

# **WAKING THE TRILLION- DOLLAR GIANT**

## **Accelerating Sustainable Development – Role of Procurement Systems**

**Asian Development Bank (ADB), 8th Annual eGP Conference**

**5-6 December 2022, Manila**

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# SOURCING FOR A BETTER WORLD

## Carsten Hansen (Dr.)

- Chief, Global Procurement Services, United Nations Development Program (UNDP)
- Co-Chair of the Inter-Agency Working Group on Sustainable Procurement, United Nations High-level Management Committee (HLCM)
- Visiting Research Fellow, School of Management, Centre for Strategic Procurement and Supply Management at Cranfield University (UK)



[linkedin.com/in/carsten-hansen-dr-5183552](https://www.linkedin.com/in/carsten-hansen-dr-5183552)



## AGENDA:



# WAKING THE TRILLION- DOLLAR GIANT – LESSONS LEARNED FROM THE COVID 19 CRISIS AND WAYS FORWARD



**The “Waking the Giant” Implementation Model**



**An ESG-Weighted-Procurement Portfolio Model**



**Sustainable Procurement (SP) Criteria Selection Tool**



**Circular Procurement Practices**



**Key Lessons Learned**


## LEVERAGING PUBLIC PROCUREMENT EXPENDITURE

The total volume and associated purchasing power of public procurement is a major market factor, with enormous potential to influence product innovation and supplier behavior.

- EU public procurement estimated at more than **2 trillion Euro** in 2017, representing almost 14% of (GDP), distributed across an estimated 250,000 public organizations (European Commission, 2020).
- Across the OECD countries, public procurement volumes ranges between 5% up to 20% of (GDP) (OECD, 2017).
- Emerging economies like Brazil spends an estimated **250 billion USD** annually through public procurement (IPEA, 2018).
- China spends an estimated **538 billion USD** (CCGP, 2019).
- US Federal Government an estimated **597 billion** (Bloomberg Government, 2020).
- Estimated global public spend more than 10 trillion USD.







Sustainable procurement practices is now a requirement for public procurement to be truly “fit for purpose”.

**It is time to wake the trillion-dollar giant!**

## NET-ZERO EMISSIONS TARGETS

- IN THE 2015 PARIS CLIMATE AGREEMENT<sup>1</sup>, PARTIES AGREED TO KEEP THE GLOBAL AVERAGE TEMPERATURE BELOW 2 °C ABOVE PRE-INDUSTRIAL LEVELS

COP 26 AND 27

OVER 100 COUNTRIES HAVE SET OR ARE CONSIDERING NET-ZERO EMISSIONS OR NEUTRALITY TARGETS

URUGUAY 2030  
FINLAND 2035  
ICELAND 2040  
SWEDEN 2045  
SOUTH KOREA 2050  
EU 2050  
CANADA 2050  
BRAZIL 2060  
CHINA 2060



# SUSTAINABLE DEVELOPMENT GOALS (SDG) 2030 AGENDA

THE SDG TARGET 12.7 HIGHLIGHTS THE GLOBAL COMMITMENT TO FURTHER *“PROMOTE PUBLIC PROCUREMENT PRACTICES THAT ARE SUSTAINABLE, IN ACCORDANCE WITH NATIONAL POLICIES AND PRIORITIES”*.



**Goal 12** - Ensuring sustainable consumption and production patterns.



**Goal 8** - Decent work and economic growth.



**Target 8.7** - Eradicate forced labor, end modern slavery and human trafficking.



WHERE TO START WITH  
SUSTAINABLE PROCUREMENT  
INTEGRATION?





## COVID19 & THE PERFECT PROCUREMENT STORM

Acutely constrained global market for especially medical equipment and PPE, fueled by an intense global demand, characterized by:

- Restricted production due to manufacturing lock-downs.
- Export controls and bans.
- Flight restrictions impacting cargo movement and price.
- Global market demand-to-supply ratio for essential equipment was at some point estimated at around 20:1.
- New suppliers, many opportunistic, requiring WHO to issue a Global Medical Product Alert for falsified medical products due to a rise in fraudulent certificates and sub-standard equipment.

The media described the global rush for medical equipment and PPE, as the “Wild West”.

Blog - COVID-19 Global Supply Chains and “the Perfect Storm”:

<https://www.linkedin.com/pulse/covid-19-global-supply-chains-perfect-storm-hansen-dr-fcips/>





## COVID 19 & PROCUREMENT DUE DILIGENCE

- Acute global stock-out amplified labor violations on a global scale with demand for cheap labor in medical chains targeting migrant worker.
- With the increase in unemployment, the balance of power has shifted toward employers, with lower wages and declining working conditions.
- After lock-down restrictions are lifted more pressure to increase production to cover back-logs, and to lower production costs due to economic difficulties, further incentivizing exploitation.

*When “the ship is sinking,” you no longer question the context in which the life jackets were manufactured.*

UN Secretary General, “the pandemic has become far more than a public health emergency. It is an economic crisis, a social crisis and becoming a human rights crisis”.

Blog - Human Rights & Global Supply Chains:

<https://www.linkedin.com/pulse/human-rights-global-supply-chains-carsten-hansen-dr-fcips/>

# SUSTAINABILITY INTEGRATION THROUGH A CATEGORY APPROACH

## The “Waking the Giant” Initiative – Why is it so difficult?

- Identifying Barriers And Enablers For Organizational SPP Implementation

## ESG-weighted Procurement Portfolio Model (PPM) Approach

- Reflecting Category-specific Sustainability Risk Profiles
- Develop Market And Supplier Engagement Strategies

## Sustainable Procurement (SP) Criteria Selection Tool

- Easy to find sustainability criteria across key categories and integrate them directly into tender documents.
- Reducing time, enhance standardization, and minimize inaccuracies by easy access to pre-defined standard criteria





## IDENTIFYING BARRIERS AND ENABLING CONDITIONS FOR SPP

### ■ Policy Level:

Concise Legislative Framework, Embedded SPP Targets in Policies, Effective Monitoring System, and Political Goal Setting.

### ■ Organizational Level:

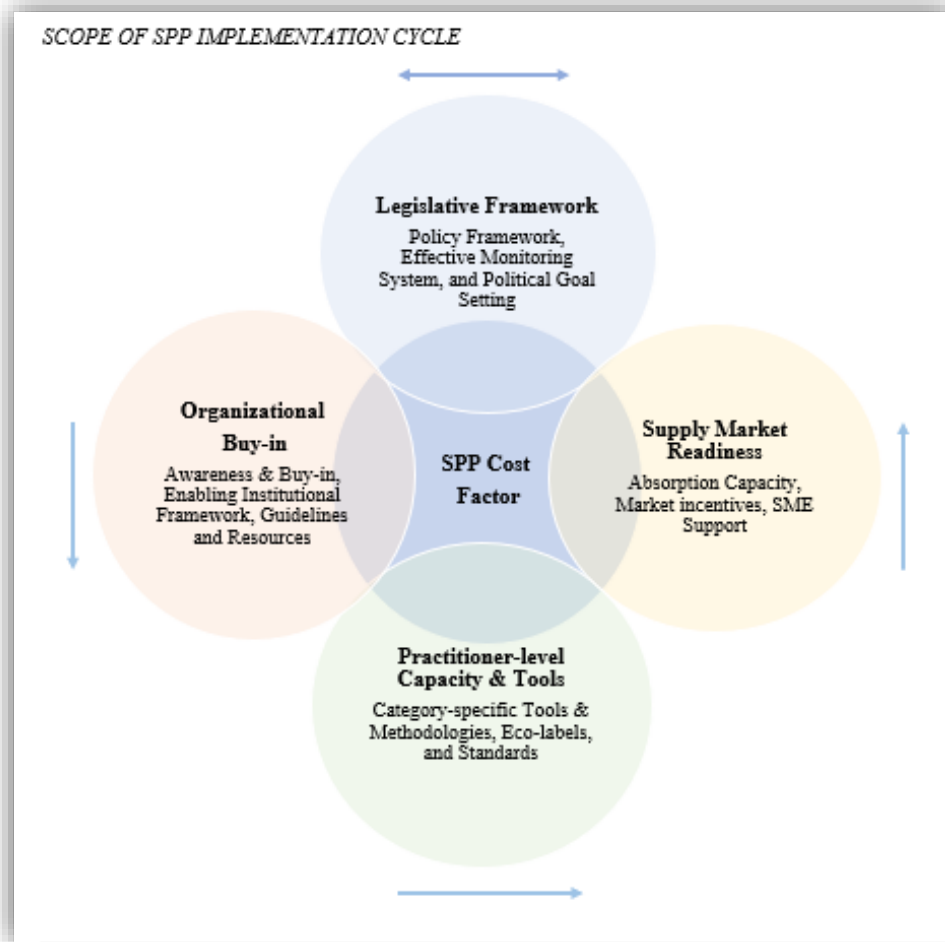
Organizational Awareness & Buy-in, Enabling Institutional Framework, and Financial Resources.

### ■ Practitioner Level:

Practitioner SP Capacity, Category-specific Tools & Methodologies.

### ■ Market Level:

Sufficient Supply Market Readiness, Willingness, and Absorption Capacity, Market Incentives, SME Support, Consumer sentiments.



Carsten Hansen (2020), [“Waking the Trillion Dollar Giant: Sustainable Public Procurement \(SPP\) and the 2030 SDG Agenda”](#), One Planet Network Resource Hub and Green Growth Platform, United Nations.

## AN ESG-WEIGHTED PROCUREMENT PORTFOLIO MODEL (PPM)

### Objectives:

- Identify and visualize organization-specific ESG procurement portfolio exposure;
- Allow prioritization of organizational sustainable procurement efforts and development of subsequent sustainable procurement guidelines for high-risk/high impact categories;
- Align with UNGM sustainability indicators for UN-wide benchmarking and reporting.

### A two-step approach:

Step 1: Reflecting category-specific sustainability risk profiles:

- The approach supports organizations in identifying procurement categories that represent the highest sustainability risk exposure and where mitigation efforts will yield the highest sustainability impact.

Step 2: Develop market and supplier engagement strategies:

- The approach informs the development of organization-specific sustainable procurement strategies and supplier due diligence reviews.



Carsten Hansen & Farid Yaker (2021), [“Introducing A Sustainability-weighted Procurement Portfolio Model \(PPM\)”](#), One Planet Network Resource Hub, United Nations.



# HLCM Sustainability Indicators (Adapted)

## Social Responsibility

Indigenous Human Rights

Labor Rights Issues

Potential Discrimination  
Risks

Sexual Harassment Risks

Privacy

Product Development,  
Advertising and Use

## Environmental Responsibility

Hazardous Products

Climate Change

Resource Use

Biodiversity and Natural  
Habitats

## Governance

Fraud

Corruption

## Economics

SMEs

Supply Chain



# ENVIRONMENTAL RISK INDICATORS

## Categories:

- Pollution – Hazardous Products:
  - Effluents reaching water bodies
  - Air emissions
  - Use, storage, movement and disposal of hazardous materials
- Pollution – Climate Change:
  - CO2 emissions
  - Other gas emissions with global warming potential
- Resource use:
  - Waste generated
  - High-level of finite material used through life-cycle
  - Water usage
  - Land usage
- Biodiversity and natural habitats:
  - Impact on biodiversity
  - Impact on forests
  - Impact on other natural habitats



# SOCIAL RESPONSIBILITY RISK INDICATORS

## Categories:

- Human Rights – Indigenous Peoples Rights:
  - Violation of indigenous people's rights (i.e. land-grabbing).
- Human Rights – Labor Rights Issues:
  - Forced Labor Risk
  - Child/Youth Labor Risk
  - Working conditions related risk (wage & working hours)
  - Health & safety
- Gender Issues:
  - Unequal treatment & contracting terms
  - Category-specific sexual harassment risk
- Product/Service implications for health and well-being:
  - Privacy concerns
  - Quality assurance & testing
  - Intellectual Property Risk (IP)
  - Unlawful use of products
- SME participation & support:



# GOVERNANCE RISK INDICATORS

- Categories:
- Category-specific corruption risk
- Fraud Risk (i.e., Falsification of certifications, origin of inputs etc.)

## Corruption rife in construction industry around world, survey suggests

A survey of 321 engineering and construction companies by PricewaterhouseCoopers found that globally 25% of them ha...

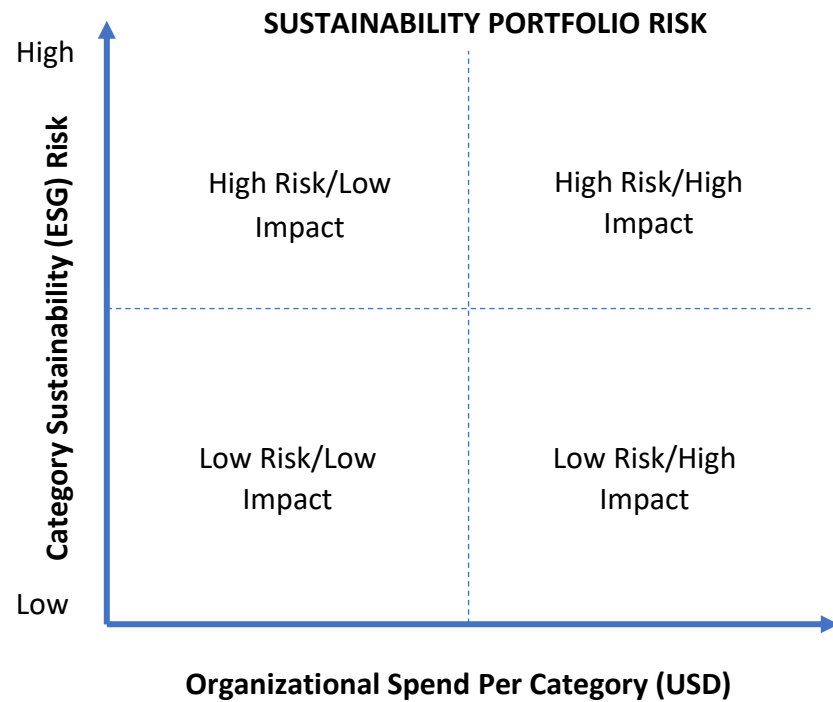
December 1, 2008 Canadian Consulting Engineer



**COVID-19 VACCINES AND CORRUPTION RISKS:  
PREVENTING CORRUPTION IN THE MANUFACTURE,  
ALLOCATION AND DISTRIBUTION OF VACCINES**



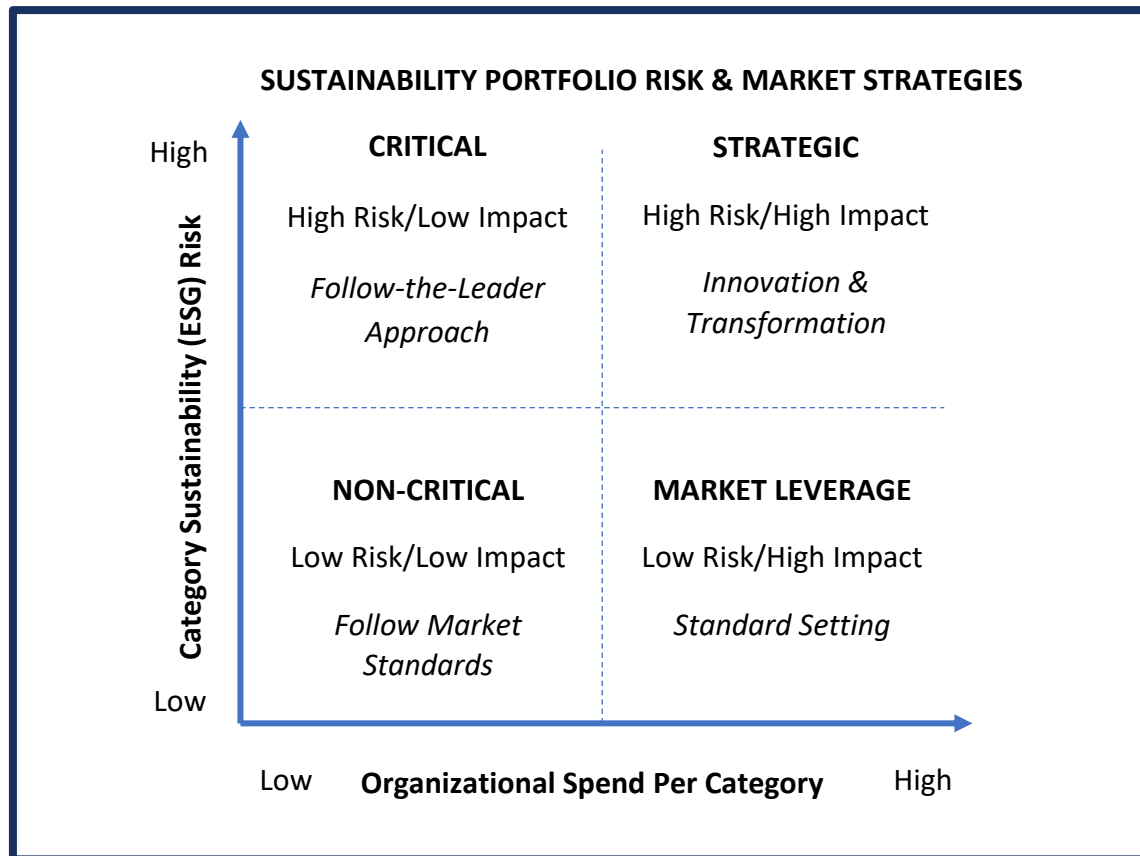
## STEP 1: SEGMENTING CATEGORY-SPECIFIC SUSTAINABILITY RISK PROFILES



Using a procurement portfolio model as an analytical tool to create a risk classification framework based on *category (ESG) risk* and *organizational spend*.

- **Indicators:** Aligned with sustainability indicators allowing for benchmarking and reporting.
- **Procurement categories:** Defined by UNSPSC coding system:
  - The model applies ratings at the H2 category level.
  - The model currently rates approximately 100 commonly used H2 level categories.

## STEP 2: DEVELOPING MARKET AND SUPPLIER ENGAGEMENT STRATEGIES



The approach allows for developing subsequent risk-informed sustainable procurement strategies, based on organization-specific sustainability exposure in the procurement portfolio.

The model proposes four distinct market approaches based on the segmentation of categories in Step 1.

**Strategic Segment - High Risk/High Impact categories:**

- A strategic opportunity for instigating market innovation and transformation.

**Critical Segment - High Risk/Low Impact categories:**

- Mitigate risk by Identifying market sustainability leaders and follow their lead.

**Market Leverage - Low Risk/High Impact categories:**

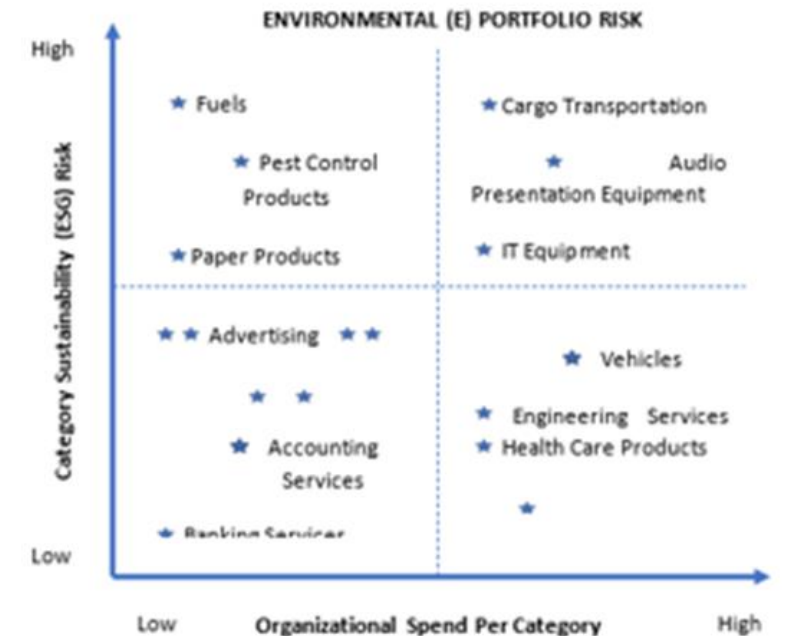
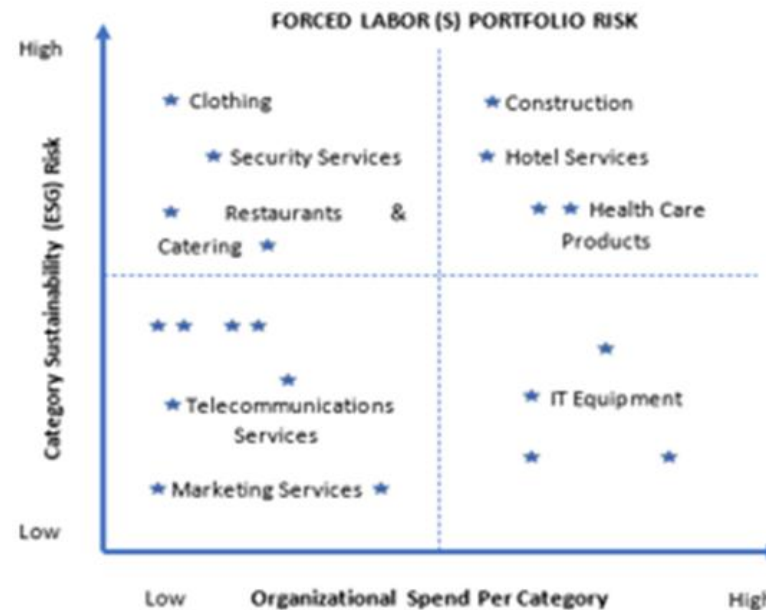
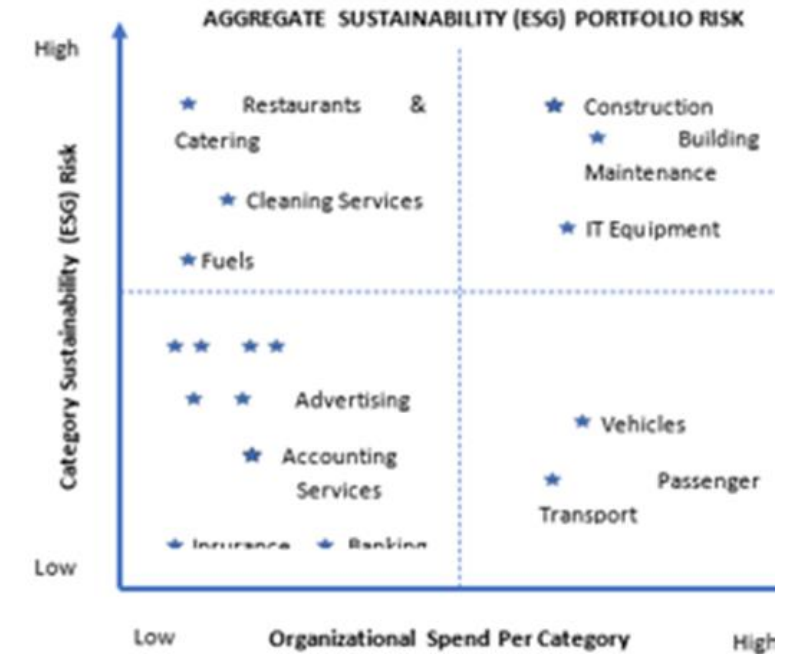
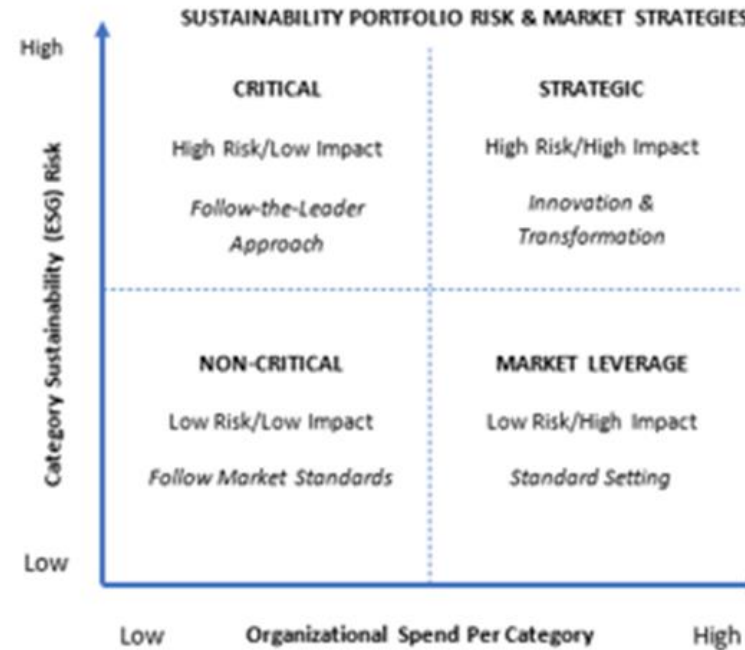
- Opportunity to “raise the bar” and set higher standards for the sector.

**Non-critical - The segment of Low Risk/Low Impact categories:**

- Reduce transaction cost of applying sustainability measures

# A DYNAMIC ESG-WEIGHTED PROCUREMENT PORTFOLIO MODEL

The dynamic classification system allows for various representations of sustainability exposures and deep dives into specific risk indicators and sub-indicators.





# Determining Category Sustainability Ratings

- Category-specific sustainability risk rating determined across sustainability indicators.
- Sustainability risk determined as the combination of the *likelihood* that a certain sustainability risk may materialize, combined with the *consequences* or *materiality* of the sustainability risk event to the organization.
- Category risk scoring ranges from 1-4, with (1) Low Risk, (2) Medium Low Risk, (3) Medium High Risk, and (4) High Risk.

### Sustainability Risk Across Product/Service Lifecycle



### Raw Materials



Material  
Production



Manufacturing



### Packaging



Transportation &amp; Storage



Retail



Use



Disposal

		Consequence				
		Insignificant	Minor	Moderate	Major	Critical
Likelihood	Rare	1	1	1	2	3
	Unlikely	1	1	2	2	3
	Possible	1	2	2	3	3
	Likely	2	2	3	3	4
	Almost Certain	2	2	3	4	4

### Scores Captured in ESG-weighted Category Database

[illegible]

## SUSTAINABILITY PROCUREMENT PORTFOLIO MODEL

[Knowledge Centre](#) > [Procurement Tools](#) > [Sustainable Procurement Tools](#) > [Sustainability Procurement Portfolio Model](#)

Search



### The Sustainability Procurement Portfolio Model

#### Sustainability Analysis

The Sustainability Analysis model generates an aggregated sustainability footprint based on inserted spend data.



#### Sustainability Risk Rating

The sustainability database indicates the risk level for a set of UNSPCS categories across the UNGM Sustainability Indicator framework.



#### What is the Sustainability Procurement Portfolio Model (SPPM)?

The Sustainability Procurement Portfolio Model (SPPM) establishes visibility on sustainability risk in organizational procurement portfolios and allows development of differentiated procurement strategies to optimize sustainability outcomes. The SPPM supports organizations in identifying procurement categories that represents the highest sustainability risk exposure and it can also assist in developing more robust Sustainable Procurement action plans in line with SDG 12.7, with the aim of accelerating sustainable public procurement implementation and better position public procurement policy makers and practitioners to strategically guide organizational and national efforts towards SDG 12.7.

For an extensive description of the SPPM concept and methodology, please consult the following working paper:

[A Sustainability-weighted Procurement Portfolio Model \(PPM\)](#)

#### An introduction to the SPPM methodology

The SPPM is based on the design principles of Kraljic's portfolio model and introduces segmentation thinking from Procurement Portfolio Models (PPMs) into the sustainable public procurement practice. The model applies a category-specific sustainability risk rating across a series of sustainability indicators to assess the risk exposure of procurement categories. The risk rating is based on the UNGM Sustainability Indicator framework.



*"A process whereby public sector organisations 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 organisation, but also to society and the economy, whilst minimizing, and if possible, avoiding, damage to the environment."*



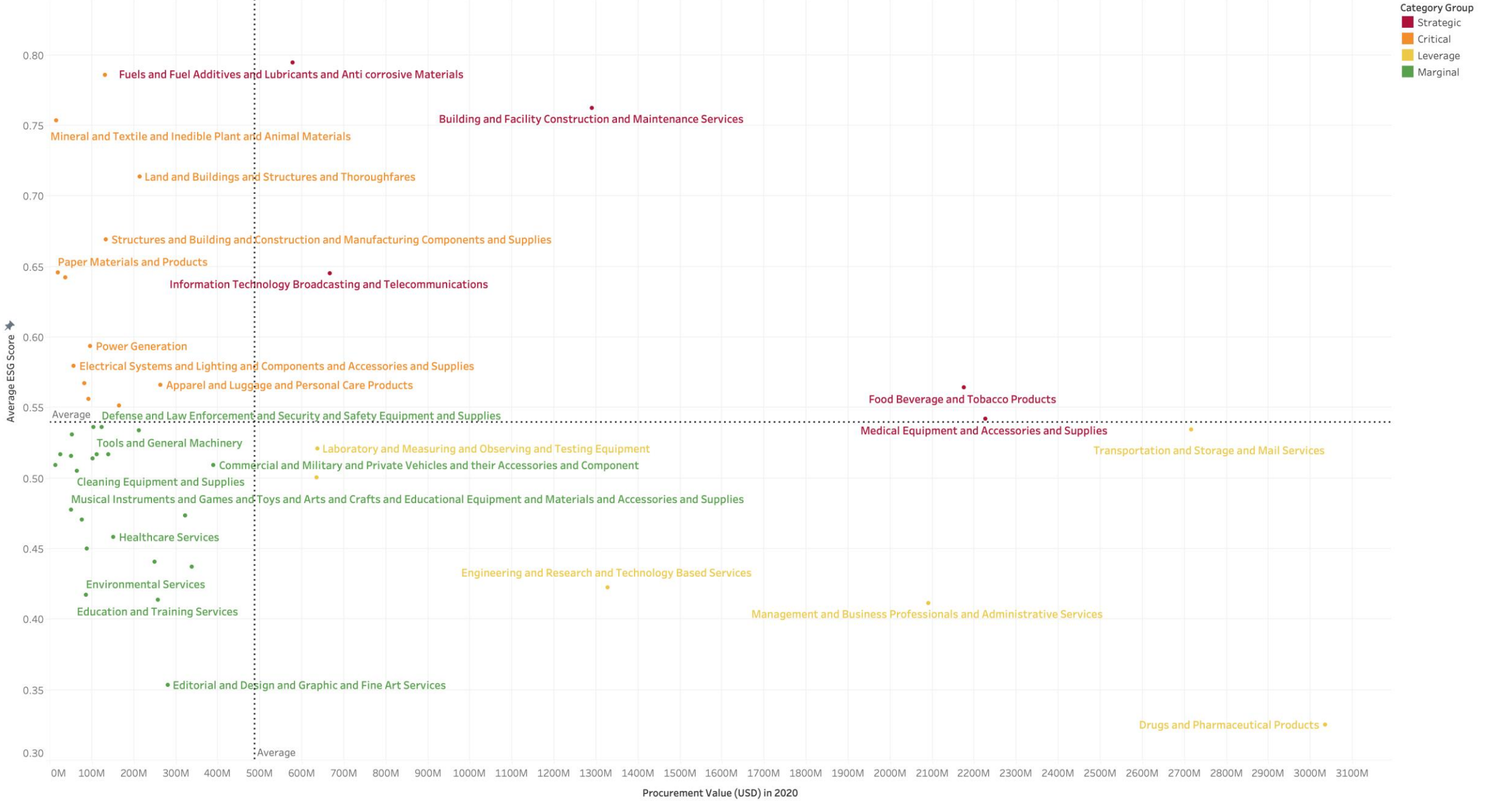


# Aggregate ESG Risk Analysis – A User Case

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ESG Risk analysis based on 2020 ASR data





# Environmental Risk Analysis

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Environment Risk analysis based on 2020 ASR data



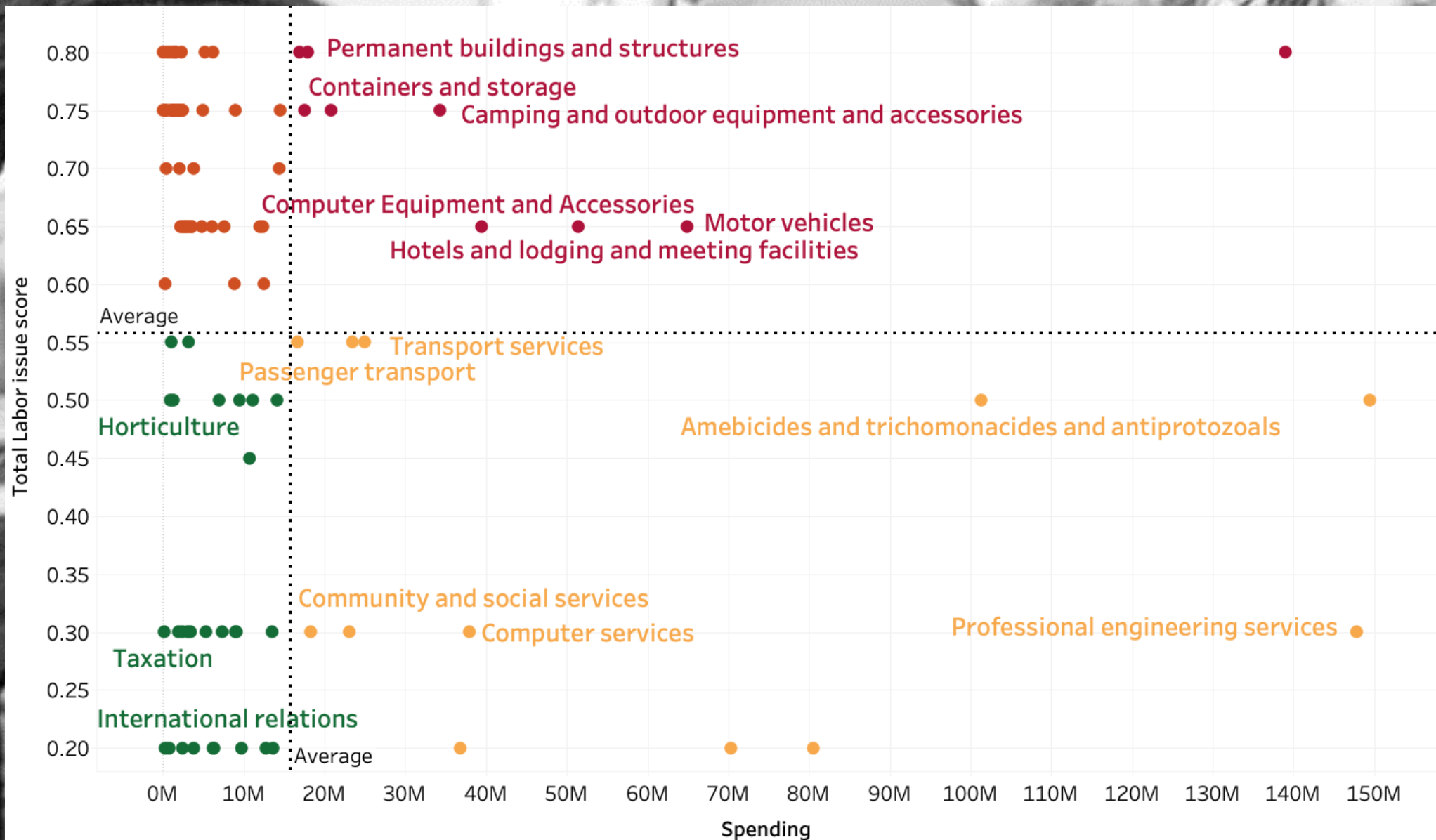


# Thematic Deep-Dives (Example: Labor Rights Issues)

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## LABOUR RIGHTS (S) PORTFOLIO RISK



Category (group)

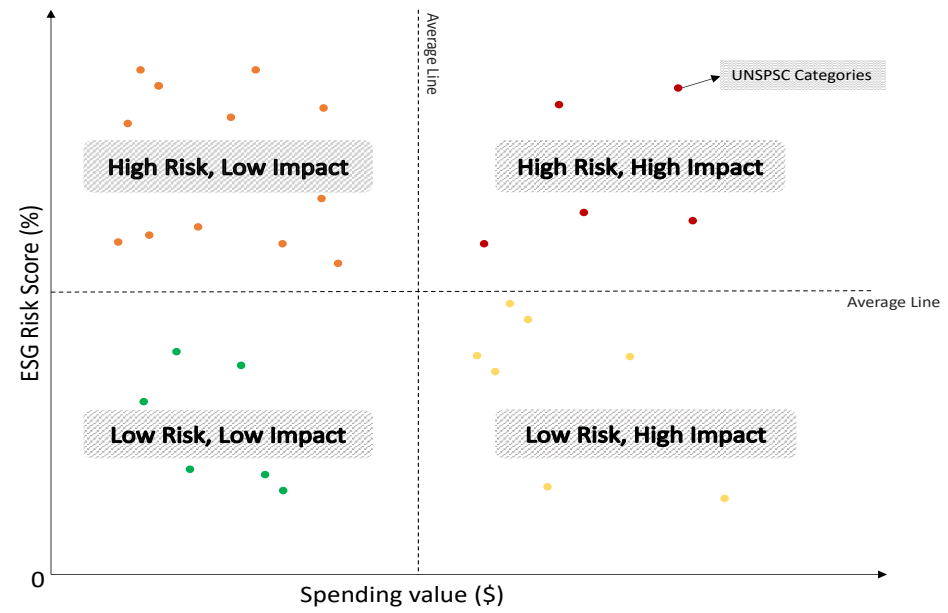
Strategic

**Critical**

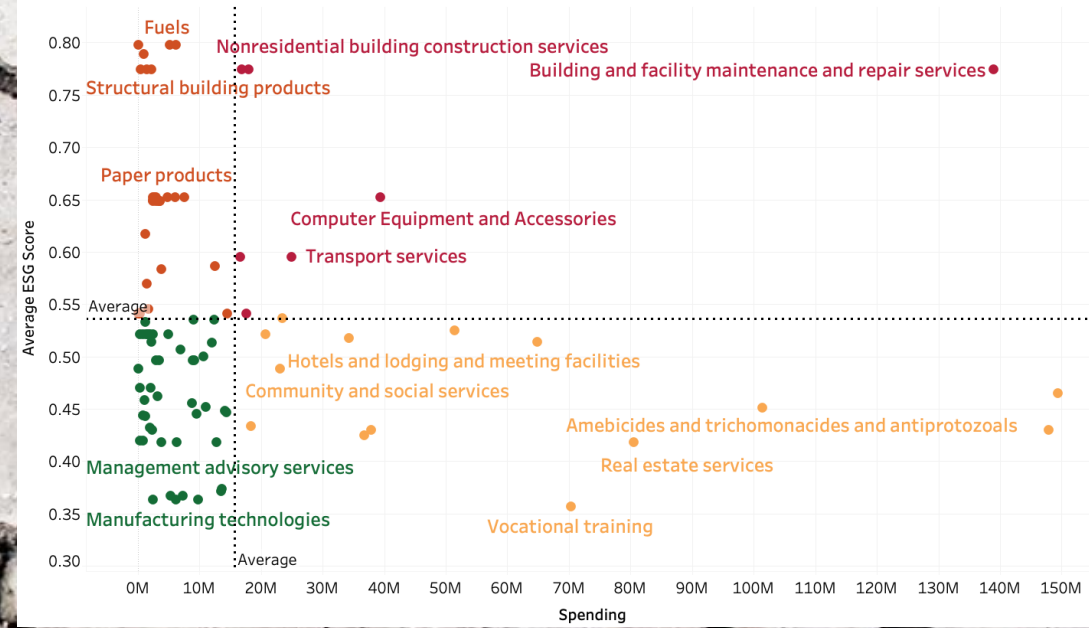
**Leverage**

■ Marginal

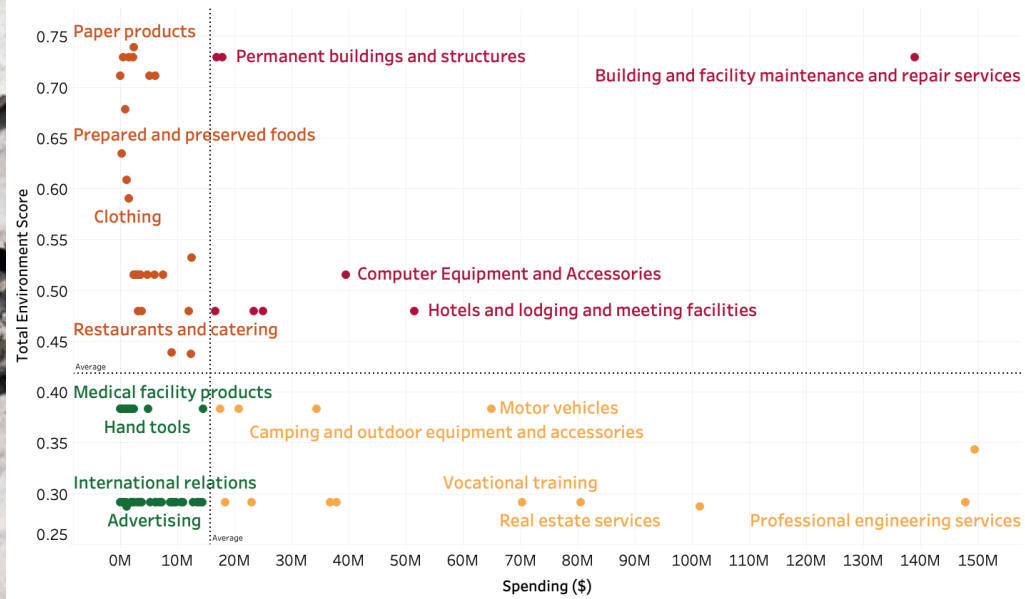
# SUSTAINABILITY PORTFOLIO RISK



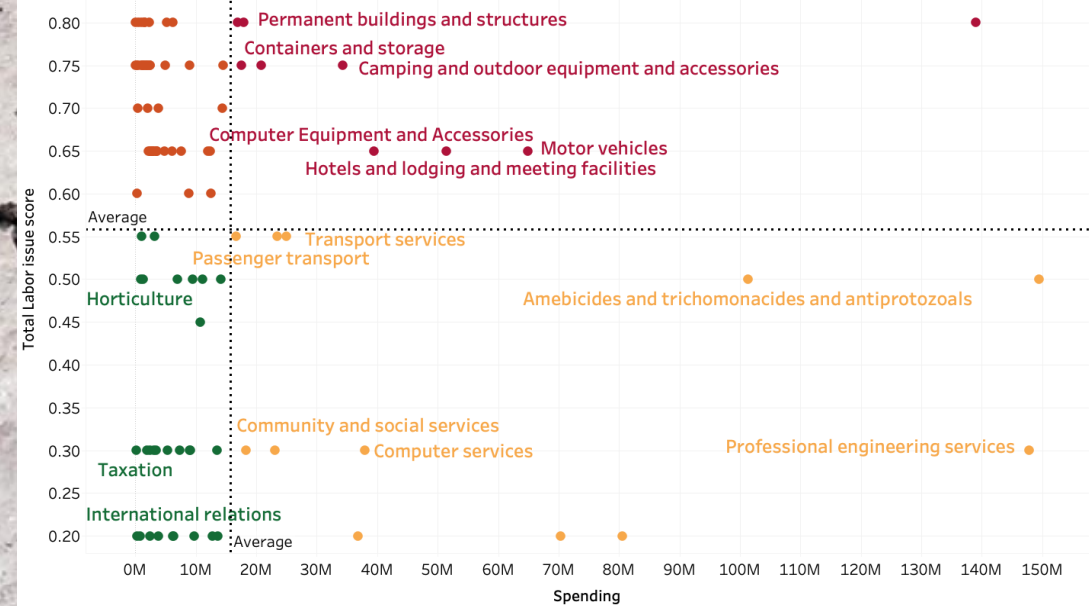
# AGGREGATED SUSTAINABILITY (ESG) PORTFOLIO RISK



# ENVIRONMENTAL (E) PORTFOLIO RISK



# FORCED LABOUR (S) PORTFOLIO RISK







The post-COVID business environment calls for a re-definition of procurement risk and to integrate sustainability into procurement strategies.

All procurement categories have unique sustainability considerations, which need to be integrated into procurement processes.

Allows organizations to differentiate categories in accordance with sustainability risk profiles and develop targeted guidelines for each category.

ESG risk mapped according to sustainability indicators for benchmarking and meeting reporting requirements.

## DEFINING CATEGORY-SPECIFIC SUSTAINABILITY RISK

# SUSTAINABLE PROCUREMENT (SP) CRITERIA SELECTION TOOL

The screenshot displays the 'SPP criteria tool' interface. At the top, a green navigation bar contains 'Home > SPP criteria tool', 'About MVI criteria', and a 'Give feedback' button. Below this, a progress bar shows two steps: '1 Search and add items' (active) and '2 Overview and download'. A status bar indicates '0 items added' and a 'Next' button. The main search area includes a search bar with a magnifying glass icon, a list of product groups with expandable arrows, and two dropdown menus for 'Latest version' and 'Search in English criteria'. A callout box provides instructions: 'Select one or more product groups or search by keyword or CPV code to start'.

Home > SPP criteria tool About MVI criteria Give feedback

1 Search and add items 2 Overview and download 0 items added Next →

Search Search

Automation and telecommunications

Energy

Civil and hydraulic engineering

Office facilities and services

Office buildings

Transport and Transportation

Latest version

Search in English criteria

Select one or more product groups or search by keyword or CPV code to start

- Pre-identified entry points for sustainability integration into standard procurement templates.
- Make it significantly easier for practitioners to find and download the relevant sustainability criteria associated with key categories and integrate them directly into tender documents.
- Reduce time, enhance standardization, and minimize inaccuracies by easy access to pre-defined standard criteria.

## Examples:

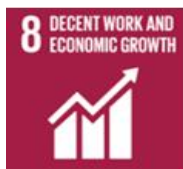
- Dutch PIANOo
- Irish GPP Search Criteria Tool
- EU GPP Criteria



# WALKING THE TALK: A SUSTAINABILITY INTEGRATION FRAMEWORK



**Goal 12** - Ensuring sustainable consumption and production patterns.



**Goal 8** - Decent work and economic growth.



**Target 8.7** - Eradicate forced labor, end modern slavery and human trafficking.



**Identify sustainability exposure by applying ESG-weighted Procurement Portfolio Analysis;**



**Develop and implement sustainability integration guidelines across top (10+) risk categories - Construction, Health, ICT, Vehicles, Travel, Freight Forwarding, Hotel & Conferencing, Security, Cleaning, Catering Contracts etc.;**



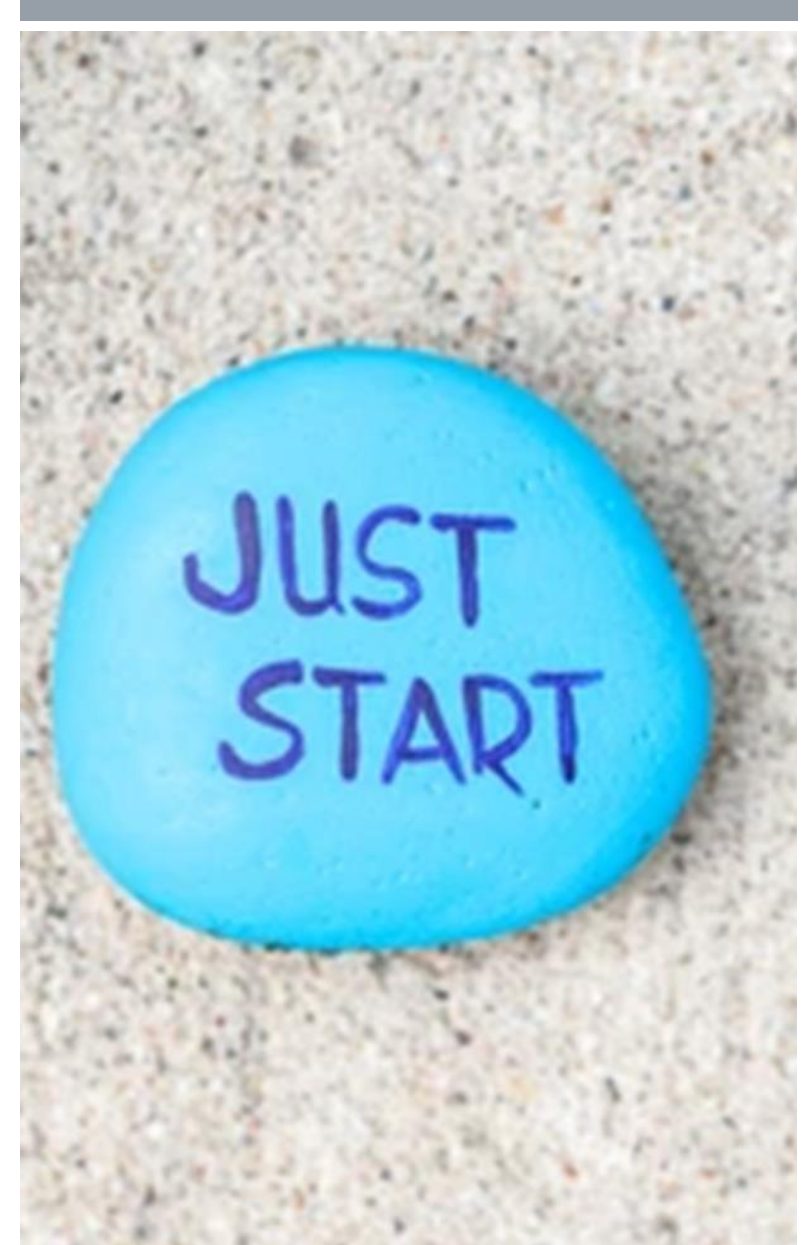
**Conduct sustainable procurement training for buyers and key suppliers;**



**Sustainable Procurement (SP) Criteria Selection Tool**

# KEY TAKE-AWAYS FOR ORGANIZATIONAL IMPLEMENTATION

- Organization-wide commitment
- Category prioritization helps stay focused, deliver impact, and market engagement
- Hard to “go it alone” - pooling of category expertise required
- Find pockets of collaboration and passion – establish momentum
- Explore options for leveraging automation







Carsten Hansen (Dr.)



[linkedin.com/in/carsten-hansen-dr-5183552](https://www.linkedin.com/in/carsten-hansen-dr-5183552)

