



# “PUBLIC PROCUREMENT AS A DRIVER OF THE DEVELOPMENT OF AN IMPACT ECONOMY: TOOLS TO MOVE TOWARDS ITS IMPLEMENTATION”

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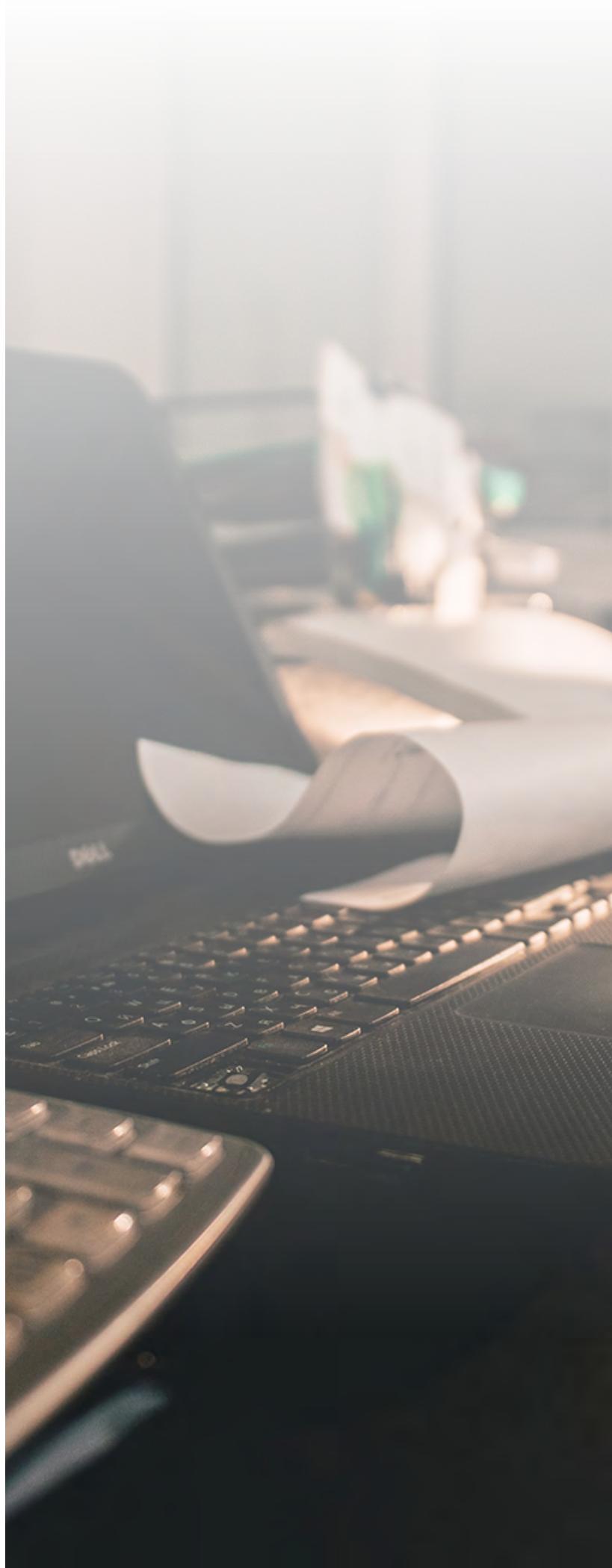
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## FOREWORD

This document highlights the need to move from a procurement approach centered on economic principles to another, integrating economic, social and environmental principles. It is an invitation to move forward in a sustainable public procurement agenda as a tool for economic development providing incentives for a change in the behavior of companies. Time is running out. A need for change becomes more evident by the day. The climate crisis and the inequalities we face as a society push us into action. It is a huge challenge: we need to move towards a new economy, and we must do it now.

Some will say this is utopian thinking. To a large extent, companies have been part of the problem – but they are also key to finding a solution. And there is good news as well. Concepts such as conscious capitalism, blue economy, purpose-driven companies, impact economy, impact investing, B Corporations, among others, are attracting more and more attention, while proving that change is possible and that the market is committed and may be at the service of people and the planet.

The change towards a different economic model, where sustainability is a driver for development, involves all stakeholders: the private sector, the public sector and civil society. Sustainable development goals (SDGs) summon the state to be a leader for the growth and strengthening of new production models and for the configuration of social and environmental impact markets. SDGs promote the use of public procurement to its greatest potential, with the aim of achieving sustainable development. Public procurement may contribute to send a clear message to the market and its stakeholders.

Additionally, in a region where procurement accounts for 20% of GDP in average, opportunities are limitless.

This article aims to be a reflection on how to see public procurement as an opportunity to cooperate with the private sector in the creation of value and a sense of the public. It sheds light on how the state can generate innovation while abiding by and sustaining the traditional principles of public procurement, creating more value for money. It is also an invitation to empower the stakeholders behind every public purchase so that they become agents for change and catalysts of triple bottom line businesses.

A proposal envisioning public procurement as an opportunity for the transformation of the economic model is doubtless ambitious and aspirational, and it follows a path not without its challenges. To approach these challenges, commitment, openness, and cooperation are needed, as well as a willingness to share tools and the learning outcomes of the experienced leaders and innovators in the purchasing agencies have dared to try. This is why this document also shares specific tools for acting on the power of public procurement to accelerate a transition towards a impact economy. It also includes an ambitious, challenging invitation for purchasing agencies so that they are convinced that this transformation is not only possible but also fundamental for a transformation of the market.

From Canada's International Development Research Centre (IDRC), from the Inter-American Development Bank (IDB), from the Technical Secretariat of the Inter-American Government Procurement Network of the Organization of American States (OAS); and from Academia B/Sistema B, you are invited to read, share, discuss and use this document. Public procurement is an agent for change and a bridge towards the construction of a new future. Here go a few specific ideas about how to do it. Let's go.

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## INTRODUCTION: CONTEXT



### SUSTAINABLE DEVELOPMENT AND THE APPEARANCE OF A NEW ECONOMY

In September 2015, the UN, through its Global Compact<sup>1</sup>, adopted a global plan of action for people, planet and prosperity called “Transforming our world: the 2030 Agenda for Sustainable Development”. This plan encompasses 17 Sustainable Development Goals (SDGs) – as well as 169 targets to be reached by that year – reflecting the UN’s understanding of the concept of sustainable development. In contrast with the previous Millennium Goals, which were addressed to the countries, the whole society (public sector, private sector and civil society) is necessary to achieve these ambitious 17 goals.

The Global Compact is an international initiative that promotes the implementation of 10 universally accepted principles for Sustainable Development in the areas of Business and Human Rights, Labor Standards, Environment and the Fight Against Corruption in the activities and business strategies of companies.

The mobilization generated around the 2030 Agenda indicates the importance of these goals for humanity. This is why SDGs have acquired importance at different strategic levels, with the aim of promoting their proper applicability: governments are integrating the Agenda in their national plans and strategies. Similarly, local governments, companies, civil society and international financial institutions are intensifying their efforts and adopting measures to ensure the achievement of those goals<sup>2</sup>.

It is self-evident that SDGs are a great challenge at the global level and that an unprecedented structural change will be necessary to achieve them. As far as Latin America is concerned, the obstacles for sustainable development are related to social as well as environmental issues. Social challenges are associated with factors such as social inequality; gaps in education, healthcare and access to basic services; high unemployment rates; fragility of the institutional bases of social policies and social programs; lack of social investment; demographic transition; and technological change<sup>3</sup>.

Likewise, we are at a turning point as regards environmental challenges derived from the current climate crisis, such as disappearance of water resources, marine pollution, deforestation and overexploitation of natural resources. The planet is deteriorating at an alarming rate<sup>4</sup>.

**Consequently, it is implicitly recognized in the 2030 Agenda that the current global development model is unsustainable, and that in order to achieve the desired sustainability it is necessary to transform our conception of progress and the economy. There is an urgent need to adopt an economic model where sustainability drives development, where the interdependence between natural and social systems is recognized, and where prosperity is created while improving quality of life and living in balance with nature. That is to say, to care of our planet and people through the development of a sustainable economy.**

**Far from being a utopia, this new economy becomes real and expresses itself through different events, such as;**



The existence of new organizational types that seek solutions to environmental and social issues (changing production and consumption patterns in our society)<sup>5</sup>.



New lifestyles of citizens who seek to live consistently with their personal values and express them in their purchasing decisions, job search<sup>6</sup>, or investment opportunities<sup>7</sup>.



The emergence of different economic movements such as the Blue Economy, Circular Economy, Collaborative Economy, Economy of the Common Good, Green Economy.



All these events suggest new models of production, extraction, consumption and disposal aiming to reduce climate change by centering their mission in the well-being of people and social equality. In other words, an economy that is low-carbon, efficient in its use of resources and socially inclusive.

Nevertheless, UN experts recognize that we are not nearly where we should be. The vast majority of the agreements reached so far (for instance, relating to climate change) are mid- and long-term, with goals for 2030 or 2050. "It is hasty to try to change entirely in 30 years the ways in which we do things and what we have built in 100 to 200 years"<sup>8</sup>. It is necessary to make decisions that have the aim of making a significant contribution to the achievement of these goals, and public procurement is the right tool to give an exemplary impulse to global sustainable development.



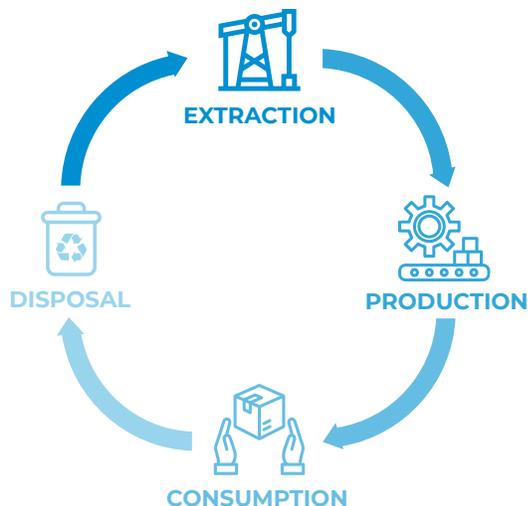
**RETHINKING THE ROLE OF STATES TO ACHIEVE GLOBAL GOALS**

Traditionally, public procurement has promoted a growth model lacking commitment to a sustainable development of states. Consequently, the approach to state purchasing focused on general principles about the acquisition of goods, services and works, while honoring the lawfulness of administrative procedures.

However, in order to achieve the targets established by the SDGs, it is absolutely necessary to find a more profound, efficient and ambitious governmental response. Global economy is already suffering the results of production and consumption models that exploit natural resources in a counterproductive way and the serious environmental problems and social inequalities this leads to. **Today, states must use their purchasing power to drive the growth of new production models and promote sustainable development.**

In this sense, SDG 12.7<sup>9</sup> makes an explicit call to action for states to:

**SUSTAINABLE DEVELOPMENT GOALS**



- empower themselves and become subjects developing innovative, more sustainable markets, providing solutions to the current social and environmental challenges;
- avoid an approach to purchasing exclusively based on economic principles;
- integrate environmental and social criteria into state administrative proceedings in order to promote responsible production and consumption;
- implement public policies based on an encompassing rights perspective, where sustainable development is a typical quality of each of its actions.

Consequently, this approach implies that states purchase goods, services and works with a view to the development of a productive sector that benefits all of society. **The possibility to steer demand towards sustainable goods and services, to support efficient industries and sectors and to promote innovation creates a direct impact on the stakeholders of these economies.**

Taking into account that in average, in Latin America public procurement accounts for 20 percent of a country's GDP, we face a great challenge, or even better, a great opportunity<sup>10</sup>.

Thus, it becomes a necessity for the state to implement a Sustainable Public Procurement (SPP) methodology that promotes investment, trade and any financial policies necessary to develop the new model demanded by the 2030 Agenda. That is, to contribute from the state matrix to the construction of this new economy. SPP involves the integration of environmental and social criteria into state administrative proceedings relating to the acquisition of goods, services and infrastructure. What this methodology proposes is how to maximize value for money in purchasing proceedings, while ensuring a positive environmental impact and the social interference of every purchase.

SPP also offers states an opportunity to "lead by example", since states can use it to improve their public image and legitimacy and show responsible governance, as well as create an important social impact, such as raising awareness among consumers and increasing the

demand for sustainable products. Additionally, the sums saved in purchasing sustainable products or services could be repurposed, which would make public spending more efficient.

In this context, it is of the utmost necessity for states to perform two functions: on the one hand, as regulators of production and market relations and, on the other, as promoters of sustainable development, which implies a healthy environment as well as the progress of the most vulnerable populations (among other aspects). That is to say, states should become promoters of a new economy to produce the synergy we need in order to transition towards a sustainable development model. This would allow them to reinforce an impulse to depose traditional paradigms and to adopt consistent strategies capable of reactivating productive sectors and capabilities.

For this transformation to have a strong effect we need an unprecedented social and cultural change, and SPP as a methodology can provide this crucial impulse, recognizing at the same time the role of the state as a developer of markets.



### NEW ORGANIZATIONAL TYPES IN KEEPING WITH SUSTAINABLE ECONOMIES

The motivation of companies is changing. In the 21st century, profits are no longer the only driver of business owners and entrepreneurs. The purpose of a traditional company is not just financial, but integral and much wider. Historically, the company type that stood out for combining a social purpose with the pursuit of profit was the cooperative. This new sector of business owners and entrepreneurs is using the power of business to contribute to solving the current social and environmental challenges; to create benefits for people and the environment; to create public goods and no longer private goods alone. They dynamize change to address global challenges such as climate change, social inequality and sustainable development<sup>11</sup>. These are new models for the organization of a business combining purpose and the pursuit of profit: "hybrid" companies, "purpose-driven companies", "mission-led businesses" or "triple bottom line companies" (henceforth "triple bottom line business i").

All of them contrast with the rest due to the following two characteristics:

- the owners' deep commitment to create a positive impact as central element of their identity and business.
- the pursuit of profit, which may follow different models: from those where it is mandatory to reinvest profits internally to those where there is a limited distribution of profits, or even those where 100% of the profits may be distributed.

*European Venture Philanthropy Association. (2016) A Practical Guide to Venture Philanthropy and Social Impact Investment. p. 53. Available at: <https://evpa.eu.com/download/A-Practical-Guide-to-VP-and-SI-29.01.2016.pdf>*

## “COMBINED” SOCIAL IMPACT AND FINANCIAL RETURN

SOCIAL PURPOSE ORGANIZATIONS (SPOs)			
CHARITIES	REVENUE-GENERATING SOCIAL ENTERPRISES	SOCIALLY-DRIVEN BUSINESS	TRADITIONAL BUSINESS
Donations or subsidies  No trading  Trading revenue and grants	Potentially sustainable, >75% income from trading goods and/or services  Sustainable, all income from trading goods and/or services  Profitable, surplus reinvested	Profit distribution driven by social purpose	Corporate with Social Responsibility Companies  Companies allocating percentage of profits to charity  Traditional Market Company
IMPACT-ONLY	IMPACT FIRST		FINANCE FIRST
VENTURE PHILANTHROPY			
<b>Primary driver is social impact</b>		<b>Primary driver is financial return</b>	

Since the beginnings of the 20th century, businesses have been recognized as a source of great advancements in quality of life for millions of people – but also a cause of social and environmental destruction. In a context of social demands for businesses to change the way in which they function, it is also recognized today that they have the potential to open roads of transformation and become part of the construction of a new economy, with a lesser impact (or, even better, with a positive impact) on the environment, and a shared economic growth as well.

This new paradigm, this new economy currently in transition needs a context in which these new types of businesses and entrepreneurs are able to make a start, grow, develop and expand. The reason is that these are fundamental agents for the creation of economic, social and environmental value. These businesses stand out for having a more modern thinking behind them, with faster response and adaptability capacities, and, above all, for being innovative.

Therefore, since governments have the duty to purchase goods, services and infrastructure of the most sustainable type, why not use their purchasing power to advance the development of triple bottom line businesses?

**Why not think of sustainable public procurement as a possibility to provide those businesses with economies of scale – as a catalyst for triple impact economy? Supporting the development of triple bottom line businesses is a way to satisfy public interest, to pursue the common good (which must be the aim of every administrative act), and to work towards the goals established in the 2030 Agenda.**

The purpose of this article is, then, to make visible the opportunity for public procurement to act as a driver of impact economy, and to discuss how the generation of value for money is increased through public purchase from triple bottom line businesses.



## FROM A UNIDIMENSIONAL RELATIONSHIP MODEL TO A MULTIDIMENSIONAL RELATIONSHIP MODEL (state, businesses, and NGOs)

Under traditional economic models, in which profit was pursued at all costs, each sector of society was identified with a specific role, which was perceived as their own: businesses pursued profit (without taking into account social or environmental impact) while other, common-good, goals were restricted to the realm of NGOs. This system was consistent with a unidimensional perspective, in which relationships were vertical, transactional, independent and welfarist.

**Today, the proposal of the new paradigm is to leave behind the separation in our former relationships, and to interrelate, to integrate ethical, environmental, cultural and scientific keys with socio-economic keys, in order to find different ways of managing the planet's global goods in economic and social terms. To change the way in which we relate, going from an individualist, unidimensional vision to another, ecosystemic, cooperative and integrated.**

The reason for this is that a sustainable management model takes into account traditional values and principles in its decision-making process, while adding citizenship values such as management and conservation of natural goods, a long-term vision, dialogue, transversality,

citizen's participation, organizational democratization, codesign and co-management, co-responsibility and interdependence, free access to information, impact measurement, social and digital inclusion, power horizontality, social capital construction, self-management and self-regulation, fair trade, responsible consumption and ethics of care, among others.

Currently, citizens are demanding from businesses the creation of economic, social and environmental value. They are demanding from NGOs that they evolve and leave welfarism behind to create social value. And it can be seen that businesses will not have social license to operate unless they create community value, as well as public and environmental value.

In this context, and in relation to the topic of this article, we think it is the responsibility of the state **to ensure the implementation of democratic and participatory administrative proceedings, including multiple and diverse interest groups in the design of policies for sustainable development;** as well as encouraging and promoting the inclusion of regulation promoting this type of initiative.

A constant and close interrelation between the state and the economic actors that give impulse to the common benefits mentioned, opens up possibilities to promote globally local initiatives of an innovative kind and capable to contribute greatly to global sustainable development.

# PUBLIC PROCUREMENT AS A DRIVER OF THE DEVELOPMENT OF AN IMPACT ECONOMY



## Sustainable Public Procurement (SPP)

As we said above, public procurement was originally conceived as a merely administrative procedure meant to fulfill needs the state was in charge of, as well as for its own functioning. According to the Economic Commission for Latin America and the Caribbean (ECLAC), purchases were related to three main functions of the state. Firstly, a public service function, whereby citizens' basic needs are provided for by the state; secondly, an administrative function, which ensures transparency and the corresponding administrative accountability as well as state expenditure controls; and finally, an economic function, aiming to purchase goods and services at the minimum possible price<sup>12</sup>.

As time went by, and due to a host of demands, states have sought to depart from the procurement approach centered on economic principles and have moved towards the implementation of a new purchasing policy. This trend acquired increasing relevance in the public procurement systems and their trust policy patterns, contributing to the consolidation of a procurement methodology called SPP.



SPP involves the integration of environmental and social criteria into state administrative proceedings for the purchase of goods, services and infrastructure, with the purpose of fulfilling its requirements, seeking not only to maximize value for money, but also to consider the environmental impact and social interference in each of the stages of the procurement process.



Thus, an evolution can be observed in the applicability of public purchase which could be summarized in<sup>13</sup>:



### 1. Procurement and delivery of goods and services

Procurement of required goods and services in established quantities, times and places.



### 2. Control and compliance

Compliance and regulation are key elements to prevent fraud and corruption.



### 3. Efficient use of resources

Avoiding spending more than necessary. Obtaining the maximum quantity of goods and services for a given amount of money.



### 4. Accountability

Showing that the work is properly done and there are no wasted resources.



### 5. Value for money

It is not just the price that counts (or price/quality), but also the value of the goods and services purchased must contribute to the substantive functions of the organization.



### 6. Strategic goals

Public procurement is used as a means to create jobs, strengthen industry, support SMEs, protect the environment and promote regional development, innovation and sustainability.

## PUBLIC PROCUREMENT AS A DRIVER OF THE DEVELOPMENT OF AN IMPACT ECONOMY

So, it is currently considered that SPP must take into account:

- the production conditions of the purchased good or service;
- the materials composing it;
- the direct and indirect consequences of its production, consumption or procurement, both short- and long-term (life cycle);
- who are the employees involved in the value chain, and under what labor conditions they work.

With this procurement methodology it is possible to participate in the synergy of the economy with an impact on investment channeling, sustainable development and job creation, while strengthening the traditional principles of value for money and a non-discriminatory, equitable,

proportional and transparent procurement. At the same time, the sensible nature of this methodology adds to the legitimacy and evaluation of the consistency with which governments operate, considering their constant claims to the promotion of sustainable development. SPP puts public policy to the test as to how strictly it complies with the already mandatory precepts established in the SDGs and multiple international agreements, as well as directives from organizations such as the Organization of American States (OAS), the International Institute for Sustainable Development (IISD) and the International Development Research Centre (IDRC).

### IN SUMMARY:

Today, there has been an evolution to the point where it is understood that Public Procurement is a tool for economic development allowing not only to integrate sustainability precepts in administrative matters but, also, to promote high social standards in the market and productive processes that contribute to environmental care.



## SUSTAINABLE PUBLIC PROCUREMENT IN LATIN AMERICA

Due to its importance in national economies, public procurement has transcended the national sphere and acquired importance in the agenda of regional integration systems and mechanisms in Latin America. This led to the creation of a specific international network to generate proposals in common: the Inter-American Government Procurement Network (RICG).

RICG<sup>14</sup> was established in 2004 with the purpose of creating a specific international mechanism to generate common proposals relating to public procurement, to strengthen each country's capabilities to increase efficiency and transparency in government procurement, and to provide a space for reflection and technical cooperation in a spirit of solidarity. It is integrated by most of the countries of the continent<sup>15</sup> and possesses the maximum responsibility in matters of regulation, management and modernization of public procurement. Several organizations participate in it, such as the OAS, the Inter-American Development Bank (IDB), and IDRC.

Since the creation of this entity and thanks to the intergovernmental cooperation between the states involved, public procurement systems have been subjected to reforms in their purchase and procurement regulations and methodologies. Also, by signing and ratifying multiple international treaties, governments have adopted the development of sustainability patterns as a general framework for their public policies.

In governmental matters, **there have been great advancements and many processes where it is not just the economic aspects that acquire importance but also the adoption of social justice and environmental principles as a priority when planning public policies tending towards the region's economic, environmental and social development.** Besides, great steps forwards have been taken from initiatives promoting sustainable production and consumption practices. In this sense, the IDB has stated that thanks to the reforms of Latin American systems over USD 100,000 million have been saved in recent years<sup>16</sup>.



**SPP AS CONTINUED INNOVATION FOR STATES AND THE MARKET**

By introducing systematic practices for the identification of environmental and social challenges in public procurement processes, innovation on the part of the market and states is boosted through several mechanisms.

The idea of SPP as a tool for development and innovation is centered on establishing guidelines to increase sustainability in suppliers' productive processes via their access to the purchasing system. Therefore, SPP can encourage suppliers to produce structural changes with the aim of having access to the capital allotted to purchasing by the state. In this way, the state could facilitate and encourage the growth of an innovative market presenting specific solutions to governmental problems at the local, national and international level.



**In general terms, innovation can carry high risks. This is why the role of the public sector as a leader for innovation and risk-taker is essential. And SPP, with its emphasis on value for money, provides states with a solid justification to invest in innovation. Furthermore, since the public sector's demand is by nature large-scale and long-term, SPP is a powerful driver for the development of a new market of businesses creating economic, social and environmental value by guaranteeing a demand for their products. This commitment strengthens the market and, due to the exemplary effect concerning sustainability, it promotes social and environmental conscience over purchasing power, creating a feedback effect on the economy.**



At the global level, nowadays there is ever greater demand for quality products with high environmental and social standards which, through the support from public capital, could mean an opportunity for businesses to grow and project themselves locally and internationally.



SPP is an opportunity for the countries in the region to establish public procurement systems that are transformative, improve their efficiency and transparency, as well as functioning as a tool for economic and social progress.



This scenario is supplemented by an increase in the production of sustainable goods and services, along with the growth of the new economy, of the different economic actors using the market force to find a solution to the current challenges, and the appearance of several tools to evaluate sustainability standards. All of this provides the states with a real opportunity, with specific tools, to take a qualitative leap in SPP methodology as well as with the possibility to act as investor in a new impact economy that has the ability to achieve the SDGs.

On the other hand, encouraging an investment in sustainability and applying purchasing criteria that favor efficient business methodologies are ways to promote measures to contribute to countries' adaptability to and mitigation of climate change.

Likewise, while fostering innovation in the business realm, the state succeeds in the transversalization of public policies, since the development of this new economy (which creates economic, social and environmental value) helps comply with legislation on the promotion of social and economic sectors participating in the market.

**That is to say, the state, through its purchasing actions, actually carries out its policies, as opposed to merely dictating concepts, protocols and rules. The reason is that these regulate the actions and resources of third parties, while in the act of purchasing it is the state itself which contributes its own resources, thus materializing its policies' goals.**

For example, SMEs and social cooperatives are actually supported by their access to capital through public procurement, in keeping with governmental policies. In the same way, contract guidelines on gender-inclusive employment practices in provider businesses or on vulnerable population integration to the production cycle are ways to put into practice the state's corresponding policies.

**SPP has been qualified as a Nationally Appropriate Mitigation Action (NAMA)<sup>17</sup> due to its mechanisms which tend towards an efficient, change-producing public policy contributing to greenhouse gas elimination or reduction.**



The starting point for planning future innovations is the creation and publication of an annual public procurement plan which is transparent and broad in scope and which includes sustainability guidelines for the entire public administration.



This change in trends and the reforms in the legislation regarding public procurement systems have created the basis for the reformulation of state paradigms. Over the previous decade, this has increased operation transparency, improved quality/price ratio, promoted competition, perfected purchasing process management, and fostered debureaucratization and the standardization of procedures. That said, today it is necessary to move forward in terms of SPP methodology, whose next step should be to commit strongly to the new triple impact economy, that is, an economy that creates economic, social and environmental value.

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## PROMOTING ALTERNATIVES TOWARDS SPP

- What are the challenges and opportunities to move towards an implementation of an SPP oriented towards triple bottom line businesses?
- What needs to be activated in the different governmental departments to begin working on this?
- What is the factor enabling or inhibiting making a start?

To this end, below we propose a few tools and practical recommendations that would help make progress towards SPP for triple bottom line businesses.

### **STRENGTHENING ADMINISTRATIVE PURCHASING PROCEDURES**

Public Procurement legislation specifies purchasing principles, as well as the administrative procedures through which goods, services and infrastructure are acquired by the state. For a state purchase to happen, it is necessary to follow an administrative procedure consisting on a series of stages, each of which adds its own, indispensable element towards signing the contract but none of which is enough to carry out the purchase on its own<sup>18</sup>.

The purchasing area must act in different stages of the process, thus ensuring an integral treatment of the purchase and promoting the strict application of criteria fostering sustainability. It is worth highlighting the current relevance of using an electronic public procurement system that:

- 
- guarantees the procedural principles of equity, free competition and transparency;
  - ensures the strict application of SPP methodology;
  - speeds up calls for bids and promotes provider participation.
- 

The methodology known as electronic government may be understood as one of the main tools for modernizing the state and stems from a strategic and intensive use of Information and Communications Technologies (ICTs<sup>19</sup>) within the government as well as between the public sector and citizens and businesses<sup>20</sup>. In the region, access to ICTs amounts to a step forward towards an effective implementation of an electronic public procurement system. The adaptation of purchasing systems to technological resources is the most effective tool to achieve efficiency, transparency and competition in public procurement systems.

**Below is a demonstration of how SPP methodology, facilitated by an electronic system, encompasses the entire administrative procurement process and how it can be used as a tool to promote the new triple impact economy in a proactive way.**

-  1. Identifying, evaluating, defining and publishing needs
-  2. Market enquiry
-  3. Evaluation and selection of
-  4. Technical specifications
-  5. Publication
-  6. Evaluating offers and awarding the contract
-  7. Contract conditions and monitoring



## 1. IDENTIFYING, EVALUATING, DEFINING, AND PUBLISHING NEEDS

The first step in the purchasing process is to define the exact need to be fulfilled, based on sustainability standards. Needs analysis, a critical component of SPP, is a part of the purchasing cycle that should stand clearly apart from traditional public procurement processes. These focus on purchasing specific products and do not make room to ask first what need has to be addressed. Through needs analysis, it is possible **to evaluate whether it is actually necessary to make a purchase** and, if necessary, whether it is possible to innovate as to what is acquired and why, with the aim of including new, sustainable alternatives.

The state that buys best is that which reduces procurement by focusing on its efficiency, and nowadays efficiency implies sustainability. Besides, the purchasing agent should bear in mind that the market offers different solutions for the same problem; that for innovation to happen **it is necessary to make the need public in order to facilitate innovative, sustainable purchases<sup>21</sup>. This is why it is recommended to establish publication instances for state needs in which businesses can find the annual procurement plan, which will lead to proposals and solutions of the kind mentioned above.**



## 2. MARKET ENQUIRY

In order to strengthen SPP methodology and create a space for innovation it is necessary to establish prior instances through which knowledge about the market can be obtained, while making enquiries and promoting integration between the state and economic actors.

**Market enquiries are formal, conciliated processes through which purchasing agents interact with suppliers in order to obtain their opinion on new products, technologies or innovations that have been planned.**

Among other benefits, a market enquiry provides an opportunity for businesses to know with clarity the principles, process, benefits and requirements of public procurement. Likewise, suppliers have access to understanding how environmental and social performance is progressively integrated in state purchases through **transparent, non-discriminatory dialogues.**

At this stage, SPP methodology opens the doors to the market, promotes transparency (open data and participatory government<sup>22</sup>) and cooperation **to strengthen the knowledge about the market as well as its capacity for sustainable innovation, and thus create proposals that may overcome the state's recurring problems.**

A market enquiry may be made with the aid of technological platforms (such as MercadoLibre), external consultants (e.g. Sistema B), research centers (RICG) or universities (such as Buenos Aires University -UBA-). These actors allow for a greater transparency of the process and, in due course, may become observers, offering the involved parties their knowledge and expertise.

Similarly, an interactive Registry of Suppliers may be a way for state departments to get an in-depth snapshot of the sustainable market. In a registry such as this, companies would be able to catalog themselves, obtain training, provide indicators of their capabilities and express their willingness to comply with environmental and social guidelines.



### 3. EVALUATION AND SELECTION OF RESPONDENTS

Pre-qualifying public sector suppliers ensures that they have the legal, financial, commercial and technical capacities necessary to provide the relevant goods and services according to budget. Pre-qualifying criteria traditionally include such documents as company registration, formal accounting records, audited financial statements, history of compliance with regulations, including environmental and labor laws, and contract history.

**Below are some examples of environmental and social performance criteria which may be included in the pre-qualifying criteria of the companies in the Registry of Suppliers, facilitating their identification:**

- accrediting the company's triple-impact-positive actions through a certification (Global Reporting Initiative - [www.globalreporting.org](http://www.globalreporting.org), Empresa B - [www.sistemab.org](http://www.sistemab.org), Carbon Disclosure Project - [www.cdp.net](http://www.cdp.net), IRIS, Global Impact Investing Network - [www.iris.thegiin.org](http://www.iris.thegiin.org), Fair Trade - [www.comerciojusto.org](http://www.comerciojusto.org), Economy of the common good - [www.economia-del-bien-comun.org](http://www.economia-del-bien-comun.org), Climate Disclosure Standards Board - [www.cdsb.net](http://www.cdsb.net), Sustainability Accounting Standards Board - [www.sasb.or](http://www.sasb.or), Greenhouse Gas Protocol - [www.ghgprotocol.org](http://www.ghgprotocol.org)) of a business model including social and environmental criteria;
- demonstrating the company's capacity to comply with qualifying criteria relating to environmental management systems pursuant to the ISO 19011:2011 standard and the ISO 14001 standard or their equivalents;
- demonstrating compliance with fundamental standards of the International Labour Organization (ILO) within the supply chains.



### 4. TECHNICAL SPECIFICATIONS

To establish conditions during the technical specification definition stage may be considered an act of public management. The challenge of **incorporating criteria for sustainability, environmental performance and social integration into the technical specifications must be carried out in a progressive manner, taking into account the market's developmental stage, so that conditions do not lead to the failure of a call for bids or to a predefined choice.**

Due to continued innovation in design, manufacturing and distribution of sustainable goods and services, it is difficult for purchasing agents and political figures to stay up-to-date and outline technical specifications demanding the best technologies available. For this reason, it is necessary for agents to be trained continuously so that they can produce specifications that tend to develop the market in an intelligent way.

**During the first few stages of SPP implementation, the most sensible approach is to include environmental and social performance criteria among the awarding criteria (see "Model Legislation"). In this way, purchasing agents are able to reward proactive suppliers who prioritize sustainable goods and services without excluding those who don't, thus promoting the creation of a sustainable market.**

Then, as these markets of goods and services mature and more goods and services appear in the market, purchasing agents may start to include environmental and social performance requirements in the technical specifications or solicitation document. **Another alternative - for incipient markets - is to include environmental and social performance considerations through optional, rather than mandatory, requirements.** Consequently, the idea is that these requirements should be mandatory as long as the sustainable goods and services market can live up to the demands.

In order to implement SPP, purchasing agents need to acquire goods and services that contribute better value for money throughout the product's life cycle. They need, then, information and expertise on what environmental and social performance of products encompasses. To provide this information, **several countries have developed guides and criteria lists (or technical data sheets) for several products and services, detailing their environmental and social impact characteristics. These are very useful documents for purchasing agents to be able to differentiate between sustainable goods and services from their less sustainable counterparts.**

Similarly, although public agents may not refer to ecolabels by name, they must understand the corresponding standards. In this way (depending on the market), they will be able to **adopt their technical specifications and create a solicitation document reflecting the criteria of the ecolabel in question.**

Purchasing agents have at their disposal a wide range of alternatives to choose the ecolabel or voluntary scheme to be used as reference in the identification of sustainable goods and services.

As an example, the International Organization for Standardization (ISO) establishes different types of labels that can be used to understand and outline ecological standards while planning a new purchase<sup>23</sup>:

- type I labels (ISO 14024) are based on the impact of the life cycle of a product or service. These labels are often used in the forest sector. **These guide purchasing agents in the development of sustainability criteria for wood products;**
- type II labels (ISO 14021) are used by manufacturers to indicate the environmental characteristics of a component, product or process in particular;
- type 3 labels (ISO 14025) contain information about the environmental impact of a product's life cycle. These labels may, for instance, give details about the chemical products utilized in the production of a certain product;
- energy labels.



## 5. PUBLICATION

Besides any jurisdiction-specific administrative and legal publication requirements, the deadline to respond must allow suppliers working in the new economy (typically, among other factors, related to vulnerable populations) for enough time to prepare their proposal; the context must also be understood. A state agent who understands the importance of SPP and knows about the context and reality of new economies is a fundamental piece of the correct applicability of this methodology.

In the same manner, aiming to strengthen the transparency principle, the call for bids should not be published only among the suppliers in the Registry of

Suppliers and through official notices but, rather, on the website of the agency in question. Besides being public information whose publication favors the competition principle, purchases can, **through correct dissemination, open the doors for the world of innovation by making it known what the state is buying, as well as how and with what characteristics.**

Lastly, it is important at this stage to have an effective electronic **Registry of Suppliers, debureaucratized, innovative and broad in range** enough so that it contributes to the strengthening of the general principles of competition and transparency associated to public purchases (see f. Registry of Suppliers).



## 6. EVALUATING OFFERS AND AWARDING THE CONTRACT

The “value for money” offer evaluation principle and the “purchase price” principle allow for different considerations. “Value for money” includes the overall cost of the purchase (including raw materials) and operation, maintenance and management costs, as well as allowing purchasing agents to consider qualitative factors, as long as these can be evaluated in a transparent way. That is to say, the entire life cycle of the product or service is evaluated, together with the positive environmental and social impact criteria, in order to decide which is the most favorable offer.

When using SPP methodology, it is important to **assign environmental and social performance enough points to convince the market that the demand for sustainable goods and services is a real, long-term commitment<sup>24</sup>**. To this end, many jurisdictions use tables and matrixes to determine the best value for money among the pre-selected offers. In this way, environmental and social

performance will become more relevant for businesses, and this will nurture the triple impact economy. This is, in fact, the appropriate way for suppliers to internalize the fact that, in order to have contracts awarded to them, they must make sure their production processes take into account the development of environmental and social criteria.

In the same way, the inclusion of environmental and social impact criteria in procurement-related legislation (see Section 2 of the Model Legislation) would make room for a wider margin to decide how to award a good, service or work. This would show not only commitment with sustainability policies on the part of the governmental agency, but also the consecration of these principles through legislation.

Consequently, markets will get the message that there is visible political leadership in SPP, which reflects the actual implementation of sustainability policies. It is only then that suppliers will take the risk to invest, innovate and deliver sustainable goods and services.



## 7. CONTRACT CONDITIONS AND MONITORING

At the time of drafting the contract (whether service, purchase or administration) there is an opportunity to condition suppliers to comply with the environmental and social performance principles established in the Call for Bids. **For instance, operational contracts may require that the delivery of products be made wholesale instead of in individual units, in order to minimize transport-related environmental impact, or that suppliers pick up the packaging of their products for recycling or reuse.**

It is important to emphasize compliance with legislation on sustainability principles on the part of suppliers during the execution of the contract, as well effective monitoring by the relevant supervisory body.

Besides, monitoring of the execution of technical aspects specified in the contract may be supported by entities that guarantee the correct implementation of sustainability criteria. Thus, the buying entities may require the intervention of technical experts or request reports from state or private organizations possessing the necessary expertise.



## TOOLS FOR ACTION: HOW CAN WE USE CONTRACTING TOOLS TO PROMOTE IMPACT?

Besides the mechanisms seen above, which seek to include the new economies into the administrative purchasing process, there are several tools (provided by the state through contract laws and other mechanisms) that could be used to promote the participation of sustainable suppliers in the public procurement system. Obviously, this requires a deep knowledge of those tools, as well as innovative thinking and political commitment.

**It is important that the various instruments existing in the procurement system for the participation of those who produce sustainable goods and services are available to all economic actors.** These tools can be understood as clauses or provisions integrated in the purchasing procedures, aiming to increase the participation of triple bottom line businesses in the public sector. They can also be seen as mechanisms or platforms ensuring transparency and competition principles in the purchasing procedure.

**It is recommended that the application of technical tools is done in keeping with the reality of each local context,** so that SPP methodology is correctly applied and the growth of the impact market participation in the state is followed.



### Contracting priority clause in tender specification documents

*“Companies that accredit through competent certification the generation of a positive social and/or environmental impact in the production chain of their good, product or service, and/or through their business model, will have priority at the time of contracting as long as there is a parity of prices compared with the offers of other bidders. The aforementioned certification may be national or international, public or private, and must have the following characteristics:*

- a.** Recognition
- b.** Evaluable
- c.** Independence
- d.** Reliability
- e.** Transparency

*Positive social and environmental impact refers to those actions performed by the company which imply value creation for society and/or the environment, and which stem directly from its economic activity. These actions must manifest themselves above the standards established by:*

- (i). national and local environmental laws;
- (ii). labor laws and labor risks laws;
- (iii). Irules and regulations tending towards social and labor inclusion of persons in a state of vulnerability, or in a situation of inequality due to historical, social, economic, biological, political and/or cultural issues;
- (iv). rules and regulations tending towards the improvement of quality of life and the well-being of people; healthcare, housing and education of people in general.”

This contracting priority, according to normative precedent, seeks to prioritize triple bottom line businesses in the award of a state contract as long as their price is the same as the least costly alternative.



### Offer benefit clause in tender specification documents

“Companies that accredit through competent certification the generation of a positive social and/or environmental impact in the production chain of their good, product or service, and/or through their business model, will have priority at the time of contracting as long as there is a difference in price no greater than X%(1) in comparative terms with the offers of other bidders. This benefit is extended to X% overall if these companies are considered MSMEs pursuant to the relevant legislation in force. The aforementioned certification may be national or international, public or private, and must have the following characteristics:

- a. Recognition
- b. Evaluable
- c. Independence
- d. Reliability
- e. Transparency

Positive social and environmental impact refers to those actions performed by the company which imply value creation for society and/or the environment, and which stem directly from its economic activity. These actions must manifest themselves above the standards established by:

- (i). national and local environmental laws;
- (ii). labor laws and labor risks laws;
- (iii). Irules and regulations tending towards social and labor inclusion of persons in a state of vulnerability, or in a situation of inequality due to historical, social,

economic, biological, political and/or cultural issues; (iv). rules and regulations tending towards the improvement of quality of life and the well-being of people; healthcare, housing and education of people in general.”

This model is based on percentages established by normative precedents, seeking to prioritize local companies in the award of a state contract, even if their price is larger than the least costly alternative. Considering SPP methodology institutionally, and taking into account that contracting triple bottom line businesses is a proposal with benefits that exceed the benefits for which priority is granted, the application of these prerogatives is beneficial.



### Sustainable alternative offer

Companies may present proposals and make bids on a sustainable alternative as long as:

- the base offer has been quoted;
- the base offer has been found admissible;
- the alternative offer does not substantially alter the original contracting conditions, or the proposed innovation is more advantageous for contracting purposes.

Alternative offers give the private sector the possibility to present innovative proposals and for them to be considered within the administrative purchasing procedure. That is to say, it makes innovation visible and helps the state discover alternatives it was unaware of.

This tool requires training suppliers on the possibility to present an alternative, innovative offer according to sustainability criteria.



## Financial advance

Financial administration rules contain provisions regarding the so-called financial advance. In general, this is applicable in the following cases:

- when it is the only possible form of procurement;
- when it is done in the best interest of the public administration (which ultimately is the best interest of civil society);
- when the procurement is for services essential for public safety.

The innovative approach and aims of SPP make it possible to give financial advances for a certain percentage of the price to companies categorized as triple bottom line businesses or MSMEs, which would justify the need of an initial capital to face the execution of the contract.

It is worth noting that the public capital used for the financial advance is protected by the obligation to present a satisfactory security as defined by the administration. The security must be equivalent to the overall amount received by the supplier in advance, and it is generally deposited in the Treasury of the buyer organization or agency.

The use of this tool presupposes that the supplier must formally request it, providing grounds for the request. These grounds will be evaluated in line with the policies of support and encouragement of triple bottom line businesses.



## Registry of Suppliers

The Registry of Suppliers is the Public Administration's official information system in charge of recording and maintaining all general and relevant information relating to the suppliers interested in participating in the state's procurement processes. In other words, goods, services and works companies that desire to be suppliers to the state must be in this registry.

This tool offers the basic principles of transparency and competition, and is a cornerstone of procurement policies. It must be remarked that the Registry of Supplier should under no circumstances become a barrier to contract with the state. On the contrary, it must be a means to ensure greater participation on the part of companies and to strengthen the general principles of procurement. Therein lies the importance of the system's transparency, agility and availability to all.

Public procurement through electronic systems, including online registries of suppliers, have proven one of the most effective and efficient tools for a good governance of the purchasing process<sup>25</sup>. ICTs<sup>26</sup> have radically changed the way in which public entities contract and communicate.

The use of technological resources in the public procurement systems in Latin America and the Caribbean is, along with e-commerce, a challenge as well as an opportunity to reformulate the paradigms of the region's public sector. It is impossible to overstate the importance of the state having electronic purchasing systems and registries of suppliers. This is a way to guarantee debureaucratization, ensure transparency and improve accessibility so that there is an increase in companies' participation in the universe of public procurement.

Thanks to its connectivity and fast access to markets, an electronic Registry of Suppliers creates a significant impact in a state's capacity to participate in and expand the economy. Besides, initiatives such as electronic product catalogs and businesses classification according to products or services create more opportunities for triple bottom line businesses to participate.

Also, when it comes to purchases in particular, an informatized purchasing system offers the possibility to identify suppliers according to business area and to send notifications when a call for bids opens so that companies may send in their quotes online. This ensures greater competitiveness and consequently leads to a real, rather than speculative, price. On the other hand, an available Registry of Suppliers not only benefits governmental organizations but also responds to the challenge of educating businesses and raising their awareness as to the importance of promoting sustainable production and consumption.

A distinctive and innovative feature of registries of suppliers is the possibility to migrate their data so that it can be shared with other governmental organizations, whether regional or international, which expands the companies' markets. It should not go unnoticed that,

thanks to free trade agreements, many countries in the region have extended their public procurement markets to include regional and extra regional suppliers.

**This also simplifies the access on the part of suppliers to the many registry platforms, as registering in each of them individually is no longer a requirement – there is now a trans-jurisdictional registry starting with a single entry into the system.** In short, the result is a democratization of the states' demand. It must be noted that there are no technical or technological difficulties in transitioning towards a fully electronic public procurement system, with its corresponding Registry of Suppliers.

The success of electronic public procurement systems also depends on their adoption by suppliers, which means it is vital to provide interested parties and potential suppliers with training in order to achieve a purchasing system that is as efficient and effective as it is clear.

The registry's database makes it possible to promote use patterns that enhance the economic and environmental efficiency of public spending, promoting social and environmental standards among suppliers that lead to sustainable consumption and production habits.





### Electronic product catalog

An electronic product catalog is a platform where goods and services are uniformly categorized so that they may be purchased or contracted by the state. The entries are created by companies duly registered in the Registry of Suppliers. The catalog is included as a module in electronic public procurement systems, which simplifies a variety of tasks, from collection and analysis to management of goods and services, while offering integrated, systematic information that leads to an efficient purchasing logic.



The purpose of the catalog is to maximize trade with suppliers and make it more efficient, as well as to identify which goods or services are considered sustainable and under what type of business they function.



Having these goods or services clearly identified in the catalog allows the different purchasing departments of each government to establish criteria that match sustainability requirements and to use the data according to a classification and coding.

As a standardization methodology – with a view to improving trade relations in Latin America – it is recommended to use a catalog structure based on the taxonomy proposed by the United Nations Standard Products and Services Code (UNSPSC)<sup>27</sup>. The UNSPSC is a global, uniform methodology for coding used to classify products and services based on a hierarchical arrangement and a logical structure. This classification system allows to codify products and services clearly, as it is based on industry-approved standards that facilitate transaction between businesses and governments.



### Other tools

It is state policies that matter towards the promotion of an impact economy: tools are but instruments for their execution. The array of tools currently in use may, and will, expand to include new ones arising from the interaction between states and stakeholders<sup>28</sup>.



# RECOMMENDATIONS

We understand that applying SPP will be carried out progressively. This is why we present some recommendations below which, according to the context of each separate state department, may elicit improvements as the government sees fit, possible or strategic.

- To have a unified electronic procurement system to ensure transparency and provide up-to-date, detailed information.
- To analyze the entire life cycle of the purchase. [Here](#) you can see page 16 of the RICG's Handbook for the Inter-American Network on Government Procuring.
- Before purchasing: identify the need. Do I need to buy? If the answer is yes, consider needs, not products.
- Know the market. Keep the conversation going with businesses so that they inform officials about possible innovations. [Here](#) you can see how ChileCompra has implemented market enquiries.
- Develop standard tender documents and apply sustainable data sheets about acquisition of goods and products in order to simplify SPP implementation. [Here](#) you can see different sustainability criteria applied by Argentina's National Procurement Office for the purchase of certain goods and services.
- Start by incorporating social or environmental criteria as optional, so that suppliers have time to adapt, transform themselves and innovate.
- Incorporate environmental or social criteria to the tender document composition stage, taking into account the criteria of existing labels. [Here](#) you can see page 19 of the RICG's Handbook for the Inter-American Network on Government Procuring.
- Implement innovative calls for bids in pilot mode.



# RECOMMENDATIONS

- Create a special category in the Registry of Suppliers to identify sustainable business models.
- Develop an electronic Products and Services catalog and identify the ones considered sustainable. [Here](#) you can see the goods and services catalog implemented by Costa Rica.
- Use the Financial Advance tool to bring new economies into the world of procurement. Understand that for many MSMEs and new economy companies, it is indispensable to have an initial capital to comply with the contract awarded.
- Train purchasing agents and supervisory body officials. [Here](#) you can find information about several courses offered by the OAS.
- Measure SPP results: identify direct and indirect benefits generated by SPP. For example, establish the amount of money allotted to SPP in the annual budget.
- Develop indicators to measure management in the different purchasing units. [Here](#) you can find the monitoring indicators of Dominican Republic's National Public Procurement System.
- If there is no legislation or regulation about SPP, strive to create public policies that endorse and legitimize it.
- Publish an annual Public Procurement Plan. [Here](#) you can see an example.
- Make sure you have a centralized, cross-sector strategic coordination working in close collaboration.
- Communicate your achievements.



## MODEL LEGISLATION FOR THE INTEGRATION OF AN IMPACT ECONOMY

While it is not necessary to modify the applicable laws in order to carry out public policies promoting sustainable development, it is beneficial to have legislation that consolidates SPP methodology without depending on the decisions of the incumbents. Besides, to have a clear framework for awarding criteria which additionally incorporates benefits for the new sustainable economy is a sure way to render it exigible, as the private sector can use this framework to ensure the correct application of environmental and social criteria in administrative purchasing processes.

In the previous section, we showed how SPP methodology can be used throughout the administrative purchasing process even in the absence of a legal framework. Why have one then? Firstly, there is value in providing state agents with a direct purchase mandate providing for the acquisition of sustainable goods, services and infrastructure, materializing a change in the awarding criteria. Secondly, it is desirable to have clear guidelines in favor of the development of the new triple impact economy through supporting its stakeholders. Thirdly, enacting provisions has communicational power and a capacity to educate the officials involved in its drafting and to raise awareness in consumers about the social and environmental consequences of public procurement. Lastly, it is a clear signal directed to the market and its actors in favor of responsible production and consumption.

This is why it is convenient that the traditional principles of procurement such as competition between bidders, equality of treatment of all interested parties, procedure

transparency, publicity and dissemination of opportunities and the responsibility of officials in the management of contracting see the addition of new criteria projecting and promoting principles relating to the environment and social integration throughout the administrative purchasing process.

We consider it appropriate that public procurement legislation, whichever its hierarchy or scope of application, should contain directives promoting these guiding principles and facilitate the collaboration among the different stakeholders of public procurement in Latin America.

Furthermore, considering the governmental premise regarding the effective compliance with SPP methodology as established in international legal frameworks or agreements, it seems convenient to include social and environmental criteria into purchasing processes through clear, effective legislation that modifies, integrates and consolidates principles of procurement well-adapted to today's environmental and social demands.

Besides, a legal framework for SPP stands a chance to be enacted at the local, national, or regional level, depending on the government's structure and the degree of autonomy of any centralized or decentralized organizations. Whether the relevant provisions find a place within public finance legislation or are scattered throughout the juridical and political system of the country, what must be remembered is that every governmental organization making a purchase is subject to a Procurement Law, de jure or de facto, so that they can propose a reform consolidating the above principles.





Any legal framework promoting SPP and the development of an impact economy may, among others:

- support the SDGs of the 2030 Agenda and SPP methodology (SDG 12.7); also, assert the governmental interest of the green economy, circular economy and/or impact economy;
- demand that purchasing decisions are based on the principle of value for money throughout the life cycle of the product, value for the entire life of the product or service or total cost of ownership;
- incorporate environmental and social impact criteria among the awarding criteria regulated by financial administration laws, including other criteria besides purchase price, such as quality, durability, environmental performance and/or added value in terms of production as well as the use of local raw materials or workforce;
- promote an impact economy through a commitment to demand products or services with a social and/or environmental impact;
- grant contracting priority benefits based on juridical precedents such as national purchasing programs<sup>29</sup>;
- make available for other jurisdictions the Registry of Suppliers database with a view to expanding the companies' market and to promote the development of an impact economy.

The appearance of normative trends modifying traditional procurement criteria is valuable in itself. However, it is also true that the mere fact of having a legal framework does not guarantee the implementation of SPP. A political commitment to support sustainability is as necessary as the legal framework.

Annex A presents Model Legislation with the following determinations: to assert the governmental interest of the development of an impact economy and Sustainable Public Procurement (SPP); to incorporate the concept of impact among the awarding criteria; to establish criteria for companies to be considered triple bottom line businesses; to prioritize purchasing from triple bottom line businesses; and to identify triple bottom line businesses within the Registry of Suppliers.

## FINAL REFLECTIONS AND CALL TO ACTION

The issue is on the table: for the purpose of sustainable development in the region, it is essential to move forward, and with concrete steps, towards the implementation of SPP. States, as the great consumers they are, must become aware of their purchasing power, their fundamental role in the development of triple impact markets, of the potential of procurement as a social education mechanism. Signals must be sent to the market as to the way in which the state will be purchasing: generating value for money and prioritizing sustainable development, and not simply for the lowest price.

Markets need to receive a message that political leadership in SPP is visible and represents the realization of the state's sustainability policies. Only then will suppliers make a commitment to keep investing and innovating to deliver sustainable goods and services.

This article is a call to action for pioneers of economic innovation at the local, national and intergovernmental levels. That is why it includes arguments and tools that provide a way to advance today towards the implementation of SPP. We seek to motivate, inspire and empower the purchasing agents of the region so that they will see the opportunity to take part in the growth and development of a new business sector with whom to converge in the creation of public goods. So that they will see themselves not just as purveyors to the state but as catalysts of triple bottom line businesses

We are all agents for change, and the role of purchasing agents is key in this new economy. As we have seen, it is not necessary to have a specific legal framework to incorporate social and environmental requirements into some of the stages of the administrative purchasing process. The development of specific tools – such as the online Registry of Suppliers – that allow to take a first few steps is a transcendental factor to produce the paradigm change proposed above.

All of this confronts us with the opportunity to generate a link between the public and private spheres that may well create the solutions demanded by the current social and environmental challenges; to create necessary alliances between the public and private sectors in order to contribute with the advancement of the 17 SDGs.

We have no doubt that innovation can be generated by the state while honoring and even strengthening the traditional public procurement principles, generating at the same time, in particular, greater value for money. Once more: this is an invitation to use public procurement to its full potential in pursuit of sustainable development.



*“An excellent tender document, an excellent supplier, an excellent society, a country in progress.”*

(Carlos Araya Arias, founder of Florex)

## SUPPLEMENTARY MATERIAL

### Annex A

#### SUSTAINABLE PUBLIC PROCUREMENT FOR THE DEVELOPMENT OF A TRIPLE IMPACT ECONOMY DRAFT FOR A LAW OR ORDINANCE

##### WHEREAS

It is clear that a new global conscience has manifested itself, and the construction of a new economy is in progress; a new economy which functions within the limits of ecology and is based on shared capacities and social and economic justice, as well as on human rights.

In this global context, an economic system includes the concept of impact, where not only profits are relevant but also the protection of the environment and social justice are fundamental for participating in the market, which reflects a humanistic economic system and conscious consumption that is, for instance, materialized in the creation of new juridical forms of organization for companies which, without leaving aside the pursuit of profit, incorporate social and environmental goals into the hearts of their business models and business activities.

The New Economy movement brings together a social community purpose, ecological sustainability and collaboration, the elements of a new conscience working within these limits and based on shared capacities, social justice and economic justice, as well as on human rights.

B Corporations or triple bottom line businesses is a business concept bringing together business and high standards of management and transparency, while seeking to create a favorable impact on:

- (i). financial performance
- (ii). environment-friendly processes
- (iii). society.

Businesses of this type see profits as a tool to achieve their goals and not as an end in itself.

The aim of this regulation is to promote the development of an ecosystem of sustainable companies which include among their goals taking care of social problems, preserving the environment, and designing innovative market solutions seeking to address social and environmental goals through relevant private and public policies.

The New Economy Ecosystem encompasses, among others, the Economy for the Common Good, Collaborative Economy, B Corporations, triple bottom line businesses,

social enterprises, impact investors, public authorities and public policies, opinion leaders, consumers, academia, and market, which reflects the new global trends according to which success is measured in terms of the well-being of people, societies and nature, thereby redefining the concept and sense of success in business.

The companies of the New Economies, such as triple bottom line businesses, combine in their business model profit-seeking with social and environmental problem solving.

Businesses of this kind have an impact on at least some of the following categories:

##### a) Environmental solutions:

- (i). Products and/or services that create a positive environmental impact.
- (ii). Production processes that create a positive environmental impact.
- (iii). Training other actors to leverage the impact.

##### b) Social solutions:

- (i) Including vulnerable populations in the community through the creation of innovative jobs and/or an inclusive value chain.
- (ii) Access to basic products and/or services for vulnerable populations in the community (such as housing, healthcare, education, energy, water).
- (iii) Training other actors to leverage impact.

Government officials, as public policy creators, have the capacity to drive the development of the economy and the power to generate key instruments and tools for the promotion and encouragement of the creation and growth of triple bottom line businesses and entrepreneurs. This can be done as part of a policy aiming to address our society's great social and environmental challenges and to institutionalize public policies in pursuit of triple bottom line enterprises.

Due to environmental issues and considering the current social developments, there is a clear necessity for a deeper, more efficient and more ambitious governmental response that can trigger the social and economic transformation needed to reach the goals established in several international treaties and multisector agreements.

Public procurement in our region currently accounts for approximately 20 percent of a country's GDP. This means that it is necessary to reformulate its

principles, methodology and aims in order to leverage its influence and use it as a competent tool to promote New Economies, transforming it into an efficient instrument for this paradigm change.

It is necessary to integrate social and environmental criteria into public procurement, in all administrative processes relating to the acquisition of goods, services and infrastructure in the public sphere.

States must leave behind an approach to procurement exclusively centered on economic principles, rather aiming for the implementation of development policies based on a wider rights perspective, in which ecological progress and social integration should be typical aspects of each and every one of their actions.

The state must be able to promote investments, trade and financial policies to bring us closer to a sustainable world through the implementation of public procurement methodologies that favor the development of a triple impact economy.

It is an issue of MUNICIPAL/PROVINCIAL/NATIONAL interest that THE ORGANISM (e.g. the Municipality of Viña del Mar; the city of Arequipa; the Córdoba Province) may lead the New Economies and their goals by promoting an impact economy as well as the businesses committed to these objectives, in the understanding that those goals transcend our society's political boundaries and lead us to work collaboratively towards the development of economic policies with a clear insight into this systemic shift.

**NOW, THEREFORE,  
THE HONORABLE [LEGISLATIVE BODY] OF [JURISDICTION]  
ESTABLISHES/PROVIDES/ORDERS THE FOLLOWING:**

**Section 1:** It is hereby declared that the development of an Impact economy and Sustainable Public Procurement (SPP) is of MUNICIPAL/PROVINCIAL/NATIONAL interest within the JURISDICTION.

**Section 2:** With the aim of taking into account the environmental impact and social interference of procurement, and under the premise of maximizing the notion of value for money, let social impact and environmental impact criteria be incorporated into the awarding criteria of the Procurement Regime of the (JURISDICTION)

(LET SOCIAL IMPACT AND ENVIRONMENTAL IMPACT BE INCORPORATED INTO THE PROCUREMENT CRITERIA BY AMENDING SECTION N° (X) OF LAW N° (Y) OF FINANCE

ADMINISTRATION/PROCUREMENT LAW, WHICH WILL NOW READ AS FOLLOWS: "...")

It will be understood that positive social and environmental impact refers to those actions performed by the supplier which imply value creation for society and/or the environment, and which stem directly from the supplier's economic activity. These actions must be evidenced above the standards established by: (i) national and local environmental laws; (ii) labor laws and labor risks laws; (iii) rules and regulations tending towards social and labor inclusion of persons in a state of vulnerability, or in a situation of inequality due to historical, social, economic, biological, political and/or cultural issues; (iv) rules and regulations tending towards the improvement of quality of life and the well-being of people; healthcare, housing and education of people in general.

Consequently, for the purposes of the application of social impact and environmental impact criteria the following must be evaluated: a) as regards the Environmental Impact criteria: all the stages of the lifecycle of the service or product, among others, raw material analysis, manufacturing process, use, distribution, and end of life cycle; b) as regards the Social Impact criteria: the integration of vulnerable populations into the production process; and compliance with optimal working condition standards for the employees of the supplier company, which must make sure by several means that human rights are respected and the working conditions required by current applicable laws are complied with in its premises.

In the case of procurement requiring technical or specialized knowledge for its appraisal, or where the accurate evaluation of the social impact, environmental impact and sustainability criteria must be guaranteed, Evaluating Commissions may request the participation of experts or commission reports from state or private organizations with the relevant expertise.

**Section 3:** "triple bottom line businesses" refers to those companies which, through their economic activities, create not only economic value but also social and/or environmental value – above the standards demanded by current applicable laws – that benefits society, the environment and people or parts thereof directly or indirectly linked to the former. The status as a triple bottom line businesses must be accredited by a competent certification through which the purchasing organization shall verify the generation of a positive social and/or environmental impact in the production chain of the good, product or service and/or through its business model. The relevant certification may be national or international as well as public or private, and must comply with the following characteristics: a. Recognition. b. Evaluable. c. Independence. d. Reliability. e. Transparency.

**Section 4:** The companies referred to in the previous paragraph shall have contracting priority as long as there is a parity of

prices compared with the other bidders, and as long as said price does not differ in value more than 3% (PERCENTAGE ACCORDING TO NORMATIVE PRECEDENT OR PRINCIPLE OF REASONABLENESS) in comparative terms.

The aforementioned percentage will be increased by two points (2%) (SEE ABOVE) when the company or organization is qualified as a Micro, Small or Medium Enterprise (MSME) pursuant to the relevant legislation.

**Section 5:** Let it be added to the Public Registry of Suppliers the category of triple bottom line businesses, with the aim of identifying those suppliers which have accredited that they conduct their business under the Triple Impact framework.

**Section 6:** Let the database of the Public Registry of Suppliers be made available to other jurisdictions and to the general public in order to expand the companies' market and to promote the development of an impact economy.

**Section 7:** Let it be communicated, published and registered in the REGISTER OF LAWS/ORDINANCES.



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1. The Global Compact is a UN initiative catalyzing the efforts of businesses and organizations in the pursuit of the 2030 Agenda Sustainable Development Goals (SDGs). Besides that, the Global Compact is a call to action for businesses and organizations to align their strategies and operations under 10 universal principles in the areas of human rights, labor, environment and anti-corruption.
2. The UN Global Compact and B Lab developed a free online tool with which businesses may evaluate, compare and improve their SDG-related performance and outline a progress plan towards 2030.
3. <https://news.un.org/es/story/2019/10/1463292>
4. "Crisis Climática: apocalíptica advertencia de más de 11.000 científicos de todo el mundo"  
<https://www.lanacion.com.ar/sociedad/crisis-climatica-apocaliptica-advertencia-mas-11000-cientificos-nid2303814>
5. A few examples of comparative law are, among others, Colombia's [Law N° 1901](#) creating Collective Benefit and Interest Commercial Partnerships; Italy's law on Società B regulating businesses striving for a triple (social, environmental and economic) impact; the UK's company type [Community Interest Companies](#); Canada's special law recognizing [Community Contribution Company o Community Interest Company](#) and the legislation on [Benefit Corporations](#)"passed in 36 USA states.
6. Companies that contribute to the creation of purposeful employment have seen a growth in their business. Chile's "Pegas con Sentido" B Corp has more than 100,000 registered professionals and over 1,000 organizations seeking purposeful professionals. Colombia's "Matteria" B Corp has 25,000 professionals registered across 30 countries, as well as clients in 11 countries, and receives nearly 1,200 monthly applications.
7. For instance, UBS bank has created UBS Unique, an area dedicated to supplying products that give a response to the wish of clients to make investments that create financial value as well as long-term social and environmental value.
8. Claudio Forner, United Nations Framework Convention on Climate Change Secretariat expert. <https://news.un.org/es/story/2019/10/1464591>
9. SDG 12.7: Promote public procurement practices that are sustainable, in accordance with national policies and priorities.
10. International Institute for Sustainable Development IISD (2015) "Implementando Compras Públicas Sostenibles en América Latina y el Caribe" p. 8. Available at: <https://www.iisd.org/sites/default/files/publications/iisd-handbook-ingp-es.pdf>
11. This trend is recognized even by the largest multinational companies. A case in point is Unilever, which announced in June 2018 that its sustainable brands grew 46% faster than the rest, accounting for over 70% of the company's growth.
12. ECLAC (2006). "Las compras públicas en los acuerdos regionales de América Latina con países desarrollados" Santiago de Chile p. 36.
13. Based on Thai, Khi V. and Jean Telgen (2008) "Evolution of Public Procurement". Journal of Public Procurement, V.8, Issue 3.
14. <http://ricg.org/es/home/>
15. Except Cuba.
16. Latin American and Caribbean Economic System SELA (2015) "Las compras Públicas como herramientas de desarrollo en América Latina y el Caribe" p 30.
17. NAMA (Nationally Appropriate Mitigation Action) is a concept presented in the Bali Conference of the Parties (COP) in 2007 as a means for developing countries to indicate which mitigation actions they were willing to perform as part of their contribution to global efforts. It was also agreed that in developing countries, NAMAs should have an impact that can be measured, reported and verified (MRV), to ensure that the measures implemented effectively and efficiently contribute to the global climate response, and that industrialized nations support the mitigation efforts of developing countries.
18. With the aim of keeping up guidelines and contributing to the construction of a SPP methodology, we refer to the main stages of the administrative process established in the Handbook for the Inter-American Network on Government Procurement (INGP), "Implementing Sustainable Public Procurement in Latin America and the Caribbean".
19. Information and Communication Technologies.

## REFERENCES

**20.** SELA (2015) “Las Compras Públicas como herramienta de desarrollo en ALC”, p. 34.

**21.** It should be remembered that the best purchase is that which is not made. Laws and treaties provide support to avoid buying certain products with a proven negative impact on the environment, such as single-use plastics, white paper or LED lights, among others.

**22.** Making the government’s information available to the public as machine-readable open data may facilitate transparency, responsibility and public participation. Opening official information may support technological innovation and economic growth by allowing third parties to develop new types of applications and services. The best open government applications seek to empower citizens, support small businesses or create value. Opening the government’s data may contribute to improving education, public policies and the construction of problem-solving tools.

**23.** IISD (2015) p. 21.

**24.** IISD (2015) p. 23.

**25.** SELA (2006) p 35.

**26.** In its “Manual de contratación pública electrónica para América Latina” (p. 33), ECLAC has summarized the three main benefits of using ICT in public procurement: i. Governability: applying ICT throughout the procurement process allows to make available to citizens, supervisory bodies and the community at large information about each of the purchasing processes as well as the entirety of public procurement activities. In this way, it is possible to track how the state uses its budget, which allows citizens to demand its integrity and responsibility. ii. Effectiveness: public-procurement-related costs (both for suppliers and purchasing entities) decrease thanks to standardization, depaperization, transaction agility and process duration reduction. Thus, purchasing entities are able to extract more value-for-money from the goods and services they acquire since there are more offers, at better prices, through less costly selection methods. iii. Balanced development: information asymmetry decreases, which creates competitiveness and increases supplier participation, with the consequent reduction in cost in the goods and services acquired. Higher publicity indexes contribute to discouraging monopolies and overcome access barriers hindering small and medium-sized business

participation. This allows for suppliers to get to know business opportunities from purchasing entities at all government levels, even across the region.

**27.** Latest version: UNSPSC, V.14.080 The United Nations Standard Products and Services Code®.

**28.** Using tools such as Partial Payment or Partial Delivery, which foster the participation of triple bottom line businesses and SMEs which may not have the capacity to fulfill a large product delivery due to their business models.

**29.** In the past, one of the strategies used to allot public resources while developing certain economic sectors was the implementation of national purchasing programs. In the region, there is a host of local production development programs and legislation impacting on public procurement which can be used as reference to amend Procurement Law and thus encourage a new Triple Impact economy. Some precedents are: Colombia’s Programa de Promoción del Mercado Interno; Peru’s Programa Compras a MYPErú; Argentina’s Compre Trabajo Argentino and Compre Mendocino, among others. These may serve as reference for the percentage of the benefit to grant to Triple bottom line Companies.



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