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# Sustainable Procurement



The Power of Public and Private Consumption  
for an Inclusive Green Economy



Programa Gestão Pública e Cidadania

# Sustainable Procurement



The Power of Public and Private Consumption  
for an Inclusive Green Economy

Sao Paulo  
Program for Public Administration and Citizenship  
2015



Programa Gestão Pública e Cidadania

#### An initiative of

Center for Sustainability Studies (GVces) of Sao Paulo Business Administration School at Getulio Vargas Foundation (FGV-EAESP)

#### Partnership

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# Sustainable Procurement



The Power of Public and Private Consumption  
for an Inclusive Green Economy

First Edition

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Program for Public Administration and Citizenship  
2015



# Foreword

*By Paulo D. Branco\**

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The dimension and severity of economic, social and environmental challenges we face make it pretty clear we must apply scale and speed to the adoption of business strategies and practices aligned with sustainable development. When it comes to speed, I have this feeling we will not have enough advancements besides the ones already achieved in the last ten years, based on current regulation and self-regulation drivers and voluntary initiatives that have already been adopted by the companies. As for scale, it seems more and more of an illusion to believe individual actions, no matter how much innovation and good intentions they show, coming from businesses, governments or organizations in the civil society, will be able to tackle the challenges that currently pose a true crisis to our civilization.

Therefore, finding a response for this scenario - in which scale and speed are assumptions - is the core challenge posed to organizations committed to a new development model, aiming at the well-being of the population as a whole and, at the same time, respecting the planet carrying capacity. And, by acknowledging FGV-EASP Center for Sustainability Studies (GVces) as one of those organizations, I enthusiastically celebrate the publishing of this book, which fills a gap in knowledge production in Brazil about sustainable procurement and makes it clear how relevant this topic is to broaden and accelerate the adoption of business practices that incorporate sustainability attributes.

Besides the consistency of arguments regarding public and business consumption for an inclusive green economy, the book goes beyond and brings answers to practical questions that distress many leaders and managers who I have worked with in the companies. Feeling the pressure for short-term results and the social and environmental risks that are becoming more and more concrete and subject to joint liability, professionals from different areas, particularly the ones who work with supplies and sustainability, will find in this work valuable arguments and recommendations to enhance their management and relationship policies and practices with their organization suppliers.

And this is not limited either to private or public institutions, since the authors analyze both and clearly show us there are more similarities than differences in the challenges faced by buyers of these two types of organization, when trying to incorporate sustainability to their decisions.

And maybe this finding, that there are more similarities than differences, is the great window of opportunity that the book provides us. I believe that a number of possibilities for cooperation may emerge between businesses, governments and civil society organizations, so we can effectively use the influence and power of institutional procurement in the consolidation of a production and consumption model capable of meeting global sustainability challenges.

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*(\*) Paulo D. Branco is Coordinator of the Innovation in Value Creation Program at the Center for Sustainability Studies (GVces) at FGV-EAESP, and founding partner of Ekobe, a corporate sustainability consulting firm. In the past 12 years, he has contributed to integrate sustainable development principles and practices into the strategy of various national and multinational companies, as well as into the value chain of different sectors.*

# Foreword

*By Pedro Roberto Jacobi\**

Sustainable Procurement is a topic that calls for reflection on how much the society in our planet needs to strengthen sustainable practices, and among those practices we include changes in the rationale used for public tendering as a tool to change the *modus operandi* of the production chain in different sectors of the economy. The challenge to promote socially and environmentally responsible practices extends to all segments of society, but remarkably to chiefs of government and business people, since they play a strategic role to determine innovative strategies to transform production models and ways to promote lifestyles and behaviors.

Currently, moving towards a sustainable society poses a variety of obstacles, since there is limited awareness of the society regarding the implications of the current development model. The multiplication of risks - particularly environmental and technological risks that bring along severe consequences - is a critical factor to understand the characteristics, the limits and the transformations our modern society has been going through. It is pretty clear how complex this transformation process is in a society that is increasingly not only threatened, but also directly affected by social and environmental risks and harms.

The 21<sup>st</sup> century has started during a social and environmental emergency, which is likely to worsen should current degradation trends persist; it is a problem deep-rooted in the culture, ways of thinking, values, epistemological assumptions and knowledge, which are the base of the political, economic and social system we have.

We must reflect on the culture, beliefs, values and knowledge on which our daily behavior is based, as well as on the anthropological-social paradigm present in our actions.

Emphasizing practices that encourage inter-sector and mainstream approaches shows an important potential to leave commonplace behind, promoting changes in behavior and an increase in social responsibility and environmental ethics.

The path towards a sustainable society gets more robust when public policies and productive activities are developed focusing on production and sustainable consumption, and society plays its role, strengthening social control.

This makes us think about the need to qualify professionals capable of making reflections in order to develop practices connected to the environment under the sustainability perspective. Thus, it would represent a chance to

encourage and involve people to transform different professional practices into potential factors to make society more dynamic and extend social and environmental responsibility.

There are two paths society has been using as reference to handle the issue of transforming some rationale capable of influencing changes in consumption; efficiency dimensions and end use. As for efficiency, producers have started to adopt goods and services that use less natural resources and energy, or reuse. However, as the efficiency dimension by itself would not be enough to dramatically reduce the use of natural resources, the approach based on the end use is critical, since it emphasizes the provision of people's individual needs using the least amount of natural resources possible. Those two approaches are substantially different. Whereas the focus on efficiency means to make current models of production and consumption more efficient, the focus on the end use encourages a change in production and consumption structures, in such a way that people's needs can be met taking up the least amount of resources possible, prioritizing the green economy.

The great challenge here is to change how public policies operate. This will enable us to build development concepts and strategies that foster effective reduction in practices that produce waste. Also, we will be able to overcome the paradigm that makes pressure on us regarding our planet carrying capacity, and to what extent society is able to find the balance between what it considers ecologically necessary, socially desirable and politically feasible or possible.

It is worth noting the significant role civil society institutions should play to raise awareness on the importance of having an increasingly sustainable consumption, based on a joint liability rationale, adopting practices that guide to a continuous increase of information flow to consumer citizens, and strengthening certification systems towards an inclusive green economy.

Here lays the relevant goal of this publication, which is to offer a broader audience a chance for reflection and deepening the knowledge on a topic that may increasingly mobilize companies and government bodies - public and corporate consumption for an inclusive green economy.

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*(\* Pedro Roberto Jacobi is the President of ICLEI Brazil, Head Professor at the Education College and at the Post-Graduation Program in Environmental Science – University of Sao Paulo (USP)*

# Introduction

The book entitled 'Sustainable Procurement: The Power of Public and Private Consumption for an Inclusive Green Economy', produced by the Center for Sustainability Studies (GVces) at Getulio Vargas Foundation, in partnership with ICLEI – International Council for Local Environmental Initiatives/South America Secretariat (SAMS), is the result of combining the knowledge and consolidating the experiences from both institutions on sustainable institutional procurement.

The background for this work are the Public Sustainable Procurement Guide ('Guia de Compras Públicas Sustentáveis') editions, which present many ICLEI experiences with the Procura+ campaign, an international landmark on 'sustainable public procurement', and the methodology that fostered advancements and reflections about the role of public authorities as a large consumer and sustainability driver. Also, GVces experiences with supply management in large corporations and the willingness to better understand synergies between the public and the business sector when it comes to sustainable procurement.

Under the umbrella of the concept of inclusive green economy, a new development model was proposed, then renewed in 2012 during the United Nations Conference known as Rio+20. GVces and ICLEI teams, along with journalist Sergio Adeodato, elaborated this work, aimed at institutions C-level management, their corresponding managers and buyers, as well as researchers in the area. Written in a journalistic language, still preserving the academic rigor, the text is lighthearted and inspiring, and its greatest goal emerges: to guide policies and foster sustainable institutional procurement practices.

"It's a fight against time." That is how the book begins, presenting a historical background of how the topic of sustainable production and consumption was included in the global agenda. It is clear in the work who and what the potential actors and instruments that interact for that purpose are. In a fun way, thematic infographics show the impact from consumption and production, inspired by Life Cycle Assessment (LCA).

In Chapters 2 and 3, readers will find inspiring examples of institutional procurement collected through exclusive interviews, news articles, corporate reports and scientific articles describing successful experiences in the public

and private sectors, highlighting which institutions broke the resistance and became protagonists in the use of transformation potential through sustainable consumption and production.

In Chapter 4, under a guidance perspective, two tools are recommended for continuously improving management of public and business procurement - the former was developed by ICLEI, for the Procura+ campaign, and the latter by the UN Global Compact. Also, propositions are presented in order to incorporate sustainability attributes in the procurement and supply management systems. Based on our experiences with consultancies and projects in partnership with governments, business platforms and academic researches, a survey was conducted with about 50 institutions, among public bodies and businesses, organizing lessons learnt and calling attention for facilitators and barriers of institutional consumption aimed at sustainability. Among the institutions we surveyed, we picked up the examples described in this work.

Finally, in Chapter 5, under an integrated perspective of sectors and actors, including individual consumers, we made a critical analysis of the advancements and challenges faced in the past years, and point to guidelines for the future of the so-wanted 'inclusive green economy', considering institutional procurement as an essential tool to (re)build a global scenario that is more favorable to sustainable development.

Enjoy!

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# Table of Contents

<b>1</b>	<b>The Consumption Dilemma</b> <i>25 Years of Sustainable Development. What's next?</i>	<b>12</b>
<b>2</b>	<b>The Role of the Public Sector</b> <i>From Sustainable Biddings to New Government Policies</i>	<b>32</b>
<b>3</b>	<b>Business Engagement</b> <i>The Impact of Procurement Criteria in Production Chains</i>	<b>70</b>
<b>4</b>	<b>Beyond Prices, Deadlines and Quality</b> <i>New Models Guide Public and Private Managers</i>	<b>100</b>
<b>5</b>	<b>A More Balanced Planet</b> <i>Assessing Economic, Environmental and Social Gains</i>	<b>122</b>
<b>*</b>	<b>Glossary of Terms</b>	<b>134</b>
<b>*</b>	<b>Index</b>	<b>136</b>
<b>*</b>	<b>Bibliographical References</b>	<b>138</b>



# 1 The Consumption Dilemma



*Procurement and social and environmental challenges after 25 years of sustainable development. What's next?*

It's a fight against time. A silent and continuous search for sustainable life standards that ensure well-being for future generations. Be it in big cities, in the Amazon or in the Sahara, it is a battle that involves us all, rich and poor, and it aims at breaking the inertia, breaking the resistance and creating new habits of production and consumption. Mission: revert the current social and environmental degradation process and overcome the financial crisis that threatens the fight against poverty, peace and (eco) system conservation. It is a complex goal, but still possible, and important steps were taken in the last decades to achieve it. We're all in the trenches, each one with their own level of responsibility, from business people to educators, from professionals to chiefs of government and public managers. Our main weapon: our power to make choices and decisions.

The clock spins fast. The world population is already consuming over a quarter above what the planet can naturally replace<sup>1</sup>. Nothing less than 15 out of the 24 vital services offered by nature, such as water, climate balance and soils for food production are clearly declining, according to the United Nations (UN)<sup>2</sup>. Without new production models, we are being conducted to a global warming above security limits, as estimated by the Intergovernmental Panel on Climate Change. If the current pace is kept, experts say, by 2100 the Earth may be between 3 and 5 degrees Centigrade warmer than a century ago, being threatened by natural disasters, lack of raw material, increase of social inequality, and adverse impacts on life conditions<sup>3</sup>.

What could have been taken in the past as an environmental overstatement or something limited to a distant future, currently takes pages and pages of reports generated by worldwide renowned economists and scientists. In February 2012, the United Nations Environment Programme (UNEP) released a document signed in Nairobi by a select group of world leaders, presenting with rigor and uneasiness the situation in which the planet is in vital areas such as climate, famine, loss of natural resources, consumption beyond sustainable limits, and the need to re-address incentives to transportation and energy<sup>4</sup>. Consisting of 22 pages, the document states that a sustainable, more ethic world with access to natural resources, free of poverty and with social equality is a possible and feasible dream. But it will not come true if we keep the current pace, based on a degraded economic and social system.

The culture of consumerism has its roots in the USA. In the beginning of the 20<sup>th</sup> century, the production capacity they had installed overcame the demand, which made sellers adopt marketing actions in order to foster an increase in consumption<sup>5</sup>. Since then, determining the basic needs of a given population became an even more controversial topic; there is no clear difference between the idea of real needs and superfluous desires. "The model we created failed", says Bob Watson, counselor to the British government, according to whom the bet on technology is not enough. It will hardly come in time. The differentiators, according to him, are not technically sophisticated

and miraculous solutions, but rather initiatives that are already at our reach and depend on decision-making. The idea of unlimited material growth based on limited natural resources is actually unsustainable.

As an alert warning, UNEP's report is emphatic upon proposing eliminating harmful public subsidies, such as the current US\$ 1 trillion targeted every year to the energy sector, based on dirty sources, like charcoal and oil<sup>6</sup>. It is a dark scenario when it comes to the planet impoverishment, but it could still be reverted to ensure resources to afford future generations. It is a complex path, as it requires changes in the daily routines of households, businesses and governments. What is at stake here is the challenge to give scale, dimension and economic importance to sustainable practices so they are spread, and the society gets quickly familiarized with them. In short: changes in the production and consumption model cannot be postponed anymore, or else have a secondary role in global decisions.

## Landmarks of a New Concept

We can foresee the urge for more significant and practical advancements of the so-called 'sustainable development', 25 years after the concept has been proposed as a condition for the planet future well-being. In 1987, in 'Our Common Future' report, also known as 'Brundtland Report', the UN called attention to the importance of limiting the use of natural resources and defined the concept of sustainable development: 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. The initiative reinforced the ideas spread 15 years before by the Club of Rome in the study entitled 'Limits to Growth', conducted with the support of the Massachusetts Institute of Technology (MIT).

The document, whose sales reached 30 million copies in 30 languages, presented mathematic models to conclude that – even though technological advancements were taken into account – the planet would not support the population growth due to pressures on natural resources and increase

# Historical Changes

## The 1970's

Focus on the design of production processes, rather than on production and consumption patterns. Criticism emerges against society behavior; defenders of deep ecology

1972

The 'Limits to Growth' report reinforces public awareness on the environmental crisis

The need for pollution control policies is brought to the *United Nations Conference on Human Environment*, in Stockholm

## The 1980's

Law 6,938 – Brazilian National Plan on the Environment. The law aims at aligning social and economic development with preservation of the environment quality and ecological balance

1984

*First World Industry Conference on Environmental Management*, in Versailles

1987

The term 'sustainable development' is multiplied by 'Our Common Future' report, developed by the Brundtland Commission

## The 1990's

1988

The Brazilian Constitution establishes some key points regarding sustainability:

- Both the State and the society shall ensure protection of the environment, offering quality of life for current and future generations

- Economic activities shall provide for, among others, free competition, consumer and environment advocacy, and reduction of inequalities

- The public sector shall regulate production and trade of methods and substances that might pose a risk to life, quality of life and environment, which may be done through command and control instruments, or using market tools, similarly to how public procurement is conducted

1992

There is an increasing awareness of consumption patterns global adverse impacts, at the same time right advocacy services are structured (rather than consumer obligation frameworks), as well as cleaner production

1992

*United Nations Conference on Environment and Development (Eco92)*

- The Earth Charter and Agenda 21 emphasize the need for new territory and relationship management models between human beings and nature
- The first major alert on the importance of sustainable consumption, making the topic explicit in the development agenda
- Agenda 21 highlights the role governments play in order to change unsustainable patterns, through procurement policies
- Chapter 28 innovates by positioning the local public sector as a key player in the deployment of such policies (Local Agenda 21)

1993

*The International Organization for Standardization* launches the Technical Committee on Environmental Management, which resulted in the ISO 14000 series. The regulatory framework for Public Administration bids and contracts is created, Law 8,688.

1994

The *Triple Bottom Line* concept emerges, associating sustainable activities to the balance of environmental, social and economic aspects

1995

Sustainable consumption is defined by the *Oslo Ministerial Roundtable Conference on Sustainable Production and Consumption*: 'the use of goods and services that respond to basic needs and bring a better quality of life, while minimizing the use of natural resources, toxic materials and emissions of waste and pollutants over the life cycle, so as not to jeopardize the needs of future generations'

1999

Law 9,795 – Brazilian National Plan on Environmental Education. The Environmental Agenda for Public Administration (A3P) is launched for the government socio-environmental management

## The 2000's

Cleaner production counts with some conscious initiatives, which does not occur in consumption practices.

Advancements in production were not enough to solve sustainability dilemmas, so landmarks for sustainable consumption start to be established

2000

The UN launches the Millennium Development Goals, including assurance of environmental sustainability and improvements in health

2002

*United Nations Conference on Sustainable Development (Rio+10)*, in Johannesburg

The Brazilian Agenda 21 is launched, including the goal to adopt 'sustainable production and consumption rather than a culture of wasting'

2004

ICLEI Europe launches the Procura+ (Sustainable Procurement) Campaign, with the purpose to support public authorities in the implementation of sustainable public procurement

First European governments to adhere to the Procura+ Campaign: Kolding (Denmark), Gothenburg (Sweden) and Zurich (Swiss)

2006

Law 123 – Generic Law for Micro and Small Businesses, aiming at making public biddings more democratic and promoting local development with social justice

2007

Brazil and Mercosur join the Marrakech Process, launched in 2003 by the UN, making a commitment to elaborate their Sustainable Production and Consumption National Plan.

ICLEI created the '*Fostering Sustainable Public Procurement in Brazil*' project, with the States of Minas Gerais and Sao Paulo and the City of Sao Paulo – the first governments to implement the Procura+ Campaign methodology in Brazil, in partnership with GVCes

2008

UNEP announces the *Green Economy Initiative*, aiming at leveraging efforts to fight the global crisis in order to encourage a new development cycle based on sustainable economic development

2009

Law 12,187 - National Plan on Climate Change. Establishes the adoption of preferential criteria in biddings and public tenders, taking into account savings in the consumption of energy, water and other natural resources, as well as the reduction in the emission of greenhouse gases and waste production

## The 2010's

The decade started presenting a legal framework that was more adequate for sustainable consumption, making it clear there was a need to monitor, assess and enhance sustainable policies and practices

2010

Sustainable national development is included as one of the objectives of public biddings, a change brought by Law 12,349/2010 over Law 8,666/1993

The last stage of products life cycle is covered in Law 12,305/2010, the National Plan on Solid Waste. Such policy considers sustainable biddings as one of the primary concerns to be supported by all members of the federation

Normative Ruling #1, issued by the Logistics and Information Technology Office (SLTI), from the Ministry of Planning, Budget and Management (MPOG). It establishes that members of the federal public administration shall follow environmental sustainability criteria in the process of extracting, manufacturing, using and disposing of products and raw materials, purchasing goods, hiring services and construction works

2011

The Sustainable Production and Consumption Action Plan (PPCS) is launched by the Ministry of the Environment (MMA). PPCS aims at actions for promoting conscious consumption, including actions from the government, the production sector and the civil society, and its first cycle ends in 2014

2012

Global population hits 7 billion

*United Nations Conference on Sustainable Development, Rio+20*, focusing on consumption, global governance, urban sustainability and green economy

Act 7,746 – establishes criteria, practices and guidelines for sustainable national development on public procurement

2013

Preparations for the National Conference on Environment, having sustainable production and consumption as the key topics

in pollution. Some forecasts ended up not coming true because of precision errors in the calculation, but the key conclusion remained valid and supported a new approach to the relationship between human beings and the environment. So much so that criticism against the economic model that disregards ecosystem carrying capacity gained focus during the UN Conference on Human Environment, in 1972.

In the late 1980s, however, there was this feeling of failure about the topic. At that time, the industrialized countries, which accounted for only 20% of the world population, consumed 8 out of every 10 tons of all food produced, and 7 out of 10 kilowatts of generated power. Seven of the richest countries were releasing in the atmosphere half of all polluting gases that would sum up to the greenhouse effect. Meanwhile, the top 20 richest countries accounted for an income that was 60 times higher than the top 20 poorest countries<sup>7</sup>. Under this context of inequality, there were enough reasons for the UN, in a General Assembly held in 1989, to call for a Conference on the Environment and Development, Eco-92, in Rio de Janeiro. The initiative was a landmark, because the topic of sustainable development gained political momentum and relevance, in spite of the conflict of economic interest between rich and poor countries. During the 1992 conference, the conventions on biological diversity and climate change were signed, as well as the Earth Charter – declaration of fundamental ethic principles in order to build a fair, sustainable and pacific global society. Moreover, the countries approved a report containing more than 800 pages with details about what was necessary to promote such major change, to be adopted by countries: the so-called Agenda 21.

Among the most controversial topics, we could point out the financing mechanisms for environmental preservation in poor countries. Along its 40 chapters, Agenda 21 suggested a global partnership to integrate environment and development with social inclusion. Topics such as human health protection, fight against poverty and desertification, technology transfer, biotechnology, trade, water use, and waste management were established as priority. The document had no legal bond or mandatory commitments.

Countries who adopted the principles, like Brazil, selected what was more urgent considering their specific needs<sup>8</sup>.

Some of the propositions worked as the starting point to create public policies that are currently applicable in Brazil, such as waste management. Until Eco-92, the theme of waste in the cities was considered an issue that local governments had to solve by themselves. The innovation came when it was established that waste was everybody's responsibility. Under Article 21, for instance, the Agenda determines it is necessary to reduce waste generation and promote reuse and recycling. Another important public policy that was adopted is the Local Agenda 21, a great landmark showing international acknowledgment of the relevance of local authorities when it comes to promoting sustainable development (Chapter 28). In other topics, there are explicit references to changes in the consumption model so the planet resources are not depleted. In Chapter 4, Agenda 21 does state that, in many cases, this will require 'reorientation of existing production and consumption patterns that have developed in industrial societies and are in turn emulated in much of the world'. Additionally, the Earth Charter, under Principle 7, mentions the principles of 'internalize the full environmental and social costs of goods and services in the selling price' and 'adopt lifestyles that emphasize the quality of life and material sufficiency in a finite world'.

As a result, European countries, and then the United States, Canada and Japan took the lead and established policies against unsustainable production patterns. Worldwide pioneer market initiatives emerged, aiming at promoting practices that had lower impact to natural ecosystems. For example; in 1993, the ISO 14000 series of environmental management standards was created, and also the *Forest Stewardship Council* (FSC), which determined criteria for forest management. Socio-environmental certifications and other 'green labels' started to influence purchase and hiring, and emerged as market tools. Socio-environmental concerns gained more emphasis in the company's production agenda, and posed a challenge to governments, which had to support the economic system in the adaptation

to a new reality. In the beginning of the 21<sup>st</sup> century, when the UN conference was held in Johannesburg, it was observed that cleaner production (CP) had had significant advancements worldwide, based on the so-called 'eco-efficiency' principles. But similar results were not achieved for consumption – the center of attention among the topics negotiated in Rio+20, the United Nations conference held in Rio de Janeiro in 2012 with the goal to discuss pathways toward a green inclusive economy.

## The Advent of Environmental and Social Patterns

Business and government sectors' purchasing power is critical to achieve a new eco-socio-economic level. In spite of the objections, which is something expected when there is a change in habits, the society will slowly understand the connections between what we buy and conservation of planet resources to supply current and future needs, making use of fair and equitable patterns. Under this scenario, there are multiple concepts for 'sustainable procurement': purchases that consider social and environmental aspects along with financial aspects in the purchase decision-making. According to the United Nations Development Programme (UNEP), the point is to look beyond traditional economic parameters (price, deadline and quality) when making decisions based on the product life cycle assessment, risks associated, success metrics, and consequences for the environment and for society<sup>9</sup>; additionally, other elements can be included, such as water and energy use, waste generation and GHG emissions, ethnic and gender diversity, occupational safety, security in freight transport, human rights, procurement from local and small companies<sup>10</sup>.

Public consumption plays a significant role in national economies; estimates are it accounts for 8% to 25% of the Gross Domestic Product (GDP)<sup>11</sup>. Considering this power to influence the market, the countries have worked to elaborate new public procurement policies, affecting the production sector, as in a 'domino effect'. In order to encourage positive practices that

in the end of the day will provide well-being to the society, governments from different levels lead by example and do their homework adopting social and environmental criteria in the bids for general services, construction work and purchase of materials – from office paper and paper cups for water and coffee, to computers and vehicles.

The foundation for the deployment of procurement policies by governments and businesses considering environmental and social aspects was established over two decades ago, when the UN started the discussion on sustainable development (*please refer to the complete background on pages 16 through 19*). But only after the beginning of the 21<sup>st</sup> century, major advancements took place, driven by multilateral organisms, such as the World Bank, which, after being accused of financing harmful projects to society and ecosystems, started adopting sustainability criteria in its operations. In 2005, the UN held in New York a meeting with representatives of sustainable public procurement initiatives worldwide. The meeting promoted synergy among the participants and served as the framework to form the group for the Marrakech Task Force – a voluntary global initiative set in 2002 during Rio+10 summit, held in Johannesburg, which established seven work lines in order to create the instruments needed for sustainable development. One of the topics was to foster public bids as a sustainability driver in the production chain of different sectors of the economy.

The goal was to contribute for 14 States in different regions of the world to test sustainable procurement methodologies to be implemented in the 10 following years. Sao Paulo State, in 2005, created a decree establishing environmental criteria in its procurement and hiring processes.

Marrakech Task Force activities, officially terminated in May 2011, resulted in the creation of the first global mechanisms to foster sustainable government procurement. Having completed its first cycle, the process continues with a new ten-year stage, incorporated by the United Nations Environment Programme (UNEP), as approved in Rio+20.

In Brazil, the project initially gained force in the subnational and local levels (States of Minas Gerais and Sao Paulo, and the city of Sao Paulo),

# Interconnected Links

All actors involved in consumption and production relationships affect one another and are mutually impacted. Each actor should rethink their ways of consuming and producing, using the means available to foster a system capable of increasingly incorporating sustainability attributes. The public sector, businesses and the civil society are the actors highlighted in the infographics shown on pages 26 and 27. The links between those actors can be summarized by flows of engagement and mobilization, economic, regulatory (command and control), self-regulatory and informational instruments. Let's see the intervention potential each one of those actors has.

By engaging into a sustainable development proposition, the **public sector** shall interfere to transform production patterns and ways to purchase and consume. For such, they should promote more sustainable life styles and behaviors, remodel their own infrastructure, elaborate norms and create economic incentives that favor preservation of natural resources and human happiness. This means, among other actions, to remove or review policies that hinder sustainable consumption and production<sup>I</sup>, elaborate policies that foster life standards based on well-being, and improve performance and procedures inherent to public biddings. Aiming at driving the market transformation and adaptation, the public sector may create subsidies and tax incentives for more sustainable activities – such as agro-ecological production, for instance – and, on the other hand, eliminate incentives and raise taxation on activities that generate adverse impacts on ecosystems and the society, such as industries that heavily depend on oil. Even if all those actions are performed, it is critical for the public administration to purchase and hire in a sustainable way, leading by example so the society and the businesses will use it as reference, fostering a fair and ethic market (*to learn more, please refer to Chapter 2*).

With positive signs favoring sustainability in spite of an international financial crisis, **businesses** are driven to innovation and, for such, they need to make their supply chain move. There is room to create and reformulate business processes, products and models – as long as they are more efficient and sustainability-oriented, and entrepreneurs, for instance, can offer services rather than producing and selling products (*please refer to Chapter 3*). In order to facilitate this move, both public and private financial institutions can play a role to foster more sustainable businesses, avoiding projects that are harmful to human health and to the environment, improving the quality of financing and credit lines.

<sup>I</sup> WOLFF, F.; SCHÖNHERR, N. The impact evaluation of sustainable consumption policy instruments. *J Consum Policy*, 34, 43-66, 2011.

**Society** can contribute by performing social control and defending its real interests, often times mediated by NGOs, universities and research centers that stand up for their rights and develop tools capable of enabling and popularizing the practice of sustainable consumption and production. Society role is to supervise how governments and businesses operate, observing if their policies affect the well-being of the population. With the support of all those actors, the public sector may provide a database with information on products and services developed according to sustainability criteria and product life cycle assessments (*please refer to page 96*), which will offer greater reliability and convenience to engaged buyers. As pointed out, there are many actors who are co-responsible for the production and consumption system. If all is well set, we will come to a win-win situation – for current and future generations.

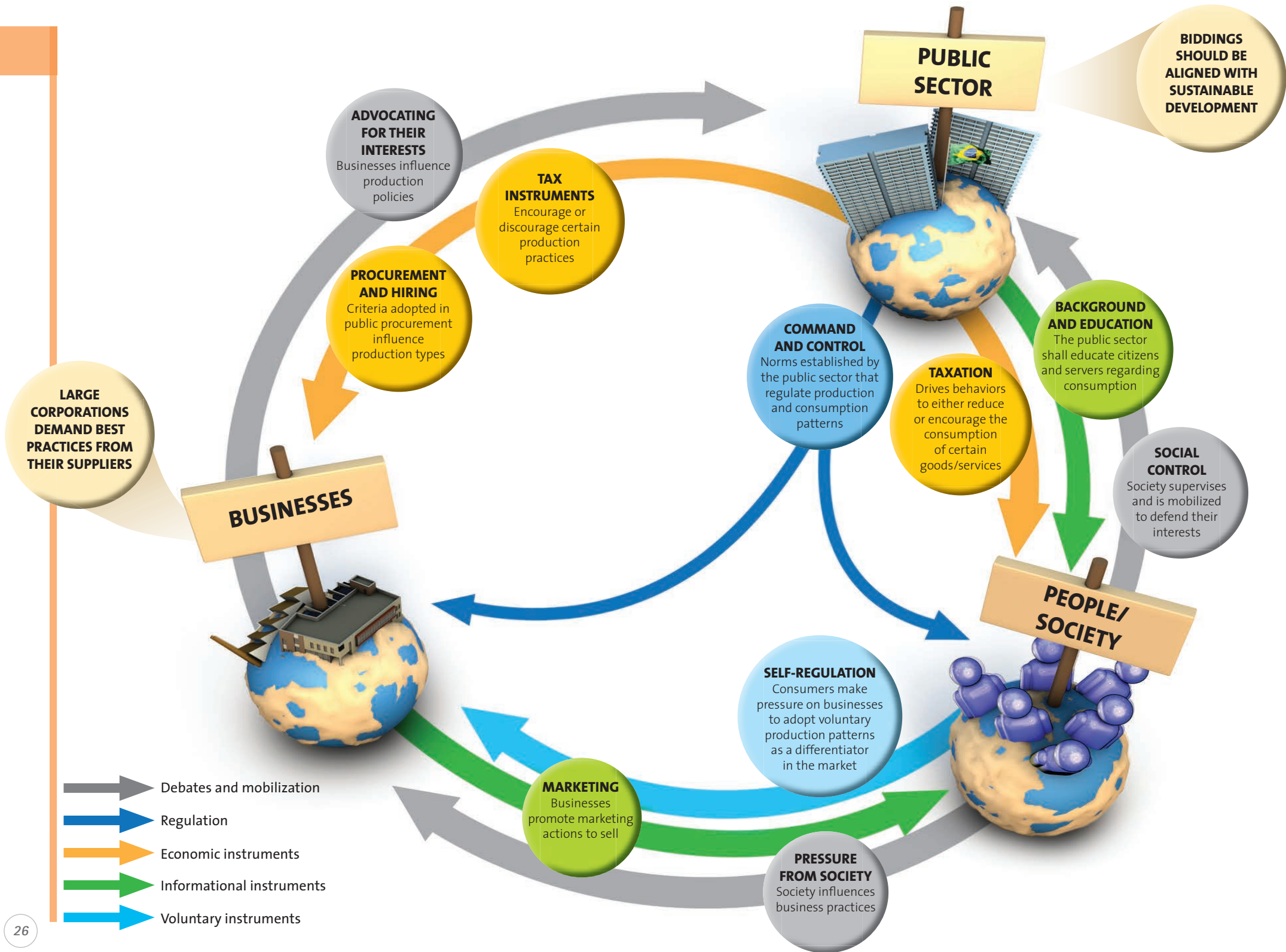
The most widely accepted recommendation to obtain such results is to develop a balanced combination of those public policy instruments<sup>II</sup>, which can be applied in order to enable three key functions for expected changes<sup>III</sup>:

- Raise consumers' awareness, providing institutional buyers and individual consumers with the information needed to broaden their knowledge and interest in the decision-making toward a more sustainable consumption.
- Facilitate sustainable consumption, establishing a scenario in which consumption activities have lower impact, with no need to add significant efforts or costs to buyers. Thus, sustainable procurement will be just routine for consumers.
- Make markets 'greener' (or incorporate sustainability to markets), influencing the availability of sustainable and affordable goods and services.

Those three dimensions are strongly interconnected and, if properly triggered, they will provide for effective changes in general procurement and consumption patterns.

<sup>II</sup> MONT, O.; PLEPYS, A. Sustainable consumption progress: should we be proud or alarmed? *Journal of Cleaner Production*, 16, 531-537, 2008.

<sup>III</sup> SCHOLL, G. et al. Policies to promote sustainable consumption: innovative approaches in Europe. *Natural Resources Forum*, 34, 39-50, 2010.





then gained scale in the federal government in 2010, after Normative Ruling No. 1, issued by the Ministry of Planning, Budget and Management (MPOG), was published. Afterwards, changes in Law 8,666 reinforced the process to adopt sustainable criteria in public procurement. The process had its momentum upon the publishing of Decree No. 7,746, as of June 2012, in which the government states that 'direct federal public administration, autonomous agencies and foundations, as well as dependent state companies may purchase goods and hire services and construction works considering sustainability criteria and practices objectively defined in the bid announcement'.

The new legal framework creates the Inter-ministry Committee on Sustainability in Public Administration in order to propose norms, actions and incentives to the Ministry of Planning, taking into account basic guidelines like lower impact on natural resources such as flora, fauna, air, soil and water; preference for locally sourced materials, technologies and raw materials; efficiency in the use of natural resources such as water and energy; job creation, preferably hiring local workers; longer life and lower costs to maintain goods and the work; use of innovation to reduce pressure on natural resources; and legal sourcing of the natural resources used in goods, services and construction works.

Objections were overcome, even from control bodies, such as the Federal Court of Audit. There are currently a number of sustainable bidding experiences in progress, both in federal and subnational governments, but there is still a lot to be done if we consider the Brazilian potential in this area (*please refer to Chapter 2*).

Businesses are also increasingly engaged in sustainability topics and strategies, through their corporate social responsibility activities, building good reputation, ensuring their market share, and facilitating local and regional development processes. For such, the companies look forward to analyzing social, environmental and economic impacts of their activities throughout their production chain, from extraction stages to post-consumer material, taking into account not only natural resources stocks, but

also the conditions in which their collaborators and local communities live.

Thus, businesses also play a leading role in the emerging green economy scenarios and are making global voluntary commitments – such as the Global Compact and other business platforms, like Companies for the Climate (EPC) – and regional commitments, working to create shared value in sustainability-oriented value chains. Besides, they have felt a growing pressure from a variety of stakeholders in order to adopt socially and environmentally responsible practices in their operations: the organized civil society, the international market, the government, means of communication and competitors, they all play a role in making such pressure. Companies now have to rethink their rationale when buying and making business, since they are aware their customers – be they other companies, government or families – are more likely to prefer more sustainable goods and services (*please refer to Chapter 3*).

Increase the demand is an important condition to encourage competition, technology development and market structuring for products and services that are more fit under the socio-environmental perspective. In this sense, expectations converge to the practical results of the Sustainable Production and Consumption National Plan<sup>12</sup>, launched by the Ministry of the Environment (MMA), in 2011, after three years of research, with strong support from partnerships with private businesses and public procurement, following Marrakech Process guidelines.

Considering all this, areas that are currently in the frontiers of knowledge will gain impulse, such as Life Cycle Assessment (*please refer to page 96*), aimed at assessing impacts from raw material extraction to post-consumer waste. As for biddings, adoption of criteria inspired in the standards required by benchmark socio-environmental labels should be encouraged, ensuring the sustainable sourcing of products. Those are actions that will be taken according to recent legislations, such as national plans on solid waste and climate change, with an agenda aligned with the other ministries. One possibility would be to create economic incentives and metrics to support new purchase practices in the business sector as well, promoting results

such as an increase in recycling practices and savings in power consumption (*please refer to Chapter 5*).

Business people and heads of government in Brazil seem to be willing to support a global sustainable procurement pact. In the past two decades, according to data released by the UN in 2012, global GDP showed an increase of 75%, and affected greenhouse gas emissions, which had a 36% growth. Extraction of resources for industry and energy grew 41%, and biodiversity losses increased 12%, whereas megacities showed an expansion rate of 110%<sup>13</sup>. All this calls for the adoption of bolder measures, aiming at keeping the planet sustainability and establishing a new relationship between human beings and the environment they belong to. There is one controversial question to the debate: if the economic growth kept its current pace, adopting more technology and eco-efficiency to reduce the pressure on natural resources, would it be able to reduce poverty in the world? Or, else, would it be an imperative to impose limits to consumption and create global governance to have a fair distribution and use of those resources? Whatever path we take, the change process will necessary have to affect the sectors that most consume in the planet: governments and businesses.

## Highlights

- Achieving sustainable patterns for the well-being of future generations requires a change in habits for businesses, governments and households.
- It is an urgent scenario; the world population consumes more than the planet can naturally supply, and 15 out of the 24 vital services provided by nature, such as water, climate and soil balance for food production, are declining.
- The concept of sustainable development gained momentum in 1987, in the UN's 'Our Common Future' report. After 25 years, the world discusses how to implement its principles.
- Considering its scale and potential to make changes in the market, public and private procurement is an instrument for sustainable development.
- Raising consumers' awareness, facilitating sustainable consumption, and incorporating sustainable attributes to the markets may be the tripod for the changes needed in the production and consumption systems.
- The United Nations Conference on Sustainable Development (Rio+20), held in June 2012, showed advances in the discussions on consumption, global governance, urban sustainability, and inclusive green economy.
- The strategy to promote consumption with sustainability attributes is the result of interactions among three different actors: the public sector, businesses and the society.

## 2 The Role of the Public Sector



VALTER CAMPANATO/ABR

*From sustainable bids to new government policies, new perspectives emerge for the adoption of practices capable of influencing the market*



ANTÔNIO MILENA/ABR

**F**ixed on the walls of the Ministry of the Environment (MMA), in Brasilia, on the ninth floor, there are signs from the 'Plastic Bags Suck' ('Saco é um saco') campaign, promoted by the federal government in partnership with supermarket networks against extensive use of plastic bags, and those signs are exposed as if they were trophies. On the tables, one can see brochures with guidance on conscious consumption, which gives us a dimension of how tough the challenge is for public administration, businesses and citizens. Breaking the inertia and promoting sustainable development through the purchasing power of government entities is a strategy that is intimately connected to emerging – and urgent – issues such as climate change, consumerism way beyond the planet carrying capacity, the search for less socio-economic inequality and life quality in a world that is becoming increasingly urbanized.

'It is a long path that involves breaking resistance so the government will do their homework in order to foster environmental and social practices associated with a new way to produce and consume', explains Ana Maria Vieira, Director of Sustainable Production and Consumption in the Ministry of the Environment.

The public sector plays a critical role, not only in fostering a more innovative and sustainable market, but also in educating, mobilizing and raising awareness of the society as a whole (*please refer to the infographic on pages 26 and 27*). Public procurement is a critical tool for us to advance in the building of an inclusive green economy, which is reinforced in the document entitled 'The future we want', approved at the end of Rio+20<sup>I</sup>.

Although in the past decade sustainable consumption has been less encouraged than technological advancements in production, public procurement policies and practices that incorporate socio-environmental criteria can be currently seen all over the world (*please refer to the box on pages 36 and 37*).

In Brazil, the first initiatives to incorporate sustainability principles into public procurement began with specific legislations in the federal level, such as prohibiting the purchase of products or equipment that contain or make use of substances that can damage the ozone layer<sup>II</sup>. The issue only gained force in the last few years, when state and local governments, such as the States of Sao Paulo and Minas Gerais, and the city of Sao Paulo advanced in the development of their own legislations and programs, in mid-2005.

There is still a lot to do after the first steps of a trend that seems to have come to stay. In the federal level, as Mrs. Vieira explains, the process gained momentum from 2009 on, after the Ministry of Planning, Budget and Management (MPOG) hired a consulting firm to implement policies and develop sustainability metrics. At first, the focus was on information

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<sup>I</sup> Although it has not resulted in conceptual advances, such document validated the commitment related to sustainable production and consumption, as previously signed at Rio 92 and in the Johannesburg Plan of Implementation, signed at Rio+10.

<sup>II</sup> Act # 2,783, as of September 17<sup>th</sup>, 1998.

technology products and services, with which the federal government spends about BRL 1 billion a year. At that time, Act 7,746, which was only signed in 2012, right before Rio+20, started to be discussed. At the same time, the minute of the Normative Ruling #1, issued by the Logistics and Information Technology Office from the Ministry of Planning, Budget and Management (SLTI/MPOG) came into effect (it had been published in January 2010), and its recommendation was to include sustainability criteria in federal procurement. 'The legal framework was set', states Mrs. Vieira, who directly participated in the elaboration of such ruling.

In fact, it was a very busy year, with news such as Law 12,349/2010, which changed Article 3 of Law 8,666/1993 on bids, incorporating the promotion of sustainable national development into the goals of bids. As a way to support the first initiatives, MPOG added to its website pages a catalog with 550 products considered to have lower impact on the environment. At first, the reach of the criteria was not very extensive, being based on references such as Procel label for power consumption and on other characteristics of environmentally friendly products (organic production, recyclability, etc.)

In order to achieve more significant advancements in the metrics, it is necessary to conduct a more comprehensive technical assessment, which should now be done so the new legislation has a pragmatic effect. There are plans to expand the list to 700 items, from flex-fuel vehicles to air-conditioning equipment with low power consumption. They are references that are adopted as standards in the purchases for the public administration. Let's take school management as an example (*please refer to the illustration on pages 42 and 43*).

Besides the applicable legislation, Mrs. Vieira emphasizes that 'it is no use creating policies and changing the legal framework for public procurement if the market has no capacity to supply in a large scale'. And she recommends: 'new policies for socio-environmental gains should not unbalance sectors of the economy or harm jobs and income'. The stating signal has been given for the productive sector to redirect their investments.

## Public Procurement Worldwide<sup>1,2,3</sup>

Diversified, abundant and with strong footprint: mostly, this is how sustainable procurement policies have been developed worldwide, and the current trend is to also embrace the social agenda, just like South Africa did when buying from companies that belong to native Africans, like Australia did with local procurement, and like the European Parliament did with their legislation to buy products from fair trade.

As for procurement practices, socio-economic issues are carefully observed by managers, and the most usual practices are buying from small companies and local suppliers, ensuring safety and protection for workers.

Articulated initiatives promote sustainable procurement, such as the *International Green Purchasing Network - IGPN*<sup>4</sup>, which gathers government institutions and businesses, and since 2001 counts with specific legislation<sup>5</sup>, and *North American Green Purchasing Initiative - NAPGI*, which supports public agencies in the implementation of green bids. Besides being a member of the initiative, Canada stands out for having created a body that takes the lead in the management and support of their green procurement policy implementation. In addition to collaborating in the monitoring and assessment of the policy implementation, the office in charge of incorporating environmental criteria into government operations develops tools such as guides and *checklists* for their servants to use. The U.S. favors procurement from women and minority groups, also considering energy-efficiency issues, such as the *Energy Star* program, that is proud to have helped save 18 billion dollars in 2010<sup>6</sup>.

Asia, Japan and South Korea already have their own initiatives, and China passed a law that states bids play the role of fostering social

development and environmental protection, and their target are procurement and construction works for the 2008 Olympics.

The European Union (UE) adopted a number of legal and political instruments for their Member States, particularly by approving two directives: 2004/17 and 2004/18. Whereas, in 2003, France included green procurement targets in their Sustainable Development National Strategy, the Netherlands has acknowledged the power of such practices since 1990, by establishing 100% of the bids should prioritize environmental and social aspects in a 10-year period, and 50% should prioritize local Dutch governments, in a 12-year-period. However, in order to promote free circulation of goods and services in the EU, the directive adopted requires opening the public contract market to the competition, deeming illegal any policies that favor national procurement.

National and subnational policies were driven by EU strategy for Sustainable Development, adopted in 2006, which determines their Member States shall meet sustainable public procurement levels equivalent to the levels achieved by their top performer Member States in 2010. Currently, most European countries have sustainable production and consumption plans.

There are recent propositions for simplifying processes, with the access of micro and small businesses to the market, integration of disadvantaged people, and life cycle cost analysis. The last item is already included in the United Kingdom guidelines, seeking optimal combination of cost and quality (focus on the 'best price'), based on transparency, competitiveness, *accountability* and efficiency principles.

A survey conducted with 500,000 companies enrolled in ComprasNet - the federal government online procurement system - listed the challenges to supply the new demand. 'We are the ones who should help them adapt to the new reality', reinforces Mrs. Vieira. In the survey, managers of over 5,000 purchase units in the federal level were asked what they thought about the inclusion of sustainability criteria in bids. Over 80% of them listed as a bottleneck the lack of qualification, and the fear of punishment from control bodies<sup>III</sup>.

Such a result encouraged the publication of a guide on the topic<sup>7</sup> and the organization of an international seminar with over 3,000 participants, in partnership with ICLEI – and this initiative became a continuous learning program, through distance learning.

In order to encourage competition and the supply of a planned demand, the public sector shall communicate the market, with prior notice, how much and what they plan to buy over a certain period of time. If their signs are clear, positive and increasing, the market will more consistently respond to the demand (*please refer to Chapter 3*).

'It is a mainstream topic that demands dialog and synergy between different areas of the government and the market', states Mrs. Vieira. Actions are linked to new legislations created in the past years for environmental and social sectors. Take, for instance, the laws that established the national plans on solid waste (Law 12,305/2010) and on climate change (Law 12,187/2009), which expressly include sustainable bids as an ancillary tool to meet their goals, both by encouraging sustainable consumption and fostering a cleaner production. The Sustainable Production and Consumption Action Plan (PPCS), announced in December 2011, emphasizes the role of public procurement to drive new models, reflecting on businesses and consumers.

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III VIEIRA, A.M. Ana Maria Vieira: interview [Feb 2012]. Interviewer: S. Adeodato. Brasilia: Ministry of the Environment, 2012. Interview given to FGV Center for Sustainability Studies and ICLEI, for the elaboration of the work 'Sustainable Procurement: The Power of Public and Private Consumption for an Inclusive Green Economy'.

'In a country with 200 million inhabitants, any initiative must have scale in order to have some effect', argues Mrs. Vieira. With the goal to increase in 100% the number of conscious consumers in Brazil by 2014, based on an assessment made in 2010, the first PPCS implementation cycle has six priorities: sustainable public procurement, sustainable retail, education for sustainable consumption, higher recycling rates for solid waste, civil construction, and the Environmental Agenda for Public Administration (A3P). Besides adopting sustainable public procurement practices at the federal level, PPCS expects the government to take the lead in initiatives that support states and municipalities<sup>8</sup>.

After having assessed the needs of the society, the public sector should buy only what is necessary, with no excess or margins, so there is no waste. However, PPCS does not anticipate actions that, in theory, would be the most significant ones according to the National Plan on Solid Waste: actions aiming at 'non generation' and 'reduction' of global levels of consumption – even though one can note on PPCS an encouragement to eco-efficiency (rational use of water, power and food) and reduction in the consumption of packages and plastic bags.

Changing the way of producing and consuming is a huge – but necessary – challenge, considering the environmental and social dilemmas in the 21<sup>st</sup> century. 'The topic gains its momentum in the Brazilian agenda', points Samyra Crespo, Secretary of Institutional Articulation and Citizenship at MMA. She links the challenge to feed 9 billion inhabitants by 2050 with the risks of climate change, energy and water security, and peace. They are urgent issues that, according to her, need public policies in order to have a multiplying effect.

Mrs. Crespo agrees that the effort to change models make no sense if government procurement is not used as a driver, supported by a clear and specific legal framework. Act 7,746/2012 raises expectations that there will finally be higher legal security for bolder investments and decision-making toward a more sustainable production and consumption model. In this relationship, the business sector requests economic incentives to

adapt to rules and standards required in the bids. In response to that, the government informs they commissioned a feasibility study in order to determine in which production chains tax exemption and other similar instruments would have the most significant effects under the market and environmental perspectives (*please refer to the infographic on pages 26 and 27*). The diagnosis will be used as reference for negotiations with the Ministry of Finance.

The lack of reliable metrics is a bottleneck, even to assess the real power and influence of federal, state and local public procurement in the market. Estimates are those acquisitions, construction works and other service contracts account for 10% to 16% of the Gross Domestic Product (GDP) – the government is actually revising those figures, since, in 2011 values (GDP = BRL 4 trillion)<sup>9,10</sup>, the amount would represent between BRL 600 and 800 billion, an apparently overestimated figure. Even though those numbers are still being revised, their dimension signal how important it is to look more carefully at procurement management. The federal government itself, proving their adherence to this movement, purchased BRL 14.59 million in sustainable products in 2011 – twice as much as in the previous year, according to MPOG<sup>11</sup>. In two years, there were 1,490 bids with these characteristics.

Although those figures show some agility in the way the government moved, they reveal little ambition when it comes to determine goals for sustainable public procurement in PPCS: the goal was to have only 20 bidding processes incorporating sustainability criteria by 2014 – a commitment that needs to be revised, since it is too shy and has already been achieved.

Transitioning to a sustainable production and consumption system is a tug of war that can be pulled by buyers on one side, and by entrepreneurs on the opposite side. Public federal agencies shall comply with the new legal obligation to incorporate sustainability criteria in their purchase and hiring processes, whereas more dynamic businesses shall make investments and reinvent themselves to meet this new demand. This is the only way to make the law come into effect. 'From now on, the 'best' price will prevail, not necessarily the 'lowest' price', declares Fabricio Magalhaes, from MPOG

SLTI, explaining the main difficulty: 'to determine criteria and validate what is a sustainable product' – a task assigned to the Inter-ministry Committee on Sustainability in Public Administration, as established by Law 7,746/2012.

One challenge is the lack of engagement from public servants, who usually allege there are legal barriers to adopt the socio-environmental approach in bids. They can no longer allege Law 8,666/1993 prevents giving preference to sustainable products, either because they limit competition or because they are more expensive than their traditional counterparts. Even though they may cost more at first (label price), more efficient products in water and power consumption, for instance, promote savings in the medium- and long- terms for the public administration. There is a new understanding of what 'best purchase' means, relying on legal foundation to choose it.

Besides, as time goes by, price is no longer an issue; thanks to the technological advancements, greater production scales and society awareness, the financial costs of many of the so-called 'sustainable' processes and products have been decreasing a lot in the past decades. In some cases, the prices are not different at all. In any case, to pay more for something that is friendly to the planet and to the people would not be any ethical absurd for the public sector, once economists agree that the monetary value of goods should incorporate environmental and social costs (*please refer to Chapter 5*). While this paradigm shift does not affect all public bodies, there are tools such as shared purchases that favor price reduction through gains of scale. As time goes by, sustainable procurement is expected to become something so usual that buying a product or service without those warrants would be something impracticable, and even an abolished practice.

As the Federal Constitution establishes it is the duty of the Union to ensure people's well-being and a healthy environment, actually the legal framework – as stated previously – already allowed for sustainability requirements in the bids. 'Now new specific legal frameworks create a zone in which there is more comfort and security', points out jurist Teresa Barki, from the Office of the Federal Attorney General (AGU) in Sao Paulo.

# School Connections

The task to build and operate learning centers goes beyond classrooms and affects the planet sustainability

**TIMBER** Doors, windows, floors, roof structure and other materials used to build a school must be purchased upon checking the Forest Origin Document (DOF), which is a proof of legal logging of native wood. For purchase of eucalyptus, pine, or other reforestation species, it is recommended to select companies that can actually prove their best practices

**REMODEL AND REUSE** It is recommended to avoid excessive consumption and waste, extending the life of materials by having a good maintenance and remodeling plan

**SCHOOL LUNCH** Nutritional and food security standards should be followed, criteria to reduce waste and rationally use water should be adopted, facilities and equipment should be kept clean, fumigation should be managed, and packages should be carefully handled and stored

**FOOD PRODUCTION** For economic and social sustainability purposes, preferably ingredients that come from the school vegetable garden or from regional family production should be used, with no agrochemicals addition, whenever possible

**COMPOSTING** Inside a composter, organic waste is decomposed through the action of microorganisms, converting into high-quality compost that can be used in the school garden or vegetable garden, or in small gardens in the neighborhood

**ORGANIC WASTE** Food left-overs and grass clippings are stored in specific recipients, not mixed with other materials

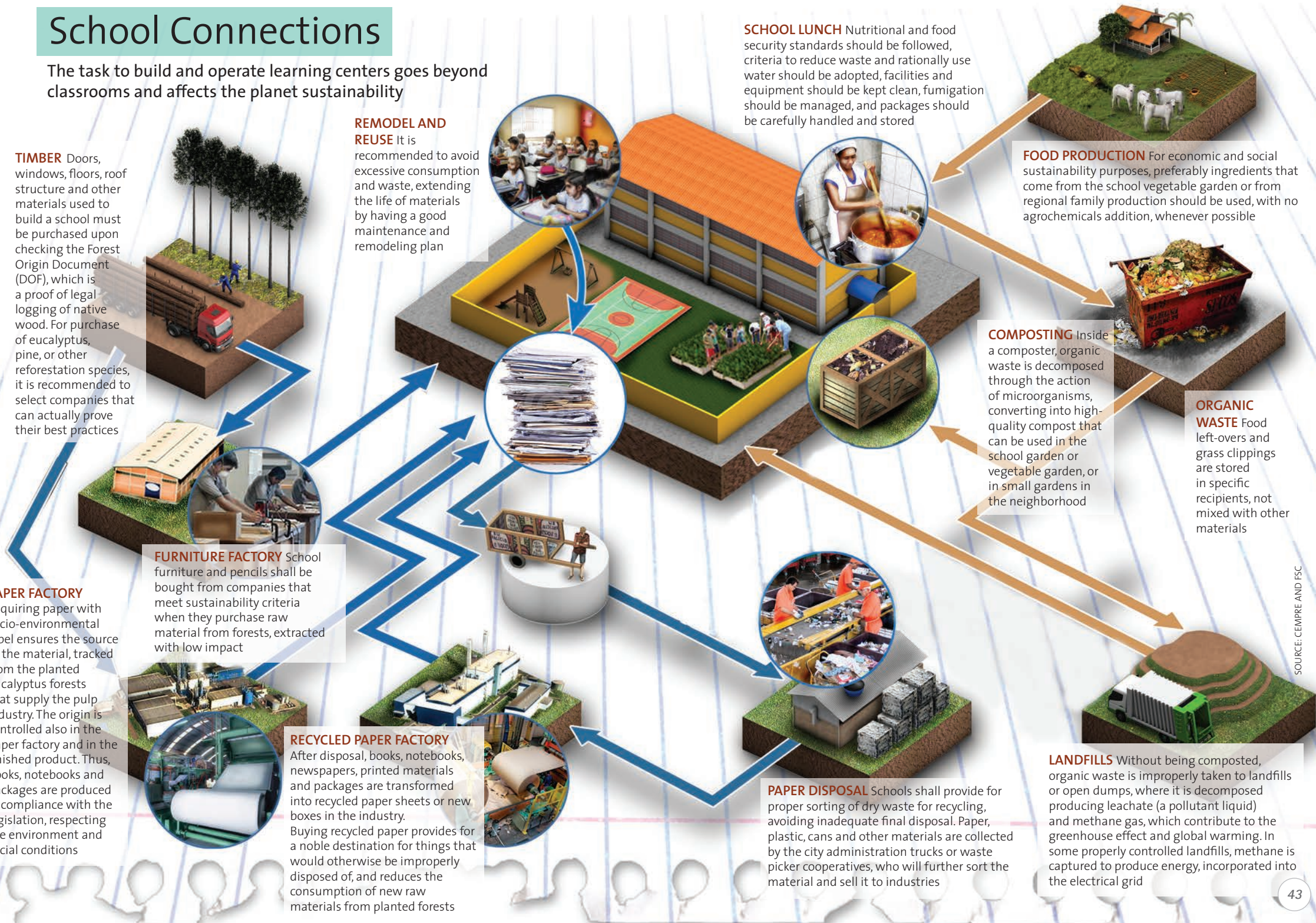
**FURNITURE FACTORY** School furniture and pencils shall be bought from companies that meet sustainability criteria when they purchase raw material from forests, extracted with low impact

**PAPER FACTORY** Requiring paper with socio-environmental label ensures the source of the material, tracked from the planted eucalyptus forests that supply the pulp industry. The origin is controlled also in the paper factory and in the finished product. Thus, books, notebooks and packages are produced in compliance with the legislation, respecting the environment and social conditions

**RECYCLED PAPER FACTORY** After disposal, books, notebooks, newspapers, printed materials and packages are transformed into recycled paper sheets or new boxes in the industry. Buying recycled paper provides for a noble destination for things that would otherwise be improperly disposed of, and reduces the consumption of new raw materials from planted forests

**PAPER DISPOSAL** Schools shall provide for proper sorting of dry waste for recycling, avoiding inadequate final disposal. Paper, plastic, cans and other materials are collected by the city administration trucks or waste picker cooperatives, who will further sort the material and sell it to industries

**LANDFILLS** Without being composted, organic waste is improperly taken to landfills or open dumps, where it is decomposed producing leachate (a pollutant liquid) and methane gas, which contribute to the greenhouse effect and global warming. In some properly controlled landfills, methane is captured to produce energy, incorporated into the electrical grid



SOURCE: CEMPRE AND FSC



AGU adhered to the federal government A3P program in 2008, at a time when there was no express legal instrument regarding the topic. Mrs. Barki travels around the country taking part in workshops and speeches on how to implement sustainable procurement with legal foundation – which resulted in a practical guide<sup>12</sup> elaborated by AGU with environmental focus in order to guide federal bodies in Sao Paulo, and now it is being expanded and adapted to the reality in the whole country.

There are regional specificities. Social issues cannot be ignored and should even be part of the technical specifications in the bid. As for engineering construction work, the bidder may require the adoption of measures aiming at avoiding occupational accidents and ensuring health during construction. Similarly, in some cases, procurement criteria shall include final disposal of the products after they have been used, according to the National Plan on Solid Waste. It is recommended managers take into account in their justification efficiency and resource savings principles. Mrs. Barki concludes that, whenever in doubt, people should opt for balance: 'often times, it is better to ensure an average environmental standard than having the top-quality solution, so you do not risk having your procedures stopped by an injunction, or seeing prices raise so high that they will become incompatible with the budget.' With time and the right stimuli, the market will adjust to the new scenario.

Transforming ideas into practices is also a concern for the Superior Court of Justice (STJ), where they fight against time to meet goals. Their main goal is to achieve a 25% reduction in water, energy and fuel consumption, as well as in paper disposal, by 2014. 'To meet these goals, our strategy is to focus on environmental education and on conscious consumption', declares Ana Maria Nicoletti, an integrant member of the Socio-Environmental Responsibility Program. On the eighth floor of the building, where her team works, a poster on how to recycle the products consumed in each room of the house shows a family concern that slowly translates into new habits also in the public service, involving the high management as an institutional strategy. Practical actions do show that the idea that whatever is 'public' does not belong to

'anybody' is a misconception, and there is no more room to it in a world seeking solutions for its environmental and social dramas. Whatever is 'public' actually belongs to 'everybody', and involves the concept of co-responsibility.

'Our initial concern is to qualify public servants and map all items the Court purchases, then establish the criteria', reveals Mrs. Nicoletti. Changes, according to her, should involve from specifications to the demand report to the Permanent Committee on Bids. The idea is to invert the current internal procedure, in which inclusion of sustainability criteria is performed in the last stage of the process. 'The plan now is to have the purchase managers themselves make this addition, using as reference a guide containing sustainable items and an on-line system, from the base project to payment', states Mrs. Nicoletti. 'Making use of a more agile process, we can avoid 'the bad habit public services have of buying more than what is necessary to supply their inventories, at the same time not taking risks of product shortage due to long processes in which documents go back and forth.' The result are savings in natural resources, and waste reduction.

## Public Administration Adopts Sustainability Criteria

To consume taking into account future generations means also to reduce expenditures and purchases. At STJ, in a change process with direct involvement of their general management, this way of thinking reflects on the strategic planning. To present medical leaves, employees do not have to use paper forms anymore, since the information is now available in an on-line system, to which managers have access. Carpets were replaced with linoleum floors made from less toxic material. Government vehicles can only be washed with cleaning products that require less water – and the staff who cleans the public servants' private vehicles at the parking lot was instructed to follow the same procedures. There are other interesting saving practices based on the reduction of consumption, such as replacement of printed material with digital documents, replacement of

business trips by road or by air with web conferences, and the donation of equipment that would otherwise be disposed of by a government body to another body that can still make use of it.

The issue has also caught the attention of Congress managers. In the House of Representatives, after the socio-environmental policy was established in 2010, and the Act of the Presiding Officer (Ato da Mesa) #4 was signed in 2011, specifically for sustainable procurement, efforts were made to determine the new criteria to be incorporated into RFPs. 'The strategy is to be careful and start eating from the edges, leveraging past experiences, without pyrotechnics', reveals Jacimara Guerra, technical coordinator of EcoCamara program. On the ground floor, where there is access to the deputy offices, a decorated window showing sustainable products stands out, really close to the airline companies' desks where they sell tickets for legislators to travel. That's where Mrs. Guerra's office is, and her staff works looking for something new, 'because everything that happens in the House has great visibility'. The use of wood, recycled paper and hydraulic facilities, not to mention the restaurant waste management and disposal of batteries, were topics covered in the first norm on sustainable bids issued by the House of Representative, which spends about BRL 200 million a year in construction works and purchases.

'In the past, we would buy black earth to fertilize the gardens, but when we realized the material was actually extracted from river banks, we started producing our own organic compound with coffee ground, saw dust and vegetable scraps in order to enrich the ordinary red earth', says Mrs. Guerra. Now the policy is to lease printers, not to buy them anymore. In 2011, 1.8 thousand pieces of equipment were leased, according to criteria to rationalize their use and avoid excess. 'With less printers available, there are savings in power consumption, a lower amount of prints and paper disposal', argues Mrs. Guerra. Thus, the House of Representatives can make use of printing services without necessarily having to be the owner of the equipment, a practice known as *servicizing*, which replaces the product acquisition with the use of the service.

Given the obligations established by the plan on solid waste (Federal Law 12,305/2010), public procurement contracts for tires, lamp bulbs, printer cartridges, batteries, mobile phones and computers, for instance, start to include a clause to establish suppliers shall be responsible for the reverse logistics – a number of actions, procedures and measures aimed at enabling collection and return of solid waste to the business sector, for reuse, either in their own cycles or in different production cycles, or still another environmentally sound disposal (*please refer to the example in the computer infographics, on pages 48 and 49*).

Regarding waste, according to Act 5,840/2006, the federal public administration shall make selective collection and send the material to waste picker cooperatives – a measure that has not been implemented by many bodies yet. White office paper is the most wanted waste from public services in the market. In Brasilia, informal waste picker groups compete for space to be the first to get the paper, and actually camp around the president office and the ministries area. In the House of Representatives, where materials were previously sold and the resulting money would be donated to the public servants' association, now the materials go directly to waste pickers. About 100 tons of waste are generated per month, out of which 60% are recyclable materials.

'There is a risk that the most valuable materials are deviated before they get to the cooperatives', admits Mrs. Guerra, feeling sorry for the level of disorganization, unfair share of profits, and fight for power in many of them. 'In the next RFP', she says, 'we will request a formal declaration stating resources are equally shared among the cooperative members, and this will be checked by audits'. Besides social inclusion and creation of job opportunities, other sustainability social aspects can be observed, such as dignified jobs, compliance with social and labor rights, accessibility for disabled people, besides encouraging and giving preference to goods and services coming from fair and ethic trade.

Breaking the resistance requires changes in practices that are historically inherent to the public administration – and also to their supply chain

# Computers: where they come from, where they go to

**PLASTIC** Plastic components in electrical and electronic equipment come from resins produced by petrochemical industries using oil extracted with spill risk

**ENERGY** Energy efficiency shall be incorporated into the manufacturing and operation of computers, and this aspect shall be observed as a sustainable procurement criterion. Reductions in power consumption decrease the demand on hydroelectric power plants, whose construction brings adverse impacts

**MINING** Resources are extracted from nature and processed to offer the elements needed to assemble computers. Mineral exploration may pose risks if social and environmental criteria are not taken into account. The main deposits are located in Africa, in regions where there are ethnic and political conflicts

**STORES** Resellers and retail networks offer centers to collect old equipment returned by consumers, who should be oriented at the time of the purchase about the product environmentally-sound use and disposal

**USERS** Besides price and quality, environmental and social aspects should be taken into account by businesses, public bodies and consumers when making a decision on what to buy and what to do with old computers. It is important to avoid unnecessary consumption, take action to extend the product life, and find out about best practices manufacturers follow, including reverse logistics

**REVERSE LOGISTICS** Should computers still be functional, they can be given to somebody else, resold or donated. Manufacturers and resellers operate collection systems to the users' houses, either by mail or through a technical assistance network for recycling and reuse of components, which become raw material in the life cycle of other products, including new computers.

**FACTORY** Products are designed to meet market needs. Design and engineering projects can provide for lower use of inputs, and use of easier to recycle raw materials. An average computer consumes up to ten times its corresponding weight in fossil fuels. Besides, up to 1,500 liters of water are used in its manufacturing. A single chip consumes up to the equivalent of 400 times its own weight.

**SORTING AND REPROCESSING CENTERS** After selective collection, computers are disassembled. Some of the components are reused in new products. Plastic and metal components are shredded and sent to recycling industries to be transformed into raw material. In average, computers weigh about 55 pounds and are made of up to 60 components from different materials.

**TRANSPORTATION** Products are distributed to the stores, or they can be bought directly from the manufacturer. In both cases, transportation accounts for greenhouse gas emissions, which contributes to global warming

**LANDFILLS** Electrical and electronic equipment shall not be disposed of at a landfill, since toxic substances and metals contaminate the soil and the water. It is important to ensure reverse logistics and proper final destination as a sustainable procurement criterion.

**PACKAGES** They should be sorted according to the type of material (plastic, paperboard, Styrofoam, etc.) and sent for recycling. Wherever the city administration does not have a selective collection program, it is possible to establish partnerships with waste picker cooperatives or take the materials to a voluntary collection center in town

SOURCE: ITAUTE/C/ELECTRICAL AND ELECTRONIC EQUIPMENT CONSCIOUS USER GUIDE

and service providers. Regulations in the command and control line force disruption and increase the scale of new attitudes, having a structuring influence in the economy and society as a whole.

However, a significant portion of this transformation power is associated with voluntary actions and to each person's environmental and social awareness – be they public or private managers, decision-makers in different levels, influencers, or mere consumers.

At the Brazilian National School of Public Health (ENSP), which belongs to the Oswaldo Cruz Foundation (Fiocruz), in Rio de Janeiro, there is one room that particularly shows the value of such initiatives. On the table, a clay jar with water indicates the priority goes to whatever is natural and reusable. Inside the cabinet, there is a cardboard box filled with samples of innovative products: a clip box made of renewable vegetable fibers, and glasses made from corn starch with the expectation to decompose 180 days after disposal. In the room next door, the purchase team carefully watches the computer broadcast of an electronic bid for procurement of lower adverse impact products. It is the sixth bid conducted by the institution, this time with 19 items. 'We expect a growth in demand', states Rejane Tavares, author of the work that inspired the pioneer project on procurement at ENSP.

'From pencils made from reforested wood to recycled paper, the key is to properly describe each product and their environmental effectiveness, aiming not only at the lowest price, but also at their quality and durability', explains the head of the procurement sector. In the RFP for furniture, companies are required to enroll in the Federal Technical Records, from Ibama, and to present the Forest Origin Document (DOF), issued by the timber electronic control system<sup>19</sup>. 'We do check the companies' corporate taxpayer register in the environmental body system to collect more information about logging through sustainable forest stewardship', reports Mrs. Tavares. She reminds us that the requirement to present international socio-environmental certification labels, although at first seems to be a measure capable of simplifying and offering more safety to the process, can be a reason to have the bid disputed, since TCU has already published

a decision against it. However, as Mrs. Tavares explains, there is no objection to copy the sustainability characteristics required in the sustainability certifications – which are mandatory to obtain the labels –, and incorporate them as criteria or specifications in the procurement or hiring RFP.

'Currently, the main obstacle is not the legislation, but the market', completes Mrs. Tavares. In the last sustainable bid, a great portion of the items were cancelled either because the prices were above the estimated in the market survey, or because specifications would not match the ones in the RFP – meaning the products did not comply with socio-environmental criteria. Going deeper into technical issues involving these characteristics, public servants have to deal with questions that often times are not answered by the scientists. One of the challenges is to filter green marketing appeals and learn how to handle controversies about the real benefits of the so-called 'sustainable' products.

'Do we have to do a due diligence to prove what is written on the labels?', asks Mrs. Tavares, concerned with the chance of buying a pig in a poke. To support public procurement, there are current discussions about the creation of a national institution to check products, or the creation of a national certification program, for instance. While the plan does not come into effect, the solution is to search the literature and ask for the support of specialists. ENSP, for example, created in 2012 an internal committee for environmental management, with the purpose to establish goals and assess practices, including procurement. There are questions, for instance, concerning biodegradable products. Mrs. Tavares asks: 'Should we discard along with organic waste also all the paper and plastic that are going to decompose in nature?'

## Legal Certainty and Control Bodies

The Brazilian legislation already holds elements and criteria for sustainable public procurement. But there is a lack of individual and institutional action, legislation compliance, and supervision and positioning from the con-

trol bodies side. In the past regarded as cruel, they are currently integrated to the change process. They become allies of those who can think out of the box and risk to opt for sustainability, now legally supported as a purchase criterion, equally or even more important than the choice based solely on the lowest price. 'Sustainable bids are backed by constitutional and legal support and reaffirm some of the rules established in some ordinary laws', states Rafael Torres, external control secretary of the Federal Court of Audit (TCU). There are mechanisms, such as the Differentiated Regime for Public Procurement, with rules that allow for the adoption of sustainable criteria, for instance, in bids for the construction works of the 2013 Confederations Cup, the 2014 World Cup, and the 2016 Olympic and Paralympic Games. 'In the past, there were many questions, but the new norms allowed for greater transparency on the legal aspect', explains the secretary.

Those who used to argue about price, now demand sustainability actions. TCU audit reports require sustainable bid practices and, in theory, if those practices are not present, there will be charges and punishment. In summary: different from the time when 'green' solutions would be despised as something superfluous or just a dream of ecologists, something expensive and of low quality, currently such behavior may be a reason for trouble and headache for public managers who are not aware of it. Nobody argues it is a long and tough journey. The initial strategy, according to Mr. Torres, is rather guiding and driving behaviors than punishing. 'It is a new and complex topic', states the secretary.

A survey conducted in 2011 by TCU with 79 bodies of the federal administration revealed that 73% do not elaborate bids including sustainability criteria<sup>14</sup>. As a consequence, Decision 1,752/2011 was approved with the recommendation to follow SLTI/MPOG Normative Ruling 1/2010. Monitoring is expected, in order to assess the measures taken. 'If there is no pressure, public managers tend to see the topic as one more obligation to which there is no reward', regrets Mr. Torre, reminding us advancements occur 'more thanks to personal than institutional initiatives'.

A mere normative ruling is not enough for the sustainable bidding of

roads, airports and other infrastructure works, for the purchase of office materials and vehicles, hiring of cleaning services, gardening and security. The public sector should lead by example and take action for an environmentally sound use of what is purchased with the money from taxes collected. In this scenario, from coffee paper cups to document paper used in the public offices, there is plenty of room for gains in quality and efficiency. The topic concerns TCU. In Mr. Torres' opinion, there is little adherence to the Environmental Agenda for Public Administration (A3P) and Sustainable Ministries programs, having the latter been created in 2009 to promote savings in water, energy efficiency and other environmental actions in the buildings where the ministries operate. 'Those programs essentially exist only on paper', states the secretary, pointing out people are afraid of spending less water and power, for instance, and then having their next year budget reduced due to those savings. 'We recommended MPOG to create a mechanism to translate the savings into benefits for the bodies', explains Mr. Torres. Moreover, the Public Attorney's Office was requested to elaborate an action plan to guide and encourage all federal bodies to adopt measures to increase sustainability and efficiency in the use of natural resources.

'After MPOG norm on sustainable bidding, we thought there would be more complaints from unhappy bidders, but this did not actually happen', reveals Fernando Magalhaes, head of the environmental department, created six years ago at TCU. There may be two reasons for that; either the market is signaling its engagement with the changes, or the government is not purchasing according to these criteria. 'After the audit, we established that all public bodies should include an environmental annex in their annual accountability reports, in the management reports', states Mr. Magalhaes. He concludes: 'we have been learning a lot, since in this area we lack a record with costs in order to compare them to the benefits'. In this journey that is just starting, there is need for reference materials that were never published before in the public sector, such as product catalogs and sustainable procurement manuals. 'The optimal balance is the intersection between price, competitiveness, feasibility and environ-

mental impact', analyzes the TCU federal auditor, Carlos Eduardo Lustosa da Costa. He recommends: 'it is important to fully justify the criteria and adopt objective parameters, according to technical norms, so as not to privilege anyone in the procurement process'.

In 2011, for instance, Chico Mendes Institute for Biodiversity Conservation (ICMbio) had trouble in the bid to hire graphic services, because they determined that only companies with an internal selective collection program would be eligible. MPOG's Normative Ruling #1/2010 only allows for such a proof during the first three months of the contract, not as a preliminary condition for eligibility, which could harm ample competition. In the decision on the case, TCU recorded: 'It is worth pointing out the inclusion of the sustainability variable in bidding proceedings, considering the volumes such purchases represent and consequently their potential (...) to drive the sustainability plan. Therefore, it is a notable initiative ICMBio had to adopt such criteria in the bidding proceedings carried out by the authority. However, (...) one must be careful whenever establishing this type of requirement (...) so that it does not prove to be incompatible with the purpose of the bidding and with the moment it is being requested.'

As it is something innovative, that affects the public service culture, and is related to economic interests from the suppliers' side, one should take proper care when it comes to the legislation, referring to specialized legal counseling as a strategy against eventual obstacles that may harm the change process in its very beginning. In order to build such a foundation, the Superior Council for Labor Court, in Brasilia, for instance, completed in 2012 a guide for hiring at the Labor Court<sup>15</sup>, establishing goals for adopting the practices. 'It was a long and careful work involving representatives of all 24 regional courts, mobilized by activities that gathered the main federal control bodies', tells Ana Maria Borges, socio-environmental responsibility coordinator. The group basically started from scratch and overcame resistance, using as reference AGU's, ICLEI's and FGV's publications<sup>16</sup>.

From phosphate-free laundry detergent to timber only purchased upon proof of legal logging, the work broke down the criteria for a variety of the

top consumed services and products. 'It is a guide that will be continuously under construction, according to new studies on environmental impact and the innovation that comes to the market', anticipates Ana Borges, who applies to the procurement efforts her creative potential inherent to the training she had on performing arts. The priority goes to recyclable packages and organic food – including the indispensable coffee, that is consumed in cups made with materials from renewable sources or sources that are less harmful to the environment once the cups are disposed of.

Construction works will only be hired at builders who have adhered to the National Commitment to Enhance Labor Conditions<sup>17</sup>, launched by the federal government in partnership with unions. During construction or remodeling works, buildings should preferably have natural ventilation, a light color applied to the facade in order to reduce sources of heat, and permeable floor rather than carpet, among other things. Gardens may only be irrigated by systems that save water. 'Those items are more expensive than the traditional ones, but they tend to get cheaper as they become more accessible', states Ana Borges, arguing that what is cheaper today can become a lot more expensive in the future, when impacts are accounted for. An assessment of the life cycle of the product or service (*please see more on page 96*), including maintenance and disposal costs, can show sustainable procurement is cheaper than procurement with no sustainability attributes. A lot of this challenge is now in the hands of the public servants in charge of the product and service specifications in bids. She refers to Buddha's teaching: 'All that we are arises with our thoughts. With our thoughts, we make our world.'

## Initiatives Multiply Locally

At the state and municipal levels, one may also notice there is a favorable attitude toward the inclusion of sustainability criteria in the bids, what contributes to a paradigm shift in the control bodies. In the State of Sao Paulo, the Full Session of the Court of Audit has already expressed

# A Mosaic of Norms

## NORMS DIRECTLY RELATED TO PUBLIC PROCUREMENT

### Scope: National

1998 Federal Constitution

Art. 37 – Principles governing the public administration

Art. 70 – Principle of economy

Art. 170 – General principles of economic activity, II, IV and VI

Art. 173 – Regulates direct exploration of economic activities by the State

Art. 174 – General principles of the State as an economic regulator

Art. 225 – Environmental protection norms and principle of sustainable development

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Law 8,666 as of June 21<sup>st</sup>, 1993 – Bids and Contracts Law

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Law 9,605 as of October 05<sup>th</sup>, 1998 – Environmental Crimes Law

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Law 10,257 as of July 10<sup>th</sup>, 2001 – Charter of the City – regulates Articles 182 and 183 of the Federal Constitution and establishes general guidelines for urban policy

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Law 12,349 as of December 15<sup>th</sup>, 2010 – Changes Art. 3 of Law 8,666/93, introducing national sustainable development as a goal in public procurement

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Law 12,462 as of August 04<sup>th</sup>, 2011 – Establishes a Differentiated Regime for Hiring, among other provisions

### Scope: Federal administration bodies

#### GENERAL NORMS

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Act 4.131 as of February 14<sup>th</sup>, 2002 – Federal Official Gazette as of February 15<sup>th</sup>, 2002 – regulates emergency measures on electric power consumption reduction

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Normative Ruling #1 as of January 19<sup>th</sup>, 2010 – Regulates environmental sustainability criteria in the procurement of goods, hiring of service or construction works by the direct federal public administration, autonomous agencies and foundations, among other provisions

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Act 7,746 as of June 05<sup>th</sup>, 2012 – Regulates Article 3 of Law 8,666/93, including national sustainable development as a goal of the Law of Bids and Contracts

#### SPECIFIC NORMS

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CONAMA Resolution 20/1994 – Regulates the creation of the Noise Emission Label, mandatory for electrical appliances that make noise during operation

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Act 2,783, as of September 17<sup>th</sup>, 1998 – Prohibits purchase, by the direct federal public administration bodies, autonomous agencies and foundations of products or equipment that contain or make use of substances that damage the ozone layer

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CONAMA Resolution 307/2002 – Determines criteria and procedures to manage waste in civil construction

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Act 5,940 as of October 25<sup>th</sup>, 2006 – Establishes procedures for sorting and destination of recyclable waste disposed of by entities in direct and indirect federal public administration

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MMA Directive 61/2008 – Establishes environmental sustainability practices for sustainable public procurement

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MMA Directive 43/2009 – Prohibits use of asbestos in public works and vehicles used in all bodies associated to the public administration

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Act 7,174 as of May 12<sup>th</sup>, 2010 – Regulates the purchase of computer products and hiring of computer services and automation

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MPOG Directive – SLTI/MP 02/2010 – Regulates the purchase of information technology items with sustainable environmental criteria

## NORMS INDIRECTLY RELATED TO PUBLIC PROCUREMENT

### Scope: National

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Law 6,938 as of August 31<sup>st</sup>, 1981 – Brazilian National Plan on the Environment

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Law 8,112 as of December 11<sup>th</sup>, 1990 – Law of Legal Framework for Public Servants – establishes, among other things, the obligation of public servants to protect the environment

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Law 9,605 as of February 12<sup>th</sup>, 1998 – Environmental Crimes Law

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Law 10,295 as of October 17<sup>th</sup>, 2001 – Law of Energy Efficiency – rules the Brazilian National Plan on Conservation and Rational Use of Power

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Act 5,504 as of August 08<sup>th</sup>, 2005 – Makes bids mandatory, preferably electronic bids

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Complementary Law 123 as of December 14<sup>th</sup>, 2006 – National Charter of Micro and Small Companies, regulated by Act 6,204 as of September 05<sup>th</sup>, 2007, which offers favorable, differentiated and simplified conditions to micro and small companies in public procurement

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Law 12,187 as of December 29<sup>th</sup>, 2009 – Brazil's National Plan on Climate Change, regulated by Act 7,390, as of 2010

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Law 12,305 as of August 02<sup>nd</sup>, 2010 – National Plan on Solid Waste, regulated by Act 7,404 as of December 23<sup>rd</sup>, 2010

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Law 12,527 as of November 18<sup>th</sup>, 2011 – Law of Access to Information, regulated by Act 7,724 as of May 16<sup>th</sup>, 2012

its positioning regarding FSC label as a condition for contractual execution in school material bids: 'it is an environmental certification issued by a worldwide renowned organism, with the goal to certify legal logging'.

'Therefore, the Administration should not be blamed, at this stage of the proceedings, for its notable concern with preserving the environment'. She points out the educational aspect of the measure, which 'contributes to raise awareness of students to the adoption of sustainable practices'<sup>18</sup>.

The search for solutions and strategies for a sustainable development is a new role for the public sector. There are people who are willing to work as public servants aiming at offering benefits to the society as a whole – meaning they are not eager to benefit with the immediate effects of a political party-oriented administration, but rather to engage into a comprehensive long-term, integrating and structuring commitment.

Such awareness encouraged an innovative initiative in Rio de Janeiro: the electronic bid for sustainable procurement, shared among different bodies of the federal administration as a strategy for economies of scale. 'Combine our efforts would make a great difference in order to get affordable prices and assurance of supply', justifies Renato Cader, executive manager of the Brazilian National Cinema Agency. In 2011, when he was in charge of the procurement sector in Rio de Janeiro's Botanic Garden, he mobilized the internal team and other federal bodies to break cultural and legal resistance for the first joint purchase of five items with sustainability attributes. Ten institutions participated in it<sup>19</sup>. As a result, the acquisition in larger scale allowed for 50% average savings compared to market prices. 'There is no way back', concludes Mr. Cader, one of the developers of the Executive Leadership Forum of Public Federal Bodies in Rio de Janeiro, GesRio.

'We had this fear that buying products with market differentiators would make us pay more for them, but this fear soon disappeared', he adds. According to Mr. Cader, the scenario was inverted: 'now we have to deal with the risk of manufacturers not being capable of meeting the governmental consumption needs'. The second shared bid, held in 2012, had almost 50 warehouse items with sustainability attributes, and the

number of participating public bodies tripled, meaning greater purchasing power with savings of BRL 723,263.78. 'The pressure for quality criteria guides the sales to companies who have higher reputation in the market, which reduces risks of products being delivered with wrong specifications', explains Jorge Pecanha, from Fiocruz, coordinator of the last bid. From that initiative, new demands emerged for decision-making, such as the need to determine levels of sustainability for the products the public sector purchases most. By the way, the issue is being assessed by Inmetro, the Brazilian National Institute of Metrology, Quality and Technology.

What is more beneficial for the environment? What promotes better use with less waste? Common or recycled paper? Biodegradable plastic? Native woods or eucalyptus trees? Or would it be recommended to replace wooden products with metals and plastics? A new profile of public administrator emerges, one who is aware of environmental and social issues, identifying their connections with well-being, economic development and sustainable production of wealth. It is typically a multicultural and articulating professional, who seeks technical support in areas at first not linked to the public administration, such as Biology and Chemistry, Psychology and Social Sciences, package design, transportation logistics and energy efficiency, among many other examples. In the public servants' contribution to a fair and more sustainable world, new horizons emerge, new possibilities such as the training classes offered in the country so that new government consumption habits become true and are disseminated. But there is still a lot to do and communicate.

'It is an emerging topic that is grabbing people's attention', states Tania Tavares, from the Administrative Development Foundation (Fundap). The institution, belonging to Sao Paulo state government, was pioneer in the creation of a sustainable bid training<sup>20</sup>, mediating the distance through the Internet, and is currently a reference in the country. From the identification of sustainable products to the laws and norms which regulate bids, the contents of the program – elaborated by experts – explain the topic in a creative and easy to understand manner, having interactivity as one of its



main features. The system works just like a virtual community, but relying on a technical mediator, who acts as a learning facilitator. The estimated time for conclusion is two months, with a one-hour-access a day. 'It is a flexible methodology continuously under construction, counting with a discussion forum and a collaborative network', explains Mrs. Tavares. Created in 2009, the tool has already trained 2.6 public servants exclusively from the government of the State of Sao Paulo and, from 2012 on, it will be open for public and private managers in the other regions of the country. 'Our goal is to create circumstances to raise the percentage of sustainable procurement', argues Mrs. Tavares.

The course was created to mobilize managers and support the demand for training after Sao Paulo state government took the lead in the national scenario and established a sustainable procurement policy. In 2003, the world was focused on the creation of the Marrakech Task Force (*please refer to Chapter 1*). Sao Paulo government joined the movement because of the programs to reduce water and energy consumption, according to State Order 50,170/2005, which established socio-environmental criteria in the government procurement catalogs and the creation of a label to differentiate products and services with those characteristics – reasonable use of water resources, minimization of waste, savings on raw material, and reduction of pollutants, among others.

## Sao Paulo and Minas Gerais States Examples

Assessment of the total long-term costs, and not solely price, was starting to be taken into account. Following such trend, later the State Order 53,336/2008 established the State Program for Sustainable Public Hiring in order to qualify managers and incorporate sustainability criteria in the procurement and hiring procedures. From that initiative on, Sao Paulo State bodies had to form committees to make the law effective and report actions<sup>21</sup>.

'The competition rationale would be kept in the bid; however, it would follow new models', points out Marcelo Sodre, Attorney and Professor of

Environmental Law at PUC-SP. 'The topic would bother, and what used to be forbidden was now a duty', adds the jurist, in a reference to environmental issues being considered in the bidding process. The Environmental State Attorney's Office contributed with legal support and in the elaboration of the state order independent from the federal legislation. 'In the stage that followed, it was really hard to create sustainable specifications for hundreds of items, with market support and alignment with the bidding rules', reports Valeria D'Amico, who was actively engaged in the initial process and is currently working in Sao Paulo State Internal Affairs Bureau.

'It is a quite significant purchasing power, strategic to influence market's best practices', states Denize Cavalcanti, from Sao Paulo State Environmental Secretary – the body in charge of elaborating the criteria incorporated into the procurement catalog with 124,000 items to guide managers in bids. Out of this total, 550 products carry the state socio-environmental label<sup>22</sup>. According to Mrs. Cavalcanti, almost 5% out of the BRL 25 billion from all the state government bought and hired in 2011 were spent on items that incorporate socio-environmental concepts. Since 2009, this figure grew 40%. They will focus more on vehicles now: 'up to the moment, all the vehicles needed to have the label required for the government procurement was to be flex-fuel or ethanol-powered, but the plan now is to require adherence of the carmakers to Brazil Vehicle Labelling Program, which monitors the levels of pollution', tells Mrs. Cavalcanti, reminding us the measure will have a multiplying effect in the market for private consumers.

Similar to what occurred in the state level, the city of Sao Paulo has incorporated the implementation of sustainable procurement in the public administration since 2005, when the topic was barely starting to be discussed in Brazil. 'It all started when the Secretary for Environment, Eduardo Jorge, refused to sign any document printed in white paper if it were not printed on both sides', recalls Ricardo Hoenen, auction crier in charge of sustainable procurement in the Secretary. 'It was a clash of cultures', he adds. Soon some other unusual guidelines came from the top down: for instance, if disposable cups were to be used, they had to be paper cups.

In order to handle new procedures that were becoming rules, it was necessary to create new codes in the city supply system, which represented a huge learning with successes, failures and unexpected situations along the way. In one of the setbacks, the city council issued a 'minute to record prices', informing all that would be consumed of each material throughout the year. The plan to announce the information was to benefit from prices with economies of scale and supply assurance. 'But we failed in the specifications and ended up buying very low-quality material', admits Mr. Hoenen.

The plan backfired. It made those who opposed the changes stronger. 'Recycled paper would jam the printers, since we did not specify the percentage of post-consumer waste the material should contain', recalls the manager. Little by little, after repeated insistence, the problems were solved and currently the city administration buys high-quality recycled paper for prices that are lower than regular paper. Managers would ask themselves: 'how can we buy things that are not actually available in the market?'. Plastic cup manufacturers would look down on those who sold paper cups, which decompose after a year and a half, should they contain paraffin. Without paraffin, the time it takes to decompose in the environment is three months. Who would tell the prestige situation would be inverted? As time went by, alternate cups were preferred, for competitive prices. Given the city administration demand and a larger scale for the 'green' market, the average price for paper cups fell from BRL18 to BRL 7 per every 100 units – almost the same of the traditional plastic version, about BRL 5, which can take a few hundred times longer to decompose in nature.

'It is all about culture, education, political will and persistence', says Mr. Hoenen, emphasizing the importance of the multiplying effect. Similarly to what already happens to procurement in the warehouse, an ordinance requires the purchase of cement, stones and sand produced at mines with licenses granted by Cetesb, the State Agency of Environment. Benches, toys and other items found in the structure of city parks and squares shall use legally-sourced wood <sup>23</sup> – extracted from Brazil, rather than coming from Asian markets. Instead of hiring motor bikers, whose motorcycles release

greenhouse gases, now the preferred option for small package delivery it to hire bike boy services.

'We followed the model used in Barcelona, Spain, where they developed an environmental agenda focused on public procurement', states Thais Horta, in charge of A3P implementation in the city of Sao Paulo. Besides Barcelona, many other cities in the world also stand out in sustainable procurement topics (*please refer to the chart on pages 64 and 65*). Mrs. Horta recalls that, in 2006, two ordinances already established goals to reduce power (10%) and water (20%) consumption. It was strategic to mobilize and value public servants. Over 600 servants have already attended the qualifying course at the Open University for Environment and Culture of Peace (Umapaz) – an initiative of the city administration for learning in network for environmental improvement. 'Changing buying habits demands a new way of looking at the world', emphasizes Mrs. Horta, to whom the current process is 'an awakening to possibilities for public sector professionals'. In the famous Martinelli building, where four municipal bodies operate, at Sao Joao Avenue, downtown Sao Paulo, the efforts translated into the equivalent to 20 Olympic swimming pools in water savings, accounting for BRL 660,000 in cost reduction.

The State of Minas Gerais is among the pioneers when it comes to public administration. Besides adopting measures and creating a specific program for sustainable procurement<sup>24</sup>, it deployed strategic management of supplies, and strongly incorporated sustainability into public works. Purchases are now better planned, taking into account the standardization of goods and services hired by the State. Options now shall meet the requirements of sustainable bids, assessing the supplier market and the best strategy for the procurement. The elaboration of electronic procurement was incorporated in order to record prices in joint procurement.

Among the product families that were initially listed, the highlight goes to rubberized asphalt made from worn tires. According to Renata Vilhena, Minas Gerais State Planning and Management Secretary, 'replacement of ordinary asphalt with rubberized asphalt is one of the most significant examples of the benefits brought by the study of sustainable characteristics.

## City Models Worldwide <sup>25,26,27</sup>

A Sustainable City Council was created in Barcelona, Spain, in 2006, as part of the Agenda 21 Program. Social and environmental criteria were included in the bids, having as goals, among others, to reduce greenhouse gas emissions, promote efficiency in water consumption, reduce waste generation, respect labor legislation and promote a more sustainable and fair economy. Among the practices adopted by the city, we can highlight the ethic purchase of work clothes and uniforms, responsible procurement of timber with origin certificate and FSC label, participation in ICLEI's SMART-SPP project<sup>28</sup> to foster market innovation through purchases, and meetings with suppliers. Currently, about 37% of all bidding processes rely on at least one social or environmental criterion. In May 2012, they received the Diamond Purchase Award for Sustainability.

The city administration in Malmo, Sweden, established an ambitious goal: serve 100% organic food by 2020 and, thus, reduce in 40% greenhouse gas emissions from production and distribution of food, compared to 2002 levels<sup>29,30</sup>. Malmo is considered a fair trade city, with certification, so that it is committed to improving working conditions and preserving human rights in trade and production, which also helps to promote democracy. In 2011, 50% of school food procurement were already coming from fair trade, and over 40% of it were organic. Those figures are much higher than the ones from 2007, which accounted for about 15% and

25%, respectively. Boldly, the city administration adopted the slogan 'Malmo with no more dumb car trips', after having found out that citizens could easily go from one place to another on foot.

The city of Kolding, in Denmark, created their sustainable procurement policy in 1998. Currently, products, services and public works incorporate sustainability criteria. For each product type, a minimum set of criteria must be observed. Not only had they no need to increase the municipal budget to deploy sustainable public procurement, but they also reduced in 10% the overall budget for procurement in the past 10 years. Just about all public procurement practices were changed in order to incorporate environmental criteria.

Capetown, in South Africa, got started in the implementation of sustainable public procurement and launched, in January 2012, a guide that was included as an annex to the Municipal Plan on Supply Management. With principles, goals and a strategy integrated to the targets of the Action Plan on Energy and Climate Change and of the Municipal Plan on Integrated Development, the guidelines highly encourage broadly considering the concept of 'life cycle' when writing the RFPs, assessing propositions and contracts and, thus, revise supplier selection criteria. The government purchasing power is expected to be used to also encourage market participation, reducing risks and environmental impacts, and fostering innovation.

Besides being more environmentally friendly, that type of asphalt presents 30% higher durability than ordinary asphalt, and, under the financial perspective, between 2007 and 2011, its adoption accounted for over BRL 100 million in savings for the State'. Currently, the use of asphalt mix produced with tire rubber is mandatory in the State<sup>31</sup>, which indicates the 'trend' came to stay. Sustainability in public procurement and construction work is also being considered in the works for the World Cup in an innovative way in the country. Take, for instance, 'Mineirao' Stadium, certified by LEED (*Leadership in Energy and Environmental Design*), which will use solar power.

Little by little, encouragement for sustainable procurement finds its way in Brazil, although in some States similar measures are not turned into action. In Piauí, 18 state bodies elaborated plans under A3P, aiming at a 30% cost reduction. According to Jairo Galvão, coordinator of Environmental Compensation of the State Secretary for Environmental and Water Resources, the priority should go to the purchase of recyclable materials, procurement of high-efficiency lamps, as well as acquisition and rental of flex-fuel vehicles. It takes time for the measures to come into effect, but, in the countryside, similar to what happens in other areas of the Northeast region, public procurement of food from small producers has been growing.

Local procurement, and procurement from micro and small businesses also have their chance in Brazil. Effective throughout the country, Law 11,947/2009 establishes that at least 30% of the lunch offered at schools have to be sourced with local ingredients – using funds from the Brazilian National School Nutrition Program promoted by the Ministry of Agrarian Development (MDA)<sup>32</sup>. The legislation recommends land reform settlements, traditional communities, indigenous communities and maroons be prioritized – and the legislation also allows for waiving a bid in such cases. Besides caring for the quality of food, the initiative also contributes to the organization of regional family agriculture and qualification of their commercial actions, assumptions that are also related to the local development and sustainable procurement. In contrast, food industrial production usually depends heavily on fossil fuels, agrochemicals, preservatives and long-distance transportation.

Local products such as cassava, sweet potatoes, Brazilian nuts, corn, beans and other products with no agrochemicals, as well as regional fruit juices appear more regularly now in school menus. According to MDA data, BRL 1 billion was used for such purchases in 2011 in the country. Altogether, the school food market contributes with BRL 3 billion per year<sup>33</sup>. Towns such as Paragominas (PA), Rio Branco (AC) and Areias (PB) are among the first ones that organized actions in this sense – from training school cooks to create receipts using local products, to training farmers for organic production. Until year 2000, school lunch used to be provided by large enterprises; the purchase was centralized in Brasília and goods were distributed throughout the country, with high waste rates. In the past few years, through a decentralized process, things changed for the benefit of about 4.3 million family farmers, who currently account for 70% of the food<sup>34</sup> that reach Brazilian households, but who still face unfair conditions, such as dependency on middlemen and poor levels of technical and financial assistance.

Because it employs 60% of the work force and accounts for 99% of the Brazilian businesses<sup>IV</sup>, SMB (small and medium business) participation is critical for the development and for the integrated movement for sustainability, specially thanks to the distributive and socio-economic attribute inherent to these businesses. Among the benefits of buying from local businesses, there is the chance to reduce carbon footprint (since it reduces the need for road transport, a top greenhouse gas emitter in Brazil), invest on the community and encourage local prosperity. Complementary law 123/2006 established favorable conditions for SMBs to be hired from the public administration, and there are bids offered exclusively for them, in case of hiring up to BRL 80,000, and preference goes to the hiring of small businesses whenever there is a tie in a bid, among other conditions.

Both in the countryside and in the city, advances in sustainable procurement in government play different roles, from fostering environmental

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**IV** Souza, S. Suenia Souza: interview [April 2012]. Interviewer: S. Adeodato. Cuiabá: Sebrae Center for Sustainability, 2012. Interview given to FGV Center for Sustainability Studies for the elaboration of this work.

education of their servants, encouraging credit policies that are socially and environmentally responsible, responsibly managing public budgets, to mobilizing private business agendas, with consequences on a number of production chains. Like a domino effect, products with sustainability attributes are encouraged to reach public and private buyers (*please refer to Chapter 5*) with affordable prices. Whether or not they are public body suppliers, private entrepreneurs tend to use their purchasing power to open up spaces in the market and influence higher sustainability and efficiency standards in the use of natural resources.

## Highlights

- Sustainable bids already count with legal support. Control bodies, such as the Federal Court of Audit, who showed resistance in the past, currently demand sustainability actions from the public administration.
- The State of Sao Paulo was pioneer in the adoption of socio-environmental criteria in the procurement catalog, as established by State Order 50,170/2005. The City of Sao Paulo followed the same path, from that year on, and so did the State of Minas Gerais.
- At the federal level, fundamental milestones occurred in 2010, with SLTI/MPOG Normative Ruling #1, and the change in Article 3 of Law 8,666/1993, on bids, that incorporated into its goals the promotion of national sustainable development. In 2012, Act 7,746 made advancements by determining sustainability criteria in hiring, besides regulating Article 3.
- New rules reinforce that bids should take into account not only lower prices or quality, but also savings in natural resources and the costs of harmful impacts to people and the environment.
- A new profile of public manager emerges, one who is qualified to assess products and services that bring more benefits to the environment and promote better use, with less waste.
- There are challenges, such as extending sustainable procurement and hiring to large public civil construction sites, and getting more engagement from local suppliers and small companies.

## 3

## Business Engagement



*The impact of procurement criteria in production chains, and how suppliers adapt in order to meet the sustainability agenda*



**K**eeping a watchful eye on price, delivery date and quality is part of an endless journey for institutional buyers. It does make sense, since savings in procurement are the second most effective way for businesses to improve their bottom line – only behind increases in sales prices<sup>1</sup>. Acquisition of goods and services may account for over 50% of the company's expenses, and may exceed 80% in sectors such as retail, and electronic and automotive industries<sup>2</sup>. All this purchasing power provides companies with a great ability to influence the market. Supply management is ruled primarily by a traditional guide that recommends the company should treat everybody the same way and use its bargaining power on the suppliers so they reduce their prices, regardless of their size or fragility.

Social pressures and an increasing awareness from entrepreneurs have enabled organizations to see value in managing the social, environmental and economic impacts their supply chains have, reducing the impact on deforestation, biological diversity, low wages, and forced<sup>3</sup> and child labor.

In this search for results and spaces in the market, the challenge does not lay only on money. Besides prices and other financial items present in the spreadsheets, nowadays new parameters are equally important, when there are increasing pressure and demands about the origin of products and the methods employed to manufacture them. Environmental, social, ethical and even cultural issues weigh on the choices corporations make, many of which can be replicated and give scale to practices that were underestimated not too long ago. Sustainable consumption is no longer a cause exclusively supported by environmentalists, or something that can be postponed to a distant future. It is a process involving creative models and a reasonable amount of innovation, in a rationale backed by two important pillars: the production chain perspective with its socio-environmental connections, and the acknowledgment of suppliers as strategic links in the search for sustainability.

From production to logistics, including marketing, communication, human resources, procurement or finances, all company's operations should connect to sustainable development. In the private sector, corporate social responsibility is an expression of such engagement, and only recently has the force of hiring and purchasing decisions emerged in the agenda. Such decisions are strategic, because they link the company to its whole chain<sup>4</sup> and have interfaces with different areas in the organization. As they are more exposed to external contact, the procurement sector may anticipate trends, innovation and work opportunities, as well as risks linked to the image, reputation, regulation, operational and financial aspects<sup>5</sup>. That's why the UN *Global Compact* emphasizes three drivers for the supply chain sustainability: risk management, search for efficiency and creation of sustainable products<sup>6</sup>. Observing each of those three drivers can help businesses elaborate their own business case.

After allegations of slave labor employed in a clothing retailer network, risk management came in and made companies in the industry adhere to a supplier qualification program with autonomous audits, aiming at eliminating exploration of informal, child and illegal immigrant labor. In the first assessment, out of the 1.2 thousand manufacturing companies researched, 15 were disapproved and 173 needed to implement improvements (*please refer to the illustration on page 84*).

'We bet on the replication power of the new concept', declares Jose Eduardo Guzzardi, Director of the Brazilian Association of Textile Retail. The entity gathers 13 large groups, among them C&A, Marisa, Riachuelo, Casas Pernambucanas and Zara, which account for 15% of the market. Sustainable procurement is a driver for economies, innovation and long-term value creation, proving to be as important as marketing for companies to take care of their reputation and show their commitment with their customers' concerns<sup>7</sup>. Buyers can become risk managers whenever they help identify and manage risks taken by the company upstream the value chain<sup>8</sup>.

The search for efficiency is the main business of Sebrae Sustainability Center: 'Eco-efficiency is priority to reduce costs and increase competition

## Risk Management

- Minimize business disruption due to environmental, social and economic impacts
- Protect the company reputation and the brand value

## Search for Efficiency

- Reduce the costs of material inputs, power, and transport
- Increase labor productivity
- Create efficiency in the entire supply chain

## Creation of Sustainable Products

- Meet growing demands of customers and business partners
- Innovate in order to change the market

in small businesses linked to large chains', informs Suenia Souza, Center Manager, in Cuiaba. The institution helps entrepreneurs adapt to innovation demands and public procurement, particularly under the scope of Complementary Law 123, as of 2006, which ensures special conditions for micro and small companies to sell to the public sector. A good example can be found in the city of Colider (MT). Restraining illegal logging, which, in the past years, made a number of sawmills close in the region, the city administration used its purchasing power to reorder the local economy. Rather than being famous for logging activities, the town became a hub for service hiring. Currently, according to Mrs. Souza, over 90% of the public bids benefit local companies with RFPs establishing minimum eco-efficiency criteria, expecting to foster local trade and reduce costs of transport and energy.

With the goal to become a world leader in sustainable chemistry, the Brazilian multinational company Braskem, manufacturer of plastic resins, invested on the manufacturing of 'green polyethylene' from sugarcane, an example of an alternative product that has lower impact than those currently available in the market. Products such as juice box lids and cosmetics pots come to the market containing renewable raw materials, rather than those produced with oil byproducts. In 2012, the company became the fifth top ethanol consumer in the country, what justifies the concern: how to ensure the sustainable origin of the raw material, decent working conditions, and balance on land availability to produce food? 'It would only be possible to achieve the differentiator with engagement from suppliers', states Andre Leal, Sustainability Coordinator at Braskem. The company established a code of conduct prioritizing, under the environmental perspective, reduction of fires through mechanization, protection of biodiversity according to the legislation, and adoption of best practices, such as the ones to preserve the soil and reduce air pollution. As for social aspects, they list respect for human rights and labor law. The goal is to make the new demand on the resin industry to contribute for advancements in socio-environmental metrics

of an agricultural activity that carries a background of degradation. In the past years, there were improvements. According to Mr. Leal, water demand from the sugar industry dropped from 5 cubic meters of water per ton of processed cane in the 1990s, to 1.45 cubic meters in 2011. It is expected to drop to 1 cubic meter by 2014. In this particular case, besides innovating to change the market, the company gained efficiency. Thus, the incorporation of sustainability attributes in supply management can be encouraged by more than one driver (*please refer to the chart on page 73*). Each company should check if metrics will help them enter innovative niches that contribute to an inclusive green economy, a concept that has come to stay.

As a domino effect, such movement is multiplied in many sectors – from package industry to civil construction, from supermarkets to steel production. So, innovation becomes critical for any company willing to operate in the market. Besides the examples previously mentioned, we present initiatives from other organizations that take a look at themselves, innovating in products and processes, and also looking forward to making partnerships with other organizations, including suppliers.

## Seeking Innovative Experiences

In its search for innovation, Whirlpool, manufacturer of Consul and Brastemp brands, started using sustainability criteria to purchase inputs, and managed to save 20% in power and 76% in water consumption in their stove and washing machine facilities in Rio Claro (SP). Key to their success was the method developed by a small supplier, Terpenoil, at Jundiá (SP), that transforms vegetable substances with cleaning functions in nature into heavy duty cleaning products in factories. What is new is the use of terpene, extracted as a byproduct of orange squeezing in juice factories. Besides reducing consumption of natural resources, the technology virtually zeroed losses due to dirt contamination, which previously accounted for 38 thousand pieces a month<sup>9</sup>.



From that initial demand, Terpenoil increased the scale in the production of organic degreasers, taking the solution to other industries as well. 'Our business differentiator is to use fine chemicals to mimic nature's processes', tells Marcelo Ebert Ribeiro, Director of the company. He moved from the financial market to the new trend, which drives BRL 10 billion per year in Brazil and covers products for air purification and commercial and residential cleaning, replacing traditional chlorine-based options, which are more harmful to the environment. If the plan is to reduce environmental impacts, then using products or materials from renewable natural resources is the proper option. Similarly, it makes sense to use natural lighting rather than artificial lights, ethanol rather than gasoline, wood construction using responsible forest management rather than materials with higher ecological footprint, such as cement, steel and aluminum, which require lots of power to be produced<sup>10</sup>.

Buying or hiring based on sustainable criteria is a business practice that is likely to expand with the advent of the low-carbon economy<sup>11</sup>. Demands from the international market and possible national regulations for reducing emissions in different production sectors drive the adoption of new measures. 'The supply chain accounts for 40% to 80% of all carbon emissions, according to the sector', estimates Simone Zahran, Manager of Carbon Disclosure Project (CDP) in Brazil. 'Large businesses apply to their suppliers the same model they adopt to report to their investors', explains Mrs. Zahran, who believes the practice came to stay.

Transportation is one of the main targets. 'In Brazil, logistics companies need to get ready to compete', points out the coordination of Brazil GHG Protocol Program. The initiative guides corporations on how to make their greenhouse gas inventories, an initial step for later identifying emission reduction opportunities. According to the Intergovernmental Panel on Climate Change<sup>12</sup> (IPCC), between 1970 and 2004, direct emissions from transport raised 120%. In Brazil, the energy sector accounted for 15% of CO<sub>2</sub>eq emissions in 2005<sup>13</sup>. The transportation subsector was the top NOx emitter (55%), out of which 50% were related to road transport, according

to the Ministry of Science, Technology and Innovation<sup>14</sup>. With poor infrastructure in Brazil, businesses depend on costly road transport, having to transport inputs and products in diesel fuel trucks, which are highly pollutant and release greenhouse gases. This is a problem that adds up to the so-called 'Brazil cost', which hinders a more robust growth of the economy by undermining the national industry efficiency and the Brazilian products competitiveness.

It is a common practice for buyers to look at the logistics system of their customers before closing a deal. Sadia, currently Brasil Foods, for instance, automated route control, reducing the number of trips and fuel burning. The method prioritizes regional suppliers and reformulates distribution planning so as to reduce distances for delivery. 'Having enhanced estimates about the store demands, we managed to reduce in 25% the truck traffic among our distribution centers', announces Regina Lemgruber, Logistics Director at Magazine Luiza retail network. Cost reduction reaches up to 20%, with benefits such as reduction in greenhouse gas emissions from about 1 thousand trucks that supply the network in the State of Sao Paulo. Such gains are a consequence of the efforts the companies themselves make. On their side, the public sector, engaged with sustainable development, should, among other things, remove incentives to industries that have oil-based operations, and improve the country infrastructure, offering efficient routes for rail and water transport – which would increase feasibility of projects in Brazil.

Following this path in the search for efficiency gains, Johnson&Johnson reduced in 18% the amount of material used to produce Band-Aid, one of their most traditional products, with the goal of saving raw material and reducing post-consumer waste<sup>15</sup>.

In order to enable the project for the manufacturer, Walmart supermarket network decided not to apply usual commercial criteria that determine small size products shall have less space on the shelves. The retailer network ensured the brand would have the same linear space provided for the old package – something that not long ago would be considered out

## Examples of Best Practices

### Certifications gain force as reference for sustainable procurement standards

Labelling systems are a growing trend in the market to differentiate companies, processes and products that voluntarily adopt principles and norms according to nationally and/or internationally acknowledged standards. From power consumption to logging, the best practices certificate is considered an instrument to guide sustainable procurement, besides adding value to brands thanks to sustainability attributes. The initiative requires changes in the production system, often times followed by significant investments, which in turn are compensated for better prices, larger market share, and higher procedure efficiency, resulting in cost reduction.

Environmental labels are a tool for competitiveness, particularly in response to more demanding foreign markets. In Brazil, among different use models, some are considered official, managed by governmental institutions. One of the most popular labels is Procel, which sorts in five different categories the energy efficiency of electrical and electronic equipment, covering 36 product lines. It is used as purchase reference by over 70% of the consumers. As a result, current refrigerators consume 60% less power when compared to 10 years ago, accounting for accrued savings of BRL 6 billion in electricity bills. In two decades, consumption reduction corresponds to the generation of Angra I nuclear plant, for 40 months, running at full capacity<sup>I</sup>.


In the Brazil Vehicle Labelling Program, labels indicate different levels of vehicle fuel consumption. Considering the new federal government

rules anticipating tax reduction for vehicles that are more energy efficient, ten carmakers and importers made a voluntary commitment to the process in 2013, covering 190 car models. They joined the nine carmakers that were already participating in the program until 2012, accountable for technological improvements that reduced fuel consumption in 3%. For the top compact vehicles sold in the country, calculations point to a cost reduction equivalent to BRL 611 a year, estimating an average daily journey of 25 miles<sup>II</sup>.

'It is a fast-growing process, especially when the government clearly flags it will encourage the adoption of green labels', states Guy Landvocat, ABNT Certification System Manager. The institution keeps an environmental labelling program, called Beija-Flor (Hummingbird), which covers 70 products – from office furniture to hand sanitizers. The initiative gets inspiration from ISO 14020 (environmental labelling processes) and 14024 (procedures that take into account life cycle assessment criteria) (*please refer to the Chart on page 96*). 'The great challenge is to certify the life cycle standard, meaning prove the values of the product impacts along its production and consumption chain, something that will only be possible when we come to a consensus regarding the methodology', adds Antonio Juliani, from the Ministry of Development, Industry and Foreign Trade (MDIC). In cooperation with the United Nations Environment Programme, the federal government supports a pilot initiative in the country to demonstrate practical feasibility of the criteria adopted based on the environmental labelling in the European Union.

<sup>I</sup> Borges, M. Marcos Borges: interview. Interviewer: S. Adeodato. Sao Paulo. Inmetro (Brazilian National Institute of Metrology, Quality and Technology), 2012. Interview given to FGV Center for Sustainability Studies and ICLEI for the elaboration of this book.

<sup>II</sup> Steelworkers Union of ABC. Ten more carmakers join labelling program to pay less IPI tax. Available at: <[http://www.smabc.org.br/smabc/materia.asp?id\\_CON=30479&id\\_SEC=12](http://www.smabc.org.br/smabc/materia.asp?id_CON=30479&id_SEC=12)>. Accessed on: Oct 22<sup>nd</sup>, 2012.



The labels differ in their scope, rigor and, mainly, prestige in the industry. They incorporate concepts that add value to brands and products, but also contribute with practices that support public policies. Some certifications cover all links in the chain, tracking compliance with the established criteria, which ensures the product sustainable origin. For logging, there are two certification systems in Brazil. Cerflor, managed by Inmetro, is an official system and is totally integrated to the Programme for the Endorsement of Forest Certification Schemes, an umbrella for a variety of national models. In Brazil, the certifying body essentially validates forests for production of pulp and paper. The FSC (Forest Stewardship Council) is acknowledged worldwide thanks to its representativeness, strict levels of control, governance model, and the support of environmental organizations. Based on independent field audits, the certifying body validates sustainable (environmental and social) practices in logging. The certification can be applied to differentiate finished products made from raw materials sourced at native forests or certified planted forests. Examples include furniture, doors, windows and floors, as well as non-timber products, such as Brazil nuts and vegetable oils, papers and different sorts of packages. Given the demand from institutional procurement, certified paper is not a niche anymore; currently, it is virtually an industry standard, especially for the graphic industry.

For agriculture, the highlight goes to the Rainforest Alliance Certified, an internationally acknowledged label, issued by the Sustainable Agriculture Network (SAN). In Brazil, the coffee culture, one of the key items for export, is currently the main activity that adopts environmental and social standards in the field and processing of final products, practices that are also adopted in the production of cocoa and sugarcane, as well as cattle breeding. In the field, the certification also drives the organic segment, which grows between 20% and 30% a year<sup>III</sup>. In order to avoid barriers to national organic products in the international market, the federal government standardized norms and made them mandatory.

'Consumers are more protected now, and investors have clearer rules and paths to invest', states Jose Pedro Santiago, Director at IBD Certificacoes, a pioneer entity in organic label in the country, currently with more than 60% of the market share, including food, wine, cosmetics and cleaning products. With a watchful eye on niches that emerge from international requirements, new labels were issued to communicate to the market the existence of non-GMO products and products with a social nature that observe fair trade principles. The Fair Trade label, for instance, is internationally acknowledged, and its focus is to ensure protection to human rights, traditional culture and well-being of communities that can benefit from the trade of products with a social differentiator.

III Dias, R. Rogerio Dias: interview. Interviewer: S. Adeodato. Brasilia: Ministry of Agriculture, 2012. Interview given to FGV Center for Sustainability Studies and ICLEI, for the elaboration of the work 'Sustainable Procurement: The Power of Public and Private Consumption for an Inclusive Green Economy'.

of question for the business, which is traditionally driven by the amount of products, price and sales volume. Given the first initiative, the industry spread the concept of the new package worldwide.

## Promoting Local Production

If, on one hand, favoring purchases from local and small companies is a sustainable procurement criterion, on the other hand, ensuring the idea is implemented can be really challenging. Although access of small producers to the supply of large networks is still limited due to a variety of reasons, such as logistics bottlenecks and commercial scale issues, there are initiatives that demonstrate good results from purchases that promote income generation and social inclusion. In Goiania, the Supportive Trade Network of Farmers and Extractivist Communities in the Cerrado mobilizes hundreds of family farmers in 45 municipalities from five different states. Part of the production supplies a community factory that processes baru nut – a typical Cerrado almond that is also used to produce granola, donuts, cookies and cereal bars supplied by the cooperative for school lunch and supermarket networks. Altogether, baru almond sales in 2012 should reach 800 tons, at BRL 35 per kilo. ‘In order to ensure their income and avoid typical problems with seasons, about 200 species are cultivated or collected in the biome through extractivism’, explains Marcelo Jacinto do Egito, Technical Coordinator of the cooperative, which makes BRL 2.8 million a year and has plans to install ten more industrial units to add value to Cerrado products.

Pao de Acucar Group, one of the cooperative customers, closed the loop of their TAEQ own personal care line of packages. In the engine that drives consumption, supermarkets act as links between suppliers and end users. ‘We have the power to mobilize buyers and make pressure on production chains for responsible actions’, emphasizes Paulo Pianez, Sustainability Director at Carrefour. ‘A survey recently conducted shows a change in customers’ profiles, now interested in who manufactured the products and

where’, explains the executive. According to him, most customers expect supermarkets to make a previous selection of what to offer, discarding options that are harmful to the environment.

After having been accused of undermining the economic dynamics in neighborhoods and entire cities – and noticing great potential for further savings, large retail networks have been engaging with their suppliers, including food producers. However, such articulation still occurs in an unbalanced tug of war, where small producers barely have strength, and large retailers are the ones to really pull the rope. In Brazil, the domain of three companies in the retail market enables them to make big profits. According to Danilo Aguiar, from Sao Carlos Federal University, retailers in Brazil make use of their market power, particularly by transferring their costs to suppliers<sup>16</sup>. As hypermarkets quickly spread in big cities, retailers in small towns get increasingly weaker, and this means income concentration, less jobs and a slowdown in local economies. After the opening of large retail stores in the American State of Iowa, a research conducted showed that almost half of the retailers in small towns disappeared in little more than a decade<sup>17</sup>.

Such contradictions are often present in discussions about sustainability in any sector. In general, organizations, whether private or public, cannot handle all the complexity involved in sustainable development, taking into account people, profits and the planet. Different sectors have developed actions in order to offer products with sustainability attributes and have taken initiatives aiming at efficiency and innovation.

The next step is to establish a fair relationship with suppliers, with more dialogues, in order to have ethic and fair trade – which includes a balanced division of burdens and bonuses among producers, salespeople and the society. Initiatives as such are emerging under the shared value umbrella, and will be presented at the end of this chapter.

On the industry side, business purchases also involve the concern with post-consumer waste, and waste generated during manufacturing. In order to comply with the legislation, the National Plan on Solid Waste, a

# A Watchful Eye on Clothing

Understand how purchasing decisions are connected to environmental and social aspects, from cotton T-shirts and work clothes to trends shown on display windows

**COTTON** It is one of the most consumed textiles in the world, and changes for a more sustainable consumption can minimize impacts. A single T-shirt requires 5,6 oz of agrochemicals on the field, which is harmful for farmers, soil, water, fauna and the food chain. In cotton cultures, there is a high rate of labor in irregular conditions



**TEXTILE INDUSTRY** In the process of spinning, weaving and finishing of fabrics, including dyeing and washing, there is high consumption of power, fossil fuels and water, and generation of gases, wastewater effluents that pollute rivers, and solid waste



**MANUFACTURERS** Should work closely with clothing factories and other service providers in order to adopt environmental and labor best practices. It can be a good deal to associate the brands to eco-friendly alternatives. A good example would be organic cotton, produced with sustainable systems. Another example is naturally colored cotton, which does not require any chemical colorant and saves water during the finishing step



**CLOTHING FACTORIES** One issue in the sector is improper hiring of labor: labor rights violations, excessive overtime, and unhealthy facilities. In Brazil, illegal immigrants are among the most vulnerable workers

**USERS** Both consumers and managers in charge of uniform purchase in the institutions can drive changes. Besides avoiding what is not necessary, it is important to check labels in order to prioritize less harmful options for the environment and discard those brands included in the slave labor 'black list'



**DONATION** Instead of being thrown away in the garbage, unwanted clothes and accessories can be sold to a thrift shop or donated to other people or social entities for reuse. This will reduce the consumption of new pieces and, consequently, the amount of natural resources and pollutants used to manufacture them



**CUSTOMIZATION** Old pieces of clothes can be repaired or customized so they look like new, thus avoiding the waste of reusable fabrics



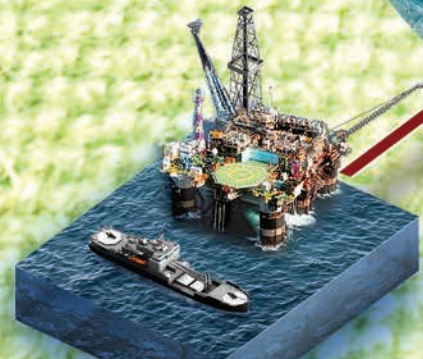
**LANDFILLS/OPEN DUMPS** When clothes are discarded along with ordinary waste, they end up in landfills or open dumps, where it will take them dozens of years to decompose, with adverse impacts on the environment



**PET** Over 40% of disposed PET bottles in Brazil are transformed into fibers for the textile sector. The recycled raw material replaces the bottles produced from oil, with 30% savings in power. Expansion depends on advancements on selective waste collection services



**SYNTHETIC FIBER** Most fabrics contain polyester and other fibers from petroleum, a pollutant and non-renewable source. The use of synthetic material grows due to uncertainties about the climate, season and prices for agricultural commodities



**LEATHER** The traditional use of the material in clothes, shoes and accessories is associated with the adverse impacts of cattle breeding, such as deforestation and greenhouse gas emissions



## A Challenge to Cities and its Buildings

coalition led by the Business Commitment for Recycling (Cempre) group, gathering key package manufacturers and industries that use them in production, such as the beverage industry, plans how to operate the reverse logistics – i.e.; waste collection and return to industrial production.

Ten years ago, in Brazil, all milk and juice disposable boxes would be sent to open dumps and landfills after the beverage was consumed. Currently, over 25% of the packages are recycled using technologies that were introduced in the industry supported by the main manufacturer of those packages, Tetra Pak. 'Our goal is to reach 40% by 2014', announces Fernando von Zuben, Director of Environment. Paper, one of the components of long-life packages, along with plastic and aluminum layers, is sorted and used in the manufacturing of cardboard for shipping boxes, and also in the manufacturing of recycled paper for other purposes, including printing and production of new juice and milk packages. After reuse of paper from the boxes, plastic mixed with aluminum is used in roofs and signs for civil construction, as well as notebook covers, which are then exported to the United States. A new Brazilian technology, pioneer worldwide, enables complete separation of plastic to produce paraffin, and separation of aluminum, converted into powder for noble applications in the chemical industry. Altogether, there are 32 companies operating in the long-life package recycling chain, not to mention waste picker cooperatives that sort the waste, preparing bales to send to industries.

The sheer use of recyclable or recycled materials, however, does not make consumption activities sustainable: it is relevant to point out that in most regions in Brazil buying fresh food – such as milk, fruit and juice – from local suppliers may not require those complex packages or the use of chemical additives such as preservatives. In one of the classical sustainability lessons, the one that mentions the '3 Rs', Reduction and Reuse actions come before Recycling. But, once packages have been manufactured, it is just fair to (re) use them as much as possible.

Changes in the business procurement affect civil construction, a sector where there is a great deal of optimism in Brazil. Accounting for 10% of the global GDP, reaching 40% in some economies, the sector is responsible for one third of greenhouse gases released in the planet, according to UN Sustainable Buildings and Climate Initiative (UNEP-SBCI) data<sup>18</sup>. Over US\$ 7 trillion are annually spent on constructions, and this number is expected to reach US\$ 100 trillion by 2020, according to a report announced by the entity. 'The potential for investments is high, but there is still a small portion aimed at sustainable construction', comments Curt Garrigan, UNEP-SBCI Coordinator. He presented a research showing the sector accounts for 40% of the power and 25% of the water consumed in the world – figures that are likely to increase along with urban population growth and the need to ensure housing for everybody. By 2030, according to Garrigan, 3 billion people will need access to housing, especially in developing countries<sup>19</sup>.

'The cities and the civil construction sector play a key role in the transitioning toward a green economy', points out Pavan Sukhdev, Head of the Green Economy Initiative for the United Nations Environment Programme. 'The private sector cannot keep going alone because it is limited by profits, which is the primary goal of a corporation', adds Mr. Sukhdev, advocating financial incentives for the sector. He points out: "it is hard for companies to opt for sustainable buildings, whereas there are US\$ 65 billion in subsidies worldwide to produce fossil fuels, plus US\$ 275 billion targeted at non-sustainable agriculture and many other billion dollars for the type of fishing that harms the oceans'. In Mr. Sukhdev's opinion, changes will take place through public policies, with incentives and also the government purchasing power (*please refer to Chapter 2*). 'One million dollars of

<sup>18</sup> Information provided by Curt Garrigan in the symposium 'Efficiency in the Use of Resources and Green Economy: Opportunities for Buildings and Sustainable Cities', in June 2012.

green investment from the government may generate from US\$ 5 to 10 million invested by the private sector', completes Mr. Sukhdev. Local city governments, in this sense, rely on a number of administrative, regulatory and economic tools to promote these changes in the sector, concerning urban planning, civil construction waste management, and sanitation, for instance<sup>19</sup>. The 2013 Confederations Cup, the 2014 World Cup, and the 2016 Olympics in Brazil have the potential to encourage sustainable civil construction projects as well as smart green urban infrastructure in those cities.

There is a growing interest in green labels as a way to differentiate projects that follow environmental standards, as proved by audits. Besides systems to increase energy efficiency and water savings in building operations, there is a concern to adopt best practices during the construction works, such as recycling the debris and getting origin certificates for raw materials (*please refer to the illustration on page 90*).

As for timber, due to fraud schemes in the emission of the Forest Form or the Forest Origin Document, the socio-environmental label is seen as the sole warrant on the harmless origin of the material. There are challenges, though, for the market to fully adhere to the labels, which involves costs to change processes and adapt to norms, with consequences on prices (*please refer to pages 78 through 81*). According to Greg Kats, CEO of Capital E, 'we must debunk the myth that sustainable buildings are more expensive'. A research conducted under his coordination in 170 buildings in 15 countries proved just the opposite. 'In 20 years, green buildings return the equivalent to 2.5 times the value of their investment, considering water and power savings', says the executive. Estimates are sustainable buildings provide for up to 30% in savings in the value of the monthly condo charges, including reductions in power and water consumption, and operational costs of the building (maintenance and remodelling). Besides, according to the Green Business Council Brazil, after 20 years of use, the building sales value increases in about 20%<sup>20</sup>.

'In the State of Sao Paulo, three thousand new neighborhoods were built in the past 40 years, totaling 450 thousand homes, but in many places

improper land was used, with inadequate environmental conditions', points out Eduardo Trani, Assistant at the Housing Secretary, advocating measures to make slum urbanization practices effective and provide for new housing. He informs the State of Sao Paulo was invited to participate in the SUSHI (Initiative for Sustainable Social Housing) project, created by UNEP-SBCI with the purpose to increase the number of sustainable buildings (using natural resources and energy efficiency) and design solutions in housing programs in developing countries.

New houses built by CDHU (Housing and Urban Development Company) are delivered with solar power heaters, which enable about 30% savings in the borrower's electricity bill. In addition to that, houses have wider windows, to provide for improved lighting and ventilation. Take, for instance, Rubens Lara residential area, in Cubatao (SP), acknowledged as green popular housing by the UN. The Serra do Mar (Sea Mountain) project removed 7,5 thousand inhabitants from an environmental preservation area, an operation that cost over BRL 1 billion<sup>V</sup>. 'Lessons learnt from the SUSHI project in Brazil show that, besides reducing the use of natural resources, solid waste and greenhouse gas emissions, the project can contribute to create new green jobs and to eradicate poverty', completes Mr. Trani. There are important social and cultural effects: 'studies show that children who have more space and ventilation present better results at school'.

The example taken from Sao Paulo, however, is unique. At the national level, the housing industry acceleration was not followed by large scale efforts toward sustainability. Under 'My House, My Life' (Minha Casa Minha Vida) program, launched by the federal government, the initiatives focused on hiring works based on socio-environmental criteria are rather inexpressive.

Semi-public corporations have to generate financial results and at the same time risk investments that take into account social and environmental aspects. Since many of them operate with large volume services, they can

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<sup>V</sup> Information provided by Curt Garrigan in the symposium 'Efficiency in the Use of Resources and Green Economy: Opportunities for Buildings and Sustainable Cities', in June 2012.

# Sustainable Buildings

From buildings to houses, bridges and roads, hiring works requires criteria that reduce impacts from the stage of sourcing raw materials



**WORK PLANNING** The basic project should provide for materials and technologies that reduce inputs and offer higher efficiency in the use of water and power by rationalizing spaces, providing more ventilation and natural lighting. Certifications and labels, such as Leed and FSC, back up best practices.

## BUILDING CONSTRUCTION AND USE

The works should be clean and organized, with recycling, reduction of waste, safety and proper working conditions. Timber used for concrete shaping and support, as well as for doors, windows and floors should have proof of legal logging. Automating elevators, air-conditioners and lighting saves power, reduces costs and makes buildings more sustainable. Proper maintenance avoids waste of resources.

## NATURAL MATERIALS AND RESOURCES

Lots of inputs are extracted from nature, such as stones and sand. Limestone is used as raw material for cement and plaster, produced in ovens that use biomass or good combustion waste, such as old tires. Timber used in construction works comes from forests that should be explored with lower impact techniques. Aluminum and steel come from mining, a potential generator of pollution and impacts to natural environments.

**REMODELLING** Should make use of efficient materials and new technologies, such as solar panels to supply power. Green roofs with suspended vegetation minimize the heat and the need for refrigeration. Utilizing rain water or used water in gardens and to wash garages and common areas reduces the demand on water springs.

## DEMOLITION

It is critical to adopt criteria for sorting, recycling and reusing the materials. Demolition should follow safety norms and procedures in order to reduce noise pollution and control dust in the surroundings.

**WASTE DISPOSAL** The slag must never be thrown on wasteland or river beds. Non-recycled material shall be sent to specific landfills that hold civil construction waste. Municipal norms require waste management reports from the builders.

**MATERIAL RECYCLING** The slag is processed by crushers and screens, and transformed into materials for other uses, such as road pavement. The method can be operated in the work site or in recycling plants, saving raw materials, reducing pollution and minimizing problems such as silting of streams, which contributes to tackle floods.



clearly influence the market and generate scale through purchases and hiring. Following the path taken by Sao Paulo administration (*please refer to Chapter 2*), the State of Sao Paulo Basic Sanitation Company (Sabesp), one of the largest basic sanitation companies worldwide, started in 2009 a sustainable procurement process, prioritizing low-energy equipment. It currently has 259 items with Sao Paulo State Socio-Environmental Label<sup>21</sup>. Among the first norms adopted by the company, one can highlight discontinuing the use of asbestos (an input known to cause cancer) in civil construction, and reprocessing used lubricating oil. Between 2006 and 2010, the company had a six fold increase in recycled paper consumption when compared to regular paper. It is not a small amount, if we consider that there are 15 thousand employees and millions of customers.

In construction works, Sabesp spends about BRL 2 billion a year – a value that indicates how strong the sector is when it comes to driving changes. A recent example is the use of recycled slag aggregate in the construction of pipelines for water distribution. The alternative material is cheaper and replaces sand, which is extracted from river beds, often times with adverse impacts to the environment. After the pilot project in 2010, in a recycling plant that formulated the materials and made the tests, the new input was used in the following year in the construction of a new 1.5 mile pipeline, for Tiete Project. Then, the product made from slag was approved to be included in bids, as long as applied in construction works with lower structural risks.

'Our expectation now is that builders will expand the use of recycled product in services provided for companies in general, developing a new market', states Marcelo Morgado, Sabesp's Environment Assistant. 'Under the State power, we can have a higher bet on environmental aspects, following public policies', emphasizes Mr. Morgado. Without compromising the company bottom line, they make concessions on short-term profits in exchange for long-term well-being for the society, in spite of having to follow more strict legal norms than their counterparts in the business sector. A program fostering rational use of water encouraged manufacturers

to develop valves and other more efficient hydraulic equipment that are now available for more affordable prices. As a result, water consumption dropped to almost half of what it used to be a decade before in Sao Paulo metropolitan area.

The search for solutions along with suppliers helps foster best practices in other production chains as well. Studies and analyses conducted by FGV show that only when the whole chain is considered it is possible to reduce costs and enter new markets. Small and medium companies, in this context, are critical to promote innovation, generate scale in sustainability and develop the value chain. Large corporations are more likely to resist new ideas, since their organizational culture is more consolidated and solid. Under GVces' Innovation in Value Creation program, they came to the conclusion large corporations are starting to understand their supply chain is important in the end value of their products and of their own organizations, both to appreciate and to devalue them.

The challenge is not limited to unilaterally imposing criteria to suppliers, but rather developing joint solutions. 'Innovative organizations are willing to make alliances and partnerships', analyzes FGV Professor Wilson Nobre, according to whom 'complex problems can only be solved in a collaborative and conjoint way'. It is a typical management strategy for transitioning to a 'green economy', and dialogue is one of its key pillars. The term 'shared responsibility' is now part of the companies' vocabulary and their relationships with suppliers. In the background, there are procurement and hiring institutional policies and the watchful eyes of consumer groups and control bodies, who will not accept omissions from organizations related to their hiring practices anymore.

Companies will have to be sustainable, either thanks to their own initiatives or due to external pressure. The largest business group in Brazil in the fashion industry, Guararapes Confeccoes, controller of Riachuelo retail stores, in 2012 stated they could not ensure their suppliers did not make use of slave labor, child labor, or if they operated using safety and sustainability practices<sup>22</sup>. Thus, even though not intentionally, they end

up supporting companies who adopt illegal practices, which makes the sector association take risk management and press relationship actions.

Take, for instance, what happened to soybeans. International pressure after environmentalist campaigns at fast-food chains in Europe forced the sector to make alliances with NGOs and governments to break the inertia. 'We started being proactive and announced to the market we would not buy grains produced in deforestation areas after July 2006', tells Carlo Lovatelli, President of the Brazilian Association of Vegetable Oil Industries. Launched when deforestation reached its peaks in the Amazon, the Soy Moratorium created a system of satellite monitoring, flights and field visits, all supervised by a committee. Currently, it counts with players who previously had conflicts and even disputes on the matter, but are aiming at common goals now.

As for the steel industry, the commitment to use only charcoal produced from planted forests, without destroying native forests, is targeted at independent producers of pig iron, a raw material used in the industry. About 60% of the charcoal used in the sector come from native trees, most of them sourced illegally or in a harmful way, according to estimates announced in 2012 by Ethos Institute<sup>23</sup>. Twelve companies signed the pact to deploy sustainability criteria and get technological support to track the product from its origin. In parallel, Brazil Steel Institute (Instituto Aço Brasil) created a protocol in order to push steel industries at the final end of the chain – and not only pig iron manufacturers – to make the commitment to get 100% charcoal from planted forests in a four-year period. The commitment involves 11 large business groups that produce 35 million tons of raw steel a year<sup>VI</sup>. 'We will create programs to transfer technology and guide suppliers to work according to the law, besides validating actions in partnership with NGOs', informs Maria Cristina Yuan, Director of Sustain-

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VI YUAN, M. C. Maria Cristina Yuan: interview [2012]. Interviewer: S. Adeodato. Sao Paulo: Brazil Steel Institute (Instituto Aço Brasil). Interview given to FGV Center for Sustainability Studies and ICLEI for the elaboration of this book. For more information about the initiative, please visit: <<http://www.acobrasil.org.br/site/portugues/sustentabilidade/sustentabilidade-carvao-vegetal.asp>>. Accessed on: Oct 16<sup>th</sup>, 2012.

ability. In order to be legitimate, those business alliances need to be socially monitored by the State, NGOs and citizens who care for companies that honor their commitments and meet their targets, as promised. If they do not meet their targets, there will be only favorable marketing and activities that are harmful to the environment and to the human health. When it comes to pacts monitored by the Sustainable Connections (Conexoes Sustentáveis) initiative, organizations can be suspended or removed from the initiative if they do not publish satisfactory reports according to the committee's judgment.

## The Importance of Developing Suppliers

A significant portion of the 4.4 million small Brazilian companies, which account for 60% of the labor employed in the country, are part of the supply chain of large corporations<sup>24</sup>. 'The task includes internationalization of the small ones, according to the opportunities that emerge from our operations abroad', announces Ricardo Luiz, coordinator of the Innovate (Inove) Program at Vale, a company with 10 thousand suppliers, 65% of which are small and medium companies. 'Focusing on economic sustainability, the target is to qualify them to serve not only the company, but the industry as a whole, being more competitive', states Mr. Luiz. Distance learning platforms provide capillarity with online classes on business management, quality, safety, health and environment.

In order to qualify the production chain according to principles required by the international market, Vale keeps credit lines with special conditions, accounting for the distribution of BRL 141 million to 186 countries until 2012. For the Supplier Financing Fund, the company anticipates up to 50% of the supply contract value. 'Thanks to the company negotiation with industries, 300 suppliers bought PPE (personal protective equipment) at discount prices, summing up BRL 2.6 million', tells Mr. Luiz.

Making purchases and hiring services incorporating sustainability criteria demand metrics development. Thanks to an innovative scoring system

## Life Cycle Assessment (LCA) in the Procurement Area<sup>VII, VIII</sup>

LCA is a tool that helps identify a product's (goods and services') environmental impacts throughout its life cycle. It allows for a better understanding of their strengths and weaknesses for decision making. The method measures all consumption of materials and power, from the extraction of natural resources, covering the product transformation chain, its use and recycling, to disposal. The most popular LCA variants are carbon footprint and water footprint. More recently, a social methodology was developed to analyze aspects such as human rights, consumers' health, working conditions, and quality of life in communities.

Europe and Japan are leaders in the sector. Other countries are engaged in order to foster a 'life cycle rationale' in their production sectors. Since 2006, there are international standards - ISO14040 and ISO14044 - to harmonize methodologies. An international label based on LCA was created, standardized by ISO 14025, which facilitated the use of the tool in public and private procurement contracts.

Companies introduce the 'life cycle rationale' as the first step for a more sustainable management. Now there is more understanding that the cheapest option can turn out to be expensive due to indirect costs of the product (the company's image, cost of maintenance or disposal of the product, short durability, or product replacement).

In Brazil, the first LCA study, conducted in 1997 by the Institute of Food Technology (ITAL), compared 14 food packages. Right afterwards, in the beginning of the 2000's, companies such as Braskem, Unilever and Natura joined the sector. The demand for the tool has been growing worldwide and in Brazil, where the LCA Business Network was founded, gathering large corporations in order to develop the practice.

Content compiled from a text elaborated by Ute Thiermann, a researcher invited by FGV

that assesses positive and negative impacts of their operations on suppliers, Natura enhanced the monitoring of its QLICAR (Quality, Logistics, Innovation, Competitiveness, Environment/Social and Relationship) program. They consider metrics on carbon dioxide, water, power and waste, as well as investments on education, safety at work, social inclusion, and relationship with communities. Data is collected in quarterly surveys conducted with suppliers. 'Internally, it was important to develop metrics in order to show gains with our bet on sustainability', states Ariel Motta, Coordinator of the company's procurement program.

The process applies to small cocoa producers in the state of Para, who changed their cultivation system to supply to Natura. The input, which accounts for 20% of soap components, replaces traditional raw materials, such as palm oil or beef tallow. 'The production became organic, integrated to the forest', reports Alessandro Mendes, Product Development Director. Similarly, the use of organic alcohol in perfumes was only possible thanks to a partnership with Cerba distillery, from Piracicaba (SP), who designed a process to extract odors from the product supplied by Native mills, which, on their turn, gained a market niche.

Some companies have started to understand that marginalized suppliers are not productive, neither ensure the quality of their deliveries. Increasing access to inputs, sharing technologies and enhancing access to financing, companies can improve the quality of their suppliers and their productivity. As suppliers get stronger, there are social gains, as well as a decrease in environmental costs, which boosts their efficiency. Therefore, according to Michael Porter, from Harvard University, shared value is created, and this has acted like a new mantra to legitimate business and capitalism.

Weaknesses and social harms create internal costs for companies – such as energy or raw material waste, costly accidents, and last-minute training to make up for failures in education. In more practical ways, some new initiatives point out the benefits of buying from qualified local suppliers,

<sup>VII</sup> THE LIFE Cycle Initiative. Life Cycle Initiative Publications. Available at: <<http://goo.gl/JA4O3>>. Accessed on: Oct 19<sup>th</sup>, 2012.

<sup>VIII</sup> Life Cycle Assessment. Available at: <<http://acv.ibict.br/>>. Accessed on: Oct 19<sup>th</sup>, 2012.

which help the companies avoid the costs of transaction. When companies buy locally, their suppliers can get stronger, boost their profit, hire more employees and pay better salaries – which, according to Porter, would end up benefiting other businesses in the community<sup>25</sup>. In order to assess the results of such initiatives, it is possible to check which values are created, the amount of value, and, finally, find out how those values are distributed. If sustainable development is a principle of business action, there should be a fair division of the benefits generated locally, both in the short and in the long term.

## Highlights

- Besides price, delivery date and quality, new parameters prove to be important in the purchasing decision made by companies at a time the market is more demanding about the origin of the products and production methods.
- Risk management, search for efficiency and creation of new products may be in the agenda of responsible companies.
- Companies look at their supply chain seeking lower impact, and generation of shared value.
- Carbon management is at the heart of the agenda. More than half of greenhouse gas emissions associated with the operations of large corporations start at their supply chain.
- Tools such as Life Cycle Assessment (LCA) and certification get popular to make comprehensive diagnoses, deploy socio-environmental measures and guide purchases.
- It is strategic to rely on technologies and policies capable of reducing the use of resources, recycling waste, minimizing adverse impacts on the environment, and improving working conditions.
- Innovation also applies to management models. Sector pacts and alliances gain space in order to adopt environmental and social best practices, without compromising competitiveness.

## 4

## Beyond Prices, Deadlines and Quality



*How to find paths and enhance supply and procurement management with environmental, safety, human rights and diversity attributes*



**P**rourement management is one of the key pillars for any institution, being strategic to provide the organization with the necessary materials and services, in the right volume and proper quality, for a reasonable price, at the right time, aligned with their goals. Besides being strategic, procurement has great impact on institutions and companies related to them, since consumption implies expenses and affects a comprehensive supply chain, populations and natural resources.

There is alignment between what is aimed at public and private procurement, since their decisions are based on price, deadline and quality – the tripod, almost a mantra of institutional buyers. However, the truth is there are differences in the purpose of organizations. Whereas the business sector seeks to generate value for their shareholders,

the public sector aims at fixing inefficiencies in the market and meeting the citizens' collective needs. For public procurement, we add to that tripod the need to meet specific legislation procedures – among them equality, legitimacy, impartiality, morality, administrative integrity, adherence to the bid announcement, objective judgment, transparency, and publicity. Relying on good governance, being more transparent, and being open to dialogue with suppliers and the population as a whole are demands from the society, both applied to private and public companies.

## Valuable Staff Engagement

Through sustainability-oriented management of procurement and supplies, it is possible to foster the development of the buying institution, procurement staff, suppliers, and even contribute to local development. This happens because incorporating sustainability in procurement and supplies management is to go beyond price, deadline and quality assumptions. It means to think how sustainability can contribute to generate and share value to all stakeholders in products and services provision, taking dialogue, cooperation and development as basic assumptions. For the public sector, sustainability in procurement means also to promote sustainable national development, greater efficiency in the public administration, and public good. For such, it is important that the procurement role is aligned with the institution sustainability policy or strategy. Also, collaborators should be continuously encouraged, particularly the procurement staff, for engagement with socio-environmental management. Conscious and engaged professionals can observe and address eventual problems caused by undesirable impacts their own activity may have in the organization, employees, the production chain, the environment and society.

## There are Obstacles, but also Facilitators for Sustainable Procurement<sup>1</sup>

According to an assessment made by sustainability managers and analysts in about 50 public and private organizations in Brazil, most of them involved in sustainability forums, some types of obstacles stand out: informational, financial and structural/managerial. The first obstacle refers to the level of familiarity procurement personnel has with sustainability policies. This was considered a relevant aspect by 11 public organizations and 8 private companies, who declared there was a lack of both qualified professionals and training of the people involved in the procurement process.

The financial obstacle was mentioned by 12 respondents of private organizations, to whom economic factors certainly prevail during the decision making. Structural and managerial obstacles are related both to the lack of senior management support for sustainable procurement and to the lack of institutional guidelines.

There are three major types of facilitators, according to respondents. For informational obstacles, they suggest qualifying organization procurement staff and continuously training people directly involved in sustainability projects. For managerial obstacles, C-level managers should make a strong commitment to deploy a sustainable policy. And, in order to overcome structural and cultural obstacles, respondents recommend improvements in planning, building strategies and goals with synergy between intermediary teams, aiming at complementing the attempts to implement actions.

<sup>1</sup> Results of an empirical research conducted by FGV and ICLEI Brazil on sustainability in the management of public and private procurement, with about 50 organizations, among private companies and public sector bodies (including governments, public institutions and semi-public corporations) operating in Brazil, and concerned with incorporating sustainability in their procurement management operations.

## Looking at Organizations

### | Getting Started |

Getting support from institutional leadership is really important, since they can establish priorities, mainstream topics and offer speed to sustainable procurement. If the company's CEO, director, president or head of the public sector understand incorporating sustainability attributes to procurement processes is strategic, they will align procurement commercial targets with the organization's sustainability and socio-environmental responsibility goals.

Although it is important, direct involvement of the company leadership cannot be considered essential. Truth is, in fact, many effective initiatives were started by one single department or one single entrepreneur. They can start and lead the organization by example. And, if the idea is to engage leadership, they can show benchmarks (*please refer to the chart on page 109*), telling what other organizations have already been doing, as well as indicating opportunities to adopt sustainability in the supply chain, and the risks to ignore this need.

In Chapter 2, we introduced legal foundation that drives the public sector to adopt sustainable procurement. In Chapter 3, right in the beginning, we suggested companies build their business case by determining if the risk management, search for efficiency and product creation drivers should push them toward sustainability in the supply management. Besides those arguments, we made a list of some other useful opportunities to persuade institutions:

- Save money by observing all costs associated with the product/service life cycle
- Opportunity to invest in innovation for an inclusive green economy, aiming at new markets

- Gains in reputation and image for actively protecting society and the environment
- Be an example in legislation compliance
- For companies, get the so-called social license to operate
- Attract, engage and retain shareholders and collaborators that see the company concern with socio-environmental issues as a differentiator

There are also risks that can be minimized by incorporating sustainability in procurement, such as the organization being liable for potential damages, and strategic suppliers having to close down their business, without being able to provide for essential inputs or services. As for companies, as there is a new type of consumers who are more conscious and more responsible, they take the risk of losing market share and even investors that observe their reputation and are concerned with the impacts caused by the company in its supply chain, the environment and society.

And, since discussions on governance and shared liability have become popular in administration, our suggestion is to start the debate on the topic in an interdepartmental group, and the organization can join forums and platforms of companies that are willing to incorporate sustainability in their management. Such arenas foster the exchange of experiences, learning of strategies and tools used, and even facilitate trainings and qualification of new technical personnel and managers.

### | A Compass for Management |

Sustainability principles can be established in a code of conduct and/or in a procurement and supply policy. In general, policies tend to be more effective than codes of conduct, since they provide for mandatory internal guidance and guidelines on the topic. On the other hand, codes of conduct can be more pragmatic.

It is important that guidance converts the codes into guidelines for the procurement staff, contributing to encourage them and support them in

the adoption of new practices. It is also recommended that the guidelines are part of communication and awareness campaigns, with the purpose of extending the scope of the strategy and the engagement of collaborators. It may be important to make sustainability internalization not just a mere voluntary act, but rather something associated with institutional goals and targets. In order to advance in the preparation and planning, we recommend, at the end of this chapter, two methodologies that have been published and can be helpful in management targeted at this process continuous improvement.

### Some elements of conduct for reflection

- Psychological harassment
- Accepting gifts
- Respect for diversity
- Fight against piracy and fraud
- Conflicts of interest
- Bribery
- Transparency
- Communication of improper conduct
- Working hours
- Wages and benefits
- Fair treatment of employees and suppliers
- Non-discrimination
- Freedom of association and collective negotiation
- Industrial hygiene
- Physically exhaustive work

## Priority to 'Reduce': a Motto in Sustainable Consumption

Organizations should check, above all, if there are ways for potential reductions/cuts in order to minimize the need for purchases and increase efficiency. They can also rethink their storage and transportation practices. Procurement needs should be carefully assessed, and they should consider the possibility of replacing the purchase of a product with hiring a service, in order to meet the institutional demand, without being owner of a product, but rather user of a service, in the so-called servicising practice (*please refer to the example on page 46*).

Before actually incorporating sustainability attributes to specific products, materials management should rely on a good entry, preservation, inventory and exit control – which makes it easier to reduce waste.

### | Centralize Procurement? |

There is no such a thing as a 'one-size fits all' model for sustainable procurement. In structures with departments and hierarchy, it may be harder to incorporate socio-environmental aspects in all sectors, although a few areas may come out with interesting innovations. In organizations with a centralized procurement structure, there may be gains of scale, resulting in savings and a broader scope of the benefits generated by sustainability practices. On the other hand, centralization may imply higher expenses with transport (financial and environmental expenses, due to GHG emissions) and even undermine the preference for buying from local suppliers,



## Price Register

In the public sector, regardless of the structure, organizations can adhere to the price register system. It is a tool that lists the minimum unit price offered for a certain product specified by the public administration (as established by Article 15 of Law 8,666/93). Thus, other bodies can request the procurement center to purchase the product (up to a certain value) at the price registered<sup>1</sup>. And even if the procurement structure is decentralized, the organization can benefit from the centralized structure.

a practice that aims at local or regional development. In such cases, centralization is not at all desirable.

To save money and at the same time ensure incorporation of sustainability attributes, shared procurement systems (between organizations or even departments within the same organization) may get gains of scale that enable procurement according to those standards at the same price and, sometimes, at a lower price if compared to traditional products without sustainability attributes (*please refer to the example on page 58*).

## Looking at Products

It is necessary to determine what product/service family is priority, which can be done based on environmental and social risks involved and the impact generated on the budget (*please see more details in the methodologies listed at the end of this chapter*). If the organization needs to be mobilized on this topic, one idea is to work with a product that is considered emblematic when it comes to sustainable procurement, such as paper, wood, and package reduction. Some aspects based on the product life cycle assessment (*please refer to page 96*) can be used, such as identifying values spent on the purchase, use, maintenance, and proper disposal. Also, besides the value paid for the product, one should take into account the socio-environmental impacts from extraction, use and disposal.

Sustainability attributes should not consider only economic, social and environmental aspects. They should also take into account the profits, people well-being, and the planet limitations. Although sustainability

criteria are usually classified in a generic way, known as 'green', 'ecologic', 'environmental' and 'social' products, there are more specific approaches that help engaged managers and technical people reflect clearly and discretionally. Key attributes mentioned in the sustainable procurement literature, both for private and public organizations, are the following: environment, diversity, safety, human rights, and purchase from small local companies<sup>2</sup>. Some guidance to incorporate the topic in supply management is given in the illustration on the next page, sorted according to those five sustainability attributes. If the organization goal is to be really aligned with these principles, it should make an effort to incorporate all those attributes to its procurement and hiring policies and practices.

## How is your organization positioned compared to those benchmarks? <sup>11</sup>

- Among about 50 organizations surveyed, 92% ensure their suppliers comply with legal and fiscal legislation, 88% with health and occupational safety legislation, and 79% with environmental legislation. 81% ensure their suppliers comply with legislation that fight child and slave labor.
- 61% clearly adopt social and environmental criteria to register and select their suppliers, and 47% consider the idea of getting social and environmental certifications (such as the green label). Only 4% state they award their suppliers based on social and environmental criteria.
- 46% have policies for local suppliers, 42% for micro, small and medium suppliers, and 19% for suppliers managed by minority groups.
- 27% state they make use of life cycle assessment (LCA) as a requirement to select suppliers, but about 10% declare they use it solely to discuss pros and cons of products and packages.
- 45% offer sustainability training to their procurement department personnel, whereas only 20% offer training to their suppliers.

<sup>11</sup> Results of an empirical research conducted by FGV and ICLEI Brazil on sustainability in the management of public and private procurement, with about 50 organizations, among private companies and public sector bodies (including governments, public institutions and semi-public corporations) operating in Brazil, and concerned with incorporating sustainability in their procurement management operations.

## Sustainability Criteria



### ENVIRONMENTAL

- Use life cycle assessment to check for environmental impacts of products and packages
- Reduce amount of materials used in packages
- Encourage design of recyclable or reusable products
- Consider toxicity of materials and products, renewable raw materials, energy efficiency, use of water, gas emission reduction and waste



### DIVERSITY

- Buy from companies owned by women and minorities, such as maroons and indigenous communities



### SAFETY

- Ensure safe transportation of inputs and products
- Ensure suppliers' facilities are safely operated



### HUMAN RIGHTS

- Visit suppliers' facilities to make sure they are not employing slave labor
- Ensure suppliers comply with child labor legislation
- Require suppliers pay fair wages



### PURCHASES FROM LOCAL SMALL COMPANIES

- Buy from micro and small companies
- Buy from local suppliers

Source: adapted from Brammer and Walker (2011)<sup>3</sup>

## | Technical Specifications |

Once the organization has determined the products it will purchase and the sustainability attributes it will require, it can elaborate the product technical specifications relying on experts' support. In the public sector, specifications should take into account technical and legal aspects, ensuring competitiveness, i.e.; without privileging hiring, and observing new sustainability-oriented norms (*please refer to pages 56 and 57*). Before publishing the RFP, it is critical to check if the product most appropriate social-environmental alternative is available in the market. As for legal aspects, some public institutions have been preparing manuals with instructions on how to elaborate technical specifications. Moreover, there are government websites in which some specifications<sup>4</sup> and models for RFP and contract<sup>5</sup> with sustainability attributes are available for consultation.

To make sure suppliers comply with specifications, the public sector may perform due diligences or check certifications issued by official public institutions or accredited institutions, at least at the national level, as established in Act 7,746/2012. As for companies, they are now free to require labels and certifications (*please refer to Chapter 3*). Norms published by INMETRO, CONAMA, certifying bodies' websites, both for mandatory and voluntary certifications, can also be used as reference for the specification.

## | When to Incorporate Sustainability Criteria |

Besides technical specification elaboration, there are two proper moments to incorporate sustainability attributes: upon the supplier's registration (integrity and ability) and in contractual obligations.

When suppliers are registered, there are legal, technical, economic, financial, and fiscal aspects involved. Particularly when suppliers have some type of association with the extraction of natural resources, such as timber, xaxim trees, palm trees, and sand, among others, or high impact

## Careful with the Requirements

For the public sector, this is the time they enroll the bidder. As established by Law 8,666/93, there is a maximum limit for requirements (Art. 27 and others), according to the proportionality principle, meaning requirements should be useful and applicable to the event, and should be justified, demonstrating their pertinence and relevance.

on their use or disposal (agrochemicals, battery manufacturing), there are severe legal and environmental restrictions.

Contractual obligations have the purpose to ensure suppliers meet the established goals and sustainability criteria, especially in contracts that do not terminate upon the product delivery. There are several environmental norms that can act as a basic guide both for the public and the private sectors to establish contractual obligations aiming at environmental protection, with no restrictions to establish other obligations, extending contracted party's liabilities, and covering both contracted parties and their suppliers, so all steps of the contract are followed. In the public sector, it is possible

to extend the contracted party's liability, as long as the liability extension is established in the bid announcement.

The contracting party is responsible for observing the contract and paying the amount contracted, as agreed, and, of course, according to the payment terms. Showing respect with suppliers and partners is considered sustainability, too.

## Looking at Buyers

The procurement sector must be aligned with the organization sustainability strategy, if present. Besides being aware, procurement personnel should be qualified and specifically trained for such a complex task. Buyers must know the regulatory framework, concepts, sustainability criteria and best practices. Furthermore, they must have access to information on offers of products and services with sustainability attributes. There are ways to access this data, such as socio-environmental certifying bodies', Sao Paulo

State e-Procurement Exchange's (BEC)<sup>6</sup> and the Ministry of Planning, Budget and Management's (MPOG)<sup>7</sup> websites. But there is still a long way to go when it comes to improvements in the access to information. In general, buyers must rely on the support of a sustainability expert, and, for public procurement, they must have a legal advisor.

It is recommended – observing legal boundaries, whenever applicable – buyers establish dialogue with potential suppliers, in order to exchange ideas, knowledge and feedback to make good business, taking sustainability into account.

## Variable Remuneration: Pros vs Cons

Depending on the procurement strategy, the plan could backfire. Many companies establish saving goals for the procurement sector, making buyers adopt very aggressive practices in the market – the so-called 'pit-bull buyers', who make pressure on small weaker suppliers for them to make concessions on fundamental aspects of safety at work, tax payment, and environmental preservation in order to offer lower costs. Therefore, regardless of the sector, it is also necessary to align collaborator incentives with sustainable development assumptions. In the public sector, incentive mechanisms can also be regulated, and some type of gratification could be given to servants who meet their individual and collective targets related to socio-environmental performance<sup>III</sup>.

III The State of Minas Gerais has already adopted such practice. Available at: <<http://www.geraes.mg.gov.br/acordo-de-resultados/o-que-e-o-acordo>>. Accessed on: August 15<sup>th</sup>, 2012.

## Looking at Suppliers

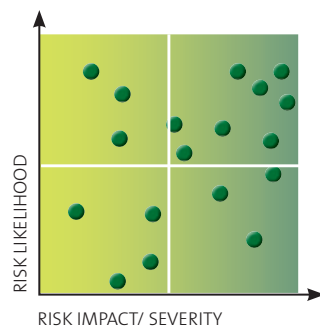
### | Search for Engagement |

Cooperation, ethics and transparency should be an integral part of the buyers-suppliers relationship. Taking this into consideration, we recommend keeping continuous dialogue and feedback targeting at mutual long-term gains. To make it happen, some actions could be taken, such as:

- Revise criteria for supplier selection, incorporating sustainability attributes such as environment, diversity, safety, human rights, purchase from local suppliers and from small companies<sup>IV</sup> (please refer to page 110).
- Improve existing interaction channels, looking forward to contributing for information exchange in a clear and efficient way. A permanent forum and an online portal could be effective in this sense.
- Structure a supplier development plan.

It is recommended to initially work with key or strategic suppliers for the organization, or with those associated with higher risks, whether they are economic, social or environmental risks. For such, the organization should map its supply chain and determine the scope of its strategy, including, preferably, both direct and indirect suppliers – the suppliers of their suppliers. A simple tool that helps identify the most critical suppliers in the chain, as previously presented by the Global Compact, is illustrated here.<sup>8</sup>

Supply chain sustainability risks mapping



Source: adapted from the UNGC (2010)<sup>9</sup>.

First, risk events should be identified, i.e.; events that impact society, the business itself, and economic development, such as risks to exclude small suppliers. Then, we suggest assessing the risk probability and severity, which will determine how it will be managed<sup>10</sup>.

### | Supplier Development |

The buying institution can play a critical role in the suppliers' development, contributing for them to be able to properly supply the demand, continuously improve their products and services, and avoid creating dependence, encouraging them to supply to other institutions.

Innovation needed for sustainability can occur both thanks to the enhancement of existing production systems and the creation of new products, services and business models. In order to encourage supplier improvement, it is important buyers clearly flag which sustainability attributes are important in their purchase, and, when they refuse to purchase, they can give feedback to suppliers.

Having forums and platforms where suppliers and buyers can discuss is a great way to jointly determine criteria to move toward sustainable production and

## Black and Green Lists

In order to ensure minimum sustainability and legal requirements, public and private institutions avoid buying from companies that appear in the social and environmental black lists. For instance, when it comes to labor aspects, they observe the Slave Labor Black List, updated by the Ministry of Labor and Employment, as well as the register of social security debtors. As for the environmental aspect, the product called 'Environmental Compliance', managed by Serasa Experian, gathers company information about licensing, compliance with the Forest Code, infringements, contaminated areas, and slave labor. The public sector also relies on a National Register of Bad Reputation and Suspended Companies (CEIS, as they call it)<sup>11</sup>, a list of companies who received sanctions by the public administration bodies and entities, at the federal, state and municipal levels, and it is possible to view any sanctions and the source of information.

IV Please refer to the chart containing details of these sustainability attributes on page 110.

supply. Such forums can include a third-party organization specialized in sustainability, to act as an advisor and/or mediator, such as Sebrae, NGOs and centers for studies. The public sector can also work on the engagement with potential suppliers, both directly through audiences or public consultations, in which they invite suppliers to present what the public sector will require from their suppliers (backed by Article 39 of Law 8,666/93), and with the support of sector bodies that will act as mediators in such alignment.

Opening investment lines in research and development, as well as investments in hatchery business are ways to encourage the creation of new products, services and business models. The public sector can also publish RFPs containing new sustainability attributes, signalling to the market the existence of niches for new production standards, as well as working on extrafiscal issues to foster certain types of products or services (*please refer to the infographic on page 26*).

In order to track compliance with the required sustainability attributes, it may be a good idea to:

- Invest in auditing and verification systems as learning and assessment tools. The audit can be conducted by the company/government itself<sup>V</sup> or by a third-party. Considering a verification system takes time, financial resources and a qualified team, choosing a third-party audit avoids internal difficulties, but brings the cost issue to the table. A possible alternative would be to share such costs; they could be co-financed by companies in the same industry or by public bodies that hire the same suppliers.
- Work with quality report systems when the focus is on products.

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<sup>V</sup> In the federal public scenario, Article 8 of Law 7,746, as of June 05<sup>th</sup> 2012, which regulated Article 3 of Law 8,666/93, has established the possibility to perform due diligence to check if the sustainability criteria in the bid announcement are present in the goods or services contracted.

- Create liability clauses: should the product show problems during use, it is the supplier's responsibility to analyze the issue<sup>VI</sup>;
- Use labels and certification systems, which can be either mandatory or voluntary. Certifying bodies are in charge of auditing and checking compliance of the criteria established by them to get the label, freeing buyers from auditing.
- Prepare a monitoring questionnaire for suppliers based on the code of conduct or on the organization procurement policy, in order to check whether the criteria established as priority are being met, and give feedback on the positive and negative aspects.

## Continuous Improvement on Supply Management

Upon observing other issues associated with purchases in the institution, such as mainstream environmental and social impacts resulting from procurement (power and water consumption, waste production, proper disposal of post-consumer waste, local development), we notice that processes have become more complex and dependent on committed actors who are aware of their role.

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<sup>VI</sup> For the public sector, this solution was used by the Brazilian National Institute of Cancer to buy quality medicine. Available at: <<http://www.scielo.org/pdf/csp/v15n4/1017.pdf>>. Accessed on: Sep 20<sup>th</sup>, 2012.

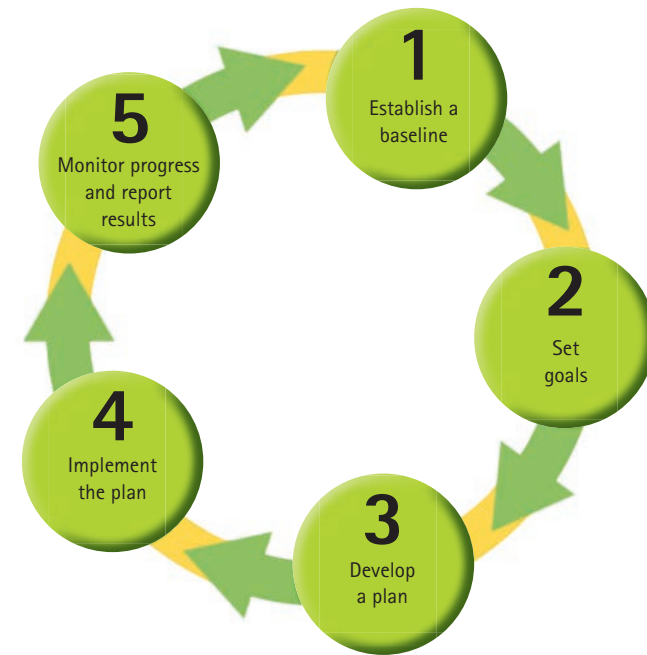
Given this, we suggest managing activities and targets. The path should be guided according to changes resulting from planning, actions taken and their monitoring focused on continuous improvement. It is possible to work and improve procurement and hiring process elements based on management tools, such as the PDCA (*Plan, Do, Check, Act*) methodology, which helps managers incorporate sustainability into their procurement and hiring processes. That tool is easily adapted to the public and private sectors, according to the methodologies elaborated by ICLEI, called Procura+, and the United Nations Global Compact, both presented below.

### Procura+ Campaign for Sustainable Public Procurement<sup>12</sup>

In 2004, ICLEI launched Procura+ Campaign, initially in Europe, in order to foster sustainable public procurement. In this context, it developed a specific methodology, based on a cyclical system typical of PDCA management, which can be adapted to any type and size of public entity. The five steps suggested involve, among other elements, knowing the procurement structure in a certain department or administration, institutional and legal analysis, identifying environmental and social criteria and impacts, market research, raising awareness of decision-makers, and training the staff in charge of procurement.

ICLEI sustainable public procurement methodology and Procura+ Manual were adopted to the Brazilian context, through two editions (2006 and 2008) of the publication entitled 'Sustainable Public Procurement Guide – Using the Government Purchasing Power to Promote Sustainable Development'<sup>13</sup>, in partnership between ICLEI Brazil and GVces (FGV-EAESP Center for Sustainability Studies). Along with the Ministry of Planning, Budget and Management (MPOG), ICLEI, in 2010, elaborated a guide for the federal administration<sup>14</sup>, going deeper into the topic, having as background the Brazilian context.

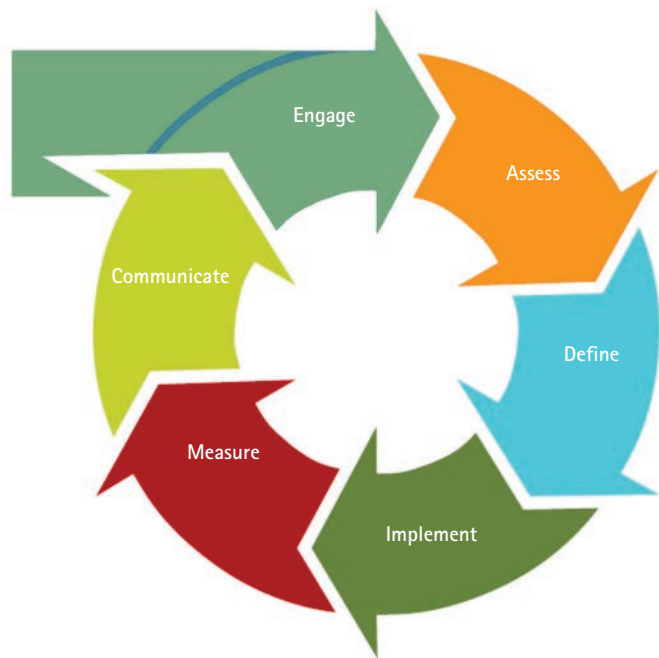
Overview of Procura+ Milestones



Source: adapted from ICLEI, 2007.

### UN Global Compact<sup>15</sup> Business Procurement Management Model

The United Nations, through the *United Nations Global Compact*, recommends the following steps to ensure sustainability in the supply chain: commitment, development of a *business case* (please refer to page 72), establishment of a vision, targets and expectations for the supply chain; and preliminary assessment, defining the scope and the efforts based on priorities and impacts. The recommendation also includes defining and implementing, communicating expectations and engaging suppliers, ensuring alignment and internal follow-up, collaboration and partnerships. Lastly, the UN points the need to measure and communicate, monitoring performance and transparency.



Source: adapted from the UNGC, 2010.

They are flexible methodologies, even though the order presented for the steps have inherent logistics. Since there are different scenarios in the organizations, a different implementation may be required for the steps, in a different chronological order. Maybe what matters most is the fact that those steps are complementary and critical to ensure higher efficiency and effectiveness in the sustainability of the chain and in institutional procurement. Good governance, transparency and engagement are critical principles that permeate all those steps.

Both methodologies – ICLEI’s and UN’s – can guide responsible managers in the search for continuous improvement. Those are some solutions to incorporate sustainability in procurement management, a clear invitation for a dialogue to advance in the boundaries of the practice and the knowledge needed for sustainable development.

## Highlights

- Sustainability should take into account economic aspects, social welfare and the planet carrying capacity. Among the attributes to be considered, we highlight: environment, diversity, safety, human rights, purchases from small local companies.
- Consumption involves expenses, a large supply chain, populations and natural resources. Efficient procurement management is a strategic issue in institutions.
- Decision criteria should go beyond price, due dates and quality, analyzing costs based on issues such as replacement of pollutant sources, reduction and recycling of waste, water and power savings, fight against slave labor, social inclusion and improvement in the relationship with local communities.
- Sustainable procurement management can leverage opportunities, such as cost reduction, higher investments in technology, gaining new markets, image improvement, and engagement of shareholders and decision-makers.
- Consumption reduction strategy should be a priority so as to minimize the need for procurement and increase efficiency.
- Shared procurement systems among organizations can generate gains of scale that enable the purchase of products according to socio-environmental standards at the same price and, in some cases, for a price that is actually lower than that of regular products.

# Glossary of Terms

**Cleaner Production:** Cleaner Production means continuous application of an economic, environmental and technological strategy integrated to processes and products, in order to increase efficiency in the use of raw materials, water and power, through non-generation, minimization or recycling of waste generated in a production process.

**Consumerism:** Act of consuming products in an exaggerated manner. Consumerists buy goods (clothes, electronic devices, jewelry, cars, and real estate properties) without actually needing them.

**Consumption:** Act or process of consuming; expense; extraction of material; use of wealth to meet human beings economic needs.

**Ecological footprint:** Ecological footprint is an environmental accounting methodology that assesses consumption pressures made by human populations on natural resources. Expressed in global hectares (gha), it enables comparison of different consumption patterns, checking whether they comply with the planet biocapacity.

**Environmental impact:** Any change in the environment physical, chemical and biological properties, caused by any form of matter or energy resulting from human activities that, whether directly or indirectly, affect the population health, safety and well-being, social and economic activities, the biota, aesthetic and sanitary conditions in the environment, and the quality of environmental resources.

**Greenhouse effect:** A phenomenon that occurs when gases, such as carbon dioxide, operating as if they were the glass walls of a greenhouse, trap the heat in Earth's atmosphere, hindering its flow outward to the stratosphere.

**Inclusive green economy:** It improves well-being and social equality, at the same time that dramatically reduces environmental risks and ecological scarcity.

**Life Cycle Assessment (LCA):** It is a tool that helps identify a product's (goods and services') environmental impacts throughout its life cycle.

**Life cycle costing:** Assessment that aims at addressing money optimization when someone owns a product, taking into account all factors involved in its life cycle costs.

**Low-carbon economy:** It is an integral part of the operational strategy for an inclusive green economy, with the goal to be a model to reduce greenhouse gas emissions.

**Procurement management (or supply management):** A segment of Materials Management, whose goal is to meet materials or service needs, plan for them both in a quantitative and qualitative manner, check the receipt of what was bought, and properly dispose of the products.

**Shared value:** Operational policies and practices that increase the organization competitiveness, at the same time there are advances in the economic and social conditions in the communities they operate.

**Supply chain:** Consists of all activities related to the flow and transformation of goods since they are raw materials (extraction) to the stage they are utilized by end users, as well as associated information flows.

**Sustainability:** A principle according to which current use of natural resources cannot compromise meeting the needs of future generations.

**Sustainability attributes:** For procurement management, we highlighted five sustainability attributes - environment, diversity, safety, human rights, and purchases from small local companies. In this book, we used the term 'socio-environmental criterion' as a synonym.

**Sustainable development:** 'Responds to current basic needs, so as not to jeopardize the needs of future generations' (Brundtland Report).

**Value chain:** A set of activities that generate value, from basic raw material sources, to component suppliers, delivery to customers, and post-consumer stage. The company relationship and engagement with its different audiences can also create value.



# Index

## A

**A3P (Environmental Agenda for Public Administration)**, 17, 39, 44, 53, 63, 66  
**AGU (Office of the Federal Attorney General)**, 41, 44, 54  
**Amazon**, 13, 94  
**Australia**, 36

## B

**Benchmark**, 104, 110  
**Bid**, 19, 35, 38, 44-46, 50-55, 59-60, 66  
**Biodiversity**, 30, 53, 74, 123, 127  
**Brazil**, 18, 21, 28, 30, 34, 39, 62, 66-67, 76-78, 80-81, 83, 85, 86, 87, 88, 89, 94, 96, 103, 118, 125, 127, 133  
**Brazil Vehicle Labelling Program**, 61, 79  
**Brazilian Association of Vegetable Oil Industries**, 94  
**Business Case**, 73, 104, 119  
**Business model**, 24, 115-116  
**Buyers**, 25, 40, 68, 71, 73, 77, 83, 101-102, 112, 113, 114, 115, 116, 130

## C

**Canada**, 21, 36  
**CDP (Carbon Disclosure Project)**, 76  
**Cempre (Business Commitment to Recycling)**, 86  
**Cetesb (Environmental Sanitation Technology Company)**, 62  
**Chiefs of government**, 13, 30  
**CISAP (Inter-ministry Committee on Sustainability in Public Administration)**, 28, 41  
**Conama (Brazilian National Council on Environment)**, 56, 111  
**Company**

**Micro**, 18, 37, 57, 66-67, 73, 109-110  
**Small**, 18, 22, 36-37, 57, 66-67, 69, 73, 82, 96, 109-110, 114, 130, 132

**Conscious consumption**, 19, 33, 44, 129

## D

**Development**, 17-20, 22, 25, 29, 34, 36, 41, 54, 59, 65-67, 69, 74, 79, 87, 89, 96-97, 102, 108, 114-117, 119, 123, 125, 126  
**Economic**, 16, 59, 115, 129  
**Sustainable**, 12, 15-16, 18-20, 23-24, 27, 31, 33, 37, 56, 58, 72, 77, 83, 98, 105, 113, 118, 120, 124-126  
**Disposal**, 19, 43-44, 46, 48, 50, 55, 85, 91, 96, 108, 112, 129

**Diversity**, 20, 22, 72, 100, 106, 109-110, 114, 121  
**DOF (Forest Origin Document)**, 50, 88

## E

**Eco** 92, 17, 20-21  
**EcoCamara program**, 46  
**Ecological footprint**, 76  
**Economy**, 18, 22-23, 30, 35, 41, 44-46, 50, 53, 58, 60, 63-64, 66, 69, 73, 76-78, 83, 87-89, 92, 104, 107, 121, 124, 128-129  
**Green**, 19, 22, 29, 31, 87, 93, 104, 125-126  
**Inclusive**, 22, 31, 34, 75, 104  
**Efficiency**, 22, 28, 30, 36-37, 39, 44, 53, 59, 64, 66, 68, 72-75, 77-78, 83, 88-89, 98, 99, 102, 104, 107, 110, 120-121, 126, 128-129  
**Electronic bid**, 50, 58  
**Equality**, 102

## F

**Fair trade**, 36, 47, 64, 81  
**FGV (Getulio Vargas Foundation)**, 54, 93, 118  
**Fundap (Administrative Development Foundation)**, 59

## G

**GDP (Gross Domestic Product)**, 23, 30, 40, 87, 125, 129  
**GHG Protocol**, 76  
**Global warming**, 14, 43, 49  
**Governance**, 19, 30-31, 80, 102, 105, 120, 124, 126  
**Green Business Council**, 89  
**Green label**, 21, 79, 88, 109  
**Greenhouse gas**, 20, 30, 43, 49, 62, 64, 67, 76-77, 85, 87, 89, 99  
**GVces**, 93, 118

## H

**Human rights**, 22, 64, 75, 78, 81, 96, 100, 109, 110, 114, 121

## I

**Ibama (Brazilian Environmental Institute)**, 50  
**ICLEI**, 18, 38, 54, 64, 118, 120  
**ICMbio (Chico Mendes Institute for Biodiversity Conservation)**, 53-54  
**Impact**, 14, 17, 21-22, 30, 35, 50, 55, 70, 79, 92, 97, 99, 101, 102, 105, 108, 112, 119, 123-124, 126, 132-133  
**Economic**, 29, 72, 74  
**Environmental**, 24, 28, 29, 53, 65, 69, 72, 74, 76, 92, 96, 108, 112, 117-118, 124, 127  
**Social**, 24, 29, 72, 74, 108, 112, 117-118, 131

**Inmetro (Brazilian National Institute of Metrology, Quality and Technology)**, 59, 80, 111  
**IPCC (Intergovernmental Panel on Climate Change)**, 14, 77

## J

**Japan**, 21, 36, 96

## L

**LEED (Leadership in Energy and Environmental Design)**, 66, 90  
**Legislation**, 35-36, 51, 61, 66, 69, 86, 102, 105, 109, 131  
**Life cycle**, 17, 19, 22, 25, 29, 37, 49, 55, 65, 79, 96, 99, 104, 108, 109, 110, 129, 131  
**Local procurement**, 22, 36, 66, 82, 114

## M

**Marketing**, 26, 95, 102  
**MDA (Ministry of Agrarian Development)**, 66-67  
**MIT (Massachusetts Institute of Technology)**, 15  
**MMA (Ministry of the Environment)**, 19, 29, 33-34, 39, 57  
**MPOG (Ministry of Planning, Budget and Management)**, 19, 28, 35, 40, 52-54, 57, 69, 113, 118  
**Ministry of Finance**, 40

## P

**Package**, 39, 43, 49, 54, 59, 75, 80, 82, 86-87, 96, 108-109-110, 129  
**PDCA (Plan, Do, check, Act)**, 118  
**PPCS (Sustainable Production and Consumption Action Plan)**, 19, 38-40  
**Private procurement**, 86-87, 119  
**Policy**, 16, 17, 19-21, 23-25, 32, 35-37, 39, 46, 54, 80, 88-89, 93-94  
**Climate change**, 18, 57  
**Solid Waste**, 19, 30, 38-39, 47, 57, 62, 68, 80, 86  
**Sustainable procurement**, 22, 34, 36, 66  
**Procura+ Campaign**, 18, 118  
**Procurement management**, 40, 101-102, 119-121, 131  
**Product**, 19, 22, 24-25, 29-30, 34-36, 40-41, 44-46, 50-51, 53-55, 57-61, 63, 65-69, 72, 74-75, 77-83, 92-94, 96-97, 99, 102, 104, 107-113, 115-117, 121-124, 126, 129-130, 132-133  
**Public Attorney's Office**, 53  
**Public managers**, 13, 50, 52, 57, 59-60, 69  
**Public procurement**, 17-18, 23, 28-29, 31, 34-37, 39-40, 46, 57, 63, 65, 74, 96, 102, 113, 118, 131  
**Public sector**, 17, 25, 27, 31-32, 34, 38-39, 52, 58-59, 74, 77, 102, 104, 111, 116, 129, 131

## R

**Recycling / Recycle / Recycled**, 21, 30, 39, 44, 46,

50, 57, 59, 62, 66, 86-88, 92, 93, 96, 99, 109, 121, 127  
**Reduction / Reduce**, 17-18, 21, 30, 39, 41, 44-45, 55, 60, 63-66, 72-79, 89, 93, 99, 107-109, 121, 124, 127-130  
**Reuse**, 21, 87, 109  
**Reverse logistics**, 47, 86  
**Rio+20**, 19, 22, 28, 31, 34-35, 124-126  
**Risk**, 17, 22, 39, 44, 45, 47-48, 58-59, 65, 72, 73-74, 92, 94-95, 104-105, 108, 114-115, 123, 127

## S

**Sabesp (State of Sao Paulo Basic Sanitation Company)**, 92-93  
**Safety**, 14, 22, 25, 36, 39, 44, 50-52, 94, 97, 100, 109-110, 113-114, 127, 128  
**Slave**, 73, 85, 109-110, 115, 121  
**SLTI/MPOG (Logistics and Information Technology Office)**, 19, 35, 40, 52, 57, 69  
**SMA (Sao Paulo State Environmental Secretary)**, 61  
**Social responsibility**, 29, 44, 54, 72, 104  
**Socio-environmental certification**, 21, 50, 88  
**Socio-environmental label**, 30, 42, 50, 61, 92  
**South Africa**, 36, 65  
**STJ (Superior Court of Justice)**, 44-45  
**Suppliers**, 24, 26, 36, 47, 54, 63-65, 68-69, 70-77, 83, 86-87, 93-95, 97-98, 101-102, 105-106, 109-117  
**Supply chain**, 72, 76, 99, 104-105, 114, 119  
**Supply management**, 65, 71, 75, 104, 109, 117  
**SUSHI (Initiative for Sustainable Social Housing)**, 89  
**Sustainability attributes**, 24, 31, 55, 58, 68, 75, 83, 104, 107, 108-109, 111, 113-116, 129-130, 132  
**Sustainable Buildings and Climate Initiative (UNEP-SBCI)**, 87, 89  
**Sustainable consumption**, 17-19, 25, 29, 31, 34, 37-40, 72, 106-107, 126, 131  
**Switzerland**, 18

## U

**UN (United Nations)**, 14-15, 18, 20, 22-23, 30-31, 72, 87, 89, 119-120, 124-126  
**UNDP (United Nations Development Programme)**, 22  
**UNEP (United Nations Environment Programme)**, 14-15, 18, 28, 79, 87  
**United States**, 21, 86

## W

**Waste**, 21, 43, 47, 77, 84-86, 96, 127  
**Women**, 36, 110

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