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Recommendations for approval

Recommendation N°43: Sustainable Procurement

Minimal common sustainability criteria for Sustainable Procurement processes to select Micro, Small and Medium sized Enterprise suppliers

Summary

Procurement usually prioritizes cost aspects; however, it is becoming increasingly important to consider an appropriate balance between financial, environmental and social considerations. This recommendation proposes an approach to both sustainable public-sector procurement as well as sustainable private-sector procurement. It provides key references in this area and offers a sample code of conduct in annex.

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I. Recommendation N°43: Sustainable Procurement

Establishment of minimal common sustainability criteria for sustainable procurement processes to select Micro Small and Medium sized Enterprise suppliers

A. Introduction

1. The importance of public opinion in buying goods from—or trading business with—socially responsible companies is becoming a strong business-selection criterion. It is also a reason why those companies that do not fulfil the criteria of environmental and social sustainability are being heavily hit with public pressure that negatively impacts their brand reputation.

2. Sustainable procurement is a process by which public authorities or private corporations seek to achieve the appropriate balance between financial, environmental and social considerations when procuring goods, services or works at all stages of the value-transformation cycle, while considering their costs through the entire life cycle. Such considerations pertain, for instance, to the respect of core labour and safety standards in the production process, and the energy efficiency performance and innovative characteristics of the purchased products.

3. Demonstrating compliance with sustainability considerations may, however, introduce additional administrative burdens to cross-border trade participants—particularly Micro Small and Medium-sized Enterprise (MSME) suppliers—involved in international tenders when they are required to prove compliance with specific environmental and social regulations, norms and standards. It therefore becomes relevant to facilitate these MSME companies in their compliance with sustainability matters.

B. Purpose

4. The purpose of this document is to identify a minimal, common set of policies, standards and good practices that will allow buying corporations to comply with sustainability principles without burdening their MSME suppliers with additional administrative tasks that would go against the good principles of trade facilitation. From a methodological point of view, the concept of sustainability is conceived here according to an integrated perspective—encompassing environmental, social and economic impacts in order to avoid the limiting processes of “Greening the Economy”.

5. This document suggests a minimal set of common requirements to select sustainable suppliers. It provides recommendations as to their use to minimize administrative burdens to MSME suppliers, to facilitate cross-border trade, and to facilitate access of transition and developing economies to procurement opportunities worldwide. It is in line with both the World Trade Organization (WTO) Government Procurement Agreement¹ and the WTO Trade Facilitation Agreement².

¹ See WTO Agreement on Government Procurement, link as of January 2019:
https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm

² See WTO Trade Facilitation, link as of January 2019:
https://www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm

C. Scope

6. This document collects best practices that provide guidance and support for financially sound, environmentally sustainable and socially responsible procurement in business-to-government (B2G) and business-to-business (B2B) transactions.

D. Benefits

7. The adoption of a minimal set of common sustainability criteria to select SME suppliers will bring the following benefits to a country:

- Simplified exchange of information and data once compliance is ensured;
- Fast transfer of certificates;
- Smooth electronic tendering;
- Support for the legal validity of the documents exchanged;
- Streamlined procedures between the contracting entity and the tenderer; and
- Qualification and assurance that the end-to-end quality of the selection process is a consumer/citizen right.

E. Recommendation

8. The United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) at its twenty-fifth Plenary session on 8-9 April 2019 in Geneva, being aware of the benefits of sustainable procurement processes as described in this document, recommends that governments and those involved in procurement take the following actions:

- (a) Sustainable procurement processes should be integrated with ethical standards (e.g. social accountability, occupational health and safety assessment), and vendor evaluation criteria (e.g. price, quality compliance, delivery time) should integrate with these ethical standards.
- (b) Buying entities should consider the difficulties of their potential suppliers in the following ways:
 - (i) Incorporate in their tenders a minimal set of common sustainability criteria to facilitate the work of respondents—especially Micro, Small and Medium-sized Enterprises (MSMEs) to reduce their administrative workload;
 - (ii) Support suppliers by incorporating the concept of administrative sustainability to facilitate cross-border trade and access of transition and developing economies to procurement opportunities worldwide;
 - (iii) Make efforts to support suppliers (especially MSMEs) to improve processes and adopt best practices, aligned with standards on sustainability and policies, to guarantee the quality to the end customer of the whole supply chain.
- (c) The selection of responsible suppliers must rely on a collaborative effort between different stakeholders along the supply chain and a certain level of tolerance must be accepted to facilitate buyers and suppliers in the co-creation of indicators and benchmarks for sustainability.

- (d) Avoid any form of trade limitation that is justified by supposed sustainability needs. Sustainability is not to be used as a tool for limiting free market competition and concurrence dynamics.

II. Guidelines to Recommendation N°43 on the establishment of a minimal set of common sustainability criteria for sustainable procurement processes to select MSME suppliers

A. Introduction

9. Sustainable procurement can be defined as “(...) a process whereby organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organization, but also to society and the economy, whilst minimizing damage to the environment”³.

10. Sustainable procurement is rapidly increasing as international, regional and national entities are establishing ambitious policy objectives in this regard. In the European Union, for example, where public procurement amounts to 17 per cent of countries’ GDP on average, Member States have been required to achieve a share of 50 per cent of public tenders including environmental criteria in more than 20 priority product and services categories including lighting; textile; food; paper; and office-building design, construction and management.

11. The facilitation of international sustainable procurement practices looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated costs and maximize efficiency, while safeguarding legitimate regulatory objectives.

12. Finding a minimal set of common sustainability criteria is a crucial goal in the process of simplifying the compliance procedures for potential MSME suppliers operating at a global level—where market forces maximize their synergies by simultaneously engaging multinational companies and MSMEs.

B. Differences between private and public-sector procurement

13. Public organizations rely on national or local governments for funding. This means they have little control over the procurement cycle because they must wait for the funding institutions to collect tax revenue and disburse funds. If the disbursement of funds is delayed, they must suspend procurement activities or delay paying suppliers for delivered goods, leading to poor business relationships. Also, public organizations must assure citizens that public money is spent wisely and transparently. To achieve this, public organizations must spend funds conducting regular internal audits to enhance regulatory compliance. Traditionally, the public sector expects procurement to address several issues beyond simple value for money or basic supply; for example, social value or proximity; policy goals supporting smaller firms or minority owned firms; driving employment or

³ United Kingdom, Department for Environment, Food and Rural Affairs (DEFRA), *Procuring the Future: Sustainable Procurement National Action Plan: Recommendations from the Sustainable Procurement Task Force* (London, Noble House, 2006). Available as of December 2019 at: <https://www.gov.uk/government/publications/procuring-the-future>

education; supporting equalities. While some private-sector firms might decide to look at similar areas, it is unusual to find the same focus on these wider issues in a private-sector organization. Finally, the public-sector stakeholder base is wider and includes entities outside the buying organization. The same can be said of significant public-sector expenditure areas like new railway lines, hospital equipment, and waste disposal.

14. Private organizations are profit oriented and mainly focus on increasing returns for company owners or shareholders. Often procurement professionals are constrained by meeting cost-reduction targets and their procurement activities are confidential, as they operate in a competitive business environment where sharing trade intelligence with competitors is not advisable. Private organizations operate under institutional policies that are tailored to meet their business goals: they can source suppliers at will and award direct contracts without a bidding process. If private organizations choose to invite vendors to submit bid proposals, they naturally focus on awarding contracts to suppliers with favourable terms and conditions.

C. Public procurement: tools for evaluating suppliers according to green/social performances

15. A significant number of projects have already been developed to cover the need for sustainable forms of procurement, suggesting that the notion of sustainability goes beyond the environmental and social categories.

16. The UNECE standard entitled a Zero Tolerance Approach to Corruption in Public-Private Partnerships (PPPs) Procurement⁴ has developed a standard framework for initiatives undertaken through PPPs, calling on governments to put ‘people first’ in their PPP programs and projects. Ensuring People-First PPPs (PfPPPs) in those programs and projects

- Increases access to essential services and lessens social inequality and injustice;
- Enhances resilience and promotes greater care for the environment;
- Improves economic effectiveness;
- Promotes replicability and the development of further projects; and
- Fully involves all stakeholders.

17. The United Nations recognizes that corruption has a unique potential to undermine the Sustainable Development Goals (SDGs) and consequently is working to build upon existing anti-corruption and anti-bribery resources and develop materials that (a) are universal in nature, (b) contain anti-corruption principles and recommendations specifically targeted toward PPPs, (c) may be readily incorporated by countries and governments into their systems to combat corruption, and (d) enhance a government’s overall anti-corruption efforts.

18. Doing so will offer all stakeholders of PPP projects a comprehensive and substantially increased level of protection against corruption, unlock the potential for pipelines of projects in countries, and put people first while saving money and lives.

⁴ *UNECE Standard on a Zero Tolerance Approach to Corruption in PPP Procurement* (UNECE Publication, ECE/CECI/WP/PPP/2017/4). Available as of December 2018 at: http://www.unece.org/fileadmin/DAM/ceci/documents/2017/PPP/WP/ECE_CECI_WP_PPP_2017_04-e.pdf

19. The United Nations Economic Commission for Europe standard helps to the build strong and corruption-free institutions called for by the SDGs.
20. The overall objectives of the standard are as follows:
- Provide a voluntary set of principles and conditions that governments could incorporate in their regulations or policies in undertaking PfPPP procurement in compliance with the SDGs;
 - Assist governments desiring to improve the implementation of PPPs in ways that mobilize their potential and reduce risk and complexity while improving the regulatory response to corruption in PPPs; and
 - Inform and educate all parties, including civil society, on how PPPs may be entered and operated that are of high quality and not compromised by unethical behaviour and defects caused by the lack of integrity or corruption.
21. PPPs are public contracts. As such, the core principles underlying the procurement of traditional public contracts are also applicable to PPP contract procurement. This includes competitive bidding, and a need for transparency and non-discrimination throughout the tender. PPPs trigger a partnership situation where the public and private-sector partners must truly work together over extended periods of time and fine tune the services, economic conditions, and other contractual obligations and performance of the project.
22. The United Nations Development Programme (UNDP) Procurement Strategy 2015–2017 represents the UNDP commitment to help countries achieve the simultaneous eradication of poverty and the significant reduction of inequalities and exclusion. The fulfilment of the UNDP vision and mandate requires the efficient and effective provision of goods and services, making procurement a strategic function essential to delivering results globally.
23. The UNDP incorporates sustainability, the social costs of carbon emission, women’s empowerment and South-South cooperation as criteria in key purchasing decisions, shifting from a narrow focus on price to a calculation based on the “total cost of ownership throughout the life cycle of products and services.”⁵ Through the reorientation of its procurement strategy, UNDP makes a significant investment in renewable energy solutions and energy-efficient technologies such as solar cooking stoves and hybrid vehicles.
24. PPPs are an integral part of the UNDP strategy which recommends the forging of strong, mutually beneficial partnerships with private entities committed to the strategic use of procurement in the domains of innovation, corporate social responsibility and greening.
25. In implementing better procurement services to support project delivery, UNDP aspires to deliver a demand-driven, scalable, self-financing service in support of UNDP programme delivery needs. The implementation of the support structure will have, at its core, three main drivers: accelerated delivery, better client support and better information and systems.

⁵ United Nations Development Programme, *UNDP Procurement Strategy 2015–2017* (New York, United States of America, 2015). Available as of December 2018 from:
<http://www.undp.org/content/dam/sweden/Procurement%20Strategy%20Final%20July%201%202015.pdf>

D. Private procurement: towards a green and sustainable procurement

26. Looking at the private sector, the need to continuously improve corporate performance forces firms to evaluate and select suppliers prioritizing their environmental and social performance. Suppliers must also be involved in the buying company's sustainability program. Buyers have some advantages through evaluating their suppliers according to green (i.e. environmental) and social criteria: they have better visibility into supplier performance, they decrease risk, they reduce order cycle times and inventory, and they improve loyalty—thus improving their competitive advantage and coordination practices between themselves and their suppliers.

27. Key to this goal is supplier identification and the definition of sustainable purchase objectives which should be assessed on a monthly or annual basis. In this regard there are three main phases to perform:

- **Supplier check list.** This is the first tool to be used to determine whether to include the identified supplier in the vendor-rating process. The supplier company may be added to the buyer's supplier database as a "qualified supplier" if it passes a survey questionnaire like the example provided in Annex II.
- **Round table.** A Face-to-face meeting with the supplier. This phase enables the buyer to assess how the supplier can be included in the buyer's company business processes, and whether there is a need for dedicated, supplier-loyalty management. In this phase, many participative techniques can be used to engage suppliers in proactive ways. It is important to perceive this step not as a spontaneous brainstorming, but as a structured process of alignment of expectations which may lead to bottom-up partnerships among different suppliers and buyers, or result in innovative, sustainable purchasing solutions. Examples include (i) adopting multimodal communication patterns; (ii) minimizing sources of linguistic and behavioural variability (especially when suppliers come from countries culturally dissimilar to the buyer); (iii) reducing complexity by favouring the sharing of information processes that can be further enriched by iterative updates; and, lastly, (iv) adopting problem-solving techniques to address pragmatic issues along the procurement chain.
- **Product offer analysis.** This phase identifies and standardizes sustainability criteria for the selected supplier, setting the foundation of the rules that establish the minimum set of common requirements. In doing so, many aspects need to be clearly considered given that it is not enough to define evaluation criteria exclusively related to the company or the individual supplier; criteria also need to refer to the goods or services exchanged. It is advisable to differentiate the criteria between goods and services since the means of verification of sustainability requirements are not always univocal. Moreover, the request for tests aimed at certifying the conformity of the required criteria may involve different actors in the supply chain. Lastly, it is advisable to create a registry of suppliers aligned on a minimum common level of sustainability thresholds.

28. In the end, these phases lead to integrated environmental and corporate social responsibility standards in supply chain management, including product design, material sourcing and selection, manufacturing processes, delivery of the final product to the consumers and end-of-life management of the product after its use. In other words, sustainable supply chain management ranges from sustainable purchasing to integrated life-cycle management.

1. Internal Case Study

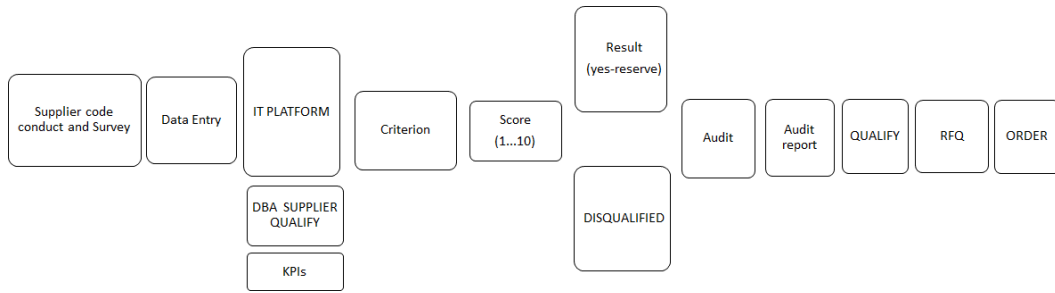


Figure 1: Process Flowchart to build a best practice Sustainable Vendor-Rating Model

Legend: DBA: Data Base Administration
KPIs: Key Performance Indicators
RFQ: Request for Quotation

29. This process flowchart illustrates the phases to build a best practice Sustainable Vendor Rating model. Suppliers should be audited every 3 to 6 months, depending on the goods/services offered.

30. Periodic planning of procedures aimed at verifying the sustainability level declared by each supplier is paramount to ensure the achievement of sustainable procurement goals. The collection of data related to suppliers' compliance to sustainability principles is not only necessary for public reporting, but it also allows the buyer's company to have a complete information framework of its sustainable procurement policy.

31. It is advisable to utilize a dedicated Environmental Management System (EMS) to assess and manage green and social performances. The system may use standardized questionnaires and connect to e-procurement platforms, which range in complexity from electronic bulletins (where simple tenders and contract notices are posted) to full e-procurement systems in which the whole procurement process is conducted. Other tools used include internal financial software, online product catalogues, scorecards, or plans and performance reports.

Case-Study: an Italian MSME in the business-to-business manufacturing sector

This case study refers to an Italian MSME producing valves and actuators for industrial uses, since 1981. Their value proposition is characterized by a strict control on the quality of input materials, as well as by the willingness to run counter-commodification dynamics that, in the manufacturing sector, negatively impact quality and responsibility of production processes. For this reason, since 2015, the company has decided to adopt a Social Innovation framework within which to reinforce its brand reputation by improving procurement practices.

In 2016, the firm engaged all the internal units to co-create an Ethical Code, reaffirming the company's values (passion, respect and sense of duty), putting them into practices targeting suppliers, customers and employees. Later, they reshaped their former Suppliers' Code of Conduct by developing a set of Social and Environmental indicators, organized as a matrix set up along two variables: supplier's origin (developing country vs. advanced economy) and type of tool (mandatory vs. voluntary). Every green/social indicator was weighted as a single criterion, as well as aggregated to the other green/social indicators, ultimately reaching a percentage representing the value of sustainability vis à vis other indicators (quality, lead-time, financial sustainability, etc.). Thanks to this effort for

integrating sustainability metrics within their procurement processes, the company won the Italian Procurement Award in the category of “Ethical & Sustainable Practices” in 2016 and 2017. Notably, this process of Integrated Sustainability Management (ISM) had positively impacted company’s suppliers, which benefitted from cost-optimization dynamics stemming from

- reduced times for double-checking input materials among all suppliers;
- knowledge sharing leading to easier regulation compliance; and
- innovation outputs derived from circular dynamics along the supply chain.

Interestingly, the firm managed to align suppliers from developing countries on virtuous sustainability performances, replicating in low-income communities a set of responsible approaches in procurement processes that were not required by local authorities and regulations. The latter can be considered as a positive effect of sustainability procurement when it is conceived as a participatory process, improving the performances of all actors along the global value chain.

E. Suppliers’ evaluation: procurement indicators for a sustainable vendor rating

32. To better understand where the buyer should focus its efforts to make procurement practices greener and more socially-oriented, it is crucial to clarify at which stages of a typical procurement cycle it is most effective to consider sustainable procurement principles. According to a 2017 survey by the United Nations Environment Programme (UNEP), 78 per cent of participants considered the development of requirements and technical specifications as the most effective stage at which to implement sustainability into procurement. Respondents from private-sector companies, large and small, were more likely to choose supplier development, pre-qualification and contract management.

33. Since there are both qualitative and quantitative factors that influence the evaluation and selection of “green” suppliers, and consequently the creation of a green vendor rating, it is important to consider the selection process as a multi-criteria decision-making problem. Hence, it is important to use composite indicators to create reliable performance measures for sustainable supply chains.

34. The process of creation of evaluation indicators is a complex procedure that usually encompasses two phases:

- Criteria definition; and
- Rationale and application.

1. Criteria definition

35. To ensure a measurable and quantitative process of supplier evaluation, indicators need to connect environmental and social factors with related cost elements that purchasing departments may take into consideration when evaluating supplier bids.

36. These include, but are not limited, to⁶:

⁶ Public Works and Government Services Canada Standard Acquisition Clauses and Conditions (SACC) Manual (2014). Available as of December 2018 at: <https://buyandsell.gc.ca/policy-and-guidelines/supply-manual/section/3/140>.

- (a) Operation costs (e.g. energy or water consumed by the product in its lifetime);
- (b) Indirect costs (e.g. less-energy-efficient information technology equipment will produce more heat causing the building's air conditioning system to work harder and increase electricity costs; fair working conditions will imply shorter audits and less administrative procedures to comply with the law by avoiding fines and legal procedures);
- (c) Administrative costs, such as complying with the Workplace Hazardous Materials Information System (WHMIS)⁷ or the Conflict Mineral Declaration⁸;
- (d) Investing up front to save costs later, such as specifying higher levels of insulation where the extra expenditure can be recovered from lower energy costs;
- (e) Use of refurbished parts or products, where possible;
- (f) Recyclability, which can create markets for a firm's own waste (such as paper, toner cartridges, etc.) through the transformation and sale of products containing recyclable materials;
- (g) Cost of disposal arrangements;
- (h) Establishing minimum environmental or social performance standards for commodities where there is a sufficient supplier base to support competition;
- (i) Where the supplier base is limited, include incentives for meeting extra environmental or social performance criteria; and
- (j) Use of contractual terms, to define environmental and social obligations, such as packaging take-back, use of certified recyclers for e-waste, transparency and avoidance of forced labour.

37. Moreover, it is important that indicators, which may vary within different industrial sectors and firms' dimensions, focus (i) using a broader lens when scrutinizing social and environmental impacts at the corporate level, independent of the type of business involved. and (ii) more specifically when looking at indicators tailored to a given sector or supplier. Notably, just as sustainability encompasses the social, environmental and economic dimensions, sustainable procurement also aligns impacts around these three perspectives, aiming at designing a responsible vendor rating.

Generic indicators⁹

Economic - Gross Value Added (GVA)

(this indicator only works at regional scale and is a standard measure of economic value used by national government)

Economic - Full Time Employment (FTE)

(standard organizational output target for regeneration related activity)

Economic - Consumer re-spend propensity

⁷ See WHMIS.org (link as of January 2019): <http://whmis.org/>

⁸ See Responsible Minerals Initiative for example (link as of January 2019): <http://www.responsiblemineralsinitiative.org/conflict-minerals-reporting-template/>

⁹ As suggested by: Wilkinson, A. and Bill Kirkup, *Measurement of Sustainable Procurement* (East Midlands Development Agency, 2009).

(basis for calculation of economic impact)

Environmental - Number of deliveries received
(proxy for indicative mileage and carbon output)

Environmental - % of value of eco-labelled products bought
(proxy for supply chain carbon and carbon equivalence)

Environmental - % of suppliers with an Environmental Management System
(proxy for degree of environmental awareness and action)

Social - % of suppliers involved in voluntary industry initiatives
(proxy for social capital/community involvement – wellbeing)

Social - % of value invested in activities on behalf of third sector organizations
(direct numeric measure of socially based activity)

Social - % of value invested in activities on behalf of social value initiatives
(proxy for social orientation of supply chain)

*Specific indicators*¹⁰

Economic- % of value invested in activities executed with distributors (taken with the indicator ‘% spend with producers’ this can provide additional data for multiplier of regional economic value)

Economic - % spend with producers (taken with the indicator ‘% spend with distributors’ this can provide additional data for multiplier of regional economic value)

Environmental - Use of Whole Life Costing (where appropriate data exists, such as timber, this approach can give a more complete picture)

Social - % value to good cause (Proxy for contribution to community)

Figure 2: Generic indicators

2. Rationale and application

38. To create a commonly accepted sustainable vendor rating shared by different industry sectors and open to both goods and services, it is crucial to conceive some variables that better capture environmental and social impacts. More precisely, (i) indicators need to be differentiated between general and specific (see Figure 2 above); (ii) contextualized with reference to the socio-economic conditions in which the supplier operates; (iii) diversified following a specific compliance mechanism; (iv) weighted according to their relevance within the procurement processes; and (v) prioritized according to their contribution in terms of environmental and social impacts.

39. For instance, it is possible to differentiate environmental and social indicators—selecting the ones that are more suitable for suppliers based in developing countries as opposed to developed countries—so as to adopt more realistic criteria to collect information from suppliers. Also, indicators may require a different type of scrutiny depending on whether they refer to documents that suppliers—based on their company size

¹⁰ Ibid.

and compliance requirements—are required, or not, to possess. The degree of compliance that the supplier must show must always be gauged against a given company-size (and industry segment)-average reference benchmark. Social and green indicators can also be weighted depending on the importance of a certain topic within the procurement processes, implying a degree of preference expressed by adopting a range of evaluations spanning from “Mandatory”, to “Strongly Advisable” to “Nice to have”. Also, evaluation indicators can be prioritized with reference to their social and environmental impacts—implying, for instance, a higher score for human rights practices than for voluntary community engagement processes. Finally, social and environmental indicators will need to factor in performance indicators such as quality, financial sustainability, price and lead time, which express additional operational evaluations for ranking suppliers’ performances. The result of this two-phase analysis is a matrix expressing suppliers’ reliability and value.

F. Conclusions

40. As described above, a sustainable vendor rating model contains a minimal set of commonly accepted social and environmental performance indicators that measure the suppliers’ sustainability performances. Finding a set of minimal sustainability criteria is a crucial goal for simplifying the compliance procedures at a global level, where global supply chains operate, and market forces maximize their synergies by simultaneously engaging Multi-National Corporations and MSMEs.

41. Although the procurement process is only one aspect of selecting more responsible suppliers, it can only be effective when collaboration exists between different stakeholders along the supply chain. Material requesters (e.g. users, owners), specifiers (e.g. designers, engineers), purchasers and suppliers (e.g. manufacturers, distributors) all need to dialogue to develop viable and meaningful performance indicators. For instance, purchasers may be part of the Research and Development team as they have important experience and knowledge to transmit. Overall, the challenge is to be well informed and to develop a competitive and collective intelligence related to the main concerns of sustainability along the global value chain. For this reason, it is possible to assert that the development of a sustainable vendor rating provides an important opportunity to bring together key players to collectively improve the way services and goods are made, bought, used and disposed; designing a sustainable vendor rating is, therefore, a participative effort benefiting the entire community.

42. Sustainable vendor ratings need to be flexible in their structure as social and environmental impacts evolve over time, and this is also true for sustainable criteria resulting from a multi-stakeholder dialogue. If it is true that a vendor rating needs to identify and quantify performances and impacts, it is also true that a certain level of tolerance is required to allow buyers and suppliers to co-create indicators and benchmarks. This is most likely to apply to indicators referring to social aspects such as community engagement or voluntary industry activities that imply long-term participation, dialogue and information sharing.

43. Sustainable vendor ratings and related supporting documents (see an example of a Suppliers’ Code of Conduct in Annex I) should not be disconnected from other corporate materials referring to responsible performances. Therefore, it is recommended that sustainable procurement initiatives be integrated with tools such as the Ethical Code and the Sustainability Report, or any other non-financial disclosure document, so as to provide a complete set of materials aligning corporate efforts to address sustainability in the passive and active production cycle.

44. Following from above, any strategy or operational tool referring to sustainable procurement must be framed within an EMS to provide a broader scenario for improvements and management synergies that may positively impact risk reduction and prevention.

45. From a policymaking point of view, there is an important challenge to address: the lack of an independent agency that controls the whole supply chain. Indeed, while some environmental measures are linked to clear governmental regulations, many economic and social indicators are not - resulting in weak enforcement and, consequently, a lack of compliance throughout the supply chain. This may reduce the motivation for firms to embark in projects to create sustainable-vendor-rating systems - especially considering global tendencies to commodify products or services that are not sustainable, and rapidly-changing consumer behaviour (as loyalty or fidelity are not easy to stabilize in the long run).

46. It is crucial that sustainable procurement practices not be used as tools to limit free trade and competition dynamics. Sustainability must be a proxy for more efficient processes along the supply chain and not a vested obstacle to trade and commerce.

Annex I

Example of a Supplier Code of Conduct

A. Overview

1. The Company and its subsidiaries (“Company” or the “Other”) believe that operating in a socially responsible and ethical manner, and in compliance with the laws of those countries in which we operate, is fundamental to our long-term success. This means, among other things, that the Company adopts fair employment practices, protects safety in the workplace, supports and fosters environmental consciousness and fully complies with applicable laws. The Company expects its interests and those of its suppliers to be fully aligned in these fundamental respects.

2. This Supplier Code of Conduct applies to all persons and entities who sell goods or services of any type to Company or any of its subsidiaries (each a “Supplier”) and summarizes the standards to be followed in their daily business activities as a Supplier to the Company.

3. The Company considers collaboration with its supply chain to be an integral part of its success and, therefore, strives to operate as an integrated team with its suppliers. The selection of the Company’s suppliers is based not only on the quality and competitiveness of their products and services, but also on their adherence to acceptable social, ethical and environmental principles, which is a pre-requisite to becoming a supplier and developing a lasting business relationship with the Company. Any violation of this Supplier Code of Conduct may jeopardize the Supplier’s business relationship with Company, up to and including termination of that relationship.

4. All suppliers must comply with all applicable laws (including, without limitation, laws relating to anti-corruption and competition), as well as the principles set out in the Company Code of Conduct and in this Supplier Code of Conduct. In addition, all suppliers are expected to provide applicable information to the Company or take other actions necessary to allow the Company to fulfil its reporting, disclosure and other legal obligations.

5. All Suppliers carrying on business with the Company are deemed to agree and accept the contents of this Supplier Code of Conduct and such agreement and acceptance is evidenced by the Supplier continuing to do business with Company.

B. Labour and Human Rights

1. Child labour

6. No Suppliers may employ child labour. The term “child” refers to a person who is younger than 15 years old or who has not yet reached the age for completing compulsory education, whichever is greater.

- ref. ILO Convention n. 138 of 1973.¹¹

¹¹

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C138
as of 27 December 2018

2. Forced labour, human trafficking and slavery

7. No Suppliers may employ forced labour or engage in any form of human trafficking whether by force, fraud or coercion. All forms of involuntary servitude and slavery as well as any forced labour or sex trafficking or the procurement of any commercial sex act are strictly prohibited.

8. Employment must be voluntarily and freely chosen. All Suppliers, including recruitment agencies used by a Supplier, must verify the legal employment eligibility of all persons to work and not use any form of prison, indentured, forced, involuntary, bonded or slave labour.

9. Involuntary labour includes the transportation, harbouring, recruitment, transfer, receipt, or employment of persons by means of threat, force, coercion, abduction, fraud, or payments to any person having control over another person for the purpose of exploitation.

10. No Suppliers will require employees to lodge deposits or identity papers, or to pay recruitment fees.

- ref. ILO Conventions n. 29 of 1930 and n. 105 of 1957¹²; and
- ref. UN convention against Transnational Organized Crime and the Protocols Thereto¹³.

3. Wages and hours

11. All Suppliers must ensure that all their workers receive at least the legally mandated minimum wages and benefits. Working conditions, working time and compensation must be fair, complying with the laws, standards and practices applicable in those countries where the Supplier operates.

12. Suppliers must maintain required official documentation that verifies an employee's age, wages, and hours worked. The Company reserves the right to review this documentation if necessary.

4. Freedom of association

13. All Suppliers shall freely allow workers to join associations, and bargain collectively, in accordance with local law, without interference, discrimination, retaliation, or harassment.

- ref. ILO Conventions n. 87 of 1948 and n. 98 of 1949.¹⁴

¹² https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C029 as of 27 December 2018 and

https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:C105 as of 27 December 2018.

¹³ <https://www.unodc.org/unodc/en/organized-crime/intro/UNTOC.html> as of 27 December 2018.

¹⁴

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312232 as of 27 December 2018 and

https://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::no::P12100_Ilo_Code:C098 as of 27 December 2018.

5. Health and safety

14. Health and safety in the workplace is a fundamental right of employees. All Suppliers must provide and maintain a safe work environment in compliance with all applicable laws.

- ref. ILO Convention n. 155 of 1981.¹⁵

6. Non-discrimination

15. All Suppliers must treat their workers in a fair and non-discriminatory manner, with the guarantee of equal opportunity and the absence of any policy aimed at, or indirectly resulting in, discrimination toward them on any basis whatsoever, including, but not limited to, race, gender, sexual orientation, social and personal position, health condition, disability, age, nationality, religion or personal belief (in accordance with applicable laws).

- ref. ILO Convention n. 111 of 1958.¹⁶

7. Environment

16. To minimize the impact of production processes and products on the environment, all Suppliers should (i) make every effort to optimize the use of resources and minimize polluting and greenhouse gas emissions; (ii) design and develop products taking into account the impact they have on the environment and the potential to reuse and recycle them; (iii) properly manage, in compliance with applicable laws, waste treatment and disposal; (iv) avoid the use of potentially dangerous substances (as defined by applicable laws); and (v) apply logistics management policies that take environmental impacts into consideration.

17. An Environmental Management System (EMS) aligned with international standards (i.e. ISO14001¹⁷ and the EU Eco-Management and Audit Schema¹⁸) is strongly recommended.

8. Trade restrictions / export controls

18. All Suppliers are either directly or indirectly responsible for the import and export of goods sold to the Company and must be aware of, and comply with, all applicable laws that govern international trade. Accordingly, Suppliers are expected to, among other things, make accurate customs declarations, not mischaracterize the value or nature of goods in any way that may create liability for the Company, and obtain (or assist in obtaining) any required licences, approvals or other permits.

9. Responsible sourcing of minerals

19. Suppliers shall exercise due diligence, in accordance with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-

¹⁵ https://www.ilo.org/dyn/normlex/en/f?p=normlexpub:12100:0::no::p12100_instrument_id:312300 as of 27 December 2018

¹⁶

https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C111 as of 27 December 2018

¹⁷ <https://www.iso.org/iso-14001-environmental-management.html> as of 27 December 2018

¹⁸ http://ec.europa.eu/environment/emas/index_en.htm as of 27 December 2018

Risk Areas¹⁹, in its entire supply chain with respect to the sourcing of all tin, tantalum, tungsten, and gold contained in its products, to determine whether those metals are from the Democratic Republic of the Congo (DRC) or any adjoining country and, if so, to determine whether those metals directly or indirectly financed or benefited armed groups that are perpetrators of serious human rights abuses in the DRC or an adjoining country. Countries that adjoin the DRC are Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia.

10. Business ethics

Improper payments

20. Any form of bribery, “kickback”, or improper payments (of cash or anything else of value) to government officials, Company employees, or other third parties, to obtain an unfair or improper advantage is strictly prohibited. In particular, all suppliers and their employees, agents or representatives are prohibited from directly or indirectly accepting, soliciting, offering or paying a bribe or providing anything else of value (including gifts or gratuities, with the exception of commercial items of modest economic value) to any Company employee or any third party.

11. Accurate records

21. All Suppliers will provide the Company with accurate and complete invoices and other transaction documentation and will not assist or engage in any action or inaction that could reasonably be expected to result in the Company’s books and records not being accurate and complete in all respects. Among other things, discounts, rebates, and other credits will be provided to the Company in full and in the applicable period earned or granted, unless otherwise specified in the terms of the applicable agreement with the Company. In addition, the amount and effective date of any price increases must be in accordance with the terms and limits, if any, set forth in the applicable agreement with the Company.

22. Costs, fees and expenses chargeable to the Company must be clearly and accurately described and must have been incurred.

12. Confidential information

23. All Suppliers must respect intellectual property rights and safeguard all Company information, including, but not limited to, know-how, trade secrets, financial information, new product or service development plans and other sensitive Company or personal information, and limit access to such information only to those Supplier personnel who have a legitimate business need for such information when permitted by applicable law.

13. Conflicts of interest

24. All Suppliers must disclose any actual or potential conflict of interest and discuss it with the Company’s industrial management. Any activity that is approved, despite an actual or apparent conflict, must be documented.

¹⁹ https://www.oecd-ilibrary.org/governance/oecd-due-diligence-guidance-for-responsible-supply-chains-of-minerals-from-conflict-affected-and-high-risk-areas_9789264185050-en as of 27 December 2018

14. Fair competition

25. All Suppliers will conduct their business in line with fair competition principles and in accordance with applicable antitrust and competition laws.

15. Anti-money laundering

26. No Suppliers may engage or otherwise become involved in any activity involving, or which may give rise to the appearance of, money laundering—and shall strictly comply with applicable anti-money laundering laws.

16. Supplier relations

27. All Suppliers are expected to assist the Company in enforcing this Supplier Code of Conduct and are responsible for communicating the principles contained in this Supplier Code of Conduct to their respective employees, subsidiaries, affiliates and subcontractors.

28. The Company seeks to foster long-term partnerships with its suppliers through specific tools and periodic workshops designed to achieve a smooth integration between the respective business cultures and processes and to work jointly toward meeting market expectations.

29. The Company is committed to supporting small and local suppliers and minority-owned businesses.

Monitoring and remedial actions

30. The Company monitors adherence of all Suppliers with this Supplier Code of Conduct.

31. Accordingly, the Company reserves the right to request from Suppliers applicable documentation and conduct onsite audits.

32. The Company

- may require that any Supplier that materially infringes on the basic principles of the Company Code of Conduct or this Supplier Code of Conduct, implement an acceptable action plan to bring its performance into compliance; and
- reserves the right to terminate its business relationship with any Supplier that is unwilling or unable to bring its performance into compliance to the satisfaction of the Company.

17. Training

33. The Company encourages Suppliers to establish training programs for their workers to enhance the level of their professional skills.

Reporting violations

34. Suppliers are responsible for reporting to the Company suspected violations of law, the Company Industrial Code of Conduct or this Supplier Code of Conduct. Among other means, Suppliers may use the Company's compliance helpline, available at: [www...\(your company website\)](#).

Annex II

Procurement questionnaire minimum sections

The questionnaire should contain at least the following sections:

- General demographic data (e.g. company name, location)
 - Economic information (e.g. annual turnover)
 - Commercial information (e.g. total client number)
 - Contact names
 - List of products
 - Total number of workers
 - Workers grouped by age (i.e. date of birth)
 - Work relationship (e.g. permanent; non-permanent; ratio of men/women)
 - Existence of Trade Unions
 - Workers' training
 - Quality Management System
 - Auditing processes
 - Main machinery and assets
 - Supplier management (e.g. location of suppliers)
 - Health and safety in the workplace
 - Environmental protection procedures
 - Social responsibility and ethics procedures
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