

Sustainable Procurement for Local Green Enterprises

Thematic Session Note

6 February 2020

Context

Sustainable procurement leverages on generating additional revenues from low-cost eco-friendly and sustainable products by aligning with the principles of sustainable development. According to Defra (2006)¹, the importance of sustainable procurement is realised across both the public and private sectors with some of the priority areas pertaining to sustainable consumption and production (SDG 12), climate change (SDG 13) and energy, protection of natural resources and creation of sustainable communities (SDG 11). While for the public sector the emphasis is on what and how the government procures its goods, services and capital to accomplish the sustainable development objectives, it is more of a risk and reputation management strategy for the private and the business sector.

According to the Ministry of Finance (MoF), India spends around 25 per cent of the GDP² on public procurement³(2018). In 2006, the National Environment Policy of the Ministry of Environment and Forests (MoEF) explicitly mandated the public sector to encourage adoption of purchase preference for goods and services that meet international environmental standards (MoEF 2006: 44)⁴. The Department of Expenditure, MOF, Government of India (GoI), provides the basis for implementation of sustainable public procurement through General Financial Rules (GFR). The recently revised GFR of 2017⁵ has laid down the provisions for adding environmental criteria while undertaking procurement decisions into rule 173. The purchases by users through Government e-marketplace (GeM) have been authorised and made mandatory by MoF, through adding a new rule 149 in the GFR 2017. The rule explicitly mentions that the Directorate General of Supplies and Goods (DGS&D) will ensure adequate publicity, including periodic advertisement of items to be procured through GeM for the prospective suppliers; and credentials of suppliers on GeM shall be certified by the DGS&D. In terms of conceptualisation, 'sustainable public procurement' in India has four dimensions, which include socio-economic, environmental, transparency and market information.

The contribution of the Micro, Small and Medium Enterprises (MSMEs) sector to the Indian economy in terms of GDP, exports and employment generation is significant. In India, as per the Federation of Indian Chamber of Commerce and Industry (FICCI), there are around 63 million MSMEs that employ around 111 million people and contribute to 28.77% to the GDP. (MoMSME⁶, 2017). Apart from the fact that the sector has a high potential of stimulating entrepreneurial spirit and diffusion of skills, it has a high labour to capital ratio vis-a-vis other industries, and has a potential for generating local employment. Hence, the MSME sector offers an opportunity to address regulatory, awareness and production related aspects of sustainable procurement.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/69417/pb11710-procuring-the-future-060607.pdf

²MoF (Ministry of Finance) (2018), "Minutes of the 1st meeting of Task Force on Sustainable Public Procurement (SPP)", Office Memorandum, New Delhi: MOR, Government of India.

³While this number is contested, since the total fiscal expenditure of the country is less than 15 per cent of GDP. However since the public procurement figure also includes public sector units at the national and state levels, this number could be 25 per cent.

⁴MoEF (Ministry of Environment and Forests) (2006), National Environment Policy 2006, New Delhi: MOEF, Government of India.

⁵https://doe.gov.in/sites/default/files/GFR2017_0.pdf

⁶Ministry of Micro, Small and Medium Enterprises, Government of India

To strengthen the regulatory framework on procurement underlying MSMEs, the Ministry of MSME notified the implementation of the Public Procurement Policy for micro and small enterprises (MSEs) from 1 April 2012⁷. The Policy notified under the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 stressed on achieving an overall procurement of minimum 20% of the total annual purchases of products and services rendered by the medium and small enterprises within a period of three years by the central ministry, government departments and Public Sector Undertaking (PSUs). Prior to the new policy, in 2009, only 5% of the Central Government and PSU's procurement came from (MSEs). In 2018, a sustainable procurement task force was constituted⁸ with a mandate of reviewing best practices in public procurement, inventorising the current status on Sustainable Public Procurement (SPP) across government organisations in India, drafting a Sustainable Procurement Action Plan and recommending a set of product/service categories where SPP can be implemented. An executive order passed by the Ministry of MSME in 2018, and effective from 1 April 2019⁹, has notified that 25% of procurement (from the earlier 20%) of goods and services is to be done by every central government ministry, department and PSU from MSE through the GeM portal. The objective of this notification is to promote and develop MSEs by supporting them in marketing of products and services rendered by them.

Indian PSUs such as Indian Railways, Bharat Heavy Electricals Limited (BHEL), National Thermal Power Corporation (NTPC) and Indian Oil Corporation are promoting sustainable public procurement in a decentralised manner at project-specific sites, with a major focus on energy-conserving equipment in the procurement process of small items.

Particularly, the Indian Railways Vision 2020 document states its intention to conserve energy by achieving 15% energy efficiency and to use a low-carbon, energy-efficient approach¹⁰.

Private companies in India have also initiated sustainable procurement processes. The multinational conglomerate ITC Limited has made investments in the web-based business initiative e-Choupal, which has enabled Indian farmers in the creation of a cost-effective procurement system. This unique e-Choupal model creates a significant two-way multi-dimensional channel that can efficiently carry products and services in and out of rural areas, while recovering the associated costs through agri-sourcing led efficiencies.

Potential Case of MSMEs in Sustainable Procurement

As a matter of fact, MSEs pose a very strong case in the sphere of sustainable procurement. For MSEs, enhanced participation in public procurement offers larger and consistent orders for their goods and services, and opportunities for improving production efficiencies and overall competitiveness. For the government, public procurement is an effective tool for furthering its commitment towards promotion and development of the MSE sector given its significance for economic growth, indigenisation and employment generation, and making them a competitive and stable employer. Similarly, for the private sector, procurement from MSEs presents an excellent opportunity for large companies to reduce lead times, inventories and logistics costs.

Key Challenges

Although efforts are in the right direction, MSEs face several barriers in developing and participating in sustainable procurement requirements of government and PSUs, as well as opportunities available in the larger private sector. Underdeveloped markets, size constraints, lack of finance, inadequate managerial capacity, information asymmetry, complex vendor registration process, disproportionate qualification criteria and certification requirements deter access to the public procurement market. On the other hand, central public sector enterprises (CPSEs) and other public procurement authorities are also faced with the challenge of MSE selection for procurement, due to the lack of requisite information on quality, capability, eligibility of MSE vendors and suppliers. Some of the other hurdles faced by MSEs are listed below¹¹:

⁷<https://msme.gov.in/public-procurement-policy-micro-and-small-enterprises-mse-order-2012>

⁸<https://doe.gov.in/sites/default/files/Task%20Force%20on%20Sustainable%20Public%20Procurement.pdf>

⁹<https://msme.gov.in/public-procurement-policy>

¹⁰<https://www.oecd.org/governance/procurement/toolbox/search/india-best-practices-green-public-procurement-gpp-market-capacity-cost-benefit-assessment.pdf>

¹¹https://www.nipfp.org.in/media/medialibrary/2017/07/WP_2017_204.pdf

- **Quality control** - While specifying product characteristics, many tenders focus on product description instead of functional performance, which gives rise to specification related ambiguities.
- **Lack of a comprehensive regulatory framework** - This encourages mal practices and biased public procurement without adequate quality checks. It also leads to violation of procedural norms. Weak monitoring procedures have emerged as pertinent causes for corrupt practices.
- **Lack of standard bid documents** - The evaluation criteria for the bids remain ambiguous. Multiplicity of bid documents across entities in terms of addition/rephrase/repetition of clauses/provisions makes the procurement process cumbersome.
- **Delay in procurement phases** - The procurement process is often delayed at the stages of need assessment, budget preparation and approval.
- **Lack of awareness on the procedure of public procurement** – MSEs lack understanding of the process of public procurement and hence are unable to participate in the process. This apart, they also possess low levels of management skills¹².
- **Inadequate capacity on labelling and certification** – There are many labels and certifications in India for various sectors spanning across public and private domains. The 'Zero Effect and Zero Defect' (ZED) scheme assess and rates MSMEs on defined enabler and outcome parameters on operational level indicators. This includes process design parameters for environmental management, product design for environment, and outcomes for environmental performance). According to the latest information¹³ available on the ZED scheme, only 266 MSMEs are ZED certified. The low number indicates a very low initial uptake of certification, demonstrating the need for up scaling and building capacities of MSMEs on labelling and certification.

Focus of the Round Table

Since MSEs are one of the crucial growth generators for the Indian economy, the focus of the session is on emphasising the role of sustainable procurement for strengthening MSEs. Addressing the structural bottlenecks associated with MSEs, the session will seek to explore the potential measures that can be undertaken by the public and private sectors to accelerate sustainable procurement, hence facilitating the shift towards sustainable development.

¹²<http://www.dcmsme.gov.in/publications/GIZ/VOL-5.pdf>

¹³QCI (Quality Council of India) (2019), ZED Certified MSMEs, New Delhi: QCI.