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IMPLEMENTATION OF SUSTAINABILITY PUBLIC PROCUREMENT IN INDONESIA

A best practice from Sustainable Public Procurement
in United Kingdom

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SUSTAINABLE PUBLIC PROCUREMENT CONCEPT

Sustainable Procurement is a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment (Department for Environment, Food and Rural Affairs, UK, 2006). Sustainable Procurement should consider the environmental, social and economic consequences of: Design; non-renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these consequences throughout the supply chain (Department for Environment, Food and Rural Affairs UK, 2006).

Procurement is not just about purchasing in ways that reduce cost and achieve value for money, but also about achieving wider policy objectives, be these social, environmental or otherwise (Erridge, 2004; McCrudden, 2004). Indeed procurement rarely serves one objective only (Yeow, Uyarra, Gee, 2011).

Public procurement can be called sustainable when the entity uses its buying power to integrate sustainability aspect in procure the good/services/construction by taking into consideration aspects as follows:

- Economic consideration: best value for money/best value for money tax payer;
- Environment consideration: the minimum impact to the environment that the products/services/construction have over its whole life cycle;
- Social equity consideration: poverty eradication, gender equity, international equity in the distribution of resources labour condition, human rights, traditional community rights, minority (Sadikin, 2008).

Those aspects has to be considered in terms of design, non renewable material use; manufacture and production methods; logistics; service delivery; use; operation; maintenance; reuse; recycling options; disposal; and suppliers' capabilities to address these consequences throughout the supply chain (Marrakech Task Force, 2007). According to Marrakech Task Force, Sustainable Public Procurement defined as a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money in a sustainable manner in terms of generating benefits nor only to the organization, but also to society, whilst minimizing damage to the environment (Sadikin, 2008).

SUSTAINABLE PUBLIC PROCUREMENT IN UNITED KINGDOM (UK)

Sustainability has been at the forefront of procurement policy in the United Kingdom (UK) in recent years. The UK Government's 2005 Sustainable Development Strategy set the goal of making the UK as a leader in sustainable procurement in the EU by 2009. Within the strategy, there is a commitment to supporting "innovation to bring through new products, materials and services", and "reducing waste at source and making use of it as a resource" (Defra, 2005, p.7). One way to deliver this strategy is through sustainable procurement, which is defined as "a process whereby organisations meet their needs [...] in a way that achieves value for money on a whole life basis [...] whilst minimising damage to the environment" (p.10) (Yeow, Uyarra, Gee, 2011).

Moreover, Morgan (2008) notes that in order to deliver on the sustainability agenda the public sector needs to act as an “ecological client”, since “one of the key tests of the political commitment to sustainable development is the sustainability of the Government Estate” (p.1241). According to the OGC, the public sector spends £220 billion each year on procurement (OGC, 2010). As such, there is great potential to use procurement to deliver value for money whilst leading on the sustainability agenda. Additionally, the Sustainable Procurement Task Force (Defra, 2006) pointed out that sustainable procurement should be an organisational priority and that government departments should therefore question the need to spend, try to cut out waste, seek innovative solutions and secure delivery by well-trained professionals (Yeow, Uyarra, Gee. 2011).

Implementation of Sustainability Public Procurement (SPP) in UK is already established. UK government has formed a task force team that will focus on implementing the SPP. It was established in May 2005. The Task Force’s membership consisted of 33 members; it is drawn from business – both major suppliers to government and representatives of best private sector practice; non-governmental organisations; trade unions; professional bodies; major public sector procurers and the Sustainable Development Commission. Its remit was to focus on the social, economic and environmental dimensions of public procurement.

Furthermore UK government also had National Action Plan which included quick wins program of Sustainability Public Procurement. It gives government a clear direction on how to make real progress toward better, more sustainable procurement which will in turn allow it to move forward on sustainable development and set an example both to business and consumers in the UK and to other countries.

They also have working groups which established to lead the development of the National Action Plan and were chaired by members of the Task Force. The working group were: International Benchmarking; Data and Priorities; Engaging with suppliers; Accountability; Capacity Building. The full Task Force met five times during the year to consider the output from the working groups and the research, and to help shape the National Action Plan. They also set up the public sector priority spend area such as: construction; health and social work; food; uniforms, clothing and other textile; waste; pulp, paper and printing; energy; consumables; furniture; transport (business travel, motor vehicle).

Moreover the Task Force already set up the strategy and program to getting start such as:

1. The Flexible framework which is the SPP implementation strategy. It is consists of: people, policy, strategy and communication, engaging suppliers, measurement and result. There are 5 stages/levels in implementation process: Foundation, Embed, Practice, Enhance and Lead;
2. Setting and dealing with priorities, consists of prioritise action; buyer approach and market engagement strategy;
3. Toolkit for procure such as: web based training tool;
4. Do measurement of the project (who does what).

This implementation is very organized and has full commitment from all stakeholders to become leader in sustainability public procurement by government.

PUBLIC PROCUREMENT IN INDONESIA

Public procurement in Indonesia is referred to activities to obtain goods/services by Ministry/Institution/Regional Working Units/Institutions that started the process of planning requirements until completion of all activities for obtain goods/services (article 1 regulation 70 of 2012). Procurement in Indonesia is use funds from the state/national budget. Purchase goods are allocated government spending in order to procure/purchase of goods/services of non- investment to support government operations and capital expenditures for capital formation/investment in land, equipment and machinery, building and construction, and network in other physical forms.

The total expenditure of the central government in fiscal year 2012 amounting to Rp.965 trillion allocated around Rp340 trillion or 35.23% for spending on goods/services of non- government investment through spending on goods and investment through capital expenditures. This figure does not include social assistance expenditures amounting to Rp8.47 trillion spent by the Ministry/Agency (Hadisaputra, 2012). The process of public procurement in Indonesian government has a very important role to drive economic activity and this is in line with the increase in the budget allocation of goods/services of the Government each year as shown in the following table: (Hadisaputra, 2012).

Table 1.
BUDGET ALLOCATION OF GOODS/SERVICES 2008 - 2011

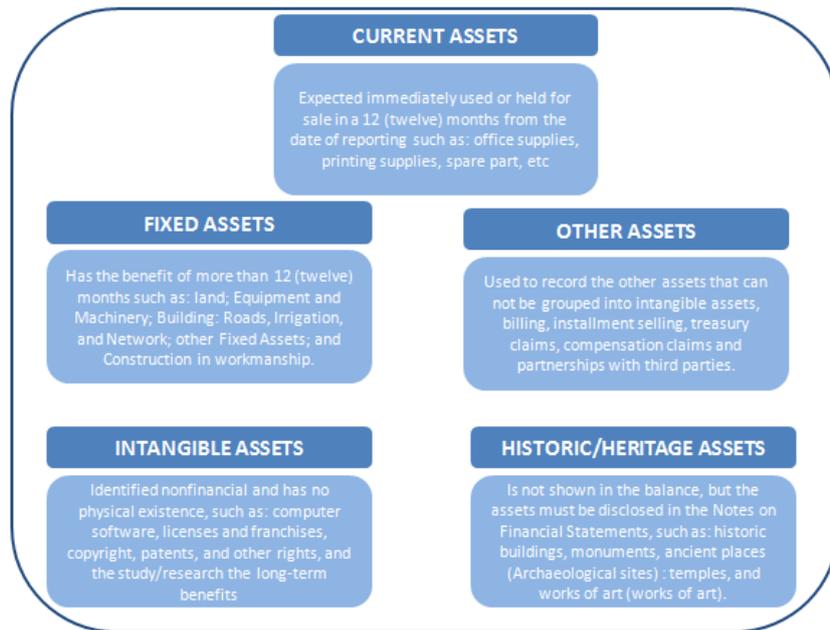
EXPENDITURES	BUGDET PER YEAR (in trillion rupiahs)			
	2008	2009	2010	2011
GOODS	67,48	85,46	112,59	142,80
CAPITAL	85,07	73,38	95,02	141,00
BE SOCIAL ASSISTANCES	59,70	77,93	71,17	81,80
GRANTS	0	0,03	0,24	0,40

It is align with what (McCrudden, 2004) said that government is often the single biggest customer within a country, and governments can potentially use this purchasing power to influence the behaviour of private sector organisations. In particular, it has been noted that public procurement can be a lever to deliver broader government objectives, such as stimulating innovation in supply markets, using public money to support environmental or social objectives, and for supporting domestic markets.

STATE OWNED ASSETS (SOA)

Based on the table above we know that budget for procure goods as part of State Owned Assets (SOA) is the biggest government expenditure in every year. In this term, goods as assets are part of the wealth of the country which is specific unit that can be assessed/calculated/measured/weighed and considered not including money and securities. According to Law No. 1 of 2004 on State Treasury, State Owned Assets (SOA) is all goods purchased or obtained at the expense of the state budget or from other legitimate acquisition (grants/donations, agreements, based on the Act). State Owned Assets (SOA) divided into 5 categories, they are:

Picture 1
SOA Categories



MANAGEMENT OF STATE OWNED ASSETS (SOA)

Accordance with Article 48 paragraph (2) and an explanation for Article 49 paragraph (6) of Law no. 1 In 2004, the scope of SOA management arrangements in government regulation covering the sale of goods through auction and exceptions, demand planning, procedures for the use, utilization, maintenance, administration, assessment, removal and alienation. The formula is a minimum cycle over the entire cycle chain management of state property/area (asset management cycle).

Picture 2
SOA Management



Sustainable concept can go on stage of procurement process by setting some of strategy, procedure, tools and process. In the procurement process, the sustainability issue can be as one of requirement for the supplier selection to become environmental friendly.

NPPA ROLES IN SUSTAINABILITY PUBLIC PROCUREMENT (SPP)

National Public Procurement Agency Republic of Indonesia (NPPA) has the duties procurement policy development and formulation of products/services government. NPPA formed with the intent to carry out repairs and improvements to the system of procurement of goods/services of the existing government and create a mechanism for the system of procurement of goods/services the government runs effectively and efficiently. In accordance with the duties and functions NPPA not only implement procurement policy/government services but also carry out the development of electronic procurement, human resources, procurement and provision of advocacy and legal assistance related to procurement. Based on NPPA mandate it is also NPPA responsibility to building Sustainable Public Procurement (SPP).

A. The Strategy of NPPA in Sustainable Sourcing in SOA Procurement

Government of Indonesia (NPPA) actually already designed the regulation how to support Supplier Sustainability Program (SSP) in procurement of SOA through setting up particular provision in Presidential Regulation No. 54 Year 2010. This provision is considered as an introduction of SPP concept. Moreover in 2009, the SPP concept was initiated through Law No.32 Year 2009 concerning Protection and Management of the Environment by Ministry of Environment Republic of Indonesia.

Implementation of SPP requires preparation and readiness in many different aspects in both supply and demand sides. Shifting paradigm in procurement, auditing, state financial incentives (such as taxes and subsidies), society and other related factors are playing important roles to assure SPP is gradually implemented. In Presidential Regulation No. 54 Year 2010 Article no.105 mentioned that:

- 1) *Eco-friendly concept is a process of meeting the needs of goods and services of government organizations (K/L/D/I), so that the entire steps of procurement process can provide benefits to the government organization (K/L/D/I) and the community and the economy, with minimum impact to the environmental;*
- 2) *The concept of eco-friendly in public procurement can be applied in the bidding documents in the form of certain requirements, which may lead to the use of natural resources wisely and support the preservation of the environment in accordance with the characteristics of the job;*
- 3) *Eco - friendly public procurement as referred to in paragraph 2, conducted with attention to the efficiency and effectiveness of the procurement (value for money).*

In Law No.32 Year 2009 article no 43 mentioned:

(3) Procurement of goods and services as environmentally friendly living. That's means is that prioritize procurement goods and services that are labelled eco-friendly living.

And also in several laws which has concern to the sustainability public procurement such as:

- Law No. 28/2002 about Construction Building;
- Law No. 74/2002 about Water Resource;
- Law No. 38/2004 about Road;

- Law No. 26/2007 about Spatial Planning'
- Law No. 30/2007 on Energy.

B. The Process of Sustainable Sourcing In SOA Procurement

There are three phase implementing Sustainable sourcing in Public Procurement in NPPA:

1. Discovery phase (2012-2013): Establish Project & Working Group; Detailed Project Planning; Develop communication stakeholder; Gather & analyse information; Investigate available systems & tools; Assess sustainable procurement capability; Deliver findings of discovery phase.
2. Establishment Phase (2014-2015): Develop sustainable procurement strategy; Develop strategy and policy objectives; Develop sustainable procurement training program; Develop a marketing & education program; Develop performance measurement and reporting framework; Develop and deliver a pilot program; Review learning's from pilot program; Develop Action Plan implementing the sustainable procurement.
3. Implementation Phase (2016-2019): Implementation the Action Plan; Monitor; Measure; Report.

Recently a detail project planning and other agenda at the first phase is still on progress. NPPA is still in discovery stage of SPP concept implementation. Work plan of Sustainable Public Procurement already designed in this year and will be execute by working together with MCC (Millienium Challenge Corporation) Consultant in the next year (2014).

NPPA also conducted working together with Ministry of Environment Republic of Indonesia in formulate the concept of green products and give some recommendation of green product criteria for public procurement especially for SOA. The result list of green product will be input in the e-catalogue system of LKPP. For the example: one of the green product that already indentified by Ministry of Environment is paper with ecolabel the name is Sinar Dunia Paper from Sinar Mas Pulp and Paper Company. This company will be recommended as supplier of SOA to the government institutions (central and local government) all over in Indonesia.

In 2012, NPPA was socializing by focusing in Article 105 Presidential Regulation No. 54 year 2010 to raise awareness of national and local governments to be environmentally friendly in the process of selecting suppliers of goods services in the procurement process in several areas in Indonesia. At the same time, MCC Consultant also already conducts market analysis (supply and demands) of green procurement to measure the readiness of implementing SPP in the future.

NPPA also already implemented e-procurement system and e-catalogue system that contribute to: Centralised procurement governance; Automated processes/workflow; Integration with contract compliance and finance; Enabled supplier relationship; Conducting spend data analysis; Increasing visibility through reporting tools and Custom vendor e-catalogues. Using e-procurement also contributes to decreasing carbon emission to figure out: a ream of paper (500 sheets) equates to 6% of a tree, 27.8 kWh of energy, 6.4 kg (14 lbs.) of greenhouse gas, 180 litres (47.6 gallons) of water waste, and 2.6 kg (5.7 lbs.) of solid waste. To print or fax that same ream of paper would be an

additional 10 kWh of electricity and 5 kg of carbon emissions. That may not seem like a lot, but once you multiply these figures with the amount of paper you are saving with e-procurement and the impact could really add up over a year.

The address of NPPA e-procurement is: <http://lpse.lkpp.go.id/eproc/> and the address for e-catalogue of NPPA is <http://e-katalog.lkpp.go.id/e-catalogue/>.

C. LKPP Challenges

There are several challenges in implementing the SPP concept such as:

1. **Lack of Enforcement:** People tend to choose the easiest and the least risk option. Conventional public procurement considered as the best choice at the moment since there is no sanction to the people who deny to apply the eco – friendly procurement;
2. **Lack of Integration:** Many initiatives have been implemented by both government and private enterprises for SPP but more often they work solely so the impact not significant. (sectoral ego);
3. **Lack of Supporting Instruments:** There is no specific criteria for green product and there is no courses for procurement personnel about doing SPP;
4. **Lack of Incentives:** There is no incentive in doing SPP applied in (tax discount, banking system, and subsidiary system).

RECOMMENDATION

Based on this condition, I have several recommendations to NPPA (as my organization) and related ministries to build the tools and procedures of sustainability sourcing in SOA procurement such as:

1. To support sustainability public procurement program in SOA procurement government of Indonesia have to apply some requirements in using some products from the suppliers, such as at least they have to fulfil one of this criteria of sustainable product below:

 <p>Ramah Lingkungan</p>	<p>EKOLABEL INDONESIA (INDONESIAN ECOLABEL) To obtain this label, a product should meet the criteria that has been determined based on inputs from multi stakeholders and should be certified from the accredited certification body. To use/buy eco label product means supporting Sustainable Procurement Program.</p>
 <p>NON CFC</p>	<p>NON CFC LABLE This logo is to show that the product with the logo does not use/ has change <i>chloro fluoro carbon (CFC)</i> –an ozone depletion substance-, use as a cooler in refrigerator or air conditioner.</p>
 <p>NON HALON & NON CFC</p>	<p>NON HALON & CFC LABLE This logo is to show that the product with the logo does not use/ has change <i>halon and chlorofluoro carbon (CFC)</i> –an ozone depletion substance-, use widely in a fire extinguisher device.</p>
	<p>RECYCLED LABLE This logo shows that the product with this logo can be recycled.</p>
 <p>ENERGY STAR</p>	<p>ENERGY SAVING LABLE This logo show that the product with this logo is an energy save product.</p>
 <p>Indonesian LEGAL Wood</p>	<p>SLVK : Timber Legality Verification Standard or Timber Legality Assurance System to tackle illegal logging.</p>

Government have to put sustainability criteria in the goods specification technique in order to get environmentally friendly products;

2. NPPA also should consider for other several aspects in sustainability sourcing of SOA such as:
 - Social issue: human rights; Small Medium Enterprise (SME) Empowerment; Work Safety, Employment and Minimum Wage/Salary;
 - Fair Trade;
 - Gender Equity and Woman Empowerment.
3. NPPA also have to work together with several stakeholders to set up the SPP task force team which have the same and good commitment in SPP implementation in Indonesia, such as:
 - Ministry of Environment is the institution that responsible to protect and manage the environment, and some of the program is developing “green procurement” concept;
 - Ministry of Finance and Ministry of Trade are the ministries that responsible in developing financial policy and trade policy, especially related with providing eco label product;
 - Ministry of Home Affair is responsible in introducing new concept to all government body in provincial and municipal level;
 - Ministry of Forestry is responsible for managing the forest, which Indonesia is the country with the second biggest tropical rain forest;

- Ministry of Public Works, Ministry of National Education and Ministry of Health are the major 'player' in public procurement. The institutions that responsible to endorse social development aspect are Ministry of Social, Ministry of Working Force & Transmigration and Ministry of Women Empowerment;
 - Other stakeholders such as: Green Building Council Indonesia (GBCI), Indonesia Green Purchasing Network (IGPN), Walhi, Supplier that have been concern with environment (self declare).
4. Mechanisms of reward and punishment must be designed in the implementation of SPP or Sustainable Sourcing In SOA Procurement.

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