Market response to sustainable public procurement policies

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OPEN CONTRACTING PARTNERSHIP

European Bank for Reconstruction and Development

United Nations

2024: What market offers today

Does the ESG industry standard include sustainable procurement?

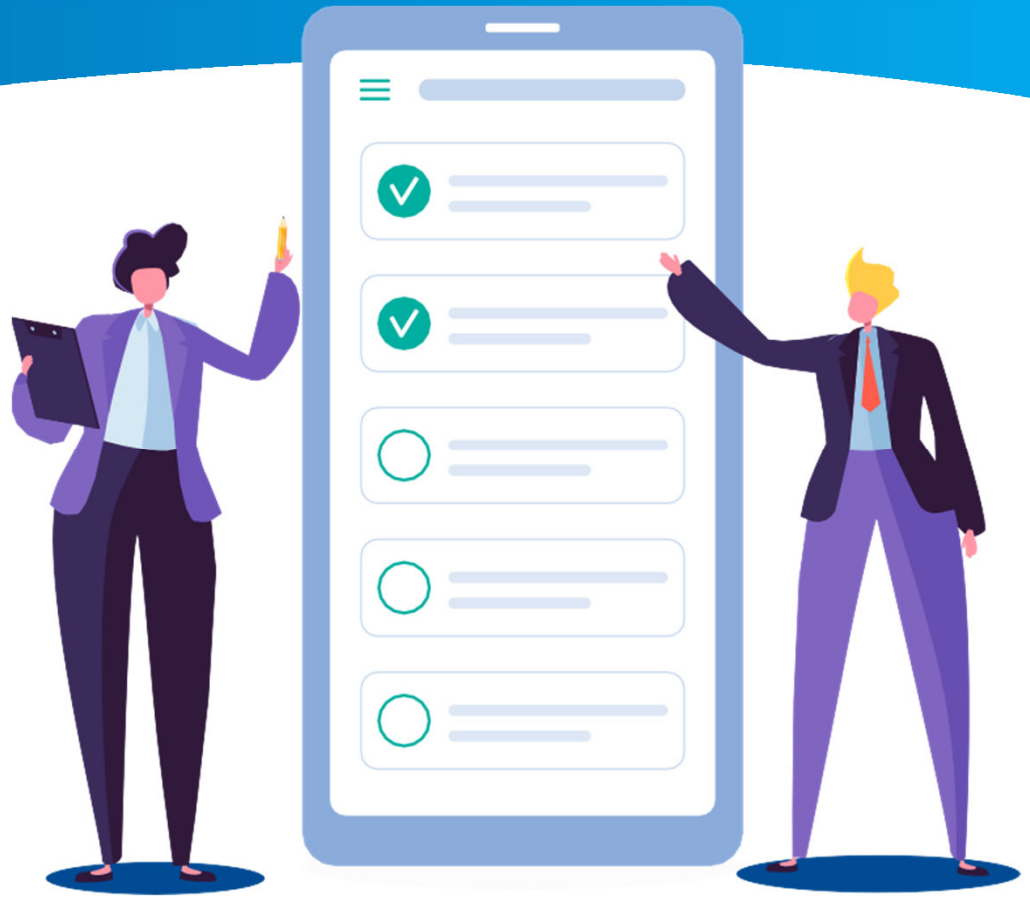
What are the ESG assessments/ratings relevant for public buyers?

Does market offer a third-party ‘sustainable supplier/contractor/service provider’ audits and certifications?

Are green certificates and eco-labels mature?

Are procurement ESG capabilities transparent?

2024 uptake of ESG products/services: from market leaders to start-ups



ESG Industry Standard (and its own challenges)

Environmental:

carbon emissions, waste management, water usage, and energy consumption.

Social:

labour practices, human rights, employee health and safety, community engagement, diversity and inclusion.

Governance:

governance structure and practices, encompassing board diversity, ethical business practices, executive compensation, and shareholder rights.

Financial:

financial performance, covering revenue growth, profit margins, and return on investment.

Lack of Standardisation and Consistency | Data Quality and Reporting Challenges | Inclusion of Subjective Criteria

Procurement ESG capabilities:
Is procurement a part of the ESG social performance evaluation???

- **Employee relations:** Practices and policies related to employee well-being, including fair wages, working conditions, health and safety, and development opportunities.
- **Workforce diversity and inclusion:** Diversity, equity, and inclusion, including gender equality, racial and ethnic diversity, and the underrepresented groups.
- **Employee satisfaction and well-being:** Policies and practices that support employee satisfaction, work-life balance, and overall well-being.
- **Training and development:** Investment in employee training and development programmes to enhance skills, promote career growth, and ensure a capable and motivated workforce.
- **Fair labour practices:** Evaluating the company's adherence to fair labour standards, including compliance with labour laws, non-discrimination policies, and fair treatment of employees.
- **Corporate social responsibility (CSR) initiatives:** Philanthropic activities, volunteer programmes, and CSR initiatives that aim to address social issues and contribute to sustainable development.
- **Community engagement and philanthropy:** Engagement with local communities, supporting social causes and community development.
- **Responsible sourcing:** Responsible sourcing practices, including supply chain transparency, ethical procurement, and efforts to address issues such as child labour, forced labour, conflict minerals or beneficiary ownership.
- **Human rights due diligence:** Processes and mechanisms to identify, prevent, and mitigate human rights risks within the supply chain, ensuring workers' rights are protected and respected.
- **Supply chain and human rights:** Commitment to human rights throughout the supply chain, including responsible sourcing practices, fair treatment of suppliers and workers, and efforts to address labour rights and working conditions.

Sustainable procurement ESG assessments and ratings

- **Ratings:** Specialised industry standard rating agencies
- **Indexes:** Some stock-exchange indexes track companies ESG performance
- **Audits:** A third-party assessments.
- **Questionnaires and Surveys:** Completing a questionnaire/survey regarding ESG practices and strategy
- **ESG Platforms:** Commercial digital tools to track and measure different ESG metrics. Benchmarking against industry peers, identifying areas for improvement, and creating sustainability reports and disclosures.

MSCI, FTSE, ISS, Refinitiv, Sustainalytics don't highlight sustainable procurement

- ECOVADIS
- SEDEX

Sustainable procurement standards

ISO 20400:2017

A sustainable procurement guidance, not a certifiable ISO standard.

From a guidance to a self-assessment: https://www.iso20400.org/take-the-self-assessment/

United Nations Sustainable Development Goals (SDGs)

- Includes 17 SDGs and 169 targets. Goal 12 specifically addresses the need to "Ensure sustainable consumption and production patterns", and **target 12.7** aims to "Promote public procurement practices that are sustainable, in accordance with national policies and priorities."
- **Indicator 12.7.1** – "Number of countries implementing Sustainable Public Procurement policies and action plans" – has been specifically set to measure the achievement towards this target.

CIPS Sustainability Model

Measure, target and improve the sustainability of your supply chain

A sustainable procurement model, not certifiable.

Are green certificates and eco-labels mature?

2002 Johannesburg Plan of Implementation (JPOI) – to *"accelerate the shift towards sustainable consumption and production, the JPOI identified the need to "develop and adopt, where appropriate, on a voluntary basis, effective, transparent, verifiable, non-misleading and non-discriminatory consumer information tools to provide information relating to sustainable consumption and production."*

Several types of environmental labelling – including those which are differentiated into groups and classified by the International Organization for Standardization.

Multi-criteria and multi-sectoral Eco-Labels **(ISO Type I labels)** identify overall environmental performance of goods and services within a product category based upon life cycle and are awarded by an impartial third party to products that meet environmental leadership criteria.

"Certification schemes" or "Sustainability labelling" **(ISO Type I-like labels)** focus on specific impacts (i.e. energy consumption) and are sector-specific sector.

Self-declared environmental label, often a single attribute **(ISO Type II)**

Product declarations **(ISO Type III)** provides detailed quantitative information of products, typically in the form of a matrix/product characteristics.

Country Perspective

Canada

Sustainable Procurement Toolkit

https://sustainabilityadvantage.com/sp/toolkit/

Net Zero Procurement Toolkit

https://sustainabilityadvantage.com/sp/net-zero/

Industry Perspectives: Special case of utilities

Sustainable Supply Chain Alliance (SSCA), USA & Canada

The SSCA is made up of **over 100** members with representation from 27 leading utilities and over 80 of their suppliers

The SSCA members are collectively responsible for **$120 billion** annually in supply chain managed spend

Together, SSCA members are overseeing a Scope 3 carbon footprint of **~30 MILLION** tCO2e

And annually diverting **~3 BILLION** pounds of material from landfill

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THE SUSTAINABILITY PROJECT
https://www.tspproject.org

- **Governance & Management**
- **Offices& Grounds**
- **Procurement**
- **Construction**

ADVANCE SUSTAINABLE PRACTICES IN UTILITY SUPPLY CHAIN AND SUPPLIER NETWORKS

- 28 category tiles
- 405 environmental sustainability best practices
- 24 industries segments

2023: Top factors for procurement teams

The New Procurement Playbook: How Leaders are Reshaping the Function, Ivalua Procurious

93%	66%	65%	63%	58%
Inflation	New Sustainability Expectations and Regulation	Disruption and shortages	Changing end-user demand	Talent shortages

78% see an increase in requests for purchasing sustainable goods and services

61% of buyers are unwilling to pay more than 5% extra and only 11% willing to pay more than a 10% premium for more sustainable goods and services

45% reports no visibility into sub-tier supply chain

38% reports suppliers are lacking understanding of their own sustainability

32% highlight lack of established industry metrics

28% points to cost-dominated supplier selection as an obstacle to sustainability

Is public sector ready for sustainable business?

12th United Nations Global Compact-Accenture CEO Study, 2023
Sustainable Procurement Barometer, 2024

2,600+ CEOs from 128 countries and 18 industries

98% CEOs feel it is their role to make their business more sustainable

54% CEOs are improving visibility into the social impacts of their company's value chain

34% CEOs are reducing scope 3 emissions of their companies

63% are launching new products and services for sustainability

55% are enhancing sustainability data collection across their value chains

49% are investing in renewable energy resources

49% are transitioning to circular business models to build resilience

90% of interviewed CEOs feel that limited support from government is negatively impacting their ability to tackle climate challenges and the governments shall adopt more "green" policies, including incentives for renewables and establish a global price on carbon

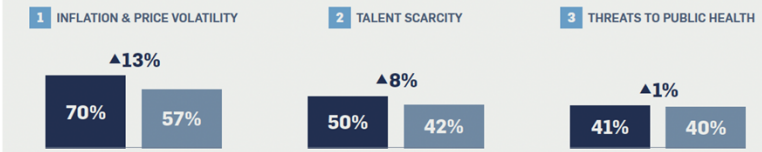
CONSTRUCTION & MATERIALS

As one of the greatest consumers of raw materials globally, as well as a major carbon emitter, the construction & materials industry is radically altering their business models, from the materials they use to the design of the buildings. Material shortages and price volatility, coupled with stakeholder pressure, are incentivizing a sustainable revolution within the industry.

> **"We need to demonstrate that our industry has a future in a carbon neutral or low carbon economy, which is a tremendous challenge"**
>
> Fernando Gonzalez,
> Chief Executive Officer of CEMEX

THE MOST PRESSING CHALLENGES

■ CONSTRUCTION & MATERIALS ■ CROSS INDUSTRY



CURRENT LANDSCAPE

TOP RESILIENCE ACTIONS FOR CONSTRUCTION & MATERIALS CEOS

77% of CEOs are upskilling or reskilling their workforce for the future labor market

71% of CEOs are digitizing business processes

63% of CEOs are strengthening scenario planning and analysis capabilities

As supply chain disruptions hit the construction & materials industry, resulting in significant delays and backorders, CEOs are investing in digital tools and processes to strengthen their supply chain visibility, enable better scenario planning, and better prepare for inflation and price volatility. In addition to challenges with sourcing raw materials, the industry is also facing talent shortages linked to the pandemic, hindering the industry's ability to recover. Along with the disruption to the ways of working caused by the pandemic, construction & materials companies are focusing on building strong, resilient cultures, fostering employee well-being, and adapting to hybrid work environments.

WHERE IS THE INDUSTRY GOING?

TOP SUSTAINABILITY PRIORITIES FOR CONSTRUCTION & MATERIALS CEOS

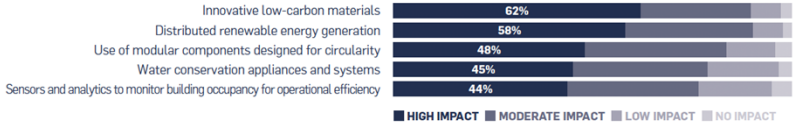
59% of CEOs are investing in skills development

56% of CEOs are introducing new sustainable business models

55% of CEOs are lowering GHG emissions

The United Nations Environment Programme estimates that the built environment accounts for 37% of CO_2 emissions, pressuring the construction & materials industry to adopt low-emitting materials and practices to reduce their footprint.[1] Construction & materials CEOs are responding by investing in green alternatives to basic materials such as aluminum, steel, and concrete. To further accelerate their path to net zero, construction & materials CEOs are unlocking the power of innovative technologies, such as digital twins, to improve resource efficiency – from energy to water usage – across the entire lifecycle of infrastructure.[2] These technologies and innovations are also fueling a modular component trend within the industry, enabling a more circular model to emerge as items can be disassembled, adapted, or reused for renovations or the construction of new buildings.

TRANSFORMATIVE INNOVATIONS



1. Accenture (2022) Sustainability in engineering and construction: The way forward.
2. UNEP (2022) 2022 Global Status Report for Buildings and Construction.

HEALTH & LIFE SCIENCES

The healthcare and life sciences (LS) industries are undergoing a period of compressed transformation, driven by the global pandemic. In health, these changes focus on a more resilient, equitable healthcare system, that provide access to all. The LS industry is focused on technology-enabled drug discovery and development that provides better health outcomes and relieves pressure on the global healthcare infrastructure.

"Healthcare in the future should be personalized, and the basis of that is data. Proper collection and management of that data is instrumental to our industry."

Isao Teshirogi, Ph.D.,
Chief Executive Officer of Shionogi & Co., Ltd.

THE MOST PRESSING CHALLENGES

■ HEALTH & LIFE SCIENCES ■ CROSS INDUSTRY

1 THREATS TO PUBLIC HEALTH	2 INFLATION & PRICE VOLATILITY	3 TALENT SCARCITY
▲28%	▼2%	
68% / 40%	55% / 57%	42% / 42%

CURRENT LANDSCAPE

TOP RESILIENCE ACTIONS FOR HEALTH & LIFE SCIENCES CEOS

HEALTH

- **76%** of CEOs are upskilling or reskilling their workforce for the future labor market
- **73%** of CEOs are engaging in long-term strategic partnerships
- **71%** of CEOs are strengthening scenario planning and analysis capabilities

LIFE SCIENCES

- **81%** of CEOs are upskilling or reskilling their workforce for the future labor market
- **77%** of CEOs are digitizing business processes
- **74%** of CEOs are enhancing sustainability data collection capabilities across our value chain

In recent years, health and life sciences CEOs have been forced into the spotlight as the global pandemic spurred question on the world's ability to protect the human right of health in a safe, affordable, and equitable way. As Giovanni Caforio, MD, Chairman of the Board and Chief Executive Officer of Bristol Myers Squibb notes, "The pandemic has highlighted in a very clear way, to policymakers, governments and to the private sector, the extent to which inequities of access can create challenges within individual countries, and then how those impacts ripple around the world." The pandemic clearly exposed the limits of the world's global health infrastructure, with talent shortages leading to long wait times, facility closures, and ultimately lack of healthcare access. To strengthen the system, CEOs are engaging in cross-industry and public-private collaborations, as well as embedding data at the core, strengthening their scenario planning efforts to better predict the types of drugs and therapies they will need to provide, and how to deliver them more effectively. Furthermore, CEOs are embracing technologies like artificial intelligence and machine learning to improve R&D productivity and efficiency. CEOs in health and life sciences are extremely focused on the human element of their work, with leaders embedding diversity within their drug development, clinical trial, and disease diagnosis capabilities to enable a more inclusive and resilient health ecosystem.

WHERE IS THE INDUSTRY GOING?

TOP SUSTAINABILITY PRIORITIES FOR HEALTH & LIFE SCIENCES CEOS

HEALTH

- **65%** of CEOs are constructing a responsible supply chain
- **61%** of CEOs are investing in skills development
- **52%** of CEOs are introducing new sustainable business models

LIFE SCIENCES

- **61%** of CEOs are investing in skills development
- **58%** of CEOs are lowering greenhouse gas emissions
- **52%** of CEOs are enhancing diversity and inclusion initiatives

Precision medicine – tailored, predictive medicine based on unique individual characteristics enabled by data – is the future of the healthcare industry. With the massive investment placed on understanding the human genome over the past two decades, the industry is beginning to reach a point where precision medicine is viable – both from the perspective of tailored treatment options and for pharmaceutical production that is better tied to demand. The ability to unlock this shift hinges on the ability to collect high-quality, consistent data, and translate into usable insights. Data is also transforming the patient experience. Providers are using data to rework the patient process – triaging patients to telehealth platforms where applicable – reducing pressure on the healthcare infrastructure and delivering faster, more affordable care.

TRANSFORMATIVE INNOVATIONS

HEALTH

Digital health services delivery	63%
Artificial intelligence to transform precision medicine and diagnosis	52%
Augmented and virtual reality enabled health services or patient care services	43%
Machine learning for epidemic/pandemic modeling	42%
Artificial intelligence-enabled real time staffing and inventory monitoring	31%
Robot-assisted surgery and procedures	30%

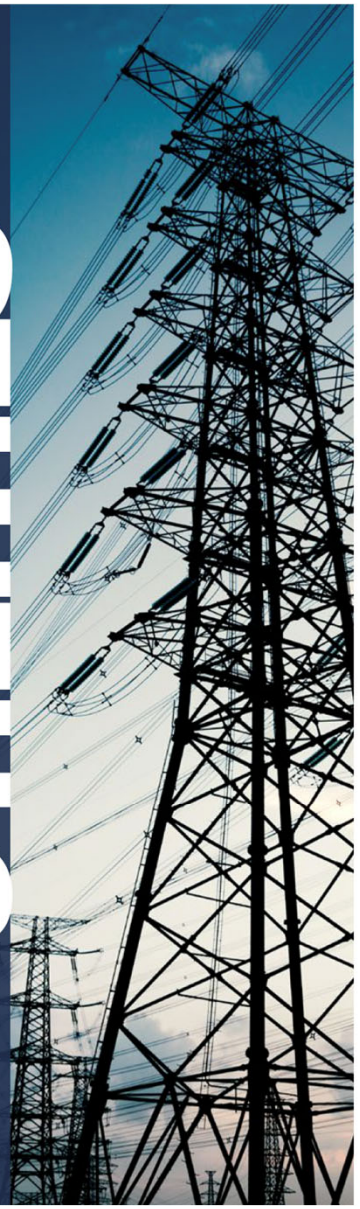
■ HIGH IMPACT ■ MODERATE IMPACT ■ LOW IMPACT ■ NO IMPACT

LIFE SCIENCES

Artificial intelligence to transform precision medicine	48%
Biosynthetic drug production	42%
Machine learning to optimize drug candidate design	42%
Artificial intelligence for efficient clinical trials	39%
Ecosystem regeneration to protect nature-based drug ingredients	39%
Data-sharing environments for information sharing with global health authorities	39%
Virtual clinical trials	29%
Digital twins of humans to model treatment hypotheses and test therapeutics	26%
3-D printed medical devices	23%

■ HIGH IMPACT ■ MODERATE IMPACT ■ LOW IMPACT ■ NO IMPACT

UTILITIES



The utility industry must continue to deliver on its obligation to serve – ensuring reliability of basic resources, such as water and electricity, at an affordable rate – while facing new challenges, such as climate change and decarbonization pressure, which have quickly risen to the top of CEO agendas. A radical transformation to a modern, more flexible grid is imperative to support a clean energy future.

"I see us increasing our pace of investment in renewables and networks to allow for the energy transition. From a climate perspective, there are new solutions emerging and opportunities to invest in a more sustainable economy."

Solange Ribeiro,
Vice-president of Neoenergia
and Vice-chair of the Board
of the UN Global Compact

THE MOST PRESSING CHALLENGES

■ UTILITIES ■ CROSS INDUSTRY

1 INFLATION & PRICE VOLATILITY	2 TALENT SCARCITY	3 THREATS TO PUBLIC HEALTH
▼5%		▲2%
52% / 57%	42% / 42%	42% / 40%

CURRENT LANDSCAPE

TOP RESILIENCE ACTIONS FOR UTILITIES CEOS

69% of CEOs are digitizing business processes

69% of CEOs are offering physical/mental resources to their workforce

64% of CEOs are engaging in long-term strategic partnerships

Utility businesses sit at the forefront of private sector decarbonization and sustainability. In the short term, companies are investing in digital processes and technologies to better understand resource usage to make more informed decisions and empower customers to make more sustainable choices. For example, water utilities are working to bring attention to the ongoing water crisis. Paddy Padmanathan, Vice Chairman & CEO of ACWA Power, notes, "We need to elevate this water crisis into the global consciousness and create a level of attention and recognition that this is going to become a big, all-consuming issue as time goes by." One way water utilities companies are making strides to safeguard the water supply is by leveraging technologies such as Internet of Things, which helps proactively monitor leaks and water security issues, as well as make suggestions for usage changes to consumers. In addition, to transition the industry towards a digital, tech-enabled future, CEOs are focused on their people, leading the industry to focus more than most on the physical and mental well-being of their workforce.

WHERE IS THE INDUSTRY GOING?

TOP SUSTAINABILITY PRIORITIES FOR UTILITIES CEOS

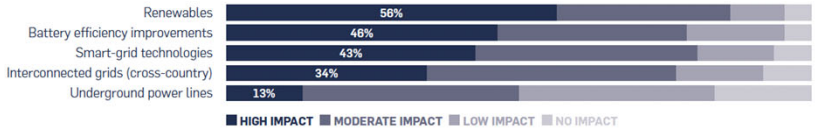
64% of CEOs are investing in skills development

54% of CEOs are lowering GHG emissions

53% of CEOs are advancing digital transformation for sustainability

As the industry shifts to embrace renewables, utilities are evaluating different opportunities to strengthen the grid and bring more renewables online, from battery efficiency improvements to interconnected grids. One area of interest is distributed energy resources (DERs), alternatives that enable utility companies to bring electricity production closer to the end user through options such as rooftop solar panels and wind-generating units. To unlock the true power of smart-grid technologies, utilities are undergoing a massive digital transformation to adopt advanced distribution management systems (ADMS), which provide real-time visibility and control over multiple devices – including DERs, such as renewable facility plants or batteries for storage – to enable smart decision-making and load control.

TRANSFORMATIVE INNOVATIONS



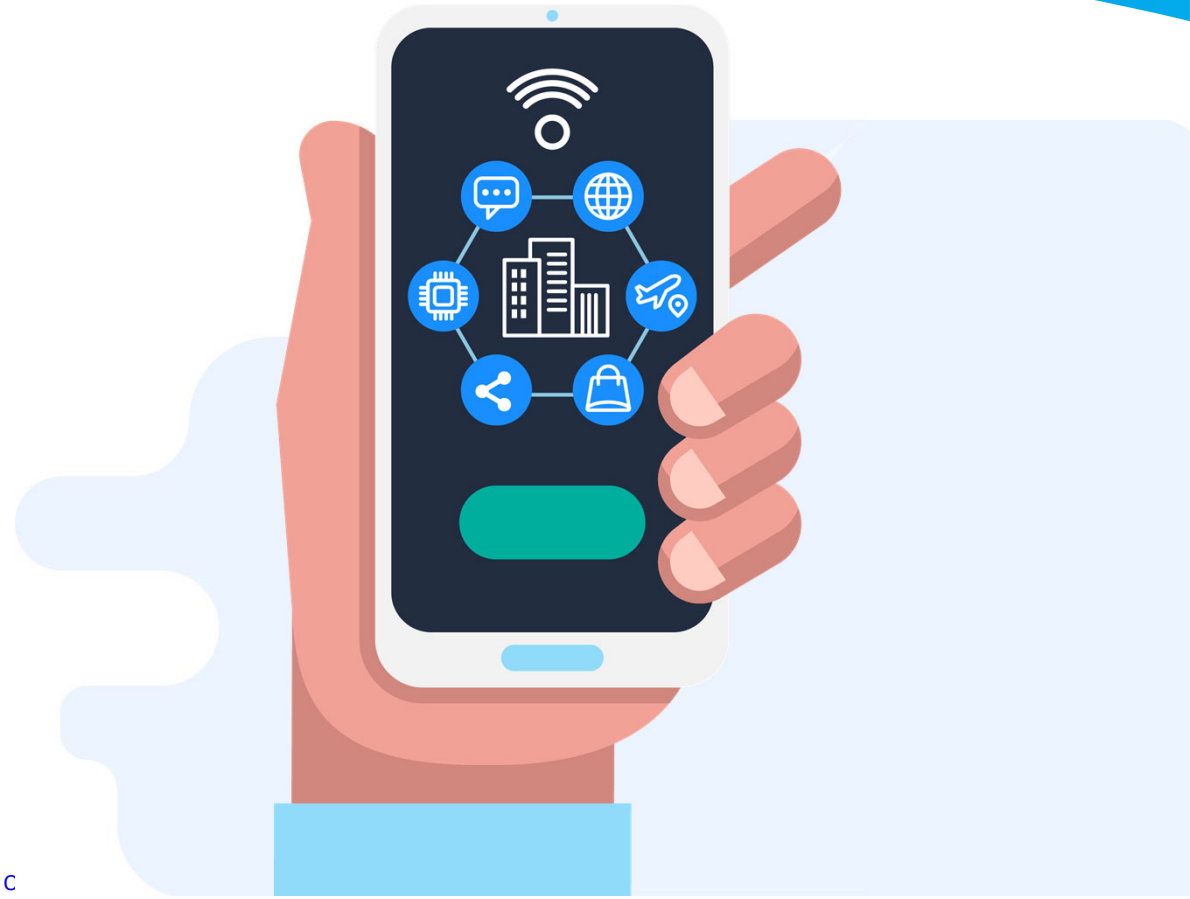
Public Sector Buyers:
Are we prepared to conduct green procurement 100%?
Insights from Lithuania

Green procurement targets are ambitious, but their implementation lacks preparedness

Failure to implement the regulations causes problems to achieve the performance of 100% green procurement

Changing monitoring data complicates the assessment of green procurement progress

Objectives of the country's green procurement strategy should be determined by assessing the actual financial resources in the short term and the limited capacity of the State budget



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Procurement ESG products: from market leaders to start-ups

CDP

Disclosure Insight Action

Presentation:
https://www.youtube.com/watch?v=IeT-8UGMuEs

More information:
https://www.cdp.net

EcoVadis

Detailed insights for compliance, improvement and acceleration on your sustainability journey

Presentation:
https://www.youtube.com/watch?v=ZeiZ6byhxTU

More information:
https://ecovadis.com/

Worldfavor

The go-to sustainability platform for supply chains, investments and reporting

Presentation:
https://www.youtube.com/watch?v=Xf2xVAuRyik

More information:
https://worldfavor.com/

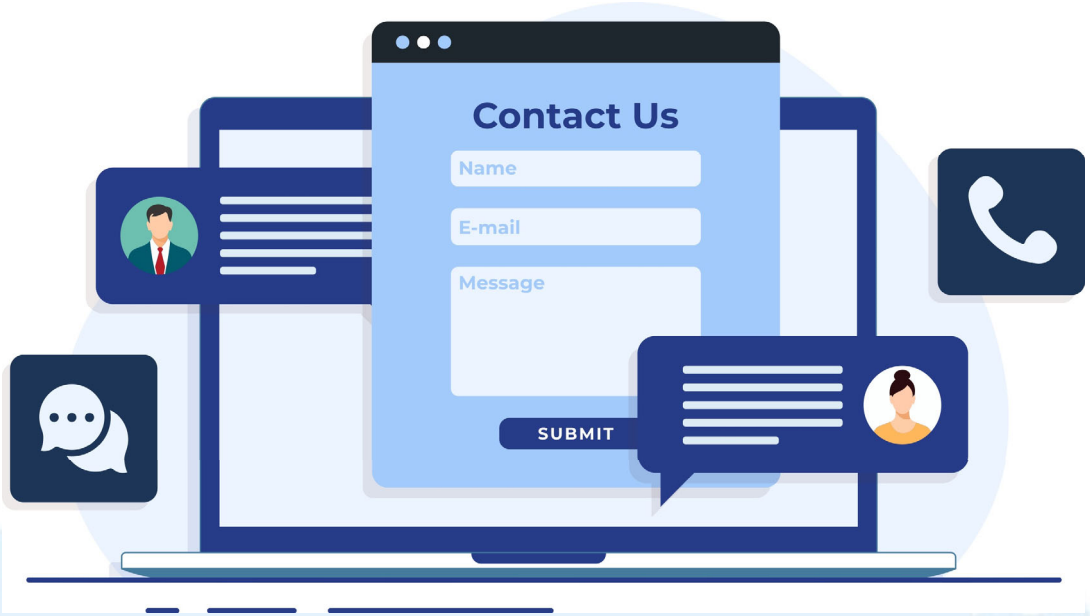
Material Mapper

Material Waste Forecast & CO_2 Potential Savings

Presentation:
https://vimeo.com/materialmapper

More information:
https://materialmapper.com/

Contacts



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