



Promoting the participation of Small and Medium Size Enterprises (SMEs) in Green Public Procurement

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The Sustainable Public Procurement Programme of the 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns (10YFP SPP Programme)

The 10YFP Programme on Sustainable Public Procurement (SPP) is a global multi-stakeholder platform that supports the implementation of SPP around the world. The Programme builds synergies between diverse partners to achieve the Sustainable Development Goals (SDG) target on SPP, i.e. to promote public procurement practices that are sustainable, in accordance with national policies and priorities. The United Nations Environment Programme (UN Environment) leads the 10YFP SPP Programme with ICLEI - Local Governments for Sustainability (ICLEI) and the Korea Environmental Industry & Technology Institute (KEITI) and as co-leads.

What is the 10YFP?

The 10-Year Framework of Programmes on Sustainable Consumption and Production Patterns (10YFP) is a concrete and operational outcome of Rio+20. It is a global framework that enhances international cooperation to accelerate the shift towards sustainable consumption and production (SCP) in both developed and developing countries. It provides capacity building and technical and financial assistance to developing countries, and encourages innovation and cooperation among all countries and stakeholders. UN Environment serves as the Secretariat of the 10YFP and administers the Trust Fund. The 10YFP SPP Programme is one of the [six initial programmes of the 10YFP](#).

Background

The SPP Programme of the 10YFP was launched on 1st April 2014. It brings together a number of governments, local authorities, business sector and civil society from around the world that are interested in collectively promoting the supply and demand of sustainable products through SPP. It builds upon the previous work of the Marrakech Process Task Force on SPP (2005-2011) and the Sustainable Public Procurement Initiative (SPPI) (2012-2013). The SPP Programme's specific objectives are to:

- 1) Build the case for SPP by improving the knowledge on SPP and its effectiveness as a tool to promote sustainable consumption and production, to support greener economies and sustainable development.
- 2) Support the implementation of SPP on the ground through increased collaboration and better access to capacity building tools and support through SPP experts.

10YFP SPP Governance Structure

The Coordination Desk is in charge of supporting the overall coordination, implementation, monitoring and fundraising of activities of the programme. It consists of UN Environment, ICLEI and KEITI. The Multi-stakeholder Advisory Committee (MAC) is composed of [22 members](#) and oversees the implementation of the 10YFP SPP Programme.

SPP Programme Work Areas

The SPP Programme's work plan and the activities of the working groups revolve around four main pillars:

- 1) Implementing SPP on the ground
- 2) Assessing implementation & impacts of SPP
- 3) Identifying obstacles & promoting innovative solutions
- 4) Collaborating with the private sector

Core Activities

The 10YFP SPP Programme engages in various communication and outreach activities:

- 1) The [Global Sustainable Consumption and Production Clearinghouse](http://www.scpclearinghouse.org)¹ is the online platform dedicated to advancing SCP worldwide through information, knowledge-sharing and cooperation. It serves as a one-stop hub on SCP as well as the knowledge-sharing and cooperation platform of the 10YFP.
- 2) The 10YFP SPP Programme is engaged in an ambitious research project to track the development of SPP worldwide. The results of this effort is presented in the "Global Review of Sustainable Public Procurement 2016" report, three years after [the first edition of the Global Review](#) was published in 2013. The report examines the state of sustainable public procurement policies and practices undertaken by national governments and other public sector organisations and stakeholders involved in SPP.
- 3) The 10YFP SPP Programme organizes a series of information webinars in order to present the work of working groups, upcoming events, disseminate new tools for practitioners and showcase successful initiatives in partner countries. The webinars are then made available on the [SCP Clearinghouse YouTube channel](#).
- 4) The SPP Programme regularly publishes a newsletter to keep partners and SPP stakeholders updated about its activities.

Trust Fund Projects

The 10YFP Trust Fund is used to support projects to shift towards SCP patterns in developing countries and economies in transition. The first call for proposals was launched in December 2014, offering a sum of 500 000 USD for SPP activities. It resulted in the selection of the following three projects:

- In South Africa: "Mainstreaming Sustainable Public Procurement through the introduction of Product Service Systems in the Western Cape", with the Western Cape Government together with the International Institute for Sustainable Development as executing agencies;

¹ <http://www.scpclearinghouse.org>

- In Uruguay: “Towards a Sustainable Public Procurement System in Uruguay (TSPPU1)” with UNOPS as the executing agency;
- In the Philippines: “Establishment and Implementation of GPP in Quezon City for the Promotion of SCP in the Philippines”, with Quezon City and the Environmental Protection and Waste Management Department (EPWMD) of Quezon City as executing agencies.

For more information on the 10YFP SPP Programme, please visit <http://web.unep.org/10yfp/programmes/sustainable-public-procurement>

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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
UNEP	United Nations Environmental Programme
UNIDO	United Nation Industrial Development Organization
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 more².

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). In order to narrow the scope of this Working Group, emphasis was 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).

²See <https://sustainabledevelopment.un.org/?menu=1300>

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

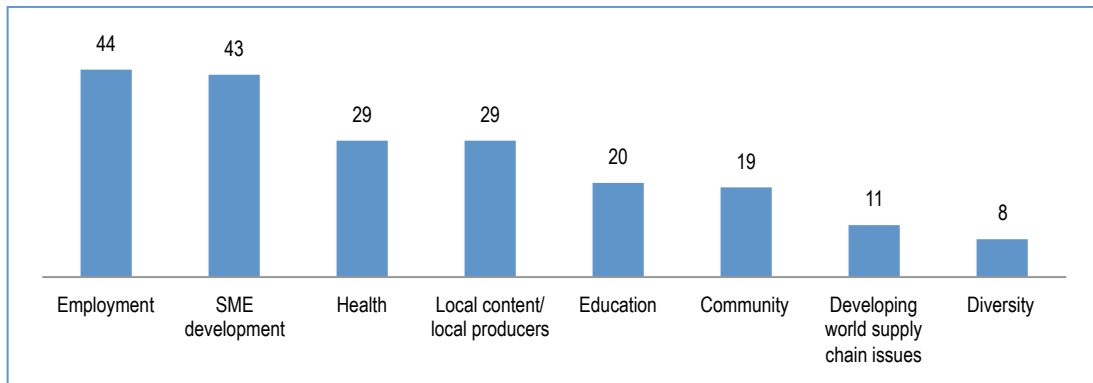


Figure 1: Social aspects cited by national governments as priority (UNEP, 2013)

Large companies in general have more experience in responding to GPP initiatives, due to their greater capacity for environmental management and GPP bidding (Acosta Bogan & 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 report is not to make an inventory of those, but to point to 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 products³), thus merging social aspects of SPP (SME development) and GPP.

³ In this report, “products” includes both goods and services.

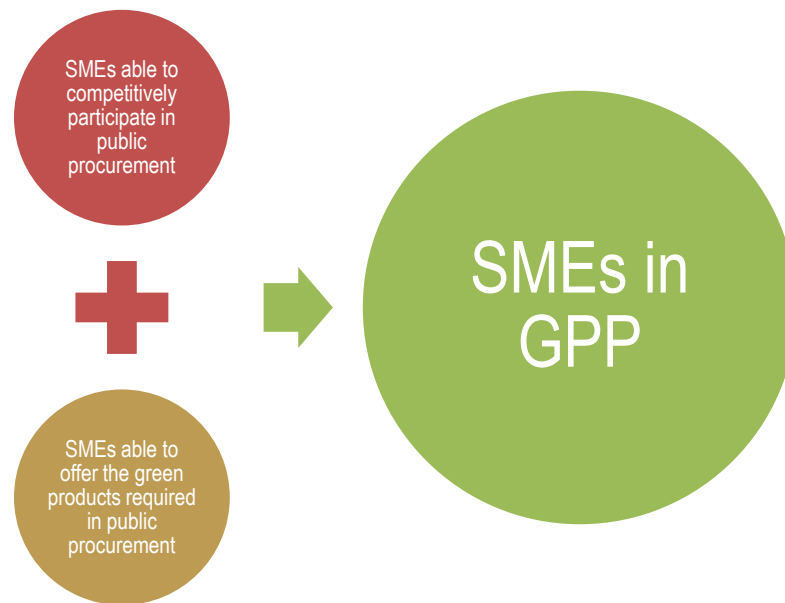


Figure 2: Coordination of outputs to promote SMEs in GPP

Hence, this final report includes information on the barriers that SMEs face to take part in green public procurement, as well as recommendations on addressing the barriers to SMEs' integration in GPP to meet environmental benefits while improving SMEs environmental performance.

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 if necessary to the context micro enterprises will be mentioned.

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 companies⁴ 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 for generating employment; to cite a few examples, SMEs account for 97 percent of all APEC⁵ 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

⁴ In terms of turnover and job creation

⁵ The 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 business⁶, electricity (access and quality, 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 SMEs⁷ (Kushnir, Mirmulstein, & Ramalho, IFC Web site, 2010).

Emerging markets⁸ 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 enterprises⁹ (Kushnir, Mirmulstein, & Ramalho, Counting MSMEs Across the World, 2010).

⁶ 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.

⁷ This number is reflective of micro enterprises, as India uses the classification MSME (Micro, Small and Medium Enterprise).

⁸ An economy with low to middle per capita income.

⁹ 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)¹⁰, 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)¹¹.

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 performance¹² is to comply with stringent standards set by clients in developed countries: "Environmental compliance is increasingly being stressed upon, especially 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.

¹⁰In 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.

¹¹ Which by no means excludes that large manufactures in those sectors may as well be classified as highly polluting industries.

¹² 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 is 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 it 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 laws¹³ (as much as permitted by their procurement law), while acknowledging that the business sector may need support to just comply to those standards¹⁴, 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. On this aspect, the lack of electronic portal specifically dedicated to public procurement means that suppliers may not have access to procurement opportunities and associated information. Disparities in information (information asymmetries) between the parties in a procurement process can give some parties an unfair advantage (World Bank, 2016).
- Disproportionate qualification levels and financial requirements. For instance, most economies have bid security and performance guarantee requirements, but they do not always regulate

¹³ For instance, not to procure cleaning products which are not even registered at the Health Authorities, or corresponding oversight Authority.

¹⁴ 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)

them, which may cause financial uncertainty and can be a burden for suppliers interested in bidding for a public tender (World Bank, 2016).

- Delayed payments; more than six months wait to receive payment from purchasing entities in some countries (World Bank, 2016).
- 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.

Because of the key role they play in the economies, Governments have implemented¹⁵ various measures to facilitate the access of SMEs to the important market that public procurement represents, each with a potential level of market distortion:

¹⁵ See annex 5 of OAS (2015) for specific examples of relevant regulations in Latin America.

Table 1: Illustrative policy options to facilitate the participation of SMEs in public procurement

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
Objectives / Potential impacts	<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>

Adapted from Asian Development Bank, 2012.

On a survey carried out by this Working Group (see annex 1), the most common measures are assistance to SMEs to access to public procurement (either through training or technical assistance), preferential treatment to SMEs (on the evaluation system or margin on the price to bid) and elimination on the barriers to participate.

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

minimum of 20 per cent¹⁶. 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 services¹⁷. When purchasing from SMEs is not mandatory, an interesting approach is incentives to Authorities to do so, as it is the case of the Majors 'Award in Brazil, which recognizes efforts made by municipalities to promote SMEs through public procurement as one of its categories¹⁸. 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 countries¹⁹.

SMEs are a major player in public procurement in 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).

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 automatic data processing, in that order of importance; while the most bought in the services category

¹⁶ <http://www.fisme.org.in/FinalPressorder.pdf>

¹⁷ <http://portal.compraspublicas.gob.ec/sercop/catalogos-dinamicos-inclusivos-2/>

¹⁸ Premio Prefeito Empreendedor, <http://www.prefeitoempreendedor.sebrae.com.br/index.php>

¹⁹ https://www.wto.org/english/docs_e/legal_e/rev-gpr-94_01_e.pdf

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&IResultado=2&strSim=simp)

were special construction, metal products, machinery and equipment maintenance and repair and building construction²⁰.

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).

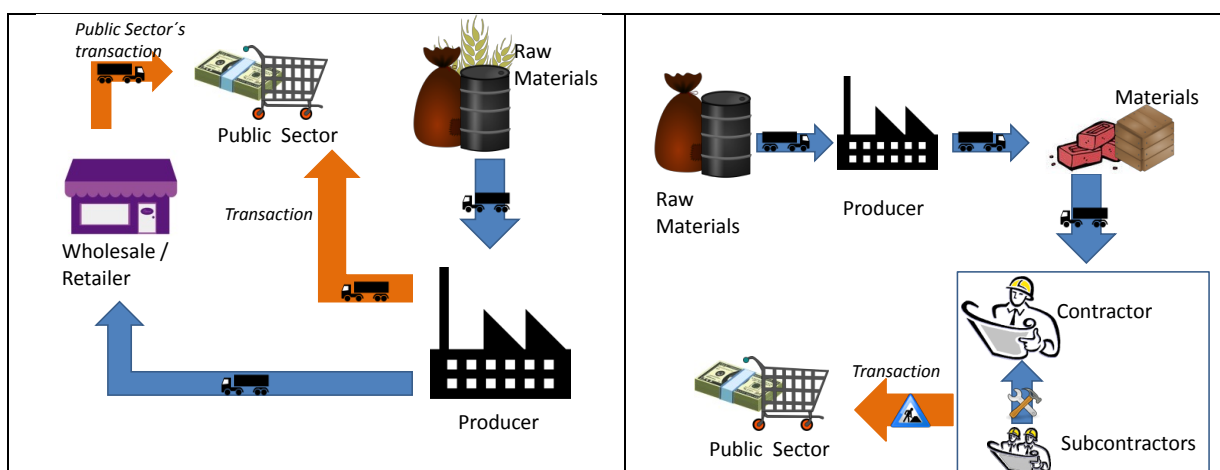


Figure 3: Public Sector's supply chain

²⁰ http://comprasgovernamentais.gov.br/arquivos/estatisticas/02-apresentacao-siasg-mpe-_2014.pdf

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.

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:

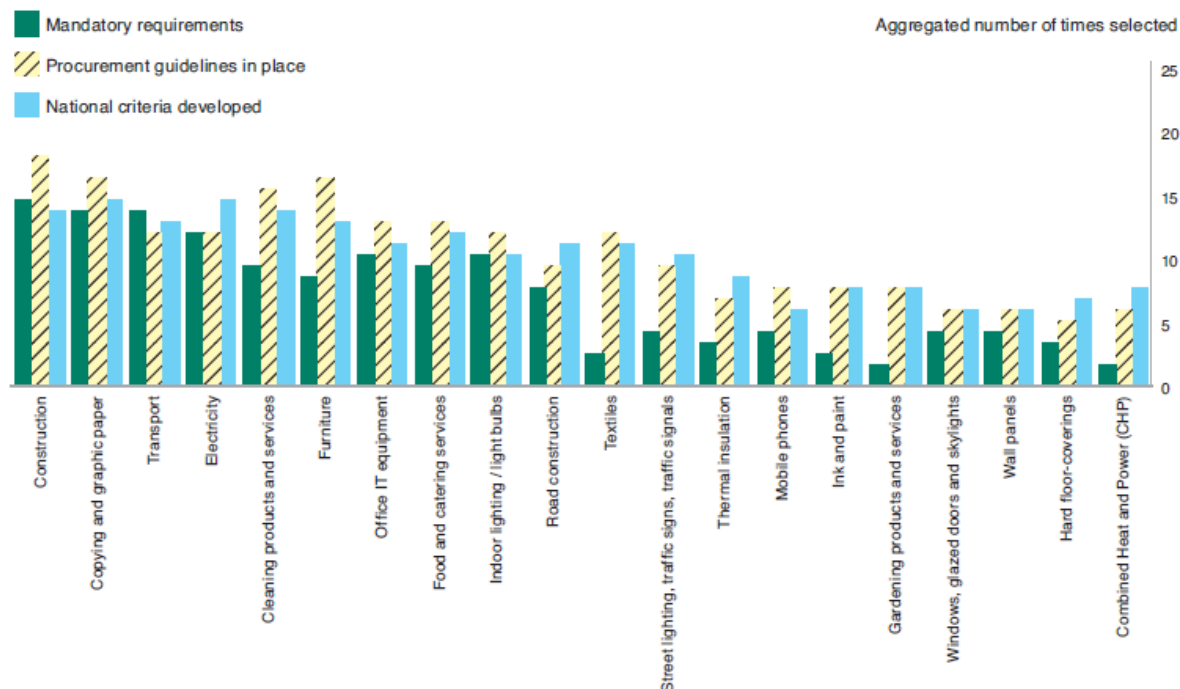


Figure 4: Product category guidelines with mandatory requirements, procurement requirements in place or national criteria developed (UNEP, 2013)

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.

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 GPP²¹, SMEs need support to take part of this market: the European Union has been on the upfront of GPP²², 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 GPP creating unfair competitive advantage for few (often large, international) firms able to comply with GPP standards (Roos, 2013). Besides the difficulties SMEs face on public procurement in general, other barriers that SMEs face on GPP, particularly in developing countries, include²³:

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 used²⁴ (Roos, 2013).

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

²¹ Lack of capacity has been identified as the most relevant common barrier to implementing SPP in developing countries (Roos, 2013).

²² Since 2003 Member States were called to create National Action Plans (NAPs)

²³ Based on CEGESTI's experience in Central America as well as other cited sources.

²⁴ Based on Ghana, Kenya and Bangladesh; as well as on experience of CEGESTI in Central America.

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 regulations²⁵, 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).



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).

²⁵ Particular challenge for LIC countries, where also procurement legislation is also relatively new and capacities and law enforcement weak (Roos, 2013)

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 specifications²⁶ (yet, there is the "ecolabel dilemma" mentioned before, see B.6)

Of those barriers, it is considered (see annex 1) that the main ones are lack of capacity building programmes to support SMEs adapt their production processes and/or products, the SMEs reluctance to face the costs (particularly when the buyers' preference is lower cost) and the high costs involved for SMEs (certifications or other verification methods, re-designing their products, etc.).

All 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 this could vary from country to country and from product to product (even in the same country), and it should be considered in when defining the GPP plan.

4. POLICY INSTRUMENTS FOR THE INCLUSION OF SMES IN GPP

As stated on the previous section, the top main barriers that SMEs face in GPP are:

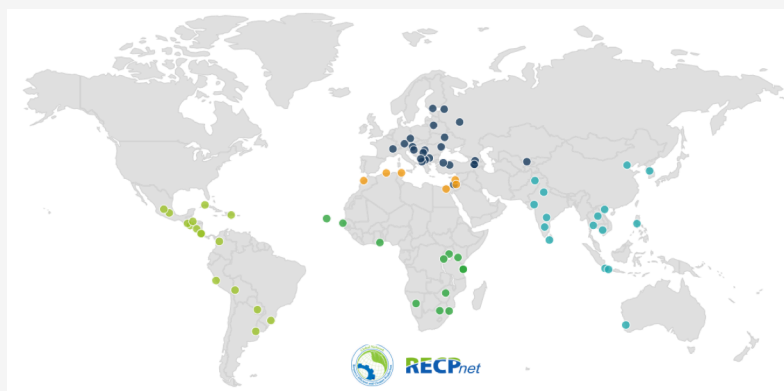
- The lack of capacity building programmes to help them adapt their production process and/or products.
- High costs involved for SMEs (certifications, or other alternative verification methods, re-designing their products, etc).
- SMEs reluctance to face the costs, particularly when the buyers' preference is lower cost.

²⁶ For 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)

Many countries have programmes and service suppliers to support SMEs improve their environmental performance and upgrade their technology (see Box 2, as an example), which if well directed could help them be better equipped to compete in GPP. For instance, a country may prioritize cleaning products in their GPP programme, but that does not necessarily mean that the environmental programmes available are targeting SMEs that manufacture those products, nor that the output of the programmes will be products that comply with any particular criterion.

Box 2. The Network for Resource Efficient and Cleaner Production (RECPnet)

The RECPnet brings together over 70 providers of RECP services from around the world. By implementing RECP services, industries can reduce the material, energy and pollution intensity per unit of industrial output; thereby reducing the global ecological footprint while simultaneously improving productivity and competitiveness. At present, the Secretariat function is fulfilled by UNIDO and UNEP.



More information on their projects on <http://www.recpnet.org/recp-in-action/>

Also, the uptake of green finance around the world is important²⁷. However, for reasons out of the scope of this report, despite positive developments in green funding for SMEs, access to finance has remained a very important challenge for doing business. Green finance by itself could support the improvement of the environmental performance of SMEs, but again not necessarily be enough to promote SMEs in GPP, if the banking sector is not aware of the type of investments needed in order to offer a green bid and if the Government doesn't provide some certainty in demand of green products.

²⁷ For instance, on the webpage <http://www.switch-asia.eu/countries/> there a list of institution that provide green finance to SMEs in the Asian countries that are part of the Switch project.

In some countries, SMEs are receiving training on what is SPP and how they can present a sustainable bid (see example in Box 3). This is certainly a helpful measure for SMEs that already comply with the green/sustainable criteria required (or that have the technical and financial resources to adapt their offers to comply).

In other countries the public procurement of innovation is also supporting SMEs bridge the pre-commercialization gap by procuring and testing late stage innovative goods and services, even if not necessarily aimed exclusively at SMEs, as it is the case in Canada. In this country, *Environment* was defined as a priority area for innovation (any good, service, equipment or software that has been developed either to compete in the environment industry or to compete in another industry while offering clearly demonstrable environmental benefits over existing goods and services can fit in this category). The programme (called Build in Canada Innovation Program, BCIP) is managed by Public Works and Government Services Canada, and implemented by the Office of Small and Medium Enterprises (but open to all Canadian suppliers, not only SMEs)²⁸. Programmes like this one are also implemented in Europe (see for instance <https://www.innovation-procurement.org>) and other parts of the world, and are a great tool for SMEs that have developed innovative products but that struggle to find buyers due to the higher risks associated with untested products.

The following two cases illustrate the promotion of SMEs in GPP (see annex 2 for other examples of references to SMEs in GPP).

Box 3. Supplier Development Programme (SDP) in Scotland



The Supplier Development Programme

offers expert training, support and information to help SMES win work with the public sector and grow their business. The training events are tailored to:

- Level 1: For companies and social enterprises that have had little or no experience of tendering and would like to become 'tender ready'.
- Level 2: For companies and social enterprises that have some experience of tendering with varying success but would like to become more proficient.
- Level 3: For companies and social enterprises with plenty of experience and success of tendering. This level explores potential new markets (including overseas) and capacity building.

On the level 2, a workshop called "Winning contracts with a sustainable bid" is offered, and it covers environmental issues and community benefits, a key part of many public contracts.

More information on <https://www.sdpScotland.co.uk/>

²⁸ More information on <https://buyandsell.gc.ca/initiatives-and-programs/build-in-canada-innovation-program-bcip>

4.1. BRASIL: FINANCIAL INSTRUMENTS FOR SMES IN GPP

SME's financial support for ecolabelling and certification	
Country: Brazil	Year of implementation: Ongoing
Income classification: Upper middle income	Involved organizations: SEBRAE, ABNT, BNDES

Context

The country has around 8.5 million small businesses, representing 99% of total Brazilian business and generating 52% of employment (SEBRAE, 2016). To be classified as a Micro or Small business, the business' annual gross revenue should not exceed R\$ 360 000 for Micro business and R\$ 3 600 000²⁹ for Small ones. The number of employees is also taken into account:

Classification	Industry and Construction	Trades and Services
Micro Business	Up to 19 employees	Up to 9 employees
Small Business	From 20 to 99 employees	From 10 to 49 employees
Medium Business	From 100 to 499 employees	From 50 to 99 employees
Large Business	More than 500 employees	More than 100 employees

In the 2009-2011 period (SEBRAE, 2014), the SMEs in the Services Sector generated 36.3% of the total value added of the sector and represented 98.1% of the number of companies in that sector; the SMEs in the Retail Sector generated 53.4% of the total value added of the sector and represented 99.2% of the number of companies in that sector; and the SMEs in the Industrial Sector generated 22.5% of value added in the sector and represented 95.5% of the number of companies.

²⁹ As of November 7th 2016, the exchange rate was 1 USD = 3.2061 R\$ (<https://www.bloomberg.com/quote/USDBRL:CUR>)

The country has different laws regarding sustainable public procurement. The Law No. 123/2006, grants preferential treatment for micro-enterprises and small enterprises in many circumstances, including public bidding procedures; therefore, in the case of a tie between the proposals of a micro-enterprise or a small enterprise and of an ordinary company, the Public Administration must grant priority rights to the former over the latter. In 2014, Law No. 123/2006 was amended by Law No. 147/2014, introducing two important benefits to micro and small enterprises: public procurements up to R\$80,000 must be carried out by means of bidding procedures exclusive for them; secondly, the Public Administration may require bidders to subcontract them for the provision of certain services or the supply of certain products. Also, it has several legal instruments for the inclusion of environmental criteria, including the use of environmental labels / certifications (UNEP, 2015).

The strategy relating suppliers

One major barrier that SMEs face when it comes to obtaining certifications or ecolabels is costs, so this case illustrates two strategies that Brazil is implementing regarding this obstacle.

Ecolabelling

The ABNT ecolabelling³⁰ program has a voluntary certification methodology, which allows products (and services) to carry environmental performance labeling. Unlike a statement made by the manufacturer, this seal is awarded by a third party (in this case, ABNT), who impartially evaluates the product against previously established criteria. The environmental criteria consider the product's life cycle and it includes the participation of specialists from the scientific community, environmental non-governmental organizations, consumer protection organizations and the productive sector. The label is available for office furniture, steel, rubber products, personal hygiene products, perfumery and cosmetics, paper and cellulose, electronics, white goods, plastic products, chemicals, textiles, among others³¹.

³⁰ Type 1 according to ISO 14024, see <http://www.iso.org/iso/environmental-labelling.pdf>

³¹ More information on <http://www.abntonline.com.br/sustentabilidade/Rotulo/criterios>

The Brazilian Development Bank (BNDES) offers a credit card to SMEs (through several commercial banks), with up to 48 months to pay and preferential interest rate³², which can be used to pay for raw materials and other goods, as well as for services, such as metrology, standardization and conformity assessment services (calibration, laboratory tests, certifications), such as ISO certification, provided by entities accredited by the national accreditation body.

Certifications

SEBRAE is the Brazilian Micro and Small Business Support Service, an organization that has implemented several programmes to foster entrepreneurship and provide guidance to help small businesses to grow and generate more employment. Through their programme “Sebraetec” they offer SMEs innovation and technological services that allow companies to access knowledge and to innovate, in order to improve existing processes and products. SEBRAE subsidizes 50% of the value of the service approved for the SMEs (which is responsible to pay the rest), or 60% in the case of Individual Microentrepreneur or Rural Producers (being the applicant responsible for the amount of 40% of the total service). The SMEs counterpart can be paid using the BNDES card described before. The services that can be accessed through Sebraetec include product design, ISO certification, OHSAS certifications, and certification of organic products, among other services³³.

Results

Even though these results are not directly linked to the two programmes mentioned before³⁴, it's worth mentioning that in 2014, SMEs accounted for 66.8% of the reported sustainable purchases in Brazil, which totaled R\$ 26 million. Out of 3,563 suppliers that were registered for sustainable purchases, 89% were SMEs (Ministerio de Planejamento, 2014).

Lessons learned / takeaways

The use of ecolabels and certifications is an issue that has raised several concerns among public authorities in Brazil, particularly regarding the different types of seals and certification, and the proper

³² More information on <https://www.cartaobndes.gov.br/cartaobndes/PaginasCartao/Noticia.asp?Acao=CV&cod=1&Exibe=S>

³³ More information on <http://sites.pr.sebrae.com.br/sebraetec/>

³⁴ As such national results are not available.

way to include them in the procurement documents so that the constitutional principle of isonomy is respected (see UNEP, 2015). However, the practice of asking for environmental compliance certificate as a condition for contracts is becoming a common practice, which is supported by the Normative Instruction No. 01/2010 of the Ministry of Planning, Budget and Management³⁵.

Considering the importance of SMEs to the economy, and the known fact that they lack the capital for investments, it's necessary to provide them with access to credit (or subsidies) to be able to comply with this type of requirements. Important to consider (for further investigation), the impact on medium enterprises, as the programmes mentioned before are aimed at micro and small companies, creating a gap for medium enterprises that as well may lack the resources to comply with sustainability criteria.

4.2 BASQUE COUNTRY: COORDINATION WITH THE MARKET

GPP and coordination with the market	
Country: Spain Region: Basque Country Income classification: High income 	Year of implementation: 2016 Involved organizations: Departments of Treasury and Finance, Environment and Regional Policy, Employment and Social Policy, Security, Education, Linguistic Policy and Culture and Health, all from the General Administration of the Basque Country, as well as representatives of State-owned enterprises: Eusko Trenbideak, VISESA, EITB and OSAKIDETZA, all coordinated by the Public Environmental Management Company Ihobe.

³⁵ See <http://www.comprasnet.gov.br/legislacao/legislacaoDetalhe.asp?ctdCod=295>

Context

The Basque Country is located in the north of Spain. It is made up of three provinces: Araba, Gipuzkoa and Bizkaia, bringing together 251 municipalities. It has an area of 7,230km² and 2,173,210 inhabitants (2014). Of the 148,089 companies in the Basque Country, 148,865 are SMEs (0-249 employees), representing 99.85% of all companies in this autonomous community. 54.70% of Basque companies are in the services sector (hospitality and business services), 23.02% in trade, 14.29% in construction and the 7.99% remaining in the industry sector³⁶.

The 2020 Green Public Procurement Programme of the Basque Country establishes the framework for action to mobilize the Basque Administration as a whole to include the environmental variable in its purchasing and contracting. This Programme is a continuation of initiatives that started in the year 2005, which have resulted in important achievements and milestones, such as:

- The Governing Council Agreement of 2008 on incorporating social, environmental and other public policy criteria in the procurement of the Administration of the Autonomous Community and its public sector.
- The first Green Public Procurement Programme 2011-2014.
- The development of different tools and resources for the Basque Administrations.
- Continuous support for the greening of procurements to the local administration, to Provincial Councils and the Basque Government.
- The achievement, as an end result, of a current global green procurement in the Basque Government of around 30%.

The 2020 Programme has five strategic lines:

1. Content and tools for implementation: The aim is to provide the administration with basic resources needed to, safely, introducing the environmental variable in their procurement processes.

³⁶ Data taken from EUSTAT, Instituto Vasco de Estadística (www.eustat.eus)

2. Integration in procurement procedures: It seeks to identify and establish mechanisms for effective and standardized integration of the environmental variable in procurement, by analyzing procedures and existing procurement tools.
3. Education, training and awareness: It aims to train officials responsible of the Basque Administration, at all levels, on the benefits and how to make an environmentally responsible procurement.
4. Coordination with the market: It seeks to mobilize the Basque private sector and involve them actively in the procurement process (more details below).
5. Communication, dissemination and networking: It aims to maximize the synergies and position the Basque administrations as benchmarks both internally and externally.

The strategy relating suppliers

The “Coordination with the market” strategic line seeks to mobilize the Basque private sector to make them participate in an active way in this programme and therefore aware in the most anticipated possible way on how to respond to the needs of the public sector. Thus the Basque enterprises are and will still be involved in the process of defining GPP technical criteria and, on the other hand, will take part in dialogue processes with the Administration to better understand their needs and demands. The actions of this strategic line aim to train the industry, in a general and transparent way, without compromising on procurement compliance regulations (equal treatment, non-discrimination, among other principles).

All actions put in place will be coordinated with the actions under the Green Manufacturing Programme or other programs aimed at the Basque industry. The actions in this line are:

- Involve manufacturers and suppliers in the process of elaboration of green procurement technical criteria (for prioritized products) through discussion forums.
- Organize meetings between suppliers and buyers to establish dialogue, exchange and debate.
- Train and educate the industry in innovation procurement processes so that companies can take advantage of those opportunities.

- Develop general training for suppliers on the inclusion of the environmental variable in their offers.

Results

This programme was launched at the time of this report. However, In terms of process, the overall objective is to move towards the institutionalization of environmentally responsible purchasing. In terms of results, in line with the guidelines of the European Union, the aim is to achieve a degree of greening in procurement of 50% by 2020, focused on 20 groups of products and services prioritized by their importance:

<p>By 2018, 50% of procurement of these products and services include green criteria:</p> <ul style="list-style-type: none"> - paper - computers - printing equipment - cleaning - vehicles - publications - food - gardening - street cleaning - civil works and infrastructure 	<p>By 2020, 50% of procurement of these products and services include green criteria, the 10 mentioned as goals for 2018 plus:</p> <ul style="list-style-type: none"> - building - urbanization - waste collection - power supply - public transport - messenger service - office furniture - textiles - travels - events
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Monitoring of SMEs in GPP is not included (as SMEs is not the focus of this programme); however, it's expected that many of the participating companies will be SMEs.

Lessons learned / takeaways

The 2020 programme was approved on September, 2016. It was based on the following proposals based on the previous efforts:

- Expand the scope of the program to the entire Basque Public Administration, to mobilize all agents and fasten green public procurement.
- Set targets both on process and on results.
- Set the existing Purchase and Green Public Procurement Manual as technical reference, simplifying it to focus efforts and to send a clear message to the market.
- Provide spaces for exchange, joint work and recognition of good practices.
- Ensure training activities, advice and coordination with the market.
- Include high-efficiency multiplier actions (eg.: centralized purchasing) and pilot actions in novel areas such as circular procurement, life cycle costing or procurement of eco-innovation.
- Optimize the monitoring system to make it more efficient through integration into existing platforms and tools.

5. INCLUSION OF SMES IN GPP: RECOMMENDATIONS

5.1 ON THE PRIORIZATION OF PRODUCTS

As it is recommended in UNEP's methodology for implementing SPP (UNEP, 2012), a prioritization exercise should be completed in order to decide which products and services should be part of an eventual SPP (or GPP) policy and action plan. Even though some products delivered by big companies may be prioritized, due to their impact, in order to include SMEs in GPP, the prioritization should be thorough to take into account products that could realistically be manufactured by SMEs, considering as well their environmental, socio-economic and reputational risk against procurement expenditure.

This prioritization exercise will be completed once the Market Readiness Analysis is done. The objectives of the Market Readiness Analysis, as stated in the UNEP's methodology, are to:

- Assess the existing productive capacities for sustainable products and services in the country;
- Analyse the potential responsiveness of the market and the national business sector to SPP tenders;
- Determine the capacity to meet current and future public procurement requirements for sustainable products and services;
- Identify the relevant certification or verification instruments and tools, as well as gaps; and
- Assist in planning activities for the progressive introduction of SPP.

As part of the Market Readiness Analysis (based on UNEP, 2012), in the case of the promotion of SMEs in GPP, for each particular product of interest where they could take part, it is important to know:

- ✓ **Are there policies in place to promote the participation of SMEs in public procurement?
How are the barriers to SMEs in public procurement been addressed?**

If SMEs face difficulties taking part in public procurement in general, adding green criteria to the procurement process will only add more difficulties to them, so a SMEs-friendly public procurement environment is an essential condition to promote SMEs in GPP.

- ✓ **What are the types of SMEs on that market? (commercial ventures, microenterprises, SMEs, Dynamic³⁷ SMEs)**

The type of SMEs on a particular market will be helpful to decide the type of support needed, according to the possibilities of each country, from set asides, to access to finance, capacity building or awareness risen. It may also be important to know the level of informality, as it may be an interest of the Government to support them to become legal.

- ✓ **What is the maturity level of those SMEs regarding their capacity to offer a green bid?**

Some companies may not even comply with environmental law, some may do, but may offer regular products, some may offer green products (certified or not), some may offer products of low environmental impact already.

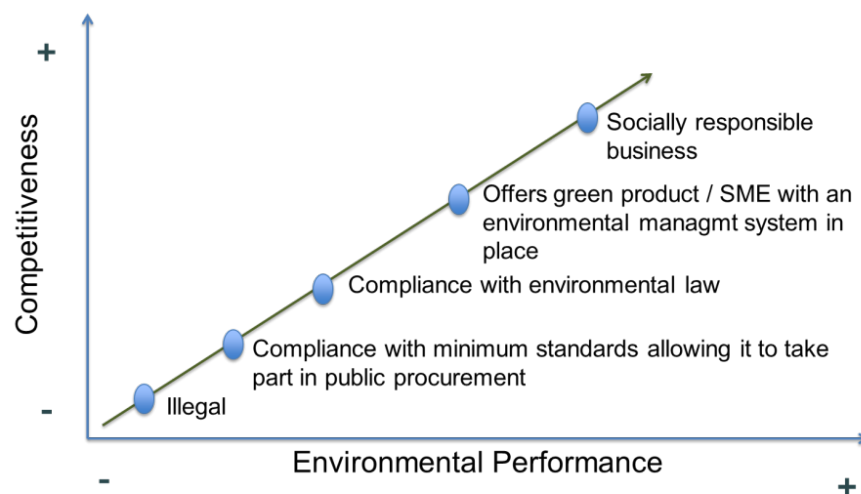


Figure 5: Competitiveness with respect to environmental performance in GPP

³⁷ In terms of turnover and job creation.

The country also has to take into consideration the level of enforcement on their environmental regulations, as it is a known fact that it is weak in many countries, so even capacity building to comply with basic environmental regulations may be needed.

- ✓ **What is the participation of the local production vs importation? Are those SMEs manufacturers of the products they offer? Or are they in the retail trade sector?**

The SMEs that manufacture the products locally face different obstacles than those are in the retail trade sector. The country has to have clear expectations on what is the desired impact of the GPP policies.

- ✓ **What are relevant certification or verification instruments available in the country? What are the costs involved for companies to comply?**

This information should be taken into account when deciding if certification / labels will be used and how (either as part of the evaluation of offers, or as a requirement for signing countries, for instance) and the impact that could have on the competitiveness of a SME.

- ✓ **Are there financial instruments/subsidies available to SMEs to make necessary investments?**

Green finance may be available in the country, but it should be available not only for equipment or machinery (that of course is also needed), but for certifications, testing, and other costs that SMEs may have to incurred.

- ✓ **What is the costs differential of green products? Is life cycle costing or total cost of ownership used in public procurement?**

If the decisions are solely based on lowest price, it has to be discussed how will green criteria be include in the procurement process to incentivize the participation of SMEs.

- ✓ **Are there national programmes (or other instruments) to promote environmental improvements on those sectors, either through training or technical assistance?**

The capacity building programmes have to be aligned with the needs that the SMEs aimed on the GPP programme have, either on re-designing their products, implementing environmental management systems, obtaining certifications, among others.

- ✓ **What is the share of public procurement in the sales of SMEs? Are there national programmes or other instruments to promote sustainable consumption by individuals or the private sector?**

If public procurement doesn't represent a significant share for SMEs, and the Government cannot increase that share, or promote others consumers to prefer green products, there will be little incentive for SMEs to incur in costs to modify their offer.

- ✓ **Are there innovation programmes / instruments that could foster environmental innovations? Can they be linked to public procurement?**

The procurement of innovation is a policy implemented in many countries³⁸, which could be linked to GPP and SMEs.

Once this information is obtained, the country can validate if the conditions are adequate for the products it has defined as priorities, as well as define strategies to progressively introduce green criteria into their procurement.

³⁸ See for instance <http://www.oecd.org/governance/ethics/public-procurement-innovation-practices-strategies.htm>

5.2 ON THE DEFINITION OF STRATEGIES TO INCLUDE SMES IN GPP

SMEs not only need to be able to participate in public procurement, they also need to be able to offer a green bid to take part in GPP, and in order to do that, they need access to finance and capacity building programmes that are both coordinated with GPP policies. Therefore, it is important to define strategies that take into consideration the coordination of the actors that influence the participation of SMEs in GPP.

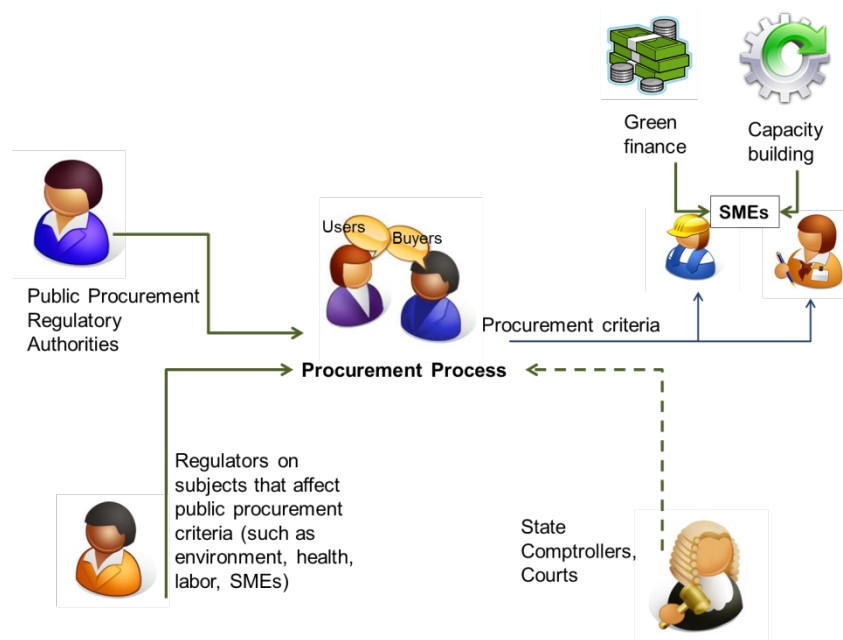


Figure 6: Actors that influence the participation of SMEs in GPP

Based on the barriers mentioned before, and on the basis of a public procurement system that facilitates the participation of SMEs, the following are recommendations to consider when defining strategies to promote SMEs in GPP.

- One size doesn't fit all. Acknowledge the heterogeneity of SMEs (from micro to quite dynamic SMES able to exploit market opportunities). In the case of dynamic SMEs, it may only be

necessary to include environmental awareness into the regular training on how to take part in public procurements, for instance.

- Coordinate with the SME's capacity building institutions the possibility to offer training and/or technical assistance to improve environmental performance of products/processes aimed at the particular products prioritized for GPP.
- Coordinate with the finance sector the inclusion of investments to modify products, certifications, or others, in their white list of green investments for SMEs. Also, coordinate with the capacity building institutions that training is provided on how to "make the case" to access to this kind of financing.
- Define ways to include green criteria into the process that represent an incentive for SMEs to modify their offer, either because it is a requirement to participate, it awards points on the evaluation of bids or it is a requirement to sign a contract.
- If set asides are permitted under the country's procurement legislation, consider defining set asides for products of low environmental impact that SMEs could offer, defining quality and environmental criteria within the reach of the type of SMEs aimed (for instance, micro enterprises).
- Define clear instructions to buyers on the use of ecolabels, to reduce the impact of the "ecolabel dilemma" in the country (as well as on the use of certifications).
- Make sure SMEs take part into the definition of green criteria and define clear instructions to buyers on how to gradually include the criteria, to allow time for SMEs to prepare. It is important that SMEs are informed on what that green criteria are and when it will come into effect.
- As each user may have different functional and performance needs to fulfill, it's not always possible to define criteria that are bounding. However, it is important to provide guidance to avoid a multitude of different green criteria for the same product. On this regards, the selection of products that are bought through centralized framework agreements represent a benefit.
- Coordinate with the Consumer Awareness offices, or the adequate institutions, the promotion of sustainable consumption and (if possible) messages aimed at the products that were prioritized on GPP, so as to give another incentive to SMEs.

- When defining the monitoring system for GPP, define metrics to measure the participation of SMEs in GPP.

After these considerations a range of strategies may be defined to cover the SMEs of interest. 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.

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%	40%
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				10%
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 7: Hypothetical SMEs' stratification

Knowing the situation of SMEs a range of programmes could be set up to cater to the particular needs, according to the type of SMEs and the maturity of their environmental management.

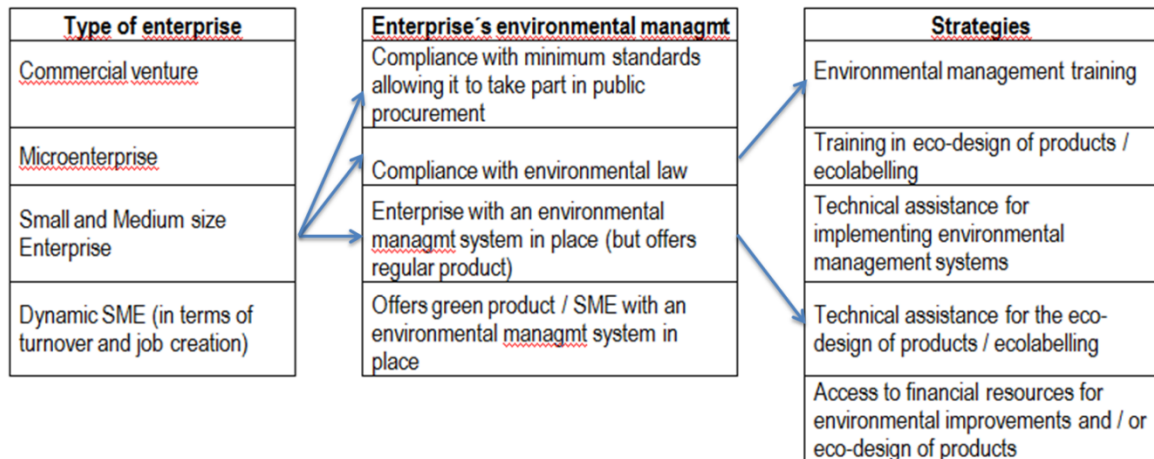


Figure 8: Examples of strategies according the type of enterprise and environmental management

CONCLUSIONS

- SMEs are major players in the countries, because of their socio-economic impact as well as the environmental impact of their activities.
- 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 have to be able to offer green products.
- There are many GPP programmes around the world, as well as many policies to promote SMEs in public procurement and environmental programmes to improve their performance, but the three types of policies are not necessarily coordinated in a way to facilitate the participation of SMEs in GPP.
- It is widely considered that because a country has policies to promote SMEs in public procurement that it means that they as well promote their participation in GPP, not considering that green criteria in itself represents a barrier to them.
- It is also considered that because a country may have programmes to improve the environmental performance of SMEs that this facilitates their participation on GPP. However, besides environmental performance GPP entitles certifications, labels, technical characteristics of products, and other requirements that those programmes may not address.
- 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.
- Green criteria in public procurement have to be implemented progressively and according to a realist and thorough market assessment that evaluates the types of SMEs and the conditions the country could offer to support them in order to facilitate their participation.
- The main barriers identified, lack of capacity building programmes and costs, point out to the lack of coordination of existing institutions that should cater to the needs of the development of SMEs, with the procurement authorities that prioritize the products included in the GPP plans.
- Some countries have indicators of the participation of SMEs in public procurement. However, most of them don’t have indicators of GPP and may be in the process of defining how to measure it. It is important to consider in the design of the GPP monitoring the participation of SMEs as well.

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ANNEXES

ANNEX 1. RESULTS OF “SMES IN GPP” QUESTIONNAIRE

This annex is a summary of the results of a questionnaire that was sent out to all the 10 YFP SPP partners (99 partners reported as of August, 2016). The complete analysis of the results corresponds to the report 2 of this Working Group. A total of 39 participants filled out the questionnaire, coming from 25 countries: Austria, Lebanon, Hong Kong, France, Australia, Chile, Costa Rica, Ecuador, Argentina, Spain, Japan, Honduras, Sweden, Singapore, Haiti, Brazil, Sierra Leona, Canada, Switzerland, United States, Mexico, El Salvador, Germany, India, Tunisia, China and India.

The respondents come from a range of different types of organizations, the majority from the Public Sector, as shown in the next figure.

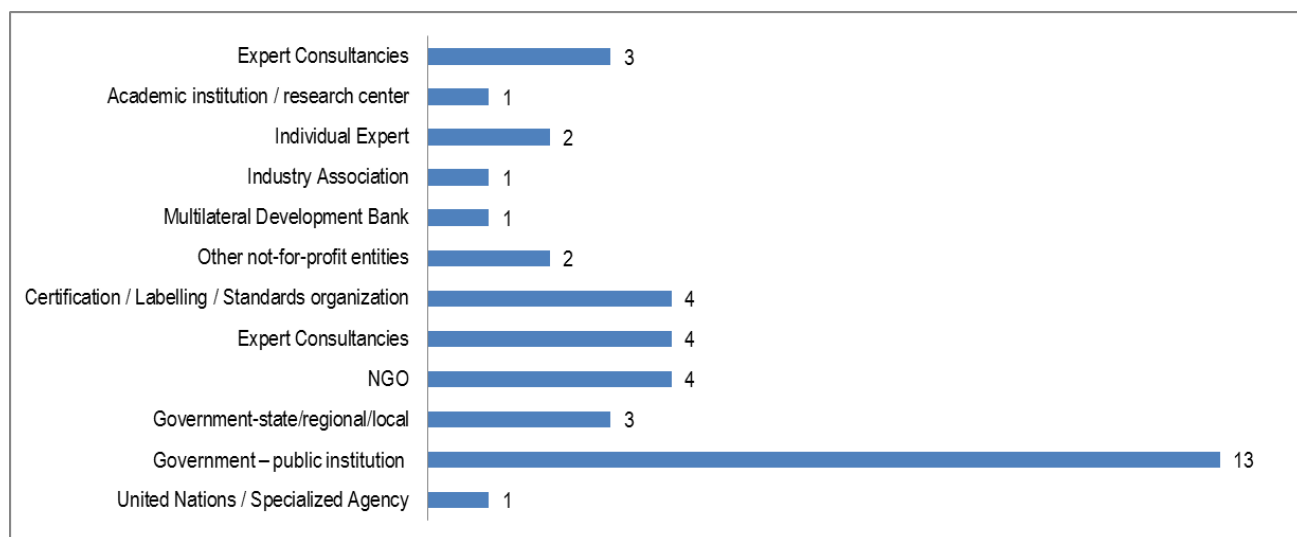


Figure A1: Types of organizations represented by respondents

Small and Medium sized Enterprises (SMEs) were reported to be promoted in Public Procurement (in general) in 64% of the countries that were represented. The types on policies in place that those 15 countries have implemented, as mentioned, are shown next.

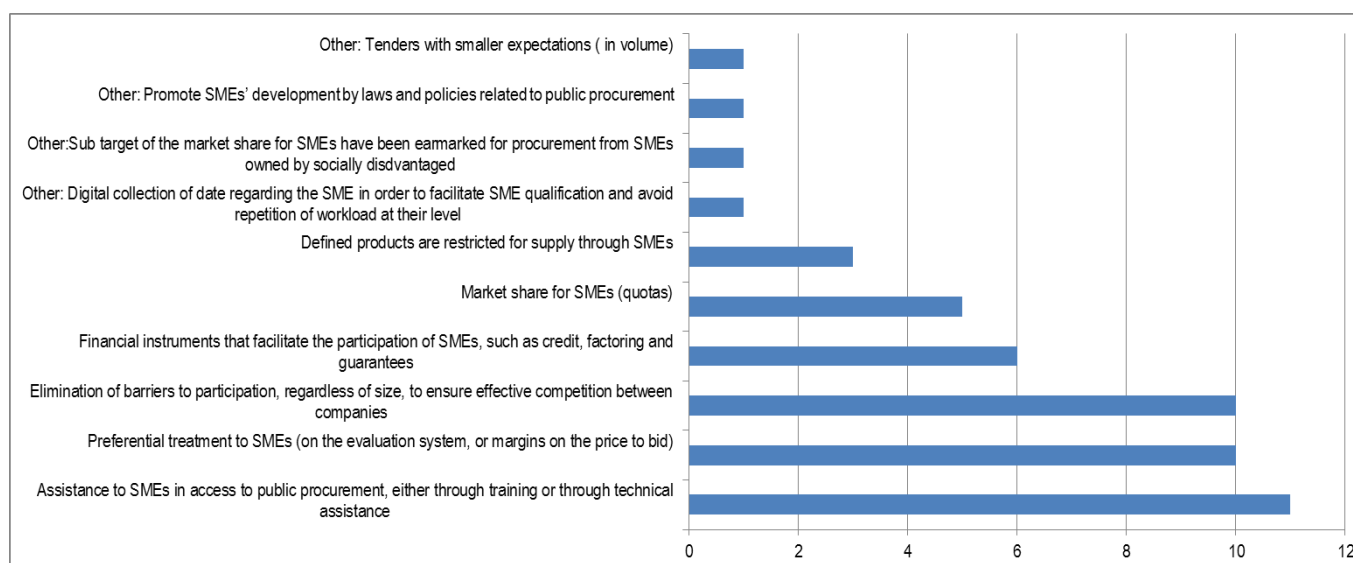


Figure A2: Examples of policies to promote SMEs in Public Procurement

Green Public Procurement (GPP) was reported to be implemented in the countries of 60% of the respondents. When asked if their country's GPP policy/plan have any special actions regarding the participation of SMEs as suppliers/vendors in GPP, in 47% of the countries it was indicated that it did. However, when asked about the actions reported to facilitate the participation of SMEs as suppliers/vendors in GPP, the answers were scarce, aimed at SMEs in public procurement general.

According to the open question on how participants considered that the country's GPP policy/plan has been linked to the policies to promote SMEs in public procurement, the main conclusion is that it is considered that SMEs are included since GPP efforts build up upon existing policies to promote SMEs in general (the answers listed either their GPP policies/actions or the SMEs promotion policies).

Four countries reported set-asides for SMEs, based on the amount of the purchase or for specific products (such as the case of India, which has listed 358 products). However, these set-asides are not linked to any environmental criterion in particular (the specific aim is towards the promotion of SMEs).

Even though 8 countries reported that SMEs participation in GPP as being monitored, the answers provided are related to SMEs in public procurement, with indicators such as the percentage (or total amount) of purchasing made from SMEs, market share of SME's as supplier by category, yearly evolution) which is very appropriate to measure the promotion of SMEs in public procurement but not necessarily if SMEs are able to comply with environmental criteria and take part in GPP. One of the labeling organizations reported that since SMEs are their customer in the eco-label program, they track new bids and the type of products / services required.

About half of the respondents that work at a country level³⁹ indicate that, in their opinion, SMEs have successfully taken part in GPP in their country. According to the opinion of all the respondents, the main barriers SMEs face in order to take part in GPP are the lack of capacity building programmes to help them adapt their production process and /or process, follow by reasons related to costs (the high costs involved for SMES as well as their reluctance to face those costs):

³⁹ 37, since 2 respondents work at international cooperation agencies.

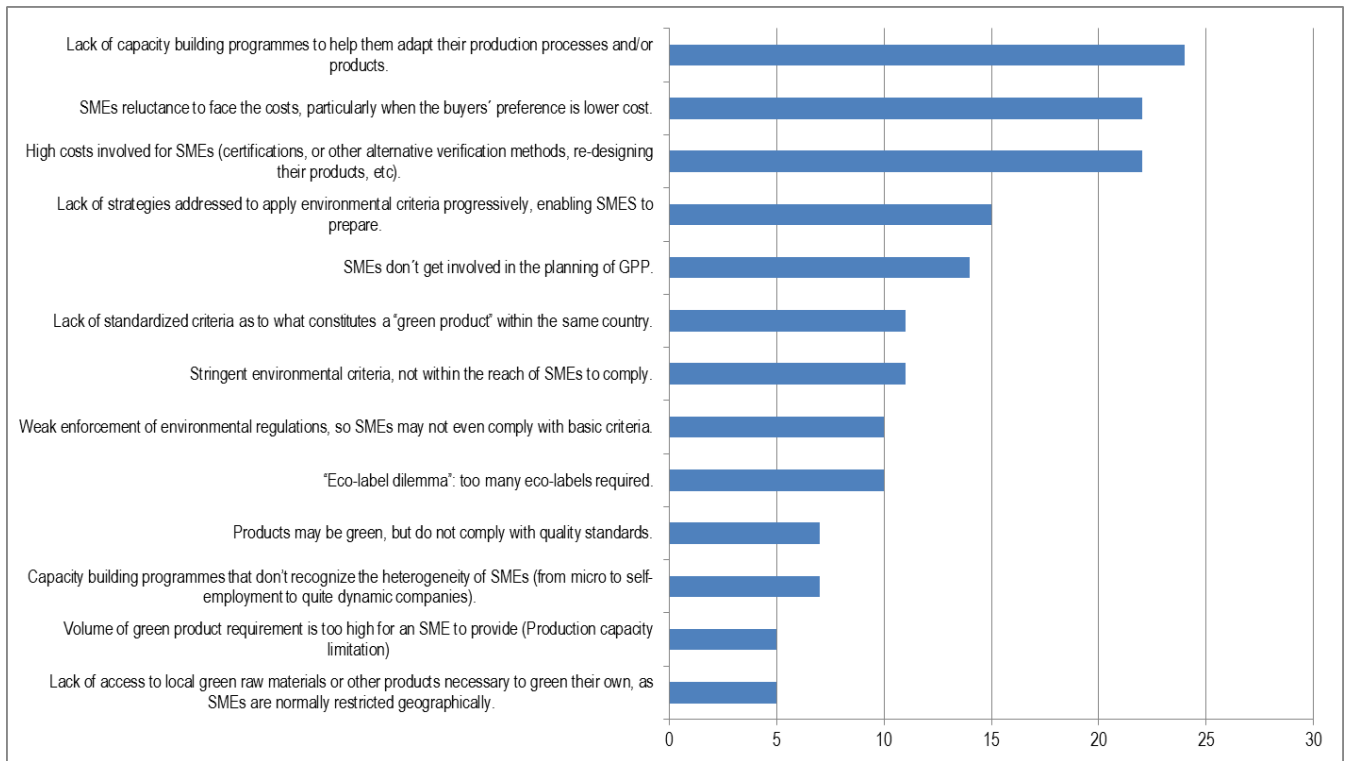


Figure A3: Barriers that SMEs face in GPP (n=39. Respondents could choose more than one response)

Four other reasons were mentioned by respondents (one mention each):

- Adaptation to this new procurement methodology
- SMEs face the same regulations as a major enterprise. If they can find and hold a niche they can get government's contracts.
- Lack of communication and knowledge related to GPP and the associated procurement criteria.
- The production conformity may be a barrier for SMEs procurement. SME'S capacity of ensuring products quality consistency needs to be promoted