Sustainable Procurement Workshop, hosted by IDB.
Workshop - Findings and Results

- Summary
- Conclusions – Non Binding
- Recommendations – Non Binding
- Action Plan – Non Binding

Workshop : Summary

- Public procurement is one of policy instruments that have been used to advance the process of sustainable development (…legislation, tax, technical standards environmental policies…)

- Public procurement is a key avenue to sustainable development (public procurement = 10% to 30% of GDP in both developed and emerging economies).

- The IDB gives central importance to sustainable development:
  - Strategies for Sustainable Economic Growth (GN227-1);
  - Poverty Reduction & Promotion of Social Equity (GN-1894-7)
Workshop: Summary (cont.)

- The Bank has also emphasized the critical role of public procurement for the promotion of sustainable development.
- The main objective is to give procurement a more substantive role as an instrument of the Bank’s development agenda.
- Procurement would be transformed into an integral part of the Bank’s institutional development initiative and not function merely as a support or process activity.
- Procurement for Sustainable Development covers the environmental, economic, social, technical and legal aspects of the purchase of goods or services beyond conventional procurement, green procurement and sustainable procurement.

Workshop – Conclusions – Non Binding

- Life cycle costs, differ from market prices, should be the true cost of resource use.
- Resource productivity should be given as much prominence as labor productivity in economic calculations.
- Procurement policies and practices offer a lever for MDB’s concerted action because it represents an opportunity for translation of words into deeds.
- Borrowing countries are signatories of many international treaties and convention (fair trade laws, humane employment practices, equality of opportunity, non discrimination of gender, race, ethnicity, greenhouse gas emissions) MDBs should facilitate member countries meeting their obligations;
**Workshop – Conclusions – Non Binding (cont.)**

- MDBs should prepare programs to assist member countries in revising public sector procurement policies to make them fully compatible with the objectives of sustainability;
- MDBs should use its project lending to private sector companies to strengthen corporate responsibility and sustainable development activities;
- The main conclusion is that the review of the procurement process covering MDBs and borrowing countries should continue and culminate in actions to promote sustainable development.

**Workshop – Recommendations – Non Binding**

- Encourage member countries to formulate economic and social development strategies that respect the global boundaries and are therefore constrained by the need for ecosystem preservation and enhancement;
- Review its sustainability oversight system to improve compliance in all aspects of MDB's operations including procurement;
- Share the responsibility for sustainability with every organ of the MDB and not rest on the Procurement Departments;
- Assist research that may result in innovations and technologies that are more productive of resources and which have smaller carbon or ecological footprints;
Workshop Recommendations – Non Binding cont.

- Fund research aimed at developing valid and useful measures of social progress;
- Modify its evaluation systems of operations (loans), to enable assessments of emissions, climate change, impact on workplace practices;
- Sponsor seminars and training to help countries adjust their public procurement policies to support sustainable development.
- Work with the Private Sector to develop “corporate social responsibility”
- Establish an enabling environment for the general use of procurement as an effective tool for pursuit of sustainable development.

Proposed Action Plan - Non Binding

LONG TERM: Establish an enabling environment for the general use of procurement as an effective tool for pursuit of sustainable development.

Five high priority tasks are:

- Setting sustainable development as the national reference point for all economic plans, programs and activities;
- Preparation of a suitable and flexible legal framework for procurement for sustainable development;
- Integrating sustainability concerns and principles in various stages of the project cycle;
- Creating the appropriate management structure and capacity for successful implementation at MDBs and in borrowing countries.
- Helping borrowing countries to identify areas where adjustments to current and traditional procurement practices are necessary and to prioritize areas for action.
Proposed Action Plan – Non Binding

**SHORT TERM:**

- Review of Country Strategies to harmonize them with Sustainable Development objectives
- Derivation of specific indicators for assessing progress to sustainable development with a goal to harmonize these indicators in the future among MDBs and the private sector.
- Review procurement documents, to include provisions for procurement for sustainable development (standard bidding docs);
- Review organizational and administrative structure to find best distribution of functions and responsibilities to ensure maximum policy coherence and support for the Procurement Function;
- Investigate how best to set guidelines for public sector performance in the area of procurement for sustainable development;

Procurement for Sustainable Development

**Questions?**
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Thank you!