

THE SUSTAINABLE PUBLIC PROCUREMENT (SPP) PROGRAMME OF THE 10-YEAR FRAMEWORK OF PROGRAMMES ON SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS (10YFP)



WORKING GROUP 3C “BUILDING LINKAGES AND SYNERGIES BETWEEN POLICIES FOR PROMOTING SMALL AND MEDIUM SIZE ENTERPRISES (SMEs) IN PUBLIC PROCUREMENT WITH POLICIES FOR IMPROVING ENVIRONMENTAL PERFORMANCE IN DEVELOPING COUNTRIES”

Report No.1: Desk review

August 19th, 2016

Sylvia Aguilar (WG3C Coordinator)

CONTENTS

ACRONYMS	3
1. INTRODUCTION	4
2. IMPORTANCE AND CHARACTERISTICS OF SMES	6
2.1. ENVIRONMENTAL PERFORMANCE OF SMES	8
3. SMES ON PUBLIC PROCUREMENT	10
3.1. SMES ON GPP	14
4. GREEN PUBLIC PROCUREMENT AND SMES POLICY INSTRUMENTS	20
BIBLIOGRAPHY	26

ACRONYMS

10YFP	10-Year Framework of Programmes on Sustainable Consumption and Production Patterns
APEC	Asia-Pacific Economic Cooperation
IFC	International Finance Corporation
GPP	Green Public Procurement
GDP	Gross Domestic Product
LIC	Low Income Country
OECD	Organisation for Economic Co-operation and Development
SDG	Sustainable Development Goals
SME	Small and medium sized enterprise.
SPP	Sustainable Public Procurement
WLC	Whole Life Costing

1. INTRODUCTION

At the United Nations Sustainable Development Summit on September 25th, 2015, the new 2030 Agenda for Sustainable Development was adopted, including the Sustainable Development Goals (SDG). These goals, also known as the Global Goals, aim to end poverty, hunger and inequality, take action on climate change and the environment, improve access to health and education, build strong institutions and partnerships, and more¹.

As part of this new agenda, the UN General Assembly commits to making fundamental changes in the way that our societies produce and consume goods and services, including the Governments not only as a sign of good management of public funds, but also because of the potential market shift due to their purchasing decisions, as their buying activity can exceed 29% of total general government expenditures in the developed countries that belong to the Organization for Economic Co-operation and Development (OECD, 2013), to even 60-70% of all government expenditure in fragile states (Perera & Colverson, 2012).

Therefore, SDG 12: Ensure sustainable consumption and production patterns, has set as one of its targets to promote public procurement practices that are sustainable, in accordance with national policies and priorities.

Sustainable Procurement is a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment. Sustainable Procurement seeks to achieve the appropriate balance between the three pillars of sustainable development i.e. economic, social and environmental (UNEP, 2010). To narrow the scope of this Working Group, emphasis will be given to Green Procurement, a process whereby organizations take into account environmental elements when procuring goods, services, works and utilities and achieve value for money on a whole life-cycle basis (UNEP, 2010), and in particular the promotion of Small and Medium size Enterprises (SMEs) on Green Public Procurement (GPP).

¹See <https://sustainabledevelopment.un.org/?menu=1300>

The objectives of this Working Group are to:

- 1) Identify the barriers that SMEs face in public procurement, in particular when environmental benefits are sought, in order to define recommendations on the subject;
- 2) Collect case studies on the policies/programmes that have facilitated the involvement of SMEs in GPP, focusing on environmental benefits (including SMEs environmental performance improvement) and show the best practices across them; and
- 3) Share knowledge and recommendations of the project with the community of SPP practitioners and policy makers through an adequate dissemination plan.

This first report highlights the barriers that SMEs face to take part in GPP and policies that facilitate their participation, with emphasis on developing countries. It's important to underline that this paper does not focus on the barriers of implementing GPP in general, as this has been already studied², but on the particular scenarios that SMEs face when GPP is implemented in their countries, and particularly, the SMEs that manufacture the products that they offer (or that directly provide the service being offered), as they face the challenge of having to offer a green product (by including environmental criteria into their manufacturing process and/or design), while the SMEs in the wholesale and retail trade sector may not face the same obstacles.

For simplification purposes, in this report SMEs will also include micro enterprises (some literature refers to these industries as MSMEs, micro, small and medium enterprises). Only when necessary to the context micro enterprises will be mentioned.

² (UNEP, 2013)

2. IMPORTANCE AND CHARACTERISTICS OF SMES

SMEs are quite heterogeneous, ranging from micro to self-employment, which often tend to be informal, particularly in developing countries, to quite dynamic companies³ able to exploit market opportunities. The exact definition of SME varies from country to country, usually taking into consideration total number of employees, total investment and sales turnover. Country indicators published by the IFC on the subject indicate that out of 132 economies about a third of them define SMEs as having up to 250 employees (Kushnir, Mirmulstein, & Ramalho, *Counting MSMEs Across the World*, 2010).

SMEs are important, not only for their contribution to GDP, but in particular in generating employment; to cite a few examples, SMEs account for 97 percent of all APEC⁴ businesses, with GDP shares ranging from 20 to 50 percent in the majority of these economies (ICTSD, 2016); in Latin America, SMEs account for around 99% of businesses and employ around 67% of employees, but contribute relatively little to GDP, which reflects their low levels of productivity (OECD/UN-ECLAC, 2012). They also contribute to innovation in economies, partly through collaboration with the larger corporate sector.

The business strategies of SMEs vary significantly depending on the country: SMEs in OECD countries can only survive in the industrial development process if they produce specific goods and services that do not compete with products mass-produced by large industrial firms. These goods and services are normally designed specifically for their customers' needs and are produced in small runs for market niches or are closely related to customer service (installation, customization, maintenance, etc.). These SMEs also produce services for large firms or to complement their catalogue of services. Economies of scale play a minor role in these areas, pushing the benefits of the flexibility and customer proximity offered by SMEs to the fore. This kind of specialization demands greater technical and business qualifications and one particular prerequisite is the capacity to innovate continuously. Most SMEs in developing countries do not have these qualifications, and almost all of them operate in standardized

³In terms of turnover and job creation

⁴The group includes as its members Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the US, and Vietnam (see <http://www.apec.org/>).

forms of production that are not knowledge-intensive, thus competing directly with mass producers and/or large commercial enterprises; example of this is the production of generic food, footwear and garment manufacturing in Latin America, with no competitive advantage (OECD/UN-ECLAC, 2012).

When presented with a list of 15 possible obstacles to stay in business⁵, electricity (which affects all sizes of enterprises) and access to finance (which affects more small enterprises) are the two most-cited by business in developing countries, followed by practices of informal sector and corruption, which tends to affect SMEs more (Kushnir, Mirmulstein, & Ramalho, IFC Web site, 2010). Regarding the lack of access to finance, in developing countries there is a general perception in the financial sector that lending or provision of capital to SMEs is risky business due to a number of reasons: high mortality rates of SME businesses, suspect management capabilities and skills, poorly prepared business proposals, obscure historical records of the operations of the SMEs and the lack of reliable collateral or collateral mismatch between type of assets held by SMEs and type of assets required by banks for collateral (Frimpong, 2015).

One aspect that it is important to consider, out of the scope of this report since informal SMEs usually cannot participate in public procurement for not fulfilling minimum legal requirements, is the high level of informality. Informal SMEs often outnumber formal SMES, especially in developing countries; in India in 2007 there were fewer than 1.6 million registered SMEs and 26 million unregistered SMEs⁶ (Kushnir, Mirmulstein, & Ramalho, IFC Web site, 2010).

Emerging markets⁷ have the most SMEs: 89 million out of 125 million of them operate in emerging markets; also important to notice, the overwhelming majority of formal SMEs globally are micro enterprises⁸ (Kushnir, Mirmulstein, & Ramalho, Counting MSMEs Across the World, 2010).

⁵ The 15 obstacles are access to finance; access to land; business licensing and permits; corruption; courts; crime, theft and disorder; customs and trade regulations; electricity; inadequately educated workforce; labor regulations; political instability; practices of competitors in the informal sector; tax administration; tax rates and transport.

⁶ This number is reflective of micro enterprises, as India uses the classification MSME (Micro, Small and Medium Enterprise).

⁷ An economy with low to middle per capita income.

⁸ Less than 9 employees.

2.1. ENVIRONMENTAL PERFORMANCE OF SMES

Developing countries are facing the dilemma of protecting the environment for long term sustainability but at the same time allowing society and, in particular, the industry to access natural resources as a mean of competitiveness. The challenge is greater when it comes to ensure that companies, including SMEs, meet environmental performance standards, remain competitive and a driver of economic growth and job creation.

While there is no official data on the environmental performance of SME's, explicitly reported so for China (Mingming, 2016) and India (National Institute of Micro, Small and Medium Enterprises, 2016)⁹, it is a known fact that SMEs face difficulties complying with standards and that their environmental impact can be significant. For instance, in India there is a significant number of SMEs that belong to categories recognized as highly polluting industries: chemical and allied industries, leather industries, textile processing, drugs and pharmaceuticals, agro-chemicals and food processing industries (National Institute of Micro, Small and Medium Enterprises, 2016)¹⁰.

Due to the fact that in developing countries the control bodies are usually not strong and enforcement is rather weak, one of the main arguments used to convince companies to enroll in the programmes to improve their environmental performance¹¹ is to comply with stringent standards set by clients in developed countries: "Environmental compliance is increasingly being stressed upon, specially in the case of exports" (National Institute of Micro, Small and Medium Enterprises, 2016) , but the fact is that most SMEs don't export: while only around 10% of Latin American SMEs engage in export activities, 40% of European SMEs do so (OECD/UN-ECLAC, 2012), so GPP can play a major role into influencing SMEs in enrolling on this kind of programmes.

⁹In Colombia, manufactures have to report their environmental performance (energy, water, productivity, waste and chemicals management) on the page <http://www.ideam.gov.co/web/contaminacion-y-calidad-ambiental/rua-manufacturero>; however, the information is not available.

¹⁰ Which by no means excludes that large manufactures in those sectors may as well be classified as highly polluting industries.

¹¹ Where, and when, such programmes are available, based on CEGESTI's experience in the Central American region.

Even in developed regions, it's recognized that whilst the individual environmental impacts of each SME are generally small in comparison to those of large companies, the cumulative environmental impact of the sector is considerable, as 99.8% of Europe's private companies, for instance, are SMEs (Directorate-General for Environment, 2016).

The reasons why SMEs typically do not comply with environmental standards include lack of information, lack of access to capital, lack of adaptation of environmental regulations to the social, economic and technical reality of local businesses and effective possibilities of control bodies, difficulty for recruiting qualified personnel, less awareness about environmental issues, less environmental pressures from stakeholders, among others (German Agency for Technical Cooperation; UN, ECLAC, 2006; Lee, 2008). GPP falls in the category of market incentives for enterprises to comply such environmental standards, and can complement other instruments that governments use to enforce them, ranging from training and awareness-raising to legal / economic sanctions.

If only measures to promote SMEs in public procurement are implemented (such as set asides or preferential programmes), Governments are missing out on promoting improvements on the environmental performance of their country's business sector and thus contributing to increase their competitiveness. Environmental management is a competitive necessity in many industries, and in the future will be even more: companies that do not have adequate environmental performance are exposed to risks from legal violations (problems with both the authorities and with the communities in which they operate), higher costs (for waste generation and inefficient processes) and lost opportunities to access more demanding markets. Also, by promoting SMEs' environmental improvements through GPP, Governments have an opportunity to influence other SMEs that may not sell to the public sector, as research suggests that SMEs have a role in promoting the adoption of green practices in their upstream and downstream supply chain (Acosta Bogran & Dzaja, 2015).

A particular challenge, both for the implementation of GPP and for SMEs as well, is the fact that environmental regulation is frequently lacking in developing countries and, where it does exist, it is infrequently fully enforced (International Trade Centre , 2014). Even in countries with environmental

regulation, smaller firms are relatively less exposed to the scrutiny of regulatory enforcement on environmental issues than large companies (Lee, 2008). In the case of countries where it is known that the enforcement of environmental regulations is weak, GPP must include the support to those laws¹² (as much as permitted by their procurement law), while acknowledging that the business sector may need support to just comply to those standards¹³, let alone being able to offer environmentally preferable products.

Government support for the improvement of SMEs environmental performance includes environmental management consultancy, funding for environmental management diffusion programs, building networks, and national centers for information, knowledge, and best practice sharing. This kind of programmes has existed in several countries (Lee, 2008); however, they are not always linked to Public Procurement, targeting the goods and services the Public Sector has rank for GPP.

3. SMES ON PUBLIC PROCUREMENT

When trying to access public procurement, SMEs face difficulties such as:

- The size of contracts
- Lack of access to relevant (quality) information
- Disproportionate qualification levels and financial requirements
- Delayed payments
- Emphasis on price, rather than on value for money
- Red tape
- Perceive risk, from the buyers' point of view, as SMEs might not have the track record
- Among others

¹² For instance, not to procure cleaning products that are not even registered at the Health Authorities, or corresponding oversight authority.

¹³ In the case of Bangladesh, for example but as it may be the case in many other LIC countries, the fact that the enforcement of environmental regulations is weak is cited as the reason why there are no incentives to implement SPP (Roos, 2013)

Because of the key role they play in the economies, Governments have implemented¹⁴ various measures to facilitate the access of SMEs to the important market that public procurement represents, each with a potential level of market distortion:

Table 1: Illustrative policy options to facilitate the participation of SMEs in public procurement (adapted from Asian Development Bank, 2012)

Range of policies	Potential for market distortion			
	Less intrusive			More intrusive
	None	Low	Medium	Maximum
<ul style="list-style-type: none"> Streamlining Eliminating unduly restrictive requirements Electronic commerce Contract breakout 	<ul style="list-style-type: none"> Technical assistance Training 	<ul style="list-style-type: none"> Financial assistance and subsidies Subcontracting programs (voluntary or mandatory) 	<ul style="list-style-type: none"> Price preferences Set-asides 	
<ul style="list-style-type: none"> Deregulate Improve transparency Improve competition (as SMEs can compete more effectively for smaller contracts) Standardize documentation Improve publicity <p>SMEs in developing and transition countries may still have problems (in the case of electronic commerce). Higher administrative costs (in the case of contract breakout)</p>	<ul style="list-style-type: none"> Direct support to SMEs <p>It may be costly to government</p>	<ul style="list-style-type: none"> Alleviates significant SME constraints De-links some political Interplay (subcontracting) <p>Hard to dismantle</p>	<ul style="list-style-type: none"> Reserve procurement Limit competition to SMEs <p>May reward inefficient SMEs. Hard to dismantle</p>	

Although it may be considered for some a discriminatory policy, some countries have defined set-asides for the benefit of SMEs. For instance, in India, the “Public Procurement Policy for Micro and Small Enterprises (MSEs) Order, 2012”, has reserved 358 items (brooms, shoe laces, tiles, etc) for exclusive purchase from Micro and Small Enterprises, with the objective of achieving an overall procurement of

¹⁴ See annex 5 of OAS (2015) for specific examples of relevant regulations in Latin America.

minimum of 20 per cent¹⁵. In Ecuador, there is a modality of procurement called Inclusive Dynamic Catalog, which has been created to encourage and favor the procurement of goods and services produced domestically and that are offered by the actors of the Popular and Solidarity Economy, artisans, micro and small enterprises, producers of exclusive domestic production; the catalog includes various textile manufacturing and cafeteria services¹⁶. Worth mentioning that the 2012 Revised Agreement on Government Procurement of the World Trade Organization, indicates that the Parties shall progressively reduce and eliminate discriminatory measures, but a committee is formed to undertake the issues of the treatment of SMEs, the treatment of sustainable procurement, among others, taking into consideration the needs of developing countries¹⁷.

When analyzed by size of the supplier (not by products), SMEs are a major player in public procurement many countries: 57% of the suppliers to public procurement in Brazil are SMEs, up to 98% in Ecuador (in 2014, 51% was awarded to SMEs in Ecuador; in Brazil, also in 2014, 27% was awarded to micro and small enterprises), thanks in part to set-asides policies (OAS, 2015); in China, up to 76.2% of the government procurement contracts is granted to SMEs (Mingming, 2016).

Box 1. Control over the Public Sector's supply chain

How far down the supply chain the Public Sector can control depends on the regulations of each country. The Directive 2014/24/EU of the European Union, article 42 on Technical Specifications, indicates that "The technical specification shall lay down the characteristics required of a works, service or supply. Those characteristics may also refer to the specific process or method of production or provision of the requested works, supplies or services or to a specific process for another stage of its life cycle even where such factors do not form part of their material substance provided that they are linked to the subject-matter of the contract and proportionate to its value and its objectives." (see <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32014L0024>), while in the case of Costa Rica, to cite another economy, article 52 of the decree 33411, regulation on public procurement, mentions that the procurement tender must include a description of the "goods or services covered by the procedure, including technical specifications that may be accompanied by plans, drawings and corresponding instructions. The technical specifications shall be set primarily in terms of performance and functionality.", but not mentions to the production process of such goods are made (see http://www.pgrweb.go.cr/scij/Busqueda/Normativa/Normas/nrm_texto_completo.aspx?param1=NRTC&nValor1=1&nValor2=58314&nValor3=101319¶m2=1&strTipM=TC&Resultado=2&strSim=simp)

The type of products SMEs sell to the Governments varies from country to country, according to the particularities of each market; for example, in China the Public Sector procures from SMEs furniture, water heaters, wood-based panels, paints, plastic pipes, among other products (Mingming, 2016), while in Brazil, for 2014, public sector bought from SMEs food, equipment and materials for medical, dental and veterinary use, firefighting, rescue and safety equipment, construction materials, equipment for

¹⁵ <http://www.fisme.org.in/FinalPressorder.pdf>

¹⁶ <http://portal.compraspublicas.gob.ec/sercop/catalogos-dinamicos-inclusivos-2/>

¹⁷ https://www.wto.org/english/docs_e/legal_e/rev-gpr-94_01_e.pdf

automatic data processing, in that order of importance; while the most bought in the services category were special construction, metal products, machinery and equipment maintenance and repair and building construction¹⁸.

The participation of SMEs in public procurement may be direct, either because the SME is selling the product that another enterprise manufactured, or because the SME is the manufacturer selling, or indirect when they are the manufacturer or provider of materials, but another enterprise sells directly to the Public Sector. Also, the SME could be part of a bid as a subcontractor (for example, in the case of constructions), or be the contractor themselves (see figure 1). Of course, the supply chain could be as complex as many enterprises might be on multiple tiers below the bidder (see Box 1 on the control of the Public Sector over the supply chain).

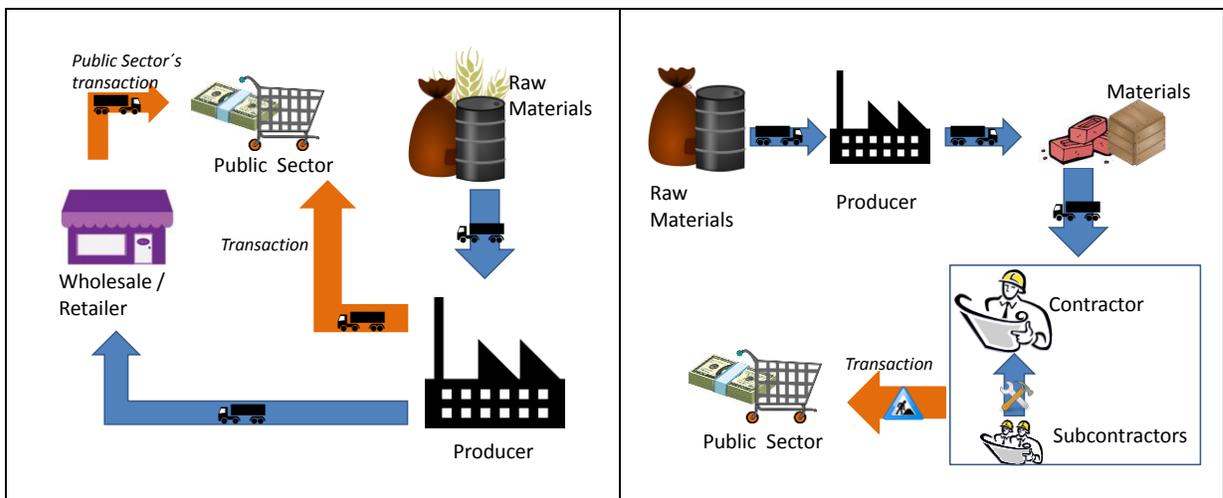


Figure 1: Public Sector's supply chain

In a nutshell, SMEs take part directly in Public Procurement by: 1) by offering directly and competing with any size of competitor, 2) as subcontracts, 3) by offering directly through special programs that give them preference.

¹⁸ <http://comprasgovernamentais.gov.br/arquivos/estatisticas/02-apresentacao-siasg-mpe-2014.pdf>

3.1. SMES ON GPP

As for the engagement of private companies on GPP, early research has focused mainly on large private companies, which are able to devote resources to GPP tendering (Acosta Bogran & Dzaja, 2015). However, as it was discussed before, it is known SME's difficulty to comply with environmental requirements, so GPP could mean to them a greater challenge, since they must not only be able to participate in public procurement processes (where they are already facing difficulties) but also they would have to be able to offer green products. One interesting finding in the case of South Africa (Hanks, Davies, & Perera, 2008), as well as in 45% of APEC countries (APEC Committee on Trade and Investment, 2013), is that even though public officers have cited the lack of green alternatives (or the difficulty to find them), in neither case was SME capacity building or support (to offer such green alternatives) cited as support required to promote GPP; the potential tools and mechanisms cited dealt more with their own capacity building, which of course is much-needed, but sheds a light on the lack of support to SMEs to increase their competitiveness on GPP. The liberalized global trade makes it easy to source tenders globally at a competitive price, leaving local supplier (particularly SMEs) at a competitive disadvantage, while public entities might not see that they hurt local SMEs (and therefore, the economy) while implementing GPP, as it was cited in the case of the Kenya Pipeline Company, KPC, where the lack of local green supplier capacity was not a major determinant in KPC GPP (Nasiche & Ngugi, 2014).

On a survey in 2013 (UNEP, 2013), national governments of 62 countries identified the following product categories as being covered by SPP/GPP guidelines in their country:

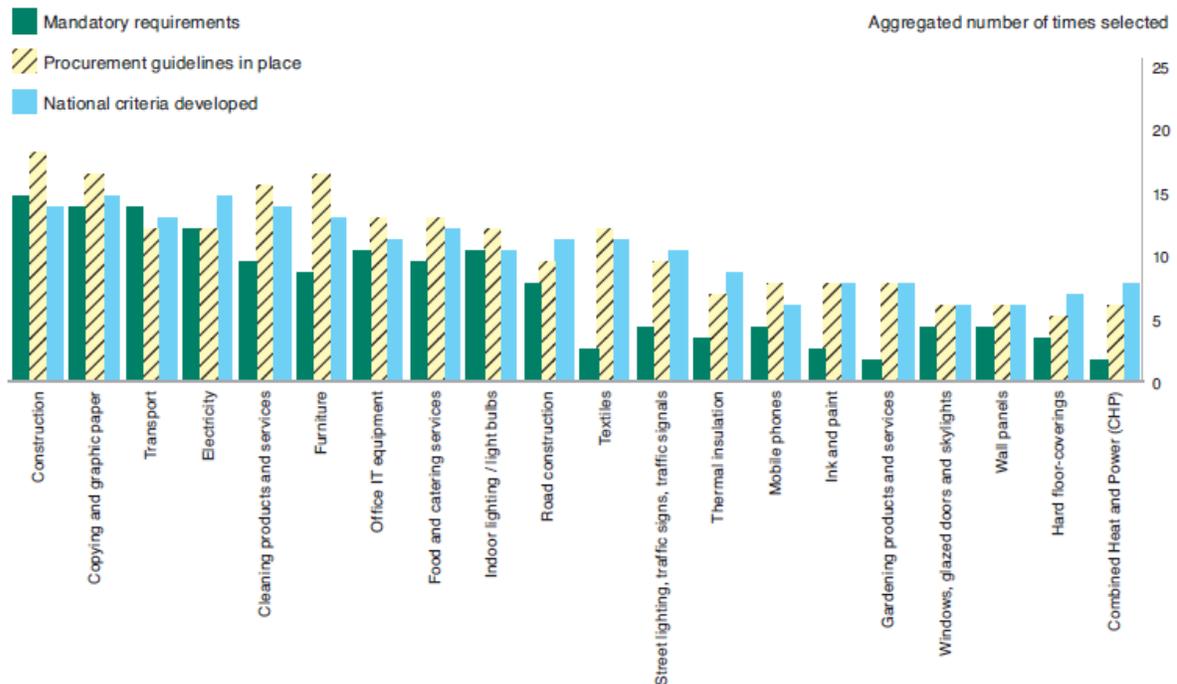


Figure 2: Product category guidelines with mandatory requirements, procurement requirements in place or national criteria developed (UNEP, 2013)

The categories most often mentioned as having national criteria developed were construction, copying paper, cleaning products and transportation. Those with the most mandatory guidelines in place were nearly all energy-efficiency related: construction, transportation (largely vehicle fuel efficiency), electricity, office IT equipment and indoor lighting/light bulbs. The categories most often mentioned as having national criteria currently being developed were: construction, copying paper, cleaning products and transportation.

It can be deduced that SMEs may bid directly and compete with large companies (for instance, cleaning products and services, furniture, minor constructions). In other cases they may participate as subcontracts of larger companies, as market structures in products such as recycled paper, alternative fuels for vehicles or reduced energy consumption of IT equipment – are such that these products are today supplied by large, often multinational corporations (Walker & Preuss, 2008), while in other cases

they might compete through special programs that give them preference, such as set asides, either on a permanent or temporary basis (to avoid potential market distorting).

Even if the country successfully develops the capacity to implement GPP¹⁹, SMEs need support to take part of this market: the European Union has been on the upfront of GPP²⁰, with the most elaborate legislative framework in the world (UNEP, 2013); however, on a 2015 survey most SMEs (86%) reported that they had not bid for a public procurement tender including environmental requirements in the last two years (European Commission, 2015).

There is a perceived risk of SPP creating unfair competitive advantage for few (often large, international) firms able to comply with SPP standards (Roos, 2013). Besides the difficulties SMEs face on public procurement in general, other barriers that SMEs face on GPP, particularly in developing countries, include²¹:



A. Awareness and capacity of SMEs

A. 1 Scant awareness of environmental problems.

A2 Lack of capacity building programmes (training and / or technical assistance) to adapt their production processes and/or their products.

A.3 Programmes that don't recognize the heterogeneity of the beneficiaries (from micro to self-employment, to quite dynamic companies able to exploit market opportunities).

B. Costs and other resources

B.1 SMEs' reluctance to face the costs of introducing the necessary changes to achieve an environmental improvement, particularly when the buyers' preference is lower cost, instead of the most economically advantageous tender (MEAT) criterion. Tools such as WLC are rarely used²² (Roos, 2013).



¹⁹ Lack of capacity has been identified as the most relevant common barrier to implementing SPP in developing countries (Roos, 2013).

²⁰ Since 2003 Member States were called to create National Action Plans (NAPs)

²¹ Based on CEGESTI's experience in Central America as well as other cited sources.

²² Based on Ghana, Kenya and Bangladesh; as well as on experience of CEGESTI in Central America.

B.2 High costs of certifications, or other alternative verification methods (such as independent laboratory testing).

B.3 Lack of access to local green raw materials or other products necessary to green their own, as SMEs are normally restricted in their geographical scope (Acosta Bogran & Dzaja, 2015).

B.4 Lack of access to finance to make the necessary investments to adapt their offer to GPP, either because it is not available or due to their lack of knowledge and skills to access incentives and credit lines (Zarate, 2016).

B.5 SMEs' attitude that green products are more costly might hinder their engagement in GPP, because of perceived reduction in profitability (Mosgaard, Riisgaard, & Huulgaard, 2013).

B.6 As much as environmental labeling has proven to be an effective tool for carrying out GPP, i.e. China and Korea (OECD, 2015), SMEs face the "ecolabel dilemma": globally, there are over 400 ecolabels in operation, and for sectors that are frequent areas of public spending there are around 40 labels, all indicating varying levels of performance. Hewlett Packard (a large enterprise) "faces 50 labels – and has decided to seek to influence 13 and prioritize compliance with 12" (IISD, 2012). SMEs neither have the technical resources nor time to have that kind of influence.

B.7 Not compliance to quality standards. A product may be "green", but still has to deliver the same or better function, quality and end-user satisfaction compared to a standard product (ICLEI, 2007). In the case of Korea, for instance, there have been complaints on the quality of some green products and it is reported as a barrier hampering the market uptake of green products (OECD, 2015), as well as in China (Mingming, 2016).

C. Stringent / divergent criteria and/or regulations

C.1 Stringent environmental criteria, not within the reach of SMEs to comply, financially and/or technically (including certifications or labels with no local providers, if required). SMEs rarely take part in GPP criteria development, which tends then to request readily available green products, rather than engage in partnerships with SMEs to foster innovation, as research from Sweden points out (Bratt, Hallsted, Robert, Broman, & Oldmark, 2013).

C.2 Related to the previous point, lack of effective stakeholders' involvement in early stages of the planning of the GPP initiative. Environmental criteria of green products and procedures are not



established according to the capacity of the industrial sector (APEC Committee on Trade and Investment, 2013).

C.3 Lack of standardized criteria as to what constitutes a “green product” within a same country, particularly in countries with highly decentralized procurement procedures, which could lead to different technical criteria to accomplish, or in some cases just unnecessary red tape.

C.4 In countries with weak enforcement of environmental regulations²³, even basic criteria (for example, requiring that the cleaning products must be registered with the Health Authority as it’s normally required by law) could render a portion of SMEs unable to bid.

C.5 In the case of SMEs that export, the lack of homogenization in environmental requirements among countries (as to what constitutes a green product) is a significant non-tariff barrier to overcome. This is the case, for example, of the Asia Pacific countries, where each economy has set not only different a list of designated products with environmental considerations, but also, divergent environmental requirements (APEC Committee on Trade and Investment, 2013).

D. SMEs’ ability to respond

D.1 Lack of time to prepare, as SMEs do not have the resources to allocate personnel to environmental management and/ or research to green their products.



D.2 Lack of strategies addressed to apply environmental standards progressively, with transition stages, enabling companies to adapt their manufacturing process and supply chain to future requirements (APEC Committee on Trade and Investment, 2013).

E. Deficient GPP / Sustainable Consumption Initiatives

E.1 Risk aversion, worsen by the lack of guarantees and certainty in demand to allow building their capacity to supply green products (which may be linked to lack of priorities setting and monitoring by the Government).



²³ Particular challenge for LIC countries, where also procurement legislation is also relatively new and capacities and law enforcement weak (Roos, 2013)

E.2 Lack of coordination between the public policies regarding sustainability and the ones regarding innovation, along with the lack of mainstreaming lifecycle approach into national policies (Zarate, 2016).

E.3 Scarce regulatory, or motivational, requirements that promote the final consumer to buy green products (Zarate, 2016), particularly an issue for SMEs where public procurement is not a significant share of their sales. On this point, Ecolabelling and GPP have been identified as a "double-way" synergy, as ecolabelling programmes can guide consumers toward sustainable consumption patterns, as well as aiding the public purchaser into including environmental technical specifications²⁴ (yet, there is the "ecolabel dilemma" mentioned before, see B.6)

The barriers cited before should be analyzed according to the characteristics of each country and the characteristics of their SMEs, in terms of their environmental management capability, as it could easily vary from country to country and from product to product (even in the same country). For example, as illustrated in the next figure, when dealing with product A, the market study could show that there are enough SMEs that could offer green products, and that some others might do, as they already have environmental management systems in place; however, the picture might look different for product B, if the majority of SMEs just comply with basic legal requirements to take part in public procurement, but do not comply with environmental requirements, let alone environmental management in place.

²⁴For example, Tunis' Decree No. 2014 - 1039, of 13 March 2014 which establishes the concept of "sustainable procurement" by giving the possibility to public purchasers to include environmental technical specifications that match with goals of sustainable development such as an "appropriate recognized ecolabel" (Soyah, 2016)

Enterprise's environmental management	Product A Stratification of SMEs based on their environmental management			
	Offers green product / SME with an environmental management system in place			15%
Enterprise with an environmental management system in place (but offers regular product)		10%	20%	
Just compliance with environmental law			5%	
None, just compliance with basic legal requirements to take part in public procurement			10%	
Type of enterprise	Commercial venture	Micro-enterprise	SME	Dynamic SME

Enterprise's environmental management	Product B Stratification of SMEs based on their environmental management			
	Offers green product / SME with an environmental management system in place			
Enterprise with an environmental management system in place (but offers regular product)				
Just compliance with environmental law			20%	
None, just compliance with basic legal requirements to take part in public procurement		60%	10%	
Type of enterprise	Commercial venture	Micro-enterprise	SME	Dynamic SME

Figure 3: Hypothetical SMEs' stratification

4. GREEN PUBLIC PROCUREMENT AND SMES POLICY INSTRUMENTS

On a worldwide research (UNEP, 2013), the most mentioned social aspect associated with procurement was "employment", followed by SME development, then "health", so there is no doubt that SMEs are a priority when it comes to SPP worldwide.

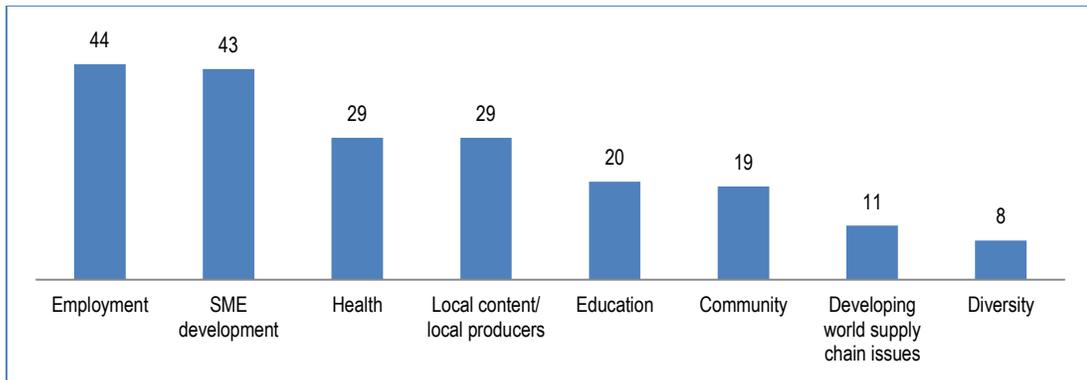


Figure 4: Social aspects cited by national governments as priority (UNEP, 2013)

Large companies in general have more experience in responding to GPP initiatives, due to their greater capacity for environmental management and GPP bidding (Acosta Bogran & Dzaja, 2015). There are many policies around the world on promoting SMEs on public procurement, as well as many policies on GPP, so the purpose of this paper is not to make an inventory of those, but to identify the ones that **both** promote the participation of SMEs on public procurement while aiming at improving their environmental performance (of their processes and / or of their products²⁵), thus merging social aspects of SPP (SME development) and GPP. Of such policies, best practices and cases will be selected for a second report.

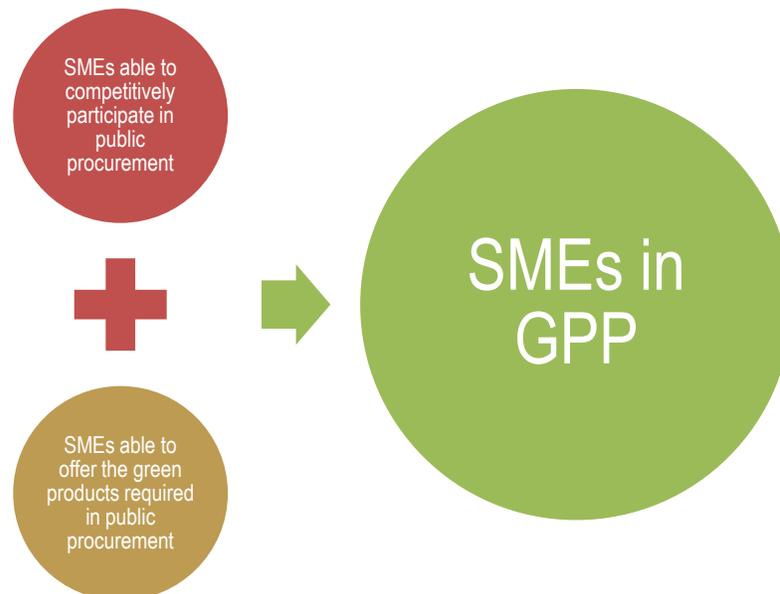


Figure 5: Coordination of outputs to promote SMEs in GPP

²⁵ In this report, “products” includes both goods and services.

Table 2: Policy instruments that promote the participation of SMEs in GPP

Country	Year	Topic or title	Link (short URL)	Type of support to SMEs	Description of linkages / synergies
Bhutan	2012	Bhutan's Cottage, Small and Medium Industries Development Strategy	http://goo.gl/NxT82k	<ul style="list-style-type: none"> Access to finance 	In Bhutan, Cottage, Small & Medium Industry (CSMI) are considered to be more environmentally-friendly due to its smaller scale. The strategy includes providing financial incentives for the development of the CSMI sector, and priority would be given to sustainable, green and service industries.
Malta	2014	Green Public Procurement National Action Plan	http://goo.gl/AZUDFd	<ul style="list-style-type: none"> Capacity building 	The vast majority of contracts relating to the 20 priority product/service groups fall below the €133,000 threshold bracket (this type of procurement activity makes it relatively 'easy' and 'accessible' for local economic operators in particular SME's to compete for the award of local public tenders, while being exposed to GPP in their country will give them also exposure to be able to participate in the EU market) The strategy includes the objective "Engage procurers, suppliers and markets in the GPP process, provide guidance, and facilitate capacity building in this area"
Chile	2012	Política de Compras Públicas Socialmente Responsables (Socially Responsible Procurement Policy)	http://goo.gl/6euOWY	<ul style="list-style-type: none"> Capacity building 	The policy includes capacity building activities to SMEs related to Social Responsibility (Entrepreneurial Centers throughout the country provide free Internet access, training, support and services to local enterprises)
EU	2014	Directive 2014/24/EU on public procurement	http://goo.gl/QDDe9c	<ul style="list-style-type: none"> Legislation 	Besides providing legal foundation for GPP, it encourages Authorities to divide large contracts into lots, which benefits SMEs.
EU	2014	Green Action Plan for SMEs	http://goo.gl/Q9oUv0	<ul style="list-style-type: none"> Strategy 	Presents a series of SME-oriented actions proposed at European level. It aims to improve resource efficiency of European SMEs, support green entrepreneurship, exploit the opportunities of greener value chains, and facilitate market access for green SMEs (included public procurement)
Colombia	2010	National Policy on Sustainable Production and Consumption	https://goo.gl/HKphx2	<ul style="list-style-type: none"> Strategy 	Includes the creation of specific technical assistance programs to promote cleaner production and sustainable consumption in SMEs, in order for them to be suppliers to big companies (includes references to public procurement).
Austria	2006	"Vienna thinks future"	https://goo.gl/FpGFcg	<ul style="list-style-type: none"> Access to market 	WienWin primarily aims at offering procurement managers a market overview of available innovations, but also focuses on life-cycle costs and their calculation, incentive systems for procurement of innovation, pre-commercial procurement and development of innovative city technologies. WienWin aims to achieve impact in the following areas:

Country	Year	Topic or title	Link (short URL)	Type of support to SMEs	Description of linkages / synergies
					<ul style="list-style-type: none"> • Public services are tailored to local requirements. • The public sector helps local SMEs. SMEs are motivated to invest in research, development and innovation, aiming to enter the public sector market. • The use of technology-based innovations for public services has an impact on the image of a city and attracts innovation. • Co-operation between the city and local business increases local “ownership” (OECD, 2015).
Scotland	Ongoing	SDP (Supplier Development Programme)	https://goo.gl/MLEEXn	<ul style="list-style-type: none"> • Capacity building • Access to funding • Access to market 	It offers training on resource efficiency, through http://www.resourceefficientscotland.com/ , as well as training on public procurement (such as “Winning contracts with a sustainable bid”), access to funds for projects and organizes “Meet the buyers” events where SMEs can show case their products. This is based on the Scottish Sustainable Procurement Action Plan (SSPAP), see http://www.gov.scot/Publications/2009/10/sspap , which includes actions for working with suppliers (particularly smaller businesses, Third Sector bodies, voluntary organisations and charities)
Australia	N.D.	Sustainable Choice program	http://goo.gl/KhwgQe	<ul style="list-style-type: none"> • Capacity building 	Sustainable Choice is a membership-based program available to councils in New South Wales. The database lists sustainable products and services that have been assessed and approved by the Sustainable Choice team against a number of sustainability indicators. It provides tools and resources to enterprises that do not a sustainability policy (if a company does not have a sustainability policy and does not have plans to create one in the near future, it is unlikely the online application will be successful)
Phillipines	2004	Executive Order No. 301, s. 2004 (Green Procurement Program for the Executive Branch of Government)	http://goo.gl/zT51cq	<ul style="list-style-type: none"> • Incentives 	One of the purposes of the program is “to develop incentive programs for suppliers of environmentally sound products and services.”
Malaysia	2016	Eleventh Malaysia Plan 2016-2020	http://goo.gl/GZ1dTA	<ul style="list-style-type: none"> • Strategy 	Strategy E4, calls for action on increasing demand for SME products and services on public procurement (SMEs will also be encouraged to comply with international market standards and certifications, such as eco-labelling), while strategy A2 calls for adopting green practices to encourage green growth (“the Government will play a catalytic role to bring transformative changes to spur green growth through the

Country	Year	Topic or title	Link (short URL)	Type of support to SMEs	Description of linkages / synergies
					implementation of green procurement. At the same time, efforts will be undertaken to reinforce the enabling environment for green growth by enhancing policy, regulatory, and institutional frameworks; creating sustainable green financing mechanisms; increasing capacity, capability, and skills; improving monitoring and evaluation mechanisms; and enhancing public awareness")
Costa Rica	2015	National SPP policy	http://goo.gl/qu9C5n	<ul style="list-style-type: none"> • Policy 	The National SPP Policy states that the country should promote the necessary actions to allow SMEs to comply with SPP requirements.

CONCLUSIONS

- SMEs are major players in the countries, because of their socio-economic impact as well as the environmental impact of their activities.
- There is a wide spectrum of policies the countries have implemented to promote SMEs on public procurement, as well as a worldwide movement towards GPP, yet these objectives are not necessarily linked.
- It's a known fact that SMEs face difficulties when it comes to complying with environmental standards and that not only affects the sustainable development of the country, but directly affects the SMEs competitiveness.
- Facilitating the access of SMEs to public procurement doesn't mean that they will be able to take part in GPP, as it takes more than having access to public procurement: SMEs would have to be able to offer green products.
- If no active support is provided to SMEs (to improve their environmental performance), GPP could create unfair competitive advantage for large companies able to comply with green criteria.
- The reasons why SMEs are not able to offer green products are quite similar as why they do not comply with environmental regulations, plus other reasons regarding their business strategies.
- SMEs are quite heterogeneous, as on their size, business strategy and environmental management, so a "one fit for all" approach may not be suited to improve their competitiveness in GPP.
- There are some policies that have been implemented to learn from, on the promotion of SMEs on GPP, ranging from capacity building, access to finance, legislation, strategy, etc.

More information on policies and best practices will be collected through a questionnaire, which will also assist to validate the findings of this report, and to produce a second report of this WG.

BIBLIOGRAPHY

- Acosta Bogran, P., & Dzaja, D. (2015). *How do SMEs engage in Green Public Procurement? An exploratory study of SMEs' barriers and enablers for Green Public Procurement in Scotland*. Master Thesis, Umea School of Business and Economics, Umea. Retrieved from <http://www.diva-portal.se/smash/get/diva2:781007/FULLTEXT01.pdf>
- APEC Committee on Trade and Investment. (2013). *Green Public Procurement in the Asia Pacific Region: Challenges and Opportunities for Green Growth and Trade*. APEC Secretariat. Retrieved from http://www.amphos21.com/a21Admin/redesSociales/2013_cti_GPP-rpt.pdf
- Asian Development Bank. (2012). *SME Development. Government Procurement and Inclusive Growth*. Manila: ADB. Retrieved from <http://www.adb.org/sites/default/files/publication/30070/sme-development.pdf>
- Bratt, C., Hallsted, S., Robert, K.-H., Broman, G., & Oldmark, J. (2013). Assessment of criteria development for public procurement from a strategic sustainability perspective. *Journal of Cleaner Production*(52), 309-316. Retrieved from https://www.researchgate.net/publication/270578584_Assessment_of_criteria_development_for_public_procurement_from_a_strategic_sustainability_perspective
- Commission of the European Communities. (2008). *European code of best practices facilitating access by SMEs to public procurement contracts*. Commission staff working paper, Brussels. Retrieved from http://ec.europa.eu/internal_market/publicprocurement/docs/sme_code_of_best_practices_en.pdf
- Directorate-General for Environment. (2016, June 7). *Small and medium-sized enterprises (SMEs) and the environment*. Retrieved July 6, 2016, from European Commission: http://ec.europa.eu/environment/sme/index_en.htm
- European Commission. (2015). *SMEs, Resource Efficiency and Green Markets. Summary*. Flash Eurobarometer 426, European Commission, Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs. Retrieved from <http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/ResultDoc/download/DocumentKy/69290>
- Frimpong, C. Y. (2015). SMEs As An Engine Of Social And Economic Development In Africa. *Modern Ghana*. Retrieved from <https://www.modernghana.com/news/478225/1/smes-as-an-engine-of-social-and-economic-developme.html>
- German Agency for Technical Cooperation; UN; ECLAC. (2006). *SMEs in the environmental goods and services market: identifying areas of opportunity, policies and instruments. Case studies: Argentina, Chile, Colombia and Mexico*. ECLAC. Santiago: ECLAC. Retrieved from http://repositorio.cepal.org/bitstream/handle/11362/3534/1/S2006011_en.pdf
- Hanks, J., Davies, H., & Perera, O. (2008). *Sustainable Public Procurement in South Africa*. Manitoba: International Institute for Sustainable Development . Retrieved from https://www.iisd.org/pdf/2008/spp_south_africa.pdf
- ICLEI. (2007). *The Procura+ Manual. A Guide to Cost-Effective Sustainable Public Procurement* (2nd ed.). ICLEI. Retrieved from http://www.buysmartbc.com/_Library/Resources/resource_iclei_procura_manual.pdf

- ICTSD. (2016). In Uncertain Economic Climate, APEC Trade Ministers Eye Areas for Growth. *Bridges*, 20(19). Retrieved from <http://www.ictsd.org/bridges-news/bridges/news/in-uncertain-economic-climate-apec-trade-ministers-eye-areas-for-growth>
- IISD. (2012). *Procurement, Innovation and Green Growth: The story so far...* International Institute for Sustainable Development, Manitoba. Retrieved from http://www.iisd.org/sites/default/files/publications/procurement_innovation_green_growth.pdf
- International Trade Centre . (2014). *Trade in environmental goods and services: opportunities and challenges*. Geneva: ITC. Retrieved from <http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AssetPDF/EGS%20Ecosystems%20Brief%20040914%20-%20low%20res.pdf>
- Kushnir, K., Mirmulstein, M. L., & Ramalho, R. (2010). Counting MSMEs Across the World. (W. Bank/IFC, Ed.) Retrieved from IFC Web site: <http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/MSME-CI-AnalysisNote.pdf?MOD=AJPERES>
- Lama, P. (2014). *The Case for Green Public Procurement in Bhutan. Achieving growth through sustainability*. Green Public Procurement in Bhutan (GPP Bhutan) Project. Retrieved from http://www.gppbhutan.bt/sites/default/files/The_Case_fo_GPP_in_Bhutan_Web_Version.pdf
- Lee, S.-Y. (2008). Drivers for the participation of small and medium-sized suppliers in green supply chain initiatives. *Supply Chain Management: An International Journal*(17), 185-198. Retrieved from https://www.researchgate.net/publication/242238397_Drivers_for_the_Participation_of_Small_and_Medium-Sized_Suppliers_in_Green_Supply_Chain_Initiatives
- Mingming, L. (2016, July 20). personal communication. China: China Environmental United Certification Center Co.,Ltd.
- Mosgaard, M., Riisgaard, H., & Huulgaard, R. (2013). Greening non-product-related procurement - When policy meets reality. *Journal of Cleaner Production* . Retrieved from https://www.researchgate.net/publication/271583403_Greening_non-product-related_procurement_-_When_policy_meets_reality
- Nasiche, F., & Ngugi, G. K. (2014). Determinants of adoption of green procurement in the public sector: a case study of the Kenya Pipeline Company. *International Journal of Social Sciences and Entrepreneurship*, 1(11), 351-372. Retrieved from http://www.ijssse.org/articles/ijssse_v1_i11_351_372.pdf
- National Institute of Micro, Small and Medium Enterprises. (2016). *Why c-eco*. Retrieved from nimsme Web site: <http://nimsme.org/page.php?id=108>
- OAS. (2015). *Hacia una PYME más verde y competitiva: La compra pública como motor para el desarrollo sostenible*. Washington: Organization of American States. Retrieved from <http://www.ricg.org/pyme-mas-verde/pyme-mas-verde.pdf>
- OECD. (2013). *Government at a Glance 2013*. Paris.: OECD Publishing. Retrieved from http://dx.doi.org/10.1787/gov_glance-2013-en

- OECD. (2015). *Going green: Best practices for sustainable procurement*. OECD. Retrieved from https://www.oecd.org/gov/ethics/Going_Green_Best_Practices_for_Sustainable_Procurement.pdf
- OECD/UN-ECLAC. (2012). *LATIN AMERICAN ECONOMIC OUTLOOK 2013, SME Policies for Structural Change*. OECD, ECLAC. Retrieved from http://www.oecd-ilibrary.org/development/latin-american-economic-outlook-2013_leo-2013-en
- Perera, O., & Colverson, S. (2012). *Sustainable Procurement in Fragile States*. Geneva: International Institute for Sustainable Development. Retrieved from http://www.iisd.org/pdf/2012/procurement_fragile_states.pdf
- Roos, R. (2013). *Sustainable Public Procurement in LICs—Implications for the Ongoing World Bank Procurement Review*. GIZ. Retrieved from https://consultations.worldbank.org/Data/hub/files/meetings/Procurement_Policies/SPP_in_LICs.pdf
- Schrouder, S. (2010). Public procurement in the Caribbean: Confronting the challenges and opportunities. *International Public Procurement Conference*. Retrieved from <http://www.ipppa.org/IPPC4/Proceedings/01ComparativeProcurement/Paper1-5.pdf>
- Soyah, I. B. (2016, August 19). Personal Communication. Tunis: Tunis International Center for Environmental Technologies .
- UNEP. (2010). *ABC of SCP: Clarifying Concepts on Sustainable Consumption and Production*. Paris: United Nations Environmental Program. Retrieved from http://www.unep.org/10YFP/Portals/50150/downloads/publications/ABC/ABC_ENGLISH.pdf
- UNEP. (2013). *Sustainable public procurement: a global review*. UNEP. Retrieved from <http://www.unep.org/publications/>
- Walker, H., & Preuss, L. (2008). Fostering sustainability through sourcing from small business: public sector perspectives. *Journal of Cleaner Production*(16). Retrieved from https://www.researchgate.net/publication/223404279_'Fostering_Sustainability_through_Sourcing_from_Small_Businesses_Public_Sector_Perspectives'
- Zarate, A. (2016, July 22). Personal communication. Colombia: CNPMLTA.