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HOW TO ADVANCE CIRCULAR PUBLIC PROCUREMENT?

Recommendations for municipalities

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HOW TO ADVANCE CIRCULAR PUBLIC PROCUREMENT?

Recommendations for municipalities

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EUROPEAN
REGIONAL
DEVELOPMENT
FUND

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Circular PP



PUBLIC PROCUREMENT

In the European Union (EU), public procurement (PP) represents the process by which contracting authorities (for example, municipalities) acquire goods and services from the market. The main premise of PP is to promote a fair and transparent competition between potential suppliers, from which one or more would be awarded the public contract. According to Directive 24, which regulates PP in the EU, public contracts shall be awarded to the supplier that submits the Most Economically Advantageous Tender (MEAT). The MEAT can be identified in two ways:



**BID WITH THE
LOWEST PRICE**



**BID WITH THE BEST
COST-QUALITY RATIO**

COST-QUALITY RATIO: A STRATEGIC CHOICE

Cost can be calculated based on life cycle costing methodologies, which gives the contracting authority **a more accurate approximation of total costs incurred.**

Quality criteria can refer to environmental and social considerations, which allows the contracting authority to **create social and environmental value through procurement.**



Choosing the MEAT based on a cost-quality ratio, rather than the lowest price alone, is the foundation for procuring strategically.

MECHANISMS FOR STRATEGIC PROCUREMENT

Besides awarding contracts based on a cost and quality ratio, the Procurement Directive contemplates additional mechanisms that can promote strategic procurement. Some of them are presented below along with the article in the Directive in which they are addressed.

Take into consideration environmental externalities and other costs such as collection and recycling in the total cost of contract.

Life-cycle costing Art 68

Define environmental and social considerations as quality criteria that receive a relative weight compared to cost.

Award criteria Art 67

Conduct pre-competitive market consultations to gain knowledge of market or inform on priorities of procurement

Market dialogues Art 40

Reserve specific contracts so only social enterprises or sheltered workshops can participate in the competition

Reserved contracts Art 20

Type of contract that includes R&D of innovative solutions and procurement of the outcome of the innovation process.

Innovation Partnerships Art 31

Define technical specifications as outcomes or functional requirements providing incentive to innovate to suppliers

Outcome-based specifications Art 42(3)

Use of third-party awarded eco-labels for reference towards technical specifications, award criteria or contract clauses

Eco-labels Art 43

Divide large contracts into smaller lots to encourage participation of SMEs and incorporate competences of different suppliers

Division of contracts Art 46

Establish framework agreements or dynamic purchasing systems that govern individual contracts for a defined period.

Aggregated purchasing Art 33

CIRCULAR ECONOMY AND PROCUREMENT

WHAT IS A CIRCULAR ECONOMY?

A Circular Economy (CE) is an economic system with the main goal of preserving and maximizing the value of material stocks inside the economy. By focusing on preserving stocks, a CE contributes to reducing the use of natural resources (in flows) and generation of (out flows). A CE prioritizes economic activities related to resource preservation (such as repair, remanufacturing, etc.) rather than resource extraction and waste treatment. Due to the characteristics of preservation activities, local job opportunities with a lower carbon footprint are promoted.

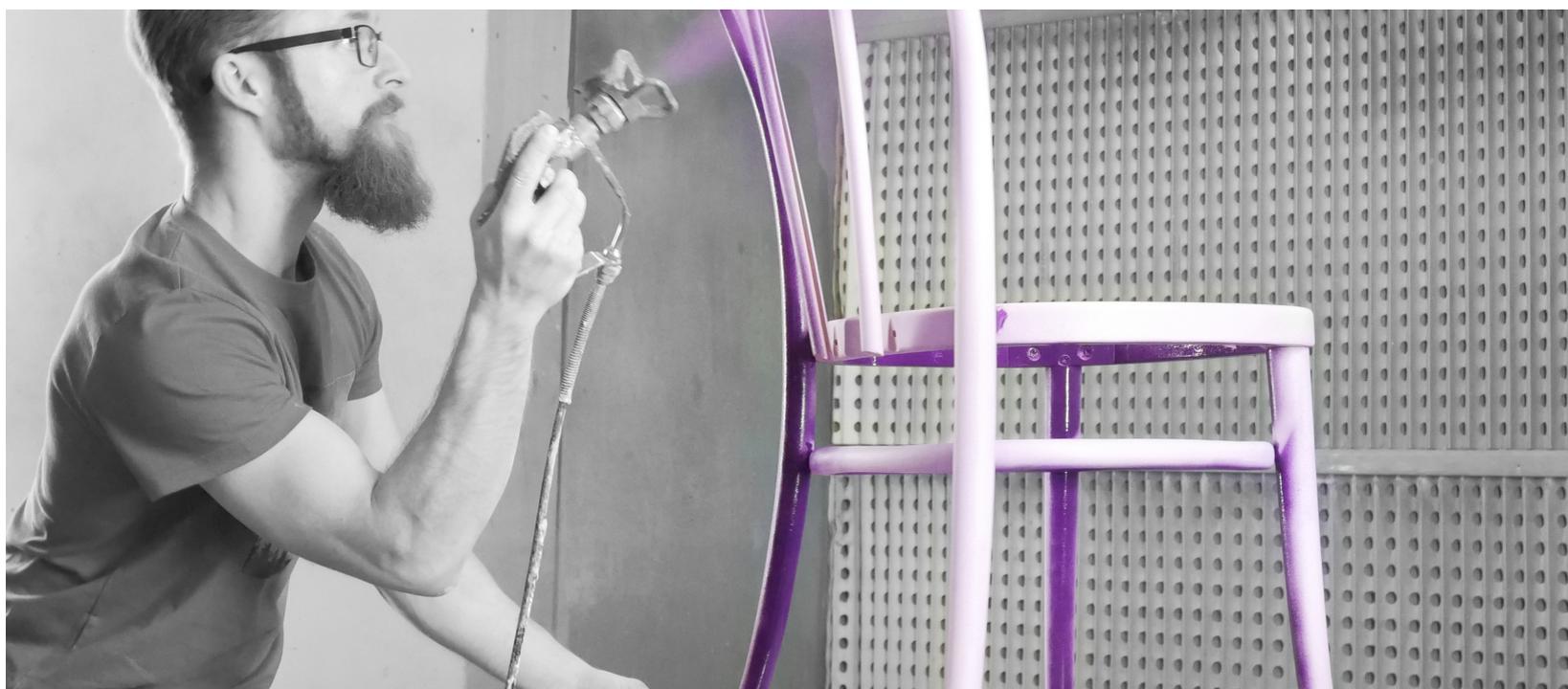
WHAT IS CIRCULAR PUBLIC PROCUREMENT?

Since 2015, the EU Commission highlighted the role of PP as a strategic tool to support a transition towards a Circular Economy. This has led to the emergence of Circular Public Procurement (CPP), a strategy towards incorporating circular economy principles in public procurement.



SCOPE OF CIRCULARITY IN PUBLIC CONTRACTS

Alhola et al. (2018) explains the four main levels in which circularity can be incorporated into public contracts: product, business model, innovation and ecosystem.



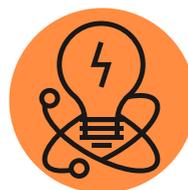
CIRCULAR PRODUCTS

Purchase of products (or services) that are superior in circular terms (such as recycled content, free of hazardous chemicals, designed to be repaired, etc.



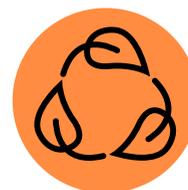
CIRCULAR BUSINESS MODELS

Use leasing, or pay-per-use contracts to incentivize a more efficient material management from both buyers and suppliers.



CIRCULAR INNOVATIONS

Develop innovative products and services currently non-existent in the market through innovation partnerships.



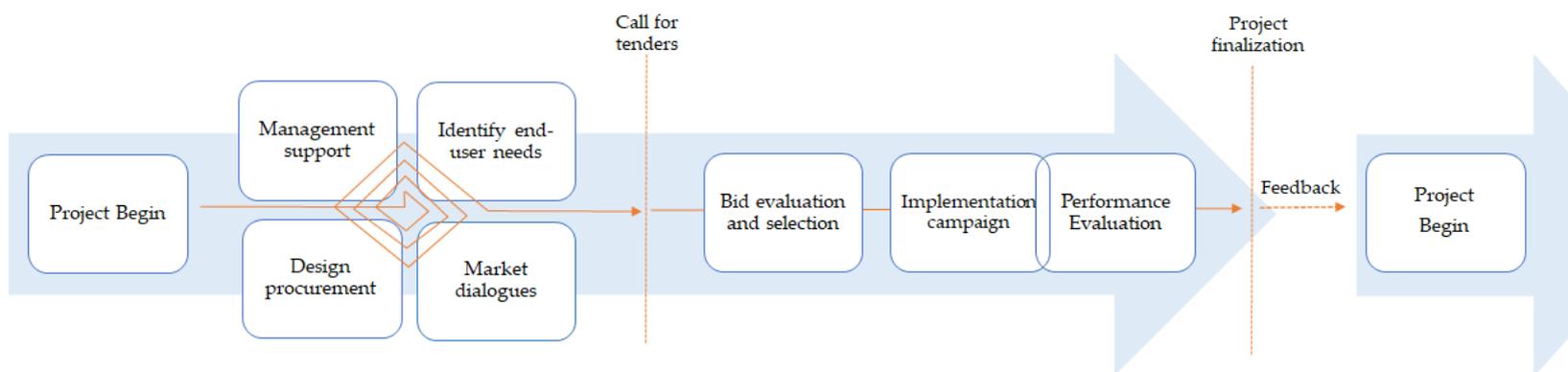
CIRCULAR ECOSYSTEMS

Develop multi-stakeholder networks for circularity in which various actors collaborate to form closed loop systems.

CPP PROJECTS

MAIN PHASES AND KEY INSIGHTS

CPP requires interaction between actors inside and outside the municipality, including end-users, budget managers, legal experts, environmental specialist, suppliers, etc. (United Nations Environment Programme 2018). Due to their complexity, CPP is better suited to be managed in a project-by-project basis, lead by a multi-disciplinary team.



PRE-TENDERING

The pre-tendering phase involves four simultaneous and often iterative tasks, 1) obtaining management support, or at least no active resistance particularly from the departments involved in the procurement. 2) Assessing the needs of end-users and 3) contrasting these needs with market capabilities through market dialogues. In addition to 4) designing the procurement process including procedure, subject matter, requirements, award criteria etc.

TENDERING

The tendering phase includes the publication of call for tenders or competition, the bid valuation and selection of supplier(s) following the requirements prescribed in the relevant regulations. This phase does not differ much from “traditional procurements”.

POST-TENDERING

Due to their novelty, CPP contracts might require an implementation campaign designed to raise awareness of the contract and facilitate behavior change from end-users and buyers. This process of promoting a behavioral change can begin the pre-tendering phase and be carried out as an ongoing activity. Contract clauses might require on-going verification, which makes on going performance evaluation of the project a critical aspect. The feedback generated throughout the lifetime of the project can be used in other projects to promote organizational learning.

METHODOLOGY FOLLOWED FOR DEVELOPING RECOMMENDATIONS

The main objective WP2.3. was to generate a set of recommendations that can help promote the development of CPP projects at municipalities in the EU. In order to achieve this objective the author drafted an initial set of recommendations which then were discussed, modified, and validated by the partners of the CircularPP project.



DRAFTING RECOMMENDATIONS



The initial draft was developed by incorporating three elements: 1) a literature review of academic and practitioner contributions as well as EU publications. 2) Insights from Dutch experts and civil servants in regards to circular procurement in the Netherlands and 3) analysis of five CPP cases.



VALIDATION



The draft with recommendations was discussed in a workshop with partners of the CircularPP project. Based on the feedback obtained, the author developed a final version that was circulated once more with the partners to obtain one last round of direct input.



The following CPP pilot projects were analyzed in order to explore barriers and opportunities experienced by the main stakeholders involved, which included project managers, suppliers and procurers.

CPP CASES ANALYZED

Case



Click on the case number to obtain more information

IT take-back arrangement at the city of Aalborg

Case 1

The city of Aalborg set out to procure a service for buy-back of IT equipment. The goal was that all discarded IT by the city were refurbished and re-sold to another user for a new product life or if necessary, recycled.

Refurbished furniture and other services for Malmö municipality

Case 2

Malmö municipality set out to reduce their furniture waste and reduce unnecessary purchasing of new furniture. Therefore, they develop a framework agreement which included a variety of services including furniture repair and refurbishment. The framework is active; three suppliers were awarded the contract.

Catering services for gymnasium at Plavinas

Case 3

Plavinas set out to improve the catering services at their gymnasium. The project, which was facilitated the Latvian Environmental Investment Fund (LEIF), was focused on increasing the quality of the service for pupils and on reducing food waste and other catering waste streams.

Outdoor learning environment at the City of Aalborg

Case 4

The second CPP from the City of Aalborg is an ongoing project related to outdoor learning environments for a new school in Aalborg. This is part of a turn-key construction contract of the school, in which circular economy elements related to the outdoors playground were included based on preliminary market consultations.

Waste collection services for Malmö municipality

Case 5

This ongoing project at Malmö is focused on creating a framework for waste collection services. The focus has been on collection methods, vehicle characteristics and fuels. Pre-competitive market consultations have been conducted but tendering phase has not yet started (therefore, no additional information is available).

WHAT CAN MUNICIPALITIES DO?

THEMES

5

RECOMMENDATIONS

18

Based on the research activities conducted, 17 recommendations were elaborated and divided in 5 themes. These recommendations are relevant for municipalities who wish developing and improving CPP practices. They span from the broadest (strategy and policy) all the way the more specific aspects of CPP contracts (contract management).

**STRATEGY
AND POLICY**

**CAPACITY
BUILDING**

**MARKET
ENGAGEMENT**

**CALL FOR
TENDERS**

**CONTRACT
MANAGEMENT**

- 1.- **Develop** a CPP policy
- 2.- **Scale** up pilot projects
- 3.- **Empower** project managers
- 4.- **Prioritize** framework contracts
- 5.- **Provide** strategic procurement training
- 6.- **Ensure** necessary conditions
- 7.- **Prepare** a multi-stage strategy
- 8.- **Be consistent and** allocate enough time
- 9.- **Embrace** supplier diversity
- 10.- **Support** with desk research
- 11.- **Engage** end-users early
- 12.- **Identify** the best scope of services for circularity
- 13.- **Incorporate** circularity as requirement and award criteria
- 14.- **Promote** synergy between CPP and internal service
- 15.- **Design** an implementation strategy
- 16.- **Follow up** and validate
- 17.- **Remain** vigilant for emerging innovations
- 18.- **Collect** and share feedback

STRATEGY AND POLICY

1.- DEVELOP A CPP POLICY

Management support is a necessary condition for the widespread uptake of CPP. This support can be strengthened with a policy and strategy that clearly identifies procurement as a tool for circularity and emphasize that circularity as a priority should be pursued by all departments.

A top-down emphasis on circularity provides a framework for incorporating circularity in both large projects (e.g. construction of new schools) and small department pilot projects.

An overarching policy is helpful in municipalities with decentralized procurement practices since it can promote a consistent level of CPP throughout the municipality instead of being dependent on the awareness and perception of the leaders from different departments.

Similarly, municipalities with centralized procurement would also be benefited from developing a CPP policy, since it could mean the incorporation of circularity principles into framework contracts used across the municipality.



2.- SCALE UP CPP PILOT PROJECTS

Small-scale projects, below the national threshold set by the EU Procurement Directive, can be a beneficial way to introduce CPP practices into municipalities since they allow more flexible procurement procedures and buyer-supplier interactions as well as minimize their inherent risks and resources required for their execution. Pilot projects are a good source for development of individual and organizational skills as well as promote buy-in from different stakeholders.

Municipalities should develop a strategy for promoting, replicating and scaling up CPP pilot projects in order to create a systemic transformation.

As all innovation projects, CPP is characterized by uncertainties, risks and changing goals. Without a short and direct line of communication between project managers and decision makers, innovation projects can stall.

Therefore, teams leading the CPP project should be empowered to manage the project without continuous political or top management discussions in order to allow the project to move forward more swiftly.

3.- EMPOWER PROJECT MANAGERS

4.- INCORPORATE CIRCULARITY INTO FRAMEWORK CONTRACTS



“(...) if we update one of this catalogues according to circular criteria, then it would be a huge step because all municipalities are using this catalogue” (LEIF project manager).

In Latvia, the Director of the State Regional Development Agency (SRDA), an authority responsible for centralized procurement and developing electronic catalogues for standard goods and services, met with LEIF project managers to discuss the potential for updating some of their catalogues with circular economy principles.

They began working on two specific product groups, printing services and take-back of IT equipment.

This example highlights the importance of updating framework contracts with circularity considerations. Particularly in contexts where procurement is highly centralized

CAPACITY BUILDING

5.- PROVIDE STRATEGIC PROCUREMENT TRAINING



Conducting a sound procurement procedure that complies with the relevant regulations should be the starting point for procurement. Added value (and successful CPP projects) can only be achieved through the use of strategic procurement mechanisms such as evaluating cost-quality ratio, conducting market dialogues, setting functional requirements, dividing or reserving contracts when appropriate, etc.

Therefore, strategic procurement training should be prioritized and widespread for procurement personnel.

Participating in seminars, procurement academies and communities of practice are useful methods for building capacity, exchange knowledge and share different methods for strategic procurement. This sharing of experience is particularly helpful for smaller municipalities with limited procurement departments.

During CircularPP activities, national seminars were organized at the different partnering countries. The open seminar format consisted in 1-day or half-day events with specialized presentations e.g. how to use functional specifications in tender documents. Followed by break-out sessions where participants discuss the content presented and address how can it be applied in their context.

6.- ENSURE NECESSARY CONDITIONS FOR CPP DEVELOPMENT



Even with a procurement policy, CPP is driven by individuals and groups. Therefore, municipalities should ensure that there is sufficient awareness, experience, skills, knowledge and resources available for carrying out CPP projects.

These can be held by a single individual or collectively by the team leading the project, likewise, they can be currently available or might be outsourced from 3rd parties.



AWARENESS

Of the importance of circularity and the role that procurement plays in promoting it.



KNOWLEDGE

Of the specific category groups of the tender and the overall market conditions



SKILLS

For implementing strategic procurement mechanisms



EXPERIENCE

Working inside the municipality and understanding its internal functioning.

MARKET ENGAGEMENT

PREPARE A MULTI-STAGE STRATEGY

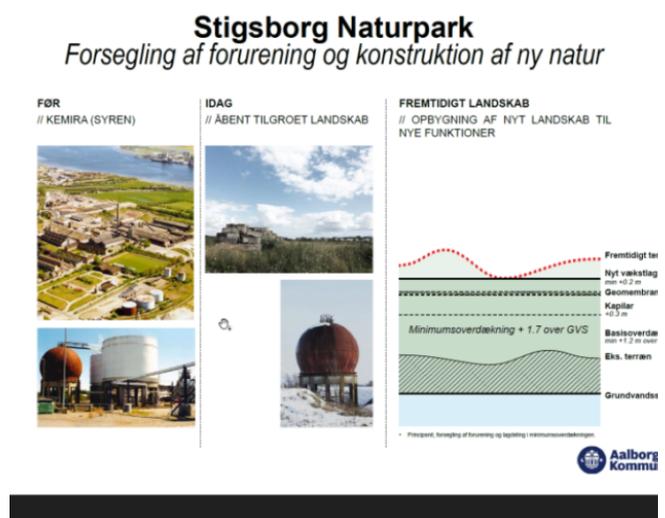
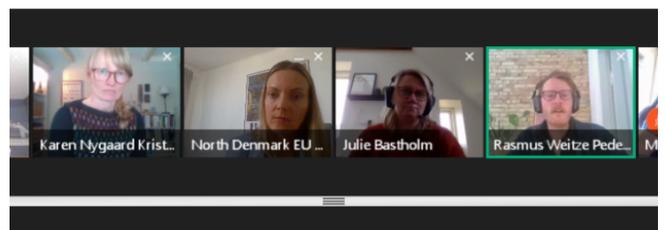
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A multi-stage strategy for market engagement allows generating insights and feedback from one event, which and used for the next round of dialogues. Project managers should select the best set-up for the interaction, including determining the necessary information to be shared with potential suppliers beforehand.

It is important to see suppliers as potential partners and active participants in the innovation proces omstead of followers of strict technical requirements.

Covid-19 pandemic has highlighted how digital technologies can be used to facilitate interaction with potential suppliers. This approach opens the door for multiple visits, demonstrations and interaction by investiging limited resources in traveling.

For example, a webinar for discussing the potential for developing circular learning environments for a new school was held as part of the activities of case 4 of the CircularPP project.



**BE CONSISTENT AND
ALLOCATE ENOUGH TIME****8**

Market readiness is necessary for successful CPP projects. From an individual project perspective, enough time should be allocated for conducting market dialogues and allowing the market to respond accordingly, specially if its an innovative project. From a big picture perspective, municipalities need to be consistent in sending signals to the market in regards of prioritizing circularity to encourage them on making the necessary investment and participating in future tendering procedures with confidence that circularity will be rewarded.

**EMBRACE SUPPLIER
DIVERSITY****9**

Increasing the diversity of suppliers involved in market dialogues allows the buyer to obtain a more comprehensive understanding of market capabilities, innovation potentials and avoid being overly influenced by the perceptions of a few suppliers. Social enterprises, for example, are good source of inspiration for incorporating social elements into the tender.

**SUPPORT WITH DESK
RESEARCH****10**

Best practices and case studies can help as inspiration for market dialogues. While a CPP project be innovative for a specific municipality, there might be examples of similar products and services being supplied to other municipalities. Municipalities should prioritize finding examples from similar context since it can facilitate obtaining organizational support.



CALL FOR TENDERS

11.- ENGAGE END-USERS EARLY

Assessing the needs of end-users is crucial for developing functional or outcome-based specifications; one of the main mechanisms used in CPP. However, a lack of collaboration across departments makes reaching end-users a challenge. This is particularly visible in large municipalities, where end-users might be geographically dispersed and having different contexts. Therefore, municipalities should encourage direct interaction with end-users. In some cases, interaction between end-users and potential suppliers might be relevant.



12.- IDENTIFY THE BEST SCOPE OF SERVICES FOR CIRCULARITY

Circularity can be achieved by several suppliers performing unique tasks or by a single supplier, able to perform all of the scope of services involved in circularity. Buyers should identify the right scope of services to promote circularity, which is determined case-by-case depending on the organizational needs and the available business models in the market.



13.- INCORPORATE CIRCULARITY AS REQUIREMENT AND AWARD CRITERIA

Requirements guarantee a basic level of performance from all suppliers, however, only award criteria rewards the best performing suppliers, therefore, circularity must also be incorporated as award criteria. Circular award criteria also guarantees that price is not the only factor of competition and sends a signal to the market that social and environmental aspects are valued by the municipality.

14.- PROMOTE SYNERGY BETWEEN CPP AND INTERNAL SERVICE

Municipalities may have internal services that perform similar functions as the ones being procured in the CPP project. In those cases, it is important to reach out to those internal service providers for feedback on the topic as well as to explore possibilities of collaboration (and not competition) between internal services and suppliers in order to obtain support from these crucial stakeholders.

Collaboration between suppliers and internal services can include for example, mutual skill development, division of tasks or complement of capacities.

CONTRACT MANAGEMENT

15.- DESIGN AN IMPLEMENTATION STRATEGY

CPP contracts will require new practices and behaviors from end users and buyers. Project managers should facilitate this transition into new practices through implementation campaigns that raise awareness of the new contracts, provide necessary training. Demonstrating the actual products or services can be the basis for communication campaigns in order to counter misconceptions of circular related products and services.

In September 2019, once the contract for non-new furniture services became valid (case 2), Malmö municipality began executing an implementation strategy focused on raising awareness of the contract, encouraging its use and promoting behavioral change.

The strategy including two seminars for buyers and a furniture exhibition used to display examples of refurbished furniture aimed to general employees.



FOLLOW-UP AND VALIDATE

16

REMAIN VIGILANT FOR
EMERGING
INNOVATIONS

17

COLLECT AND SHARE
FEEDBACK

18

Circularity often takes place in the form of on-going actions during the lifespan of the contract. Therefore, it is important to anticipate how these actions are going to be verified. This requires allocating necessary resources and selecting the appropriate methods for collecting the relevant information. It is important to find synergies between buyer and supplier so both actors are involved in verification and reporting.

Unexpected innovations and benefits can emerge from the new practices generated by CPP contracts. Project managers should include some level of flexibility or continuous improvement in order to adjust to any potential innovations emerging during the contract.

Valuable lessons are learned with each CPP, therefore, municipalities should ensure that these are recorded and shared in order to communicate lessons learned from individual project participants to the whole organization.

Furthermore, the municipality should also encourage collaboration between buyers of different public sector organizations, for example by participating in buyer-groups. These groups can for example define circular economy priorities for specific product groups, which can send a consolidated signal to the market and incentivize the participation of suppliers in future CPP projects.

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