

Implementing Sustainable Public Procurement (SPP) in Indonesia

Guidance document in support of the Presidential Regulation Concerning Government Procurement of Good/Services (No. 16/2018)

Freiburg,
3rd December 2020

Authors

Siddharth Prakash
Oeko-Institut e.V.

Tobias Schleicher
Oeko-Institut e.V.

Inga Hilbert
Oeko-Institut e.V.

Rasmus Priess
Oeko-Institut e.V.

Head Office Freiburg

P.O. Box 17 71
79017 Freiburg
Street address
Merzhauser Strasse 173
79100 Freiburg
Tel. +49 761 45295-0

Office Berlin

Borkumstraße 2
13189 Berlin
Phone +49 30 405085-0

Office Darmstadt

Rheinstrasse 95
64295 Darmstadt
Tel. +49 6151 8191-0

info@oeko.de

Disclaimer:

The guidance document intends to support the government agencies in Indonesia in implementing Sustainable Public Procurement (SPP) according to the Presidential Regulation Concerning Government Procurement of Good/Services (No. 16/2018). The guidance document was developed with the aim to support a webinar-based training module for SPP implementation in Indonesia. It does not guarantee full legal compliance with the Presidential Regulation (No. 16/2018). Additional legal advice is necessary to ensure compliance.

Several examples are presented in the guidance document to help understand the practical aspects of procurement procedures in a better way. However, these examples should only be understood as indicative and should not be interpreted as absolute recommendations for implementation. The applicability of the examples should be tested and verified by the users.

**Deutsche Gesellschaft für Internationale Zusammenarbeit
(GIZ) GmbH**

GIZ Office Thailand

193/63 Lake Rajada Office Complex (16th floor) New
Ratchadapisek Road, Klongtoey, Bangkok 10110,
Thailand

Contact person at the GIZ Thailand:

Kai Hofmann, Project Director, Advance Sustainable Consumption and Production (Advance SCP), kai.hofmann1@giz.de

Murni Fiferi, Country coordinator Indonesia, Advance Sustainable Consumption and Production (Advance SCP); fiferi.murni@giz.de

Table of Contents

Table of Contents	3
List of Figures	6
List of Tables	7
List of Abbreviations	9
Foreword	11
1 Sustainable Public Procurement in Indonesia	14
2 Objectives and context of this guidance document	16
3 The procurement process: Key steps for implementing SPP in Indonesia	19
3.1 Procurement planning	19
3.1.1 Identifying needs	19
3.1.2 Market consultation	20
3.1.3 Setting procurement packages	21
3.1.4 Defining the type of procurement	22
3.2 Procurement preparation	24
3.2.1 Determine Owner's Estimate	24
3.2.2 Type of contract	24
3.2.3 Defining the technical specifications	25
3.3 Selection process	31
3.3.1 Tender evaluation	31
3.4 Contract implementation & Handover procedures	33
3.5 Further reading	34
4 Economic criteria in SPP	35
4.1 "Value for money" principle	35
4.2 Specific economic criteria in the Presidential Regulation (No. 16/2018)	37
4.3 Procurement planning	39
4.4 Procurement preparation	40
4.5 Selection process & Tender evaluation	43
4.5.1 Value system evaluation using Cost-Utility Analysis	44
4.5.2 Integration of LCC into value system evaluation	45
4.5.3 Preference for domestic products	46

4.5.4	Value System Evaluation including price correction due to local content (TKDN)	49
4.5.5	Evaluation of Consultancy Services	49
4.6	Practical LCC-Tools for the application in Owners Estimate (OE) and tender evaluation	53
4.6.1	Application of LCC tools for energy-using products	54
4.6.2	Application of LCC tools for non-energy-using products	55
4.6.3	Further parameters for more detailed LCC calculations	57
4.6.4	Implications for an e-procurement system	59
4.7	Further reading	60
5	Social criteria in Indonesian Public Procurement	61
5.1	Translating social impacts in procurement criteria	61
5.1.1	Guarantee of fair working conditions	61
5.1.2	Empowerment of small businesses	63
5.1.3	Empowerment of local communities and businesses	65
5.1.4	Equality and Diversity	65
5.1.5	Other social criteria	66
5.1.6	Hotspot identification	67
5.2	Including social criteria in the Indonesian procurement process	67
5.2.1	Procurement Planning	68
5.2.2	Procurement Preparation	68
5.2.3	Selection Process	74
5.2.4	Contract Implementation and Handover Procedures	77
5.3	Creating the right framework conditions	78
5.4	Further reading	78
6	Environmental criteria in SPP	80
6.1	Environmental impacts of procured goods and services	80
6.2	Translating environmental impacts in procurement criteria	83
6.3	Identification of environmental criteria for technical specifications	84
6.3.1	Type I ecolabels and other reliable environmental labels	84
6.3.2	Focussing on most important life-cycle stages and environmental impacts	87
6.4	Verifying compliance	91
6.5	Further reading	92
7	Monitoring and Evaluation	94
	List of References	98

Annex		101
7.1	Proposal for the SPP criteria on Photocopy Paper	101
7.1.1	Subject Matter	101
7.1.2	Definition and Scope	101
7.1.3	Technical Specification	101
7.1.4	Verification	102
7.1.5	Proposals for Contract Implementation	103
7.2	Proposal for the SPP criteria on Wooden Furniture	108
7.2.1	Subject Matter	108
7.2.2	Definition and Scope	109
7.2.3	Technical Specification	109
7.2.4	Verification	109
7.2.5	Proposals for Contract Implementation	110

List of Figures

Figure 1-1:	Sustainable public procurement vs. green public procurement	15
Figure 1-2:	Three key principals and pillars of the Presidential Regulation (No. 16/2018)	15
Figure 3-1:	The main steps in SPP of a product or service in Indonesia	19
Figure 4-1:	“Value for money” principle: Balance costs with the value provided	35
Figure 4-2:	Example of value system in line with the Presidential Regulation (No. 16/2018)	37
Figure 4-3:	Illustration of Life-Cycle Costs (LCC)	41
Figure 4-4:	Costs over time for a procured product (illustrative)	42
Figure 4-5:	Methods for tender evaluation in Article 39 of the Presidential Regulation (No. 16/2018)	43
Figure 4-6:	Determination of the Final Evaluation Result (HEA) in Article 67	47
Figure 4-7:	Selection methods for consultancy services	50
Figure 4-8:	Pre-qualification vs. post-qualification	51
Figure 6-1:	Example of environmental impacts and possible procurement criteria for copying & graphic paper	81
Figure 6-2:	Example of environmental impacts and possible procurement criteria for computers & monitors	82
Figure 7-1:	SPP Index Methodology: SDG indicator 12.7.1	95

List of Tables

Table 3-1:	Cost-utility analysis for cotton workwear (In this example, offer 2 wins the bid.)	32
Table 4-1:	Example of a Cost-Utility Analysis (CUA) for the practical implementation of a value system evaluation for the procurement of office paper	44
Table 4-2:	Integration of LCC in Cost-Utility Analysis (CUA) for the practical implementation of a value system evaluation for the procurement of office furniture	46
Table 4-3:	Example of the Final Evaluation Result (HEA) including price correction due to local content (TKDN)	48
Table 4-4:	Example for Value System Evaluation including price correction due to local content (TKDN)	49
Table 4-5:	Core parameters for practical Life-Cycle Cost comparisons	57
Table 5-1:	The eight ILO core conventions	62
Table 5-2:	Additional ILO conventions with high relevance for social hotspots	62
Table 5-3:	Social impacts addressed in the Social-LCA guideline by UNEP	66
Table 5-4:	Compilation of verification instruments	72
Table 5-5:	Social criterion included in a Cost-Utility Analysis: Scenario 1	74
Table 5-6:	Social criterion included in a Cost-Utility Analysis: Scenario 2	75
Table 5-7:	Social criterion included in a Cost-Utility Analysis: Scenario 3	76
Table 6-1:	Appendix, The Minister of Environment and Forestry Regulation Number 5 of 2019 concerning procedures for the application of ecolabel for the procurement of green goods and services	85

List of Abbreviations

Advance SCP	Advance Sustainable Consumption and Production for a Low-Carbon Economy in Middle-Income and Newly Industrialized Countries
ARPAT	Environmental Protection Agency of Tuscany
BMP	Company Benefit Weight
BMZ	German Federal Ministry for Economic Cooperation and Development
BSCI	Business Social Compliance Initiative
CAP	Corrective Action Plans
CoC	Code of Conduct
CUA	Cost-Utility Analysis
ECF	Elementary Chlorine Free
EU	European Union
EUR	Euro
FSC	Forest Stewardship Council
FWF	Fair Wear Foundation
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOTS	Global Organic Textile Standard
GP	Government Procurement
GPP	Green Public Procurement
HEA	Final Evaluation Result
HP	(Arithmetically Corrected) Price Bid
ICT	Information and Communications Technology
IDR	Indonesian Rupiah
IHOBE	Basque Environmental Management Authority
ILO	International Labour Organization
ISO	International Organization for Standardization
IT	Information Technology
KEA	Final Evaluation Result
KEITI	Korea Environmental Industry & Technology Institute
KLHK	Ministry of Environment and Forestry (Indonesia)
KONEPS	Korea ON-line E-Procurement System
KPA	Proxy of Budget User / Kuasa Pengguna Anggaran

LCA	Life-cycle Assessment
LCC	Life-Cycle Costing
LKPP	National Public Procurement Agency (Indonesia)
LUBW	Landesanstalt für Umwelt Baden-Württemberg
MEAT	Most Economically Advantageous Tender
MoE	Ministry of Environment (South-Korea)
MoEF	Ministry of Environment and Forestry (Indonesia)
MSIs	Multi-Stakeholder-Initiatives
MSME	Micro, Small and Medium Enterprises
NGO	Non-Government Organisation
OE	Owners Estimate
OECD	Organisation for Economic Co-operation and Development
PA	Budget User / Pengguna Anggaran
PCD	Pollution Control Department
PIN	Prior Informed Information Notices
PPK	Commitment Making Official / Pejabat Pembuat Komitmen
PPS	Public Procurement Service
R&D	Research and Development
RBA	Responsible Business Alliance (RBA)
Rp	Rupiah
RUP	General Plan for Goods/Services Procurement
SDGs	Sustainable Development Goals
SIRUP	General Procurement Plan Information System
SMEs	Small and Medium-sized Enterprises
SPP	Sustainable Public Procurement
SPSE	Electronic Procurement System
TCF	Totally Chlorine Free
TKDN	Local Content
UK	United Kingdom
UN	United Nations

Foreword

Ministry of Environment and Forestry

Sustainable Public Procurement (SPP) is generally understood to include environmental, economic and social objectives in public procurement activities, whereas Green Public Procurement (GPP) places a focus on environmental objectives.

Green Public Procurement (GPP) policy has been mandated in Law No. 32 of 2009 concerning Environmental Protection and Management, Government Regulation Number 46 of 2017 concerning Environmental Economic Instruments, and Presidential Regulation No.16 of 2018 concerning Procurement of Government Goods / Services, and MoEF Ministerial Decree No. 5 of 2019 concerning Procedures of Green Labels Implementation for Green Public Procurement. This policy is directed at efforts to improve environmental performance, efficiency in the use of raw materials, energy and water, as well as reducing pollution and reducing greenhouse gas emissions. Moreover, it is related to green growth and sustainable markets and investments, encouraging innovation and enhancing the local economy, as well as supporting the provision of incentives for businesses that produce green goods and services.

Green Public Procurement (GPP) policies are intended to encourage changes in behavior and mindset in terms of consumption in the ranks of Government agencies to be more efficient and environmentally friendly. This change is the core of the Sustainable Development Goals (SDGs) agenda; especially Objective 12: Responsible Consumption and Production. These behavioral changes should take place not only on the part of the government, but also communities. The implementation of this policy will be initiated by several Ministries / Institutions and Regional Governments and will begin in 2020.

Development of Green Public Procurement is completed and ready to be implemented. Social and economic criteria development will incorporate the environmental aspect into comprehensive sustainable procurement criteria to promote efficient, responsible, and sustainable governance operations.

Noer Adi Wardoyo

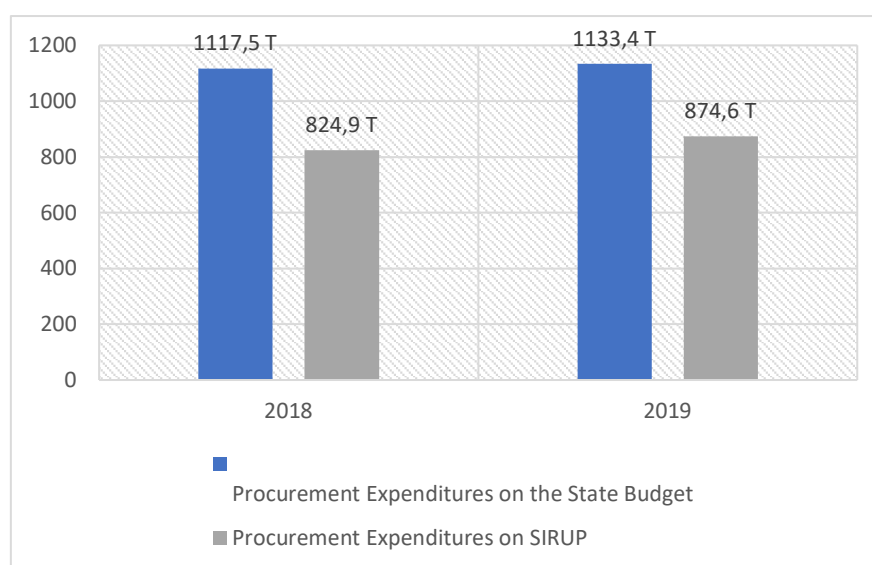
Head of Center for Environment and Forestry Standardization

Ministry of Environment and Forestry

National Public Procurement Agency

Government procurement of goods / services, better known as Government Procurement (GP), has now changed from what was once considered clerical / administrative work, to become one of the tools to achieve targets and strategic objectives of policies.

Since government procurement value has been increasing in recent years, it has an increasing impact on the use of natural resources to produce goods and services to meet government needs. For this reason, it is necessary to immediately change from conventional procurement to sustainable procurement. This can be seen in the Indonesian Government Goods / Services Shopping Value chart.



Shopping Value of Indonesian Government Goods / Services

(source : Monev LKPP)

Encouraging and implementing sustainable government procurement has been included as the objective and policy in Government Procurement in accordance with Presidential Regulation Number 16 of 2018 concerning Procurement of Government Goods / Services (Article 4 letter h and article 5 letter i).

Furthermore, according to Presidential Regulation Number 16 of 2018 article 1, sustainable procurement is defined as Procurement of Goods / Services aimed not only at achieving economic benefits for Ministries / Institutions / Apparatus as users but also for the public, as well as significantly reducing the negative impact on the environment in the entire usage cycle. Furthermore, it is regulated in article 68, according to which the procurement of goods / services is carried out under consideration of economic, social, and environmental aspects.

Some of the challenges in the implementation of SPP are:

1. Changing the Mind Set of Procurement Actors and Law Enforcement Officials during the transition from conventional procurement to sustainable procurement;
2. Development / preparation of standards and technical criteria for sustainable goods / services;

3. The issue of prices of sustainable products which may be more expensive than similar conventional, non-sustainable products;
4. Industry readiness level is still low;
5. Changes in production patterns;
6. Guarantee of purchase / uptake for environmentally friendly / sustainable products / services in the market;
7. Preparation of monitoring and evaluation system for the implementation of sustainable procurement.

To solve these challenges, more technical instruments are needed for the government to be able to carry out a sustainable procurement of goods / services. Therefore, it is hoped that with this guidance document, the Government of Indonesia will get an overview of the procedures for implementing procurement of goods / services that are sustainable by combining economic, social and environmental aspects. Moreover, based on the best practices of sustainable procurement that have been successfully carried out in other countries, the guidance document is expected to help for developing instruments for the procurement of goods and services for the government that are sustainable by considering the suitability of the conditions in Indonesia.

Dwi Wahyuni Kartianingsih

Director for Business Climate Development and International Cooperation

National Public Procurement Agency of Indonesia

1 Sustainable Public Procurement in Indonesia

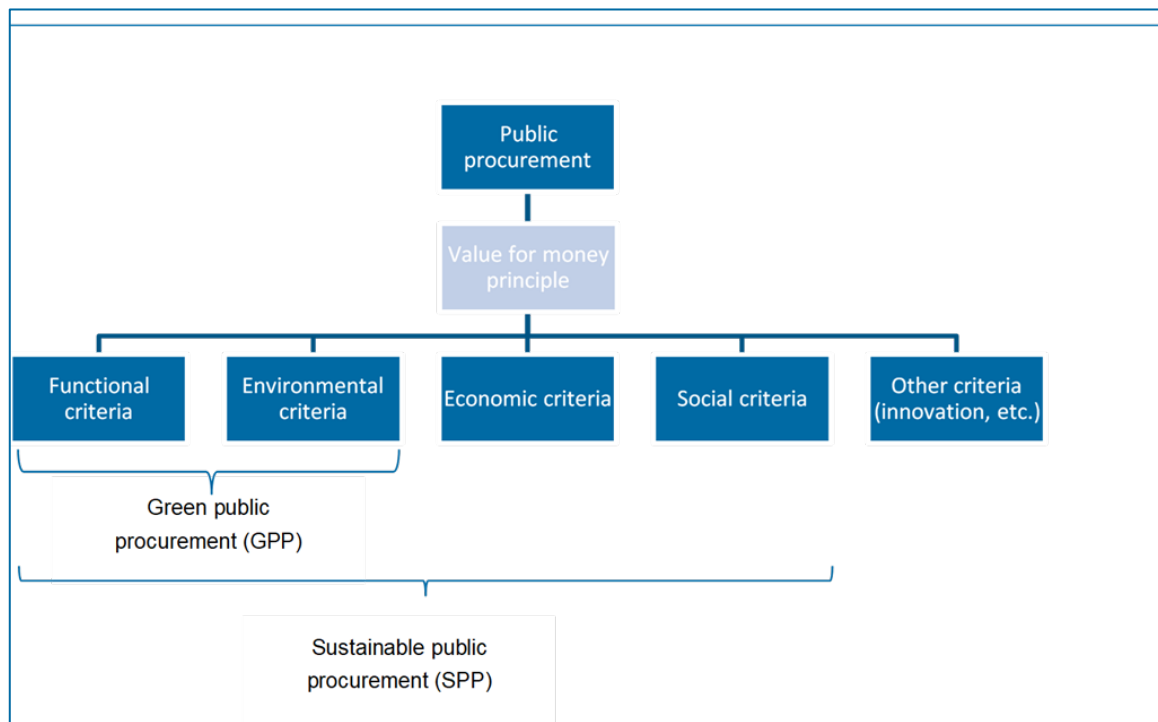
Customer demand is an important driver for manufacturers to implement changes in products and production methods. Government institutions and public authorities are important customers of goods and services. At the same time, it is their responsibility to fulfil legal obligations and general policy objectives of a country, such as climate targets, Sustainable Development Goals (SDGs), economic development and social coherence. In this regard, the process of public procurement of goods and services is equally responsible for guaranteeing that legal obligations are fulfilled, and policy objectives are met, especially considering the fact that taxpayers' money is being spent to cover the costs. It is, therefore, in accordance with good government practice, to use public procurement in order to achieve broader government objectives. By pursuing such broader objectives through public procurement, public authorities can also stimulate innovation among suppliers for the improvement of the quality of goods and services and act as a role model for other (private) buyers and for the public. In Indonesia, the recently stipulated "Presidential Regulation Concerning Government Procurement of Good/Services" No. 16/2018 is enacting such broader policy and development objectives. It has set the framework for promoting the sustainable development in the country through government procurement practices.

Sustainable Public Procurement (SPP) is generally understood to include environmental, economic and social objectives in public procurement activities, whereas Green Public Procurement (GPP) places a focus on environmental objectives. The Presidential Regulation (No. 16/2018) defines sustainable procurement as a process of procuring goods and services which aims *"to achieve a beneficial economic value"* not only for the government a user but also for the community, *"as well as to significantly reduce the negative impact on the environment in the entire cycle of its use"* (Article 1, paragraph 50). According to the UN 10YFP, SPP is *"a process whereby public organizations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life-cycle basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst significantly reducing negative impacts on the environment"*.

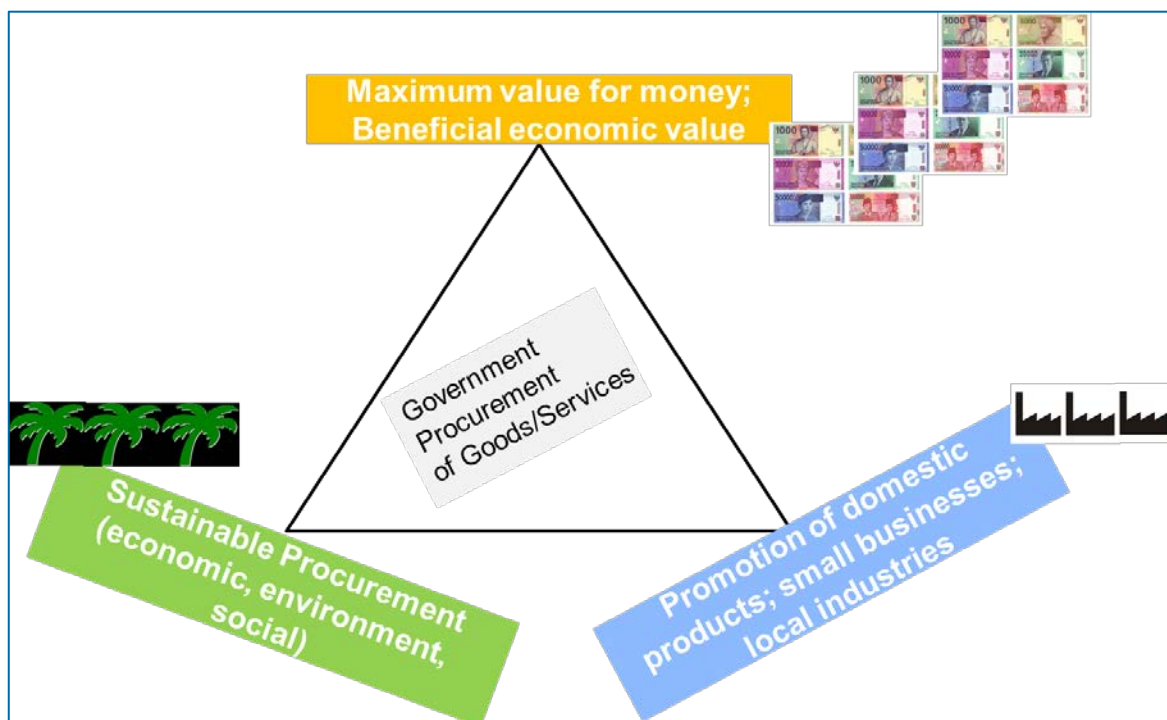
As the definitions suggest, a core principle of government procurement is **"value for money"**, which is applied to all government procurement, independent of the specific objectives (see Figure 1-1). This is also reflected in the Presidential Regulation (No. 16/2018), which specifically states that *"it is necessary to regulate the Procurement of Goods / Services that bring **maximum value for money** and contribute to increasing the use of domestic products, increasing the role of Micro, Small, and Medium Enterprises, and sustainable development"*.

Article 4 and Article 5 of the Presidential Regulation (No. 16/2018) include sustainable procurement as part of Goods / Services Procurement Purpose and Goods / Services Procurement Policies respectively, while chapter IX, Article 68, is specifically dedicated to sustainable procurement.

Apart from the objectives of sustainable development and achieving best value for money, the Presidential Regulation (No. 16/2018) emphasizes the participation of small businesses (Article 65) and use of domestic products (Article 66, 67) for supporting local industries through government procurement. Thus, it can be summarized that the three key principals and pillars of the Presidential Regulation (No. 16/2018) are: (1) Maximum value for money; (2) Sustainable procurement, and (3) Promotion of domestic products, small businesses and local industries (see Figure 1-2).

Figure 1-1: Sustainable public procurement vs. green public procurement


Source: Own illustration

Figure 1-2: Three key principals and pillars of the Presidential Regulation (No. 16/2018)


Source: Own illustration

In many cases, the above-mentioned three principles go hand in hand. For instance, domestic products may be more environmentally friendly than imported products, or they may ensure maximum value for money for the procurer. On the other side, in many cases a conflict of interest or a trade-off is imminent among the three key principles. For instance, when a domestic product produced by a small business is not the most environmentally friendly option in the market, or an environmentally friendly product may not be available at the lowest cost. In such cases, procurement agencies are faced with the challenge of weighing conflicting interests that are inherent to a regulatory text. Therefore, the key question is: How to utilize the synergies and avoid potential trade-offs or conflict of interests between the key principles of the Presidential Regulation (No. 16/2018) to ensure a sound implementation of SPP in Indonesia? This guidance document and the webinar-based training module seek to support the government agencies in Indonesia in finding practicable answers to this question.

2 Objectives and context of this guidance document

The project “*Advance Sustainable Consumption and Production for a Low-Carbon Economy in Middle-income and Newly Industrialized Countries (Advance SCP)*”, implemented by the GIZ and financed by the International Climate Initiative of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) is supporting the Ministry of Environment and Forestry (KLHK) and the National Procurement Agency (LKPP) of the Ministry of Finance in promoting policies and strategies for SPP in Indonesia. In support of the Presidential Regulation Concerning Government Procurement of Goods/Services (No. 16/2018) of the Republic of Indonesia, the Indonesian government has requested the Advance SCP project to provide methodological and technical guidance on implementing the comprehensive SPP strategy. As part of the support activities of the Advance SCP project, government officials tasked with implementing and overseeing the establishment of procurement guidelines and with taking decisions on specific procurement activities in Indonesia shall be trained to **incorporate economic, environmental and social criteria in government procurement of goods and services** and to operationalize SPP in line with the Presidential Regulation (No. 16/2018).

This guidance document seeks to provide practical knowledge in implementing economic, social and environmental criteria in public procurement in Indonesia and thus supports the Indonesian government agencies in implementing SPP according to the rules stated in the Presidential Regulation Concerning Government Procurement of Goods/Services (No. 16/2018).

It is noteworthy that the guidance document is not meant to be used as a stand-alone document but in conjunction with other resources. Thus, it guides the readers towards more comprehensive resources while at the same time focusing on the key elements that need be understood by policy-makers and practitioners during the implementation of SPP. Especially, it is strongly recommended to read the guidance document together with the text of the Presidential Regulation (No. 16/2018) in order to avoid any misunderstanding of concepts and terms. Last but not the least, it may be necessary to avail additional legal advice during the implementation.

Furthermore, it must be underlined that rules pertaining to SPP¹ in the Presidential Regulation (No. 16/2018) are still very new, and practical consequences of all the stated aspects might not be fully

¹ Chapter IX (Articles 65, 66, 67 & 68) of the Presidential Regulation (No. 16/2018) deals with the topics of small business, domestic product and sustainable procurement.

understood or tested. Therefore, the guidance document, at this point of time, can only provide a broad orientation for the policymakers and practitioners in Indonesia and would need to be revised as practical issues and challenges come to the fore in the due course of time.

This guidance document was developed to support an online training module for SPP implementation in Indonesia. The training module consisted of three online workshops between June 2020 and September 2020. Additionally, the module involved continuous technical backstopping in between the online workshops for the policymakers and practitioners in Indonesia. In the online workshops, participants from the Ministry of Environment and Forestry (KLHK), the National Public Procurement Agency (LKPP), the Ministry for Economic Affairs (Kemendagri), the Ministry of National Development Planning (Bappenas) and the Ministry of Manpower and Transmigration (Kemendagri) were trained to understand and apply SPP-related aspects.

The workshops were used to enable the participants to develop SPP criteria for two product groups: furniture and paper. The responsibility of developing the technical criteria was, however, with the participating agencies. The workshops only provided the methodological and technical support on overarching issues related to the implementation of SPP.

The SPP guidance document is developed by the Oeko-Institut, Germany. Oeko-Institut consulted key experts from the Ministry of Environment and Forestry (KLHK) and the National Public Procurement Agency (LKPP) of Indonesia during the development of the guidance document. Oeko-Institut was also responsible for the coordination and organization of the training module as well as for the technical backstopping for the participants.

After a short general overview on typical phases in public procurement procedures in Indonesia (chapter 3), the use of economic (chapter 4), social (chapter 5) and environment criteria (chapter 6) in SPP is described. Chapter 7 talks about the importance of establishing monitoring and evaluation systems for SPP.

In this document, it is not intended to recommend any specific monitoring and evaluation system for Indonesia. Developing a monitoring and evaluation system for SPP in Indonesia should rather be done after the comprehensive analysis of the Indonesian context. An efficient monitoring and evaluation system would probably be possible once the Electronic Procurement of Goods / Services has been effectively realized through E-Marketplace, as also foreseen in chapter X of the Presidential Regulation (No. 16/2018). The guidance document, however, provides few examples of already established SPP monitoring and evaluation systems in other countries.

As already mentioned above, several aspects of SPP rules need to be tested and verified in practice in the Indonesian context. Although key experts from Indonesia were closely involved in the development of the SPP document, several legal questions pertaining to consequences of implementing SPP under the Indonesian context could not be answered at this point of time.

The guidance document contains practical examples and case studies from different parts of the world. These should help in understanding the strategies of practitioners and policymakers in dealing with challenges associated with implementing economic, environmental and social criteria in public procurement.

Additionally, the annex to this guidance document contains a proposal for possible procurement criteria for wooden furniture and photocopy paper. The criteria were specifically developed for the Indonesian context by a technical expert group consisting of practitioners from several government departments in Indonesia and the Oeko-Institut.

The authors of this report would like to thank following people for their outstanding support and knowledge in finalizing the guidance document as well as in drafting the proposed criteria for procuring wooden furniture and photocopy paper in Indonesia:

- Samsul Ramli - Unit Kerja Pengadaan Barang/Jasa (UKPBJ) Kabupaten Banjar
- Sri Aditya Nur Pratama - Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah
- Ari Sulindra - Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah
- Hendy Saputra - Wood Product Certification Expert

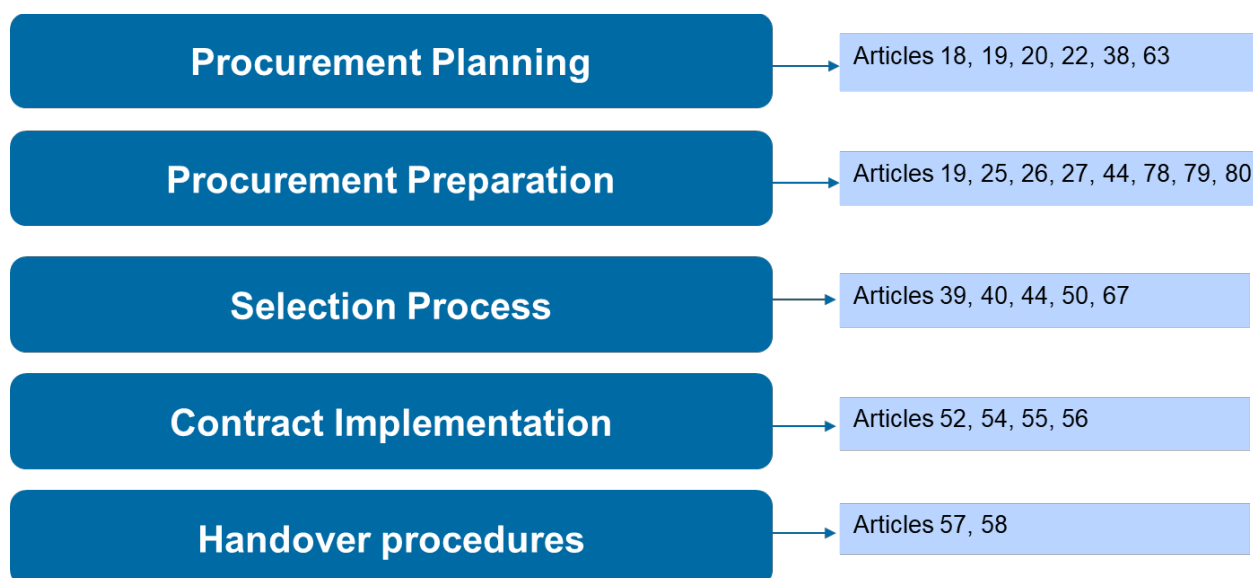
3 The procurement process: Key steps for implementing SPP in Indonesia

The following chapter provides a brief overview of the main steps in the public procurement process in Indonesia (see Figure 3-1). The overview is based on the Presidential Regulation Concerning Government Procurement of Good/Services (No. 16/2018) and inputs from KLHK and LKPP.

The procurement process in Indonesia is implemented with the following steps: procurement planning, procurement preparation, selection process, contract implementation and handover procedures. Figure 3 1 places the main procurements steps in the context of the Presidential Regulation (No. 16/2018) by providing reference to the respective articles and paragraphs in the regulation.

This chapter describes how economic, environment and social aspects can be considered throughout the procurement process in Indonesia while implementing the Presidential Regulation (No. 16/2018).

Figure 3-1: The main steps in SPP of a product or service in Indonesia



Source: Own illustration

3.1 Procurement planning

3.1.1 Identifying needs²

A clear identification and definition of what a public institution needs are necessary. Defining procurement needs in the initial planning phase normally requires that decisions have to be taken on volumes, overarching characteristics and performance, functionality, schedule and budget. The planning phase is also used to take decisions related to achieving broader policy objectives. For instance, it could be decided to purchase environmental-friendly wooden furniture for government meeting rooms.

As the planning phase lays the foundation of the subsequent procurement process, **it is important to include objectives of sustainable procurement as early as possible** in this phase. In the

² Refer to Article 18 (1) of the Presidential Regulation (No. 16/2018)

Indonesian context, the Budget User / Pengguna Anggaran (PA) or Proxy of Budget User / Kuasa Pengguna Anggaran (KPA), who are not only authorized to use the budget of the state and regional ministries and institutions, but also to determine and establish the general procurement plan, could order the prescription of environment and social criteria in the development of the technical specifications. For instance, the PA could use the announcement of the General Plan for Goods / Services Procurement [Rencana Umum Pengadaan Barang/Jasa (RUP)] to communicate that the procurement process will be used to support the Indonesian government in complying with the ILO core conventions. Such decisions and framing at the higher level pave the way for considering sustainability characteristics mandatorily during the implementation at the lower levels.

3.1.2 Market consultation³

Market consultation is one of the most important steps which is often overlooked during the procurement process. Market consultation involves dialogue with two main target groups: (1) Public authorities as end users of goods and services, and (2) Potential suppliers of goods and services. A prior consultation with end users using the product or service should be used to identify necessary functionality and performance, volumes, as well as possibilities to include environmental, economic and social criteria, as also mentioned under 3.1.1.

In the second step, a market dialogue with potential suppliers of goods and services should be conducted to assess the **market readiness** for meeting the identified needs as well as for achieving environmental, social and economic benefits. The market dialogue can be used, for instance, to evaluate the **availability of domestic products** and **capacities of small businesses and local industries** in meeting certain environmental and social standards. At the same time, a market dialogue also helps in **estimating possible costs**, for instance for the local industries in meeting the defined environmental and social objectives. This information helps in the budget allocation for the procurement process at a very early stage.

Furthermore, **definition of technical specifications** (see chapter 3.2.3) for goods and services to be procured can be aligned with the readiness of the market and future product developments. Consultation with the market is also an instrument that allows to reflect on the predefined procurement objective and needs, and possibly to better adapt them to the market context.

Thus, knowledge of the market is necessary for the efficient implementation of all the subsequent procurement steps: **it helps in the process of supplier selection, preparing procurement packages, deciding on the procurement type and defining technical specifications**. Furthermore, it supports the responsible government institutions in the decision-making as to which stage economic, environment and social criteria should best be included. For instance, if it is better to conduct a pre-qualification of suppliers⁴ fulfilling some minimum environmental or social requirements and then go for an express tender⁵, or is it more appropriate to go for an open supplier tender when many market players are capable of complying with foreseen environment or social criteria. In the latter case, it could be defined that the supplier fulfilling the defined environment or social criteria at minimum Life-Cycle Costs (value for money) would win the tender (see chapter 4.5).

³ Refer to Article 19 (1), (2), (3) of the Presidential Regulation (No. 16/2018)

⁴ Refer to Article 44 of the Presidential Regulation (No. 16/2018)

⁵ Refer to Article 50 (4) of the Presidential Regulation (No. 16/2018)

There are several ways of conducting market consultation (see chapter 4.3): online market research, supplier dialogue in workshops or publishing a Prior Information Notice within the general procurement plan (RUP)⁶ where (sustainability) objectives of the procurement can be communicated to the market at an early stage so that potential suppliers get ample time to adapt their processes accordingly. It is, however, important that supplier dialogues are transparent and non-discriminatory and should not confer an unfair advantage on any of the suppliers who participated.

Supplier dialogue can also be used as the basis for calculating the Owner's Estimate (refer to chapters 3.2.1 and 4.4), for instance, by sending supplier questionnaires to collect data on acquisition and operating costs of the products for the purpose of pre-calculating potential Life-Cycle Costs and setting top limits for bids in the procurement of goods and services.

Case study: Market consultation⁷

European Commission's Buying Green handbook on green public procurement (2nd Edition) gives the following example of a successful market consultation in Europe: *"in 2006, IHOBE (the Basque Environmental Management Authority) engaged in an open dialogue with a group of furniture suppliers to help in the development of environmental criteria, and in order to prepare the market for a future tender. IHOBE now regularly holds supplier seminars where environmental criteria to be applied in upcoming tenders are presented and discussed with interested suppliers"*.

3.1.3 Setting procurement packages⁸

After the market consultation, where a good overview on the capacities of small businesses and local industries as well as on the capabilities of businesses and suppliers in fulfilling environment, economic and social standards is created, procurement packages can be defined accordingly to meet the overarching objectives of sustainable procurement. The Presidential Regulation (No. 16/2018) defines several provisions and monetary thresholds for awarding tenders which provide enough flexibility to the procurement agencies in achieving their targets. For instance, Article 65 (3) mentions that procurement *"packaging is done by setting as many packages as possible for small businesses without ignoring the principles of efficiency, fair business competition, system unity, and the quality of technical capabilities"* while Article 65 (4) states that *"procurement packages with a maximum value of Rp 2,500,000,000.00 (two billion five hundred million rupiah) are reserved and intended for small businesses, except for work packages that require technical capabilities that cannot be fulfilled by small businesses"*. For instance, if market consultation revealed that small businesses are capable of meeting certain key environment requirements at a definite cost below the above-mentioned threshold, then it may be better to set the volume of the procurement package below the threshold to allow the participation of small businesses in the tender. On the other hand, if small businesses are found to be incapable of contributing towards sustainability targets foreseen in the procurement planning, opening tenders for larger national or international suppliers may be an option. Article 63 (2) states for instance that an international tender can be *"carried out for value less than IDR 50,000,000,000.00 (fifty billion rupiah) if there is no domestic business that is capable and meets the requirements"*.

⁶ Refer to Article 22 of the Presidential Regulation (No. 16/2018)

⁷ European Union, 2011, Buying green! A handbook on green public procurement, 2nd Edition, https://ec.europa.eu/environment/archives/gpp/buying_green_handbook_2011_en.pdf, last accessed: 29.06.2020

⁸ Refer to Article 20 (1), (2) of the Presidential Regulation (No. 16/2018)

It is noteworthy that Article 20 prescribes rules for defining procurement packages for ensuring their conformity with fair business practice and competition. The key principle is understood to be to create smaller procurement packages to the extent possible (without the intention of avoiding an open tender) in order to facilitate the participation of small businesses and go for larger tenders only when it is absolutely necessary (e.g. if small businesses do not possess environment technical capacity required for executing the contractual requirements).

3.1.4 Defining the type of procurement⁹

As in the case with the definition of procurement package, decision on the type of procurement can partly be based on the results of the market consultation. Article 38 of the Presidential Regulation (No. 16/2018) lists several possibilities of selecting suppliers of goods and services: (1) E-Purchasing, (2) Direct procurement, (3) Direct appointment, (4) Express tender and (5) Tender. For smaller tenders with a maximum value of IDR 200,000,000.00 (two hundred million rupiah), it may be easier to use the instrument of Direct procurement if a supplier can guarantee the fulfilment of ambitious environmental and social standards¹⁰.

If the Indonesian government establishes a sustainability-oriented **Supplier Performance Information System**¹¹, i.e. a list of suppliers which comply with a defined set of minimum environmental and social considerations, the instrument of Express tenders can be used quite efficiently as they offer the possibility to determine the winner based on the lowest price quotation¹².

The same principle applies for the **E-Purchasing system** as soon as it is effective and functional. The E-purchasing system is a “*procedure for purchasing goods / services through an electronic catalogue system*”. An electronic catalogue consisting of suppliers (e.g. Supplier Performance Information System) and goods and services that fulfil certain environmental and social standards could be a very helpful instrument to reduce the complexity involved in procurement procedures. The procurement officials will be able to select specific products and services from the e-catalogue without having to go through the complex process of defining technical specifications and performing tender evaluations. The Presidential regulation describes several provisions for performing E-Purchasing. Few examples are:

- The Budget User / Pengguna Anggaran (PA) can determine the winner of a selection / Supplier for procurement packages “*with a Budget Ceiling of at least above IDR 100,000,000,000.00 (one hundred billion rupiah)*” – Article 9
- The Commitment Making Official / Pejabat Pembuat Komitmen (PPK) can “*carry out E-purchasing with a minimum value of above IDR 200,000,000.00 (two hundred million rupiah)*” – Article 11
- The Procurement official can “*carry out E-purchasing with a maximum value of IDR 200,000,000.00 (two hundred million rupiah)*” – Article 12

⁹ Refer to Articles 18, 38, 63 of the Presidential Regulation (No. 16/2018)

¹⁰ Refer to Article 1 (50), Article 12, Article 38 (3), Article 50 (7) of the Presidential Regulation (No. 16/2018)

¹¹ In Indonesia, LKPP has built a Provider Performance Information System – Sistem Informasi Kinerja Penyedia (SIKAP) which has been used for various transactions such as e-Purchasing, Fast Tender, Direct Procurement and Direct Appointment. In the future, LKPP-RI is expected to develop a more advanced SIKAP with performance appraisals based on certain criteria. This is an opportunity to be able to add SPP Criteria, for instance as award criteria, in SIKAP. LKPP-RI is also expected to develop an e-catalogue and include SPP Criteria in the list of goods / services.

¹² Refer to Article 50 (4) of the Presidential Regulation (No. 16/2018)

- For E-Purchasing, preparation of Owners Estimate (OE) “is excluded for Procurement of Goods/Services with a Budget Ceiling of maximum IDR 10,000,000.00 (ten million rupiah)” – Article 26

Article 50 (5) clearly states that “*E-purchasing must be carried out for goods / services to meet national and / or strategic needs as determined by the minister, head of institution, or regional head*”. Thus, the above-mentioned thresholds can be utilized to procure environmental and socially friendly products and services directly from the e-catalogue if these requirements are defined to be of strategic importance to the country. Hence, the development of the E-Purchasing system is of utmost importance for increasing the efficiency and potential of government procurement in Indonesia.

Case study: Green Cart Thailand¹³

The Tenth National Economic and Social Development Plan (2007 – 2011) and Environmental Quality Management Plan stated that the government sector should be leaders in green procurement. In order to create proper market of products and services that are environmentally friendly, the Pollution Control Department (PCD) under the Ministry of Natural Resources and Environment established Green Cart in 2008. The Green Cart is designed to help in the implementation of GPP in Thailand. It contains a **list of products and services that can be used directly by the procurement agencies in their procurement procedures**. Therefore, a lot of effort in terms of temporal, personal and financial resources is saved as procurement officers can avoid complex procurement procedures such as supplier selection, technical specifications, verification mechanisms, etc. **The list of products is available online and is accessible to everyone**, i.e. public agencies, potential suppliers and common people (Website: <http://gp.pcd.go.th/cat-1-ssl>). A mobile application, called “Thai GPP” is also available. Currently, 25 products and 6 services (in total, 1,669 models) are listed in the Green Cart.

In order to list the products and services in the Green Cart system, manufacturers and service providers need to submit an online application, along with required documents. The underlying criteria to be fulfilled by products and services for the Green Cart are drafted by the sub-technical team under the PCD and then presented to the sub-technical committee, which involves several governmental, private and other non-governmental institutions. After a public hearing on the draft criteria, a final approval is given by the PCD for putting the criteria in the Green Cart system.

Case study: The Korea ON-line E-Procurement System (KONEPS)^{14, 15}

The Korea ON-line E-Procurement System (KONEPS) was developed in a step-by-step approach over the period of several years. As first steps, the exchange of e-documents and the opening of a e-shopping mall were implemented. These options were followed by e-bidding and e-payment services. The actual launch of the e-procurement system happened five years after the implementation of the above-mentioned initial activities. In the following years, the system was further advanced towards a customer-oriented and ubiquitous system. Further strategies were implemented to overcome existing challenges. For instance, in order to enable inter-governmental cooperation,

¹³ Information provided by Ms. Kanchanatetee Vasuvat, GIZ-Thailand; E-Mail: 30.06.2020 and 01.07.2020

¹⁴ Public Procurement Service – KONEPS, <https://www.pps.go.kr/eng/jsp/koneps/overview.eng>, last accessed 26.06.2020

¹⁵ OECD (2016): The Korean Public Procurement Service: Innovating for Effectiveness, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264249431-en>, last accessed 29.06.2020

a government-wide promotion system was established. E-Procurement was established together with other E-governance programmes, which were all supported by a high-ranking taskforce. Moreover, in order to provide a user-friendly service, user input was integrated throughout several channels such as advisory committees, trial boards and workshops. Furthermore, in order to bridge the digital divide among different regions and companies, necessary infrastructure was developed to secure sufficient internet connection throughout the country.

In 2016, the Korean Public Procurement Service (PPS) invited the OECD to assess the efficiency and function of KONEPS. The study summarized the assessment as follows:

“KONEPS is an integrated e-procurement system which contributes substantially to the efficiency, effectiveness and integrity of public procurement in Korea. KONEPS addresses all phases of the procurement cycle, and transparency is provided through the publication of public procurement information. Access for stakeholders is assured through standardised and simplified processes, and through regular trainings and a help desk to answer questions about the system. This simple, ready access facilitates competition by lowering barriers to entry for suppliers and other public procurement stakeholders. Through the adoption of standardised forms and interconnection with other electronic systems, KONEPS generates administrative savings of approximately USD 8 billion per year, with more than 80% of these savings accruing to private sector participants.

Modular, flexible, scalable and secure development is also evident in KONEPS, through the addition of new functional modules in response to demands from stakeholders. Examples include new features such as KONEPS services for private-sector purchasers, and the implementation of a new virtual environment for enhanced security”.

3.2 Procurement preparation

3.2.1 Determine Owner's Estimate¹⁶

In Indonesia, it is the responsibility of the Commitment Making Official / Pejabat Pembuat Komitmen, (PPK) to determine the Owner's Estimate (OE) by using accountable data. OE is supposed to help in judging if the bid prices and / or unit prices are reasonable or not. A price can be termed as reasonable if it generates maximum value for money for the procurer. Therefore, it is appropriate to **use the tool of Life-Cycle Costing (LCC) while determining the OE** (see section 4.4). Hence, the PPK could require the expert to mandatorily use LCC while carrying out data collection and calculations for the OE.

As mentioned under the chapter on market consultation (3.1.2), supplier dialogues can be used to collect data required for applying LCC in order to be able to integrate environmental considerations during the tender evaluation (refer to chapters 4.5 and 4.6 for more details).

3.2.2 Type of contract

Article 27 of the Presidential Regulation (No. 16/2018) lists several types of contracts that can be concluded with the suppliers. One way of increasing the efficiency of tendering while implementing SPP can be to award an **umbrella contract** [Article 27 (7)] **in combination with a multi-year contract** [Article 27 (9)]. Generally, environment, economic and social benefits get visible only after several years have passed. Thus, positive incentives for progressive suppliers, for instance by

¹⁶ Refer to Article 26 of the Presidential Regulation (No. 16/2018)

considering Life-Cycle Costs, can be set by using the above-mentioned contractual arrangement. An additional incentive for the suppliers would be the possibility to win multiple contracts within the umbrella contract and thus design the costs of their bids with the foresight of regular tenders in the future. An umbrella contract, like the framework agreement in the EU “*may be established with one or more operators and allows for multiple contracts to be awarded without repeating the whole procurement process*”¹⁷.

Case study: Umbrella contract / Framework agreement¹⁸

European Commission’s Buying Green handbook on green public procurement (3rd Edition) gives the following example of a successful framework agreement in Germany: “*in 2013, the Procurement Agency of the Federal Ministry of the Interior, Germany, published a tender for 50,000 thin client computer systems to the value of EUR 15m. The open tender specified technical standards and contract clauses, including a warrantee of compliance with environmental aspects for components, noise and waste management. The framework agreement was for 24 months with an optional extension of 12 months. The five-year energy savings were calculated to be 58,750,000 kWh of electricity, equivalent to 29,000 tonnes of CO₂.*”

3.2.3 Defining the technical specifications

In this step, specific criteria for the selection of suppliers, products and services are defined. Generally, procurement agencies have a lot of freedom in defining the technical specifications. It is, however, recommended to develop the technical specifications based on the results of the market consultation and need assessment.

Subject matter

The foremost step, before the actual development of technical specifications start, is the clear and intentional definition of the **subject matter**. “*The ‘subject matter’ of a contract is about what product, service or work you want to procure*”¹⁹. Clear definition of subject matter is extremely important for several reasons:

- it informs the market players or potential suppliers about the intentions and objectives of the procurement,
- it determines the scope of technical specifications and contractual agreements, and
- all following steps in the procurement process should be linked to the subject matter.

A subject matter can, beyond simply naming the product or service category, already include a more detailed description, a function or performance-based definition of the product, service or work which will be purchased. The description of the subject matter can also already refer to economic, environmental and social aspects and point out the importance of these characteristics for the tender.

¹⁷ European Union (2016): *Buying Green Handbook: A handbook on green public procurement*, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020

¹⁸ European Union (2016): *Buying Green Handbook: A handbook on green public procurement*, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020

¹⁹ European Union (2016): *Buying Green Handbook: A handbook on green public procurement*, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020

The subject matter must not discriminate against any specific operator. For example, it is not permissible to prescribe a brand of a product, a specific product or process, a specific place of origin or a source of supply. In this regard, Article 19 (2) of the Presidential Regulation provides guidance for using more restrictive options that can possibly be used during the preparation of technical specifications. Thereby, it is possible to mention the brand of:

- components of goods / services,
- spare parts,
- part of an existing system,
- goods / services in electronic catalogue, or
- goods / services in Express Tender

Thus, theoretically, it may be possible to restrict the scope of the tender by mentioning, for instance, the brand of a component of a product in the subject matter, it is **not recommended** to do so. Such a practice may be susceptible to corruption, discrimination and unfair business practices, especially for those products that have a very concentrated structure of component or spare part manufacturers. Therefore, it is rather recommended to use function- or performance-based characteristics for defining the subject matter as well as technical specifications. Using such characteristics enables a higher variety and diversity of bids, and hence, more possibilities for procurement agencies when it comes to selecting the best performing bid.

Example: Instead of saying "Laptops with the processor of brand X" or "Laptops with Y processor", ask for "Laptops with the processor consisting of minimum 2 cores and a performance of more than 2 GHz".

It is noteworthy that Article 19 **does not allow using place of origin in the technical specifications**. Therefore, it is not allowed to ask for a *Product X made in Indonesia* in the tender. Accordingly, it can be interpreted that asking for a *Product X which is only locally manufactured*, is not allowed either²⁰. In order to support domestic products and local industries, as foreseen in the Presidential Regulation (No. 16/2018), it may be more appropriate to use the stage of tender evaluation (see chapter 4.5 for more details).

As mentioned above, environmental and social considerations can also be included directly in the subject matter and it is strongly recommended to do so (see chapters 5.2.2 and 6).

²⁰ Article 19 allows using the brand of a component of a product or of a spare part, but not "place of origin" in the technical specifications. According to the understanding of the authors, this means that it is not possible to use "Furniture made in Indonesia" in the technical specifications. Thus, it is not clear if asking for locally manufactured furniture is possible or not. In this guidance document, it is interpreted that asking for locally manufactured furniture would not be possible because it will lead indirectly to the aspect of place of origin, i.e. Indonesia. In the guidance document, aspects related to the support of domestic products, local content, etc., have been recommended to be dealt in the stage of tender evaluation. Overall, this topic is currently unresolved and needs to be supported by an additional legal advice for the Indonesian context.

Case study: Green titles in contracts across Europe²¹

European Commission's Buying Green handbook on green public procurement (3rd Edition) gives the following example of green titles used in tenders in Europe:

„Provision of energy-efficient public lighting in Co. Kerry (Kerry County Council, Ireland)

Internal finishing works, using environmentally friendly construction materials and products (University of Malta)

Service contract for energy savings in 12 schools (Catalan Ministry of Education, Spain)

Supply of ecological and recycled paper (SCR Piemonte, Italy)“

Technical specifications

The responsibility of preparing the technical specifications lies with the Commitment Making Official / Pejabat Pembuat Komitmen (PPK)²². The Presidential Regulation (No. 16/2018) does not specify the process of defining technical specifications which means that there is a large degree of freedom and flexibility available for this process.

Market consultation would reveal the structure, variety, number and type of potential suppliers of goods and services that may participate in the tendering process. Additionally, consultations would generate an overview on the **capacities, capabilities and willingness of suppliers to fulfil certain environmental and social standards** related to the life-cycle of goods and services. Depending upon the specific characteristics of suppliers, products and services, several possibilities of defining technical specifications exist.

In case, market consultation shows many potential suppliers, but only few that would be able to fulfil environmental or social criteria, it may be more appropriate to admit few to participate in the tendering process. Thereby, use of **exclusion criteria** in combination with **selection criteria** may represent an efficient approach and would correspond to the **process of pre-qualification of suppliers** mentioned in the Presidential Regulation (No. 16/2018)²³. Pre-qualification can be carried out before the submission of bids by using a knock-out method for the suppliers²⁴. The use of exclusion and selection criteria for suppliers can be termed to be equivalent to the knock-out method.

Exclusion criteria define circumstances in which operators cannot be considered for public procurement processes. Generally, and depending on the applicable regulatory provisions, serious professional misconduct, non-compliance with applicable national and international laws, deficiencies in performance under prior contracts or misrepresentation of these aspects are relevant exclusion criteria. Furthermore, a case of non-compliance with environmental legislation may also be considered as professional misconduct and hence, used as exclusion criteria. The inability to submit supporting documents is also an exclusion criterion. Provisions available in Articles 78, 79 and 80 on sanctions and blacklisting can be used to apply exclusion criteria for suppliers.

²¹ European Union (2016): *Buying Green Handbook: A handbook on green public procurement*, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020

²² Refer to Article 11 (1) of the Presidential Regulation (No. 16/2018)

²³ Refer to Article 44 of the Presidential Regulation (No. 16/2018)

²⁴ Refer to Article 44 (6) of the Presidential Regulation (No. 16/2018)

Example: To make sure operators with low social standards are excluded, non-compliance with existing labour laws and conventions, statutory minimum wage regulations and payment of taxes and social security contributions can be defined as exclusion criteria.

Case study: Exclusion criteria²⁵

European Commission's Buying Green handbook on green public procurement (2nd Edition) gives the following example of an exclusion criteria: *"a waste disposal company that has repeatedly breached environmental provisions, resulting in several administrative fines, could be excluded on grounds of grave professional misconduct. This would apply where breach of the environmental provisions is indicated in national legislation as professional misconduct"*.

Selection criteria are minimum requirements which assess the suitability of an operator to carry out a contract. They can either be used to **derive shortlists of suitable suppliers** in two-stages procurement method²⁶ or in a pre-qualification stage²⁷. Selection criteria can also be used to knock-out suppliers during tender evaluation. Selection criteria relate to technical and professional ability and can include environment, economic and social criteria related to the subject matter and pursued procurement objectives. For example, selection criteria could include the evidence of environmental technical capacity related to, for instance, previous experience with environmental contracts, access to personnel with required educational & technical qualifications or access to necessary technical equipment.

Exclusion and selection criteria can be used by the Indonesian government in **building the Supplier Performance Information System that includes the list of pre-qualified suppliers**. Moreover, the list of pre-qualified suppliers can also be included in the E-Purchasing system as well as used efficiently to carry out Express tenders (refer to 3.1.4 for more details).

Example: Selection criteria are typically assessed through checklists in a pass / fail manner. If any of the selection criteria is not met, the supplier will not be included in the list of pre-qualified suppliers.

Is a certificate of conformity for meeting specified occupational health and safety standards included in the tender documents? Yes [X] No []

²⁵ European Union, 2011, Buying green! A handbook on green public procurement, 2nd Edition, https://ec.europa.eu/environment/archives/gpp/buying_green_handbook_2011_en.pdf, last accessed 29.06.2020

²⁶ Refer to Article 40 (4) of the Presidential Regulation (No. 16/2018)

²⁷ Refer to Article 44 of the Presidential Regulation (No. 16/2018)

Case study: Selection criteria²⁸

The EU GPP criteria for indoor cleaning services defines the selection criteria pertaining to the competences of the tenderer as follows:

“The tenderer must have relevant competences and experience in providing environmentally conscious indoor cleaning services that, at a minimum, included the following:

- *use of cleaning products that have been awarded the EU Ecolabel for hard surface cleaning or other relevant EN ISO 14024 type I ecolabels that are nationally or regionally officially recognised in the Member States for at least 50 % of the cleaning tasks in a contract*
- *staff training by internal or external trainers, that covers environmental aspects such as correct cleaning product dilution and dosage use, discarding of wastewater and waste sorting*

Verification:

Evidence in the form of information and references in relevant contracts, carried out in the previous 5 years, which included the above elements. This must be supported by records of staff training activities, where the subjects covered are listed.

Companies that have been awarded the EU Ecolabel for indoor cleaning services, or another relevant EN ISO 14024 type I ecolabel that are nationally or regionally officially recognised in the Member States, will be deemed to comply with the requirements”.

If the result of the market consultation shows that several potential suppliers are capable of meeting some environment and / or social criteria and there is a certain level of uncertainty if raising the ambition of criteria even further would lead to a sufficient number of bids or not, it is recommended to use the approach of **award criteria in technical specifications and tender evaluation** (see sections 3.3 and 4.5). Award criteria set incentives for best-performing suppliers and in some cases, allow the market to start developing new, innovative solutions for the purpose of getting extra rating points in the tender evaluation. This is the reason award criteria as well as information on how they are weighted with respect to other criteria, such as offer price, share of local content etc. must be published well in advance.

Award criteria are not used to evaluate different tenders on a fail / pass basis. Instead, they allow suppliers to demonstrate leadership and exceptional performance on these aspects. Suppliers and their products / services are compared based on these criteria and are awarded points that reflect their level of performance. **Award criteria can be used to emphasize priorities, e.g. by assigning a high relevance to the environmental, social or economic aspects of a tender.**

In certain cases, it may be appropriate to include environmental and / or social criteria only as award criteria, especially when potential suppliers show a low level of capacities and capabilities to fulfil sustainability-related standards. Another approach could be to use certain criteria of reliable environmental and / or social labels as minimum requirements in the technical specifications, and other criteria of those environmental and / or social labels as award criteria. If there is not a large degree of price variation for a product, but environmental and social performance varies greatly, it makes sense to allocate higher weightage to award criteria to assess sustainability characteristics.

²⁸ European Commission (2018): EU GPP criteria for indoor cleaning services, Commission Staff Working Document, SWD(2018) 443 final, https://ec.europa.eu/environment/gpp/pdf/toolkit/cleaning_product/en.pdf, last accessed 29.06.2020

Example: Article 66 of the Presidential Regulation (No. 16/2018) stipulates the preferential treatment given to the domestic products. Article 66 specifically states that *“the obligation to use domestic products is performed if there are participants offering goods/services with a Local Content (TKDN) plus Company Benefit Weight (BMP) value of at least 40%”*. A possible award criterion in this regard could be to provide extra points and weighting to those products that have even a higher Local Content (TKDN) plus Company Benefit Weight (BMP) value. The points can be awarded proportionally with respect to the increasing value of Local Content (TKDN) plus Company Benefit Weight (BMP).

Case study: Award criteria²⁹

The EU GPP criteria for indoor cleaning services defines an award criterion pertaining to the Energy efficiency of vacuum cleaners as follows:

“Points will be awarded proportionally to tenders in which a percentage of all vacuum cleaners to be used to perform tasks related to the contract meet, at the time of purchase, at least the following energy efficiency classes as laid down in Commission Delegated Regulation (EU) No 665/2013, at the time of purchase:

- *Class A for vacuum cleaners bought before 01/09/2017*
- *Class A+ for vacuum cleaners bought after 01/09/2017*

Verification:

The tenderer must supply a list of the vacuum cleaners that will be used to perform the contract and provide documentation proving their compliance with the requirements”.

²⁹ European Commission (2018): EU GPP criteria for indoor cleaning services, Commission Staff Working Document, SWD(2018) 443 final, https://ec.europa.eu/environment/gpp/pdf/toolkit/cleaning_product/en.pdf, last accessed 29.06.2020

Case study: Award criteria³⁰

European Commission's Buying Green handbook on green public procurement (2nd Edition) gives the following example of an award criteria: *"In a tender for cleaning services, the Environmental Protection Agency of Tuscany (ARPAT) assessed the tenders according to the most economical and environmentally advantageous offer. 40 points were allocated to price and 60 points for quality. Quality criteria included employing 'green' cleaning techniques, reduced packaging, environmental product performance (share of products complying with ISO Type I labels or equivalent) and the quality of environmental training programmes".*

3.3 Selection process

If procurement planning (3.1) and procurement preparation (3.2) are executed properly, the phase of selection process is comparatively simple. As described earlier, a selection process cuts across all the phases of a procurement procedure. Few examples where the selection process is performed are:

- Setting the procurement packages (3.1.3) – e.g. preference for small businesses
- Defining the type of procurement (3.1.4) – e.g. using Express tenders or E-Purchasing
- Defining the technical specifications (3.2.3) – e.g. applying exclusion & selection criteria

In the following section, the selection process based on tender evaluation is shown briefly. Comprehensive explanation, practical usage and details of using various modes of tender evaluation, as mentioned in the Presidential Regulation (No. 16/2018), are described in chapter 4.5.

3.3.1 Tender evaluation

Article 39 (1) of the Presidential Regulation (No. 16/2018) specifically mentions several methods of tender evaluation:

- **Value system**
- **Assessment of economic Life-Cycle Cost; or**
- **Lowest price**

Accordingly, the aim of tender evaluation is to identify the Most Economically Advantageous Tender (MEAT) see chapter 4.5.1) or the bid with the highest Cost-Utility factor. This implies that other (award) criteria will be considered apart from the price. According to Article 39 (3), value system evaluation method considers technical assessment and price for the procurement of products and services. Assessment of economic Life-Cycle Cost considers *"factors of economic life-cycle, price, operational cost, maintenance cost, and remaining value within a certain operating period"* [Article 39 (4)]. Lowest price evaluation method is used *"when price becomes the basis for determining the winner among bids that meet the technical requirements"* [Article 39 (5)].

Depending upon the context, any of the above-mentioned methods can be applied. For instance, in cases when suppliers are already selected based on complying with pre-defined environmental and/ or social criteria (pre-qualification) and any further sustainability requirements are not achievable, the lowest price evaluation method could be applied. In case of energy-using products and

³⁰ European Union, 2011, Buying green! A handbook on green public procurement, 2nd Edition, https://ec.europa.eu/environment/archives/gpp/buying_green_handbook_2011_en.pdf, last accessed 29.06.2020

services that involve further costs in addition to the procurement price (e.g. energy costs, maintenance and repair costs etc.), it may be more appropriate to apply the economic Life-Cycle Cost. These costs may represent a large share of total costs and could vary considerably between product alternatives (e.g. lighting products).

In general, the **value system evaluation method is best suited for achieving the aims of the sustainable procurement**. It allows integration of other two evaluation methods in the overall assessment and can be related to pre-defined values and policy objectives, such as promotion of durable products, small businesses or universal human rights. Thus, this method is ideal for evaluating non-monetary award criteria such as quality or social impact, and hence best suited for SPP.

It is important that the concept of tender evaluation is published and advertised as early as possible, for instance, in the general procurement plan (RUP) as specified under Article 22. It should be clearly mentioned that tenders will be evaluated, for instance, using the value system evaluation method, and not on the basis on lowest price. The award criteria to be applied shall be communicated as well as weightings that will be applied to each criterion in the evaluation.

Table 3-1: Cost-utility analysis for cotton workwear (In this example, offer 2 wins the bid.)

Award Criterion	Calculation Formula	Weight assigned to criterion	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	60%	20,000€	24,000€	100	83	60	50
Design and fit	School grades (in points)	20%	very good	good	100	80	20	16
Share of organic cotton	Bid value x 100 / Max. value	20%	5%	50%	10	100	2	20
SUM							82	86

Source: Oeko-Institut.; based on Ministerium für Umwelt, Klima und Energiewirtschaft Baden-Wuerttemberg, LUBW (2014), Nachhaltige Beschaffung konkret: <https://www.lubw.baden-wuerttemberg.de/documents/10184/147663/Nachhaltige+Beschaffung+konkret+2017.pdf/aa413776-352c-4167-a7e7-5448be7ca817>, last accessed 11.06.2020

3.4 Contract implementation & Handover procedures

The final steps of a procurement procedure deal with the implementation of contract and handover procedures. Even in these steps, it is possible for procurement agencies to implement and ensure the compliance with environmental and / or social standards. Contracting authorities can use contract clauses to include **environmental and / or social considerations during the execution of the contract** (thus, not referring to technical specifications, selection or award criteria). As such clauses specify how a contract must be implemented, they are not evaluated during the selection process but rather prescribe contractual requirements which need to be recognised by whoever submits the winning bid and gets the contract.

As several sustainability aspects are process-based rather than product-based, this instrument offers a very good opportunity to integrate respective requirements. In any case, they must be linked to the subject matter and published in the call for competition or procurement documents.

Possible contractual provisions could be³¹:

- Compliance with the core labour standards of the International Labour Organisation (ILO)
- Minimum wage and compliance with collective agreements (e.g. minimum wage law of respective regions, etc.)
- Application of social management standards (e.g. SA 8000 Social Accountability International)
- Reduction of substances which represent environmental or health hazards during production
- Compliance with occupational health and safety standards

These mechanisms can be used if the market does not seem to be instantly ready for introducing certain environmental and / or social aspects. The market consultation could be used to ask suppliers when they will be ready to fulfil certain environmental and / or social standards. Consequently, these requirements can be incorporated into the contractual agreement and it should be specified that they need to be fulfilled during the execution of the contract. Articles 52, 54, 55 and 56 of the Presidential Regulation (No. 16/ 2018) can be interpreted to be suited for this purpose.

It is important to communicate and define clearly how the compliance during the execution of the contract will be verified. Furthermore, clear sanctions mechanisms need to be put in place for defaulters, including possibilities of exclusion in future tenders. The Presidential Regulation (No. 16/ 2018) provides several opportunities for implementing sanctions in order to discourage breaches:

- Amendment of Contract (Article 54)
- Force Majeure (Article 55)
- Inspection of the goods / services delivered (Articles 57, 58)
- Complaint from the public (Article 77)

³¹ Ministerium für Umwelt, Klima und Energiewirtschaft Baden-Wuerttemberg, LUBW (2014), Nachhaltige Beschaffung konkret, <https://www.lubw.baden-wuerttemberg.de/documents/10184/147663/Nachhaltige+Beschaffung+konkret+2017.pdf/aa413776-352c-4167-a7e7-5448be7ca817>, last accessed 11.06.2020

Case study: Use of contract clauses for the procurement of sustainable workwear³²

The following contract clause and means of proof are included in public procurement guidelines for sustainable workwear in the federal state Baden-Wuerttemberg in Germany:

“Contract performance clause:

Textiles are produced in compliance with core labour standards of the International Labour Organisation along the entire production chain (ILO Conventions No 29, No 87, No 98, No 100, No. 105, No. 111, No. 138 and No. 182).

Means of proof:

The supplier must provide evidence of compliance with the contract performance clause as follows:

Presentation of a certification of the products with one of the following quality marks: EU Eco-label (textile products), Global Organic Textile Standard (GOTS), Blue Angel (RAL-UZ-154), Fair Wear Foundation (FWF), Fairtrade, IVN Best Standard or equivalent, or

Submission of appropriate evidence that the conditions set out in the contract performance clause are met during manufacturing (e.g. auditing of manufacturing plants in accordance with the international social standard SA8000 or equivalent), or

Submission of a self-declaration, if in exceptional cases there is no certificate or no corresponding certificate of independent third parties for the product offered, in which the compliance with Fundamental Principles and Core Labour Standards of the International Labour Organisation (ILO) is confirmed”.

3.5 Further reading

Detailed information on how **green public procurement** is implemented in the EU can be found in the *Buying Green Handbook*: https://ec.europa.eu/environment/gpp/buying_handbook_en.htm

Further information:

ISO 20400 Sustainable procurement — Guidance: <https://www.iso.org/standard/63026.html>

SNI ISO 20400 Pengadaan berkelanjutan (Indonesia):

<https://bsn.go.id/main/berita/detail/10138/bsn-tetapkan-sni-iso-20400-pengadaan-berkelanjutan>

One Planet Network, Sustainable Public Procurement:

<https://www.oneplanetnetwork.org/sustainable-public-procurement>

EU GPP Toolkit (2019): https://ec.europa.eu/environment/gpp/toolkit_en.htm

UNEP 2012: Sustainable Public Procurement Implementation Guidelines:

<http://www.unep.fr/scp/procurement/docsres/ProjectInfo/UNEPImplementationGuidelines.pdf>

³² LUBW 2014: Nachhaltige Arbeitskleidung, Den fairen Faden aufnehmen - Wegweiser für eine nachhaltige Beschaffung von Arbeitskleidung, Ministerium für Umwelt, Klima und Energiewirtschaft Baden-Württemberg und Landesanstalt für Umwelt, Messungen und Naturschutz Baden-Württemberg, Stuttgart

4 Economic criteria in SPP

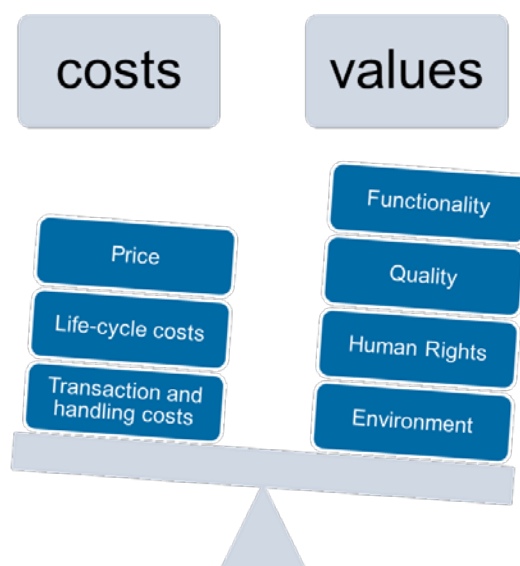
4.1 “Value for money” principle

Public authorities implementing procurement activities in Indonesia are tasked to fulfil legal obligations and follow public priorities. Hence, public procurement is essentially supposed to support these obligations and priorities. This also holds for procurement of furniture for offices or the construction of public buildings for example. Against this backdrop, procurement of low-priced goods and services may be an objective in itself. However, besides, other aspects of procured goods and services may also be important: Goods and services shall fulfil the intended functionality, meet defined quality standards, shall not incur excessive long-term costs to the government and society and support other strategic government objectives.

Therefore, the Presidential Regulation Concerning Government Procurement of Good / Services” (No. 16/2018) in its preamble calls on government institutions and other relevant organizations to implement the “*Procurement of Goods / Services that bring maximum value for money...*”. This means that they are called upon to ensure the “best value” for the (taxpayers’) money (“value for money” principle) rather than opting for the cheapest products. This also means that a “cheap” product that does not meet requirements or satisfy the set objectives does not provide good value for money. A product, on the other hand, that may have a higher purchase price but contributes to several important objectives and involves less follow-up costs will probably offer much better value for money.

Thus, a core challenge in procurement is to balance all costs incurred for the procurement of a good or service with the beneficial value provided (Figure 4-1). Therefore, an essential task in procurement is to clearly identify all relevant costs incurred and values provided by a good or service.

Figure 4-1: “Value for money” principle: Balance costs with the value provided



Source: Own Illustration

The procurement of a good or service entails different **costs**, which should be considered in procurement decisions as they directly relate to the amount of government spending. Besides possible costs include the costs for consumables, maintenance, handling, replacement, disposal, etc.

Only a full understanding of these various costs related to a particular good or service allows for a meaningful comparison of the costs of different offers.

Like the costs, also the **merits / value of each offer** needs to be considered. The core question is:

How much value does the procurer get for the costs of each offer?

The value can encompass several aspects that can include but are not limited to:

- Functionality, fitness-for-purpose
- Quality
- Quantity
- Government objectives on environment and health
- Government objectives regarding economic development
- Government objectives regarding social development and safeguards
- Any other requirements deemed important for the purchased good or service

A core task for the procurer is, hence, to clearly understand and define the parameters that define the value of a purchased good or service and put this value of different offers in relation to their respective costs. **When the combined value is greatest in relation to the combined cost, then the “value for money” is optimized.**

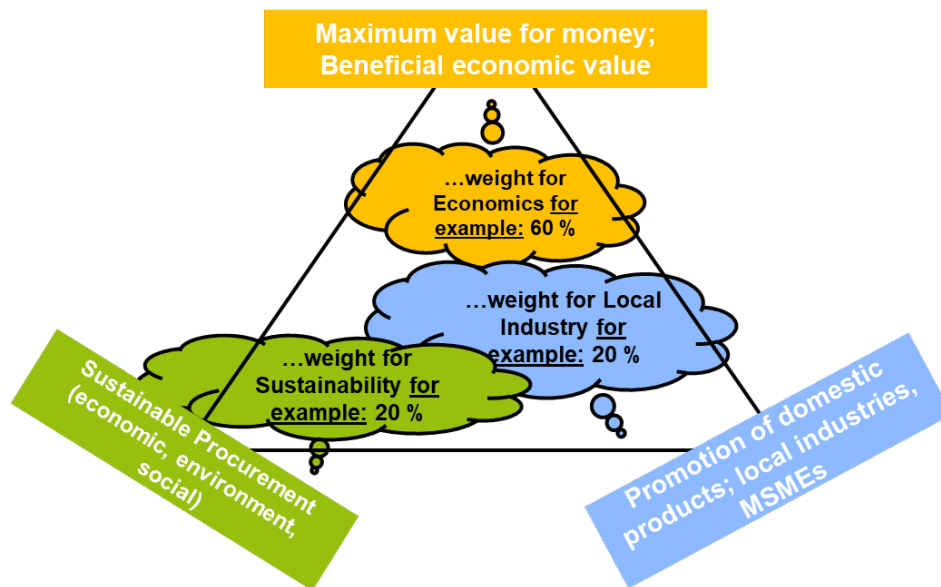
According to the Presidential Regulation (No. 16/2018)³³, for actual procurement processes, this principle and its components need to be operationalised into value system evaluation (see section 4.5). This is typically done through the following methods:

- Total costs can be captured through **Life-Cycle Cost analysis (LCC)** (see section 4.4)
- Value in relation to costs can be analyzed through **cost-benefit analysis** (also called: **Cost-Utility Analysis**, see section 4.5).

The following example shall provide a pre-illustration on how values can be assigned to different aspects of a tender.

³³ Refer to Article 39 of the Presidential Regulation (No. 16/2018)

Figure 4-2: Example of value system in line with the Presidential Regulation (No. 16/2018)



Source: Own illustration.

Figure 4-1 shows how different values are assigned to three different dimensions that can be relevant for a procurement agency. In this example, sustainability aspects (such as environmental or social criteria) are rated at a relative value of 20% (green box) whereas economic aspects (such as LCC considerations) are rated at 60%. Another 20% of the overall value of the sample tender is assigned to the promotion of domestic products (blue box). Hence, the set-up of a value system³⁴, according to the Presidential Regulation (No. 16/2018), for tender evaluation requires the clarification of the distribution of values. Accordingly, the values shall be selected and weighted in a targeted manner to the respective tender in question.

4.2 Specific economic criteria in the Presidential Regulation (No. 16/2018)

In general, the Presidential Regulation (No. 16/2018) describes several purposes of procurement, including:

- Increased participation of micro-scale, small-scale and medium-scale enterprises³⁵³⁶
- Enhanced use of domestic products³⁷
- Promotion of research and innovation³⁸³⁹
- Promotion of creative industries⁴⁰
- Increased economic equality⁴¹

³⁴ Ibid.

³⁵ Refer to Preamble & Chapter 1, Article 1 (45), (46), (47) of the Presidential Regulation (No. 16/2018)

³⁶ Refer to Chapter II, Part 1, Articles 4 and 5 of the Presidential Regulation (No. 16/2018)

³⁷ Refer to Chapter IX, Articles 65-67 of the Presidential Regulation (No. 16/2018)

³⁸ Refer to Chapter I, Articles 4 and 5 of the Presidential Regulation (No. 16/2018)

³⁹ Refer to Part 4, Article 62 of the Presidential Regulation (No. 16/2018)

⁴⁰ Refer to Chapter II, Part 1, Article 4 of the Presidential Regulation (No. 16/2018)

- Implementation of Sustainable Procurement⁴²

These purposes can be broadly understood to address economic, environmental, social and innovation objectives to which public procurement can contribute.

Case-Study: Promotion of micro-scale, small-scale and medium-scale enterprises in the EU⁴³

Small and Medium-sized Enterprises (SMEs) are a very important factor for the European economy. The official number accounts for approximately 20.8 million SMEs that are registered in the EU representing 99.8% of the total number of enterprises contributing to more than a half of the GDP (58%). Hence, SMEs are a prime target group of European Public Policy. One of its aims is to facilitate SMEs access to public procurement.

Between 2009-2011, around 56% of all public procurement contracts (above the EU thresholds) were awarded to SMEs. The corresponding market share accounts for 29%. Hence, SMEs are still somewhat underrepresented as compared to their overall weight in the economy. On average, larger companies submit more tenders as the success rate of companies is not supposed to differ significantly according to recent studies.

One major factor that influences the extent to which SMEs can access the contracts is the value of public contracts. The larger a contract (e.g. in a single lot), the lower the probability that it will be awarded to an SME. Other factors influencing the SME's share in winning public contracts in the EU are:

(1) The sector of the goods / services: SMEs play only a marginal role in the supply of commodities (16 % by value of contracts), but they accounted for more than half (57%) of the contract volume in the 'other manufacturing' sectors.

(2) The type of procurer: The share of contract volume awarded to SMEs is reportedly relatively high for tenders launched by regional and local authorities and agencies (37%), but low among utilities (15%)

(3) The tender procedure: SMEs represent a much smaller share of the total value of contracts awarded under the various negotiated procedures (19%) than under open procedure (34%) or restricted procedures (29%)

(4) Market aggregation: Joint purchasing (procurement on behalf of others) seems to have a significant negative impact on SMEs' chances.

A central instrument to facilitate access for SMEs in public procurement is the possibility for aggregation within framework agreements in order to decrease transaction costs for the applicants. Beyond, e-procurement tools were introduced in order to allow for leaner processes, thus fostering competition. This also includes the possibilities for SMEs to compete in cross-border projects.

However, it is not always clear how to distinguish economic from social or environmental criteria. The increased participation of micro-scale, small-scale and medium-scale enterprises could be

⁴¹ Refer to Chapter II, Part 1, Article 4 of the Presidential Regulation (No. 16/2018)

⁴² *ibid.*

⁴³ GHK/Ecorys/pwc (2014) on behalf of the EU DG Internal market and Services, <https://op.europa.eu/en/publication-detail/-/publication/c0681db7-e56e-11e5-8a50-01aa75ed71a1>

considered as an economic as well as a social criterion (In this guideline, it is discussed as a social criterion, please see chapter 5). Increased economic equality arises from a social objective but also has a clear economic dimension. Promotion of research and innovation as well as of creative industries have an economic connotation but could also be interpreted or implemented with social considerations in mind.

As described in section 4.5, different values and criteria can be considered and evaluated by a method called “**Cost-Utility Analysis**” (CUA) (also called “cost-benefit analyses”). The core idea is to operationalise the important criteria, decide on a weighting factor and define means of proof for suppliers to demonstrate their compliance with these criteria.

Hence, specific procurement criteria can be defined for each of the above-mentioned purposes as defined in the Presidential Regulation (No. 16/2018). The specific operationalisation may differ from product category to product category and is also determined by applicable laws (see section 4.5).

The aim of the following sections is to illustrate how economic criteria can be implemented into the regulatory framework of the Presidential Regulation (No. 16/2018) in a stepwise approach.

4.3 Procurement planning

The very first step of procurement relates to its planning.⁴⁴ From an economic perspective, it is predominantly the identification of procurement needs⁴⁵ that is decisive in order to find out and make sure which goods and services are really required. Besides the quantity of goods and services, a clear definition of the needs also includes information, such as quality aspects, product life-time (e.g. relevant for the calculation of LCC, see chapter 4.4) or similar. Refer to chapter 3.1.1 for more information.

The following example shall illustrate a needs statement from the perspective of a municipal department.

Example: Needs Statement⁴⁶

The EU GPP toolkit gives the following example of a needs statement: *“The Department has identified a need for 6 smart screens for use in its 12 meeting rooms. The screens will facilitate web-conferencing and reduce the need for document printing. Based on user consultation, a maximum of 6 meetings requiring screens are held at any one time.*

The existing projectors consume a large amount of energy and often break down. The Department will consider proposals for leasing the screens under a service contract”.

The example shows, that the needs assessment revealed that only 6 smart screens are needed for 12 meeting rooms, since a maximum of 6 meetings are held at the same time. This became evident in the course of user consultations which are a suitable instrument for identifying needs. Based on the identification of the needs, the most appropriate specifications of the tender can be specified in the subsequent procurement steps.

⁴⁴ Refer to Articles 18,19, 20, 22, 38 and 63 of the Presidential Regulation (No. 16/2018)

⁴⁵ Refer to Article 18 of the Presidential Regulation 18 (No. 16/2018)

⁴⁶ European Commission: EU GPP Toolkit; https://ec.europa.eu/environment/gpp/toolkit_en.htm

A second, very relevant step in procurement planning is market consultation⁴⁷ (refer to chapter 3.1.2 for more details). It allows for an evaluation of the typical procurement prices of goods as well as more relevant information on the goods and services. There are several ways to conduct market consultation, such as:

- Desktop research and analysis allowing for market exploration, e.g. with online tools or other sources,
- Consultation with other public authorities, e.g. in order to find out what other departments had purchased beforehand or reassure rather risk-averse decision makers,
- Publication of Prior Informed Information Notices (PIN) in order to inform the market about the consultation,
- Use of supplier and market questionnaires that can be useful to gain quick information on the targeted goods / services,
- Expression of interest that is used for the pre-registration of suppliers and an assessment of market capabilities.

Summarizing, it is noteworthy that market consultation can help to prepare for the calculation of the Owners Estimate (OE)⁴⁸ (refer to 3.2.1) that includes aspects such as Life-Cycle Cost (LCC) Analysis. Especially, information on life-times of products, energy consumption etc. are very relevant for LCC and the calculation of the OE.

4.4 Procurement preparation

Procurement preparation⁴⁹ can take place based on the information and clarifications of step 1, procurement planning. **The central step in procurement preparation is the determination of the Owner's Estimate (OE).**⁵⁰ It shall be calculated by the commitment making official (Pejabat Pembuat Komitmen, PPK) and **includes the possibility of using Life-Cycle Cost (LCC) Analysis.**

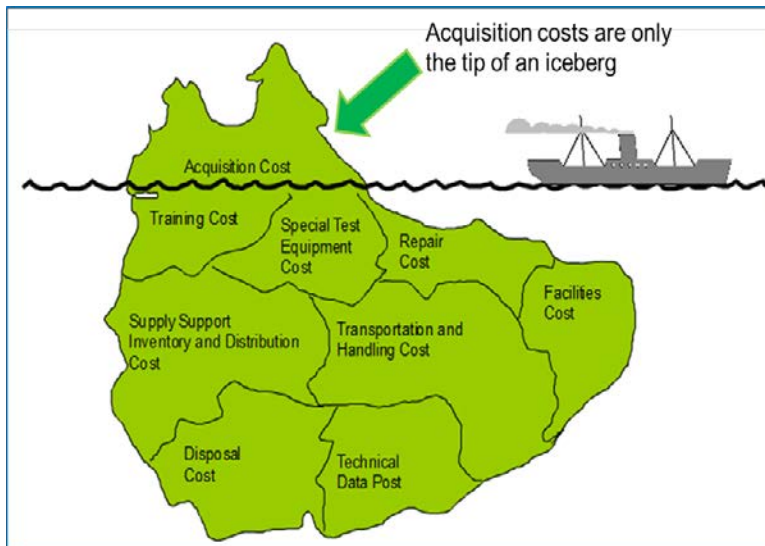
The latter takes into account all costs that occur during the whole life-time of a product or service.

⁴⁷ Refer to Article 19 (1), (2) and (3) of the Presidential Regulation (No. 16/2018)

⁴⁸ Refer to Article 26 of the Presidential Regulation (No. 16/2018)

⁴⁹ Refer to Articles 25, 26, 27, 44, 78, 79 and 80 of the Presidential Regulation (No. 16/2018)

⁵⁰ Refer to Article 26 of the Presidential Regulation (No. 16/2018)

Figure 4-3: Illustration of Life-Cycle Costs (LCC)

Source: University of Nottingham

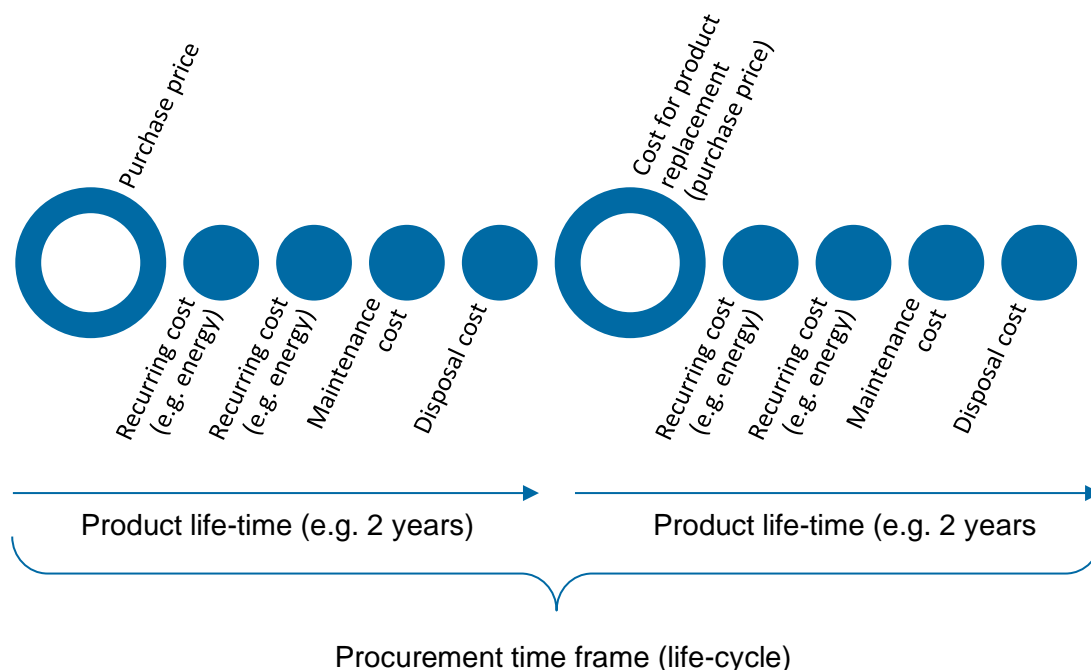
As illustrated above, costs of products and services are not only related to acquisition costs (mostly the purchase price) but also to a wide range of costs that occur during the products' life-time such as repair costs, transportation costs, energy costs or disposal costs. Typically, for many products and services, acquisition costs only represent the "tip of the iceberg" (see Figure 4-4).

Hence, typically, the price of a good or service only accounts for one part of the full costs that need to be covered by the Commitment Making Official / Pejabat Pembuat Komitmen, (PPK) when it shall determine the Owners Estimate (OE). A range of other costs are potentially relevant:

- Price
- Fuel, consumables, energy consumption, water consumption and other recurring costs
- Maintenance costs
- Handling and other transaction costs
- Costs for disposal / recycling
- Replacement costs (more durable products need to be replaced less often)
- Resale value (i.e. depreciation of the value over time)
- ...

Also, these costs do not all occur at the time of purchase: Costs such as for consumables, replacement and disposal typically occur at a time after purchase, across the full intended life-time of using the purchased product (see Figure 4-4). These full costs are commonly described as Life-Cycle Costs (LCC) or as "total cost of ownership" (TCO).

Figure 4-4: Costs over time for a procured product (illustrative)



Source: Own Illustration

In order to illustrate the importance of considering LCC in the determination of the Owners Estimate (OE), a simple example is provided in the following.

Example: Consider two products “A” and “B”.

Product A has a purchase price of IDR 10,000,000 and annual costs for consumables of IDR 3,000,000 with a total use time of five years.

Product B has a purchase price of IDR 13,000,000 and annual costs for consumables of IDR 2,000,000 with a total use time of five years.

	Product A	Product B
Purchase Price	10,000,000 Rp	13,000,000 Rp
Annual Operating Costs	3,000,000 Rp	2,000,000 Rp
Timeframe	5 years	5 years
Total Life Cycle Costs (LCC)	25,000,000 Rp	23,000,000 Rp

Total (undiscounted) costs of product A are IDR 25,000,000. Total (undiscounted) costs of product B are IDR 23,000,000.

Product B has, hence, the overall lower Life-Cycle Costs. In this simplified case, a procurement decision based on Life-Cycle Costs alone would favour product B although it has the originally higher purchase price. This can easily be justified as costs for the procuring agency are lower, albeit on a longer timeframe.

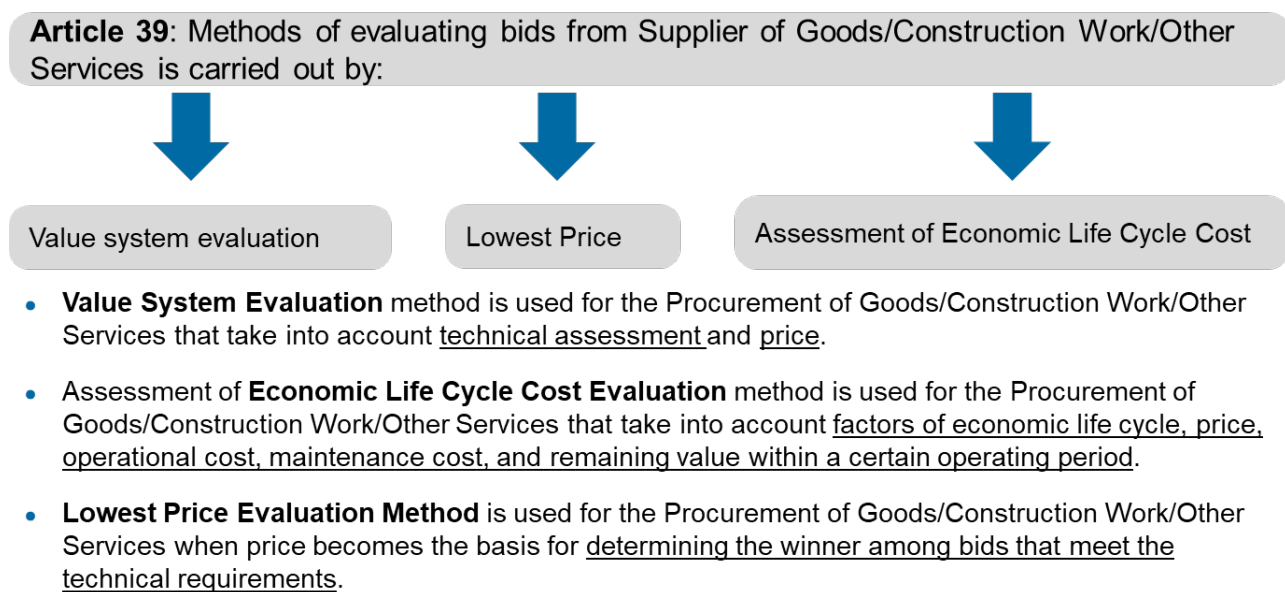
To use Life-Cycle Costs as the basis for procurement and hence for the purpose of comparing different offers, the individual parameters need to be clearly defined so that the necessary information is available for all offers, and it is also clear how the information is used for the evaluation of the offers.

Tender evaluation is part of the selection process that is covered in the next chapter.

4.5 Selection process & Tender evaluation

One of the basic elements of the selection process in public procurement in Indonesia is the evaluation of tenders⁵¹. The following illustration covers the methods for tender evaluation, as provided in the Presidential Regulation (No. 16/2018).⁵²

Figure 4-5: Methods for tender evaluation in Article 39 of the Presidential Regulation (No. 16/2018)



Source: Own Illustration; Based on the Presidential Regulation (No. 16/2018), Article 39.

As illustrated above, beyond a value system evaluation, also the integration of LCC as well as the possibility to use the lowest price evaluation method are essential parts of the procurement process in Indonesia.

⁵¹ Refer to Articles 39, 40, 44, 50 and 67 of the Presidential Regulation (No. 16/2018)

⁵² Refer to Article 39 of the Presidential Regulation (No. 16/2018)

4.5.1 Value system evaluation using Cost-Utility Analysis

Value system evaluation can be implemented in practice using a method called Cost-Utility Analysis (CUA)⁵³. This will enable operationalization of the concept of identifying the “most economically advantageous tender” (MEAT) (see section 3.3). It means that, beyond the purchase price, also other aspects that represent a value (see section 4.1) from the perspective of the procuring agency are to be taken into account (e.g. quality, price, social and environmental characteristics etc.).

Therefore, CUA is a practical method to (1) weigh quantitative and qualitative award criteria and (2) compare different offers. Typically, award points are assigned to award criteria (refer to chapter 3.2.3 for more details on award criteria) in a way such as the points per award criterion sum up to 100. The more a value (aspect/criterion) shall be weighted, the more points are assigned.

Table 4-1: Example of a Cost-Utility Analysis (CUA) for the practical implementation of a value system evaluation for the procurement of office paper

Award Criterion	Calculation Formula	Value System	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	60%	20,000 Rp	24,000 Rp	100	83	60	50
Quality	Very good: 100 Good: 80	20%	very good	good	100	80	20	16
Share of recycled content	Bid value x 100 / Max. value	20%	5%	50%	10	100	2	20
SUM		100 %					82	86

Source: Own calculations

The illustrated example for a value system evaluation shows (in red) how the **assignment of values** for the different criteria determine the procurement decision. In the example, the offer price shall be weighted with a value of 60% whereas quality aspects and the share of recycled content of the office paper shall be considered with a value of 20% each (see red frame). It is very important that the distribution of values sums up to 100%. Furthermore, the example shows that offer 1 is related with an offer price of 20,000 Rp whereas offer 2 comes with an offer price of 24,000 Rp. Hence, if only purchase prices were considered in tender selection, offer 1 would win the bid.

However, if the other aspects (quality, content of recycled paper) are considered as well, this will result in quite a different outcome. As mentioned above, CUA assigns points according to the fulfillment of criteria. For example, the points for the offer price can be assigned in a way that the lowest price receives the 100 points. Higher offer prices could receive less points according to the relative percentage of (higher) bid related to the minimum bid. Hence, as offer 1 at 20,000 Rp is 83% of offer 2 at 24,000 Rp, offer 2 would only receive 83 points.

In the last step of the assignment of points to the first criterion (offer price), the points are weighted according to the value system. Hence, as the offer price shall be weighted with 60%, offer 1 receives 60 points (60% of 100 points) and offer 2 receives 50 points (60% of 83 points).

⁵³ In other contexts, the method is also called Cost-Benefit-Analysis. However, as Cost-Utility Analysis (CUA) was developed for tender evaluation in public procurement, this term shall be used in this document.

Otherwise, the fulfillment of other criteria can also be assigned. For example, points for criterion 2 on the quality would be assigned in the way that “very good” quality leads to 100 points and “good” quality to 80 points. Hence, offer 1 would receive the full 100 points whereas offer 2 only receives 80 points. Both results are weighted according to the value system with 20% of the total value distribution resulting in 20 points for offer 1 (20% of 100 points) and 16 points for offer 2 (20 % of 80 points).

Also, product properties such as the recycled content of the paper in question can be considered as follows. The higher the recycled content is, the more points would be awarded as a result of the idea that more recycled content would be good for the environment and, hence, should influence the procurement decision. The assignment can be designed in such a way that each recycled content (in %) of the offered paper would be multiplied by 100 and divided by the maximum value of recycled content. Subsequently, the offer that comes with the highest recycled content in the paper received 100 points. If the recycled content is lower, less points are awarded accordingly. Hence, offer 2 would receive full points (=100) as it comes with paper of a recycled content of 50%. Offer 1 only comes with 5% of recycled content. Hence, in this example, it only receives 10% of the points of offer 1 resulting in 10 points. Finally, also the points assigned to the recycling criterion are weighted according to the value system (in red), resulting in 20 points for offer 2 (20% of 100) and 2 points for offer 1 (20% of 10 points).

Finally, value system evaluation, according to Article 39 of the Presidential Regulation (No. 16/2018), using a Cost-Utility Analysis (CUA), leads to the result that offer 2 earns 86 points whereas offer 1 only earns 83 points. Hence, offer 2 would win the bid.

In this example, it was shown how the inclusion of other values (e.g. quality, recycled content on paper) apart from the purchase price alone may lead to a totally different procurement decision.

Case Study: Application of value system evaluation for the procurement of green and healthy cleaning services in Tuscany, Italy⁵⁴

European Commission's Buying Green handbook on green public procurement (3rd Edition) provides the example of a tender for cleaning services of the Environmental Protection Agency of Tuscany (ARPAT) in Italy. The agency assessed the tenders according to the most economically and environmentally advantageous (MEAT) offer as follows: 40 points were allocated to the purchase price whereas another 60 points were assigned for quality. Quality criteria included the application of green cleaning techniques, reduced packaging, environmental product performance and the quality of environmental training programmes.

4.5.2 Integration of LCC into value system evaluation⁵⁵

Tender evaluation as it is stated in Article 39 of the Presidential Regulation (No. 16/2018) also allows for the integration of LCC considerations into the Value System Evaluation. In order to illustrate this, a second example of the procurement of office furniture shall be given. Here, besides the offer price (75%), the aspects durability (5%) and LCC (20%) are considered within the value system evaluation and respective weights are assigned. Offer 1, again is less expensive in terms of

⁵⁴ European Union (2016): *Buying Green Handbook: A handbook on green public procurement*, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020

⁵⁵ According to Article 39 (2) of the Presidential Regulation (No. 16/2018) explicitly calls upon the use of the LCC-method.

the offer price alone (Offer 1: 2,000,000,000 Rp / Offer 2: 2,400,000,000 Rp). However, as soon as LCCs are calculated and considered, it becomes obvious (see red box) that the office furniture in offer 1 is related to significantly higher Life-Cycle Costs (e.g. such as refurbishment, repair etc.). Whereas it is estimated, e.g. in the Owners Estimate (OE), that the products in offer 2 are related to total LCC of 1,000,000 Rp, it is assumed in this example that offer 1 is related to 9,000,000 Rp.

Table 4-2: Integration of LCC in Cost-Utility Analysis (CUA) for the practical implementation of a value system evaluation for the procurement of office furniture

Award Criterion	Calculation Formula	Value system evaluation	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	75%	2.000.000.000	2.400.000.000	100	83	75	63
Durability	yes: 100	5%	yes	no	100	0	5	0
	no: 0							
Life Cycle Costs (mostly Refurbishment, repair etc.)	min value x 100 / bid. Value	20%	9.000.000	1.000.000	11	100	2	20
SUM		100%					82	83

Source: Own calculations

Also, LCC values can relate to a score of points from 0-100. For example, the lowest LCC value can lead to 100 points (full score). In turn, the higher the LCC, the fewer points can be assigned (e.g. via a percentage linkage): As LCC of the products in offer 1 are estimated to be 9 times higher than in offer 2, offer 1 only receives 1/9 (11%) of the maximum score of offer 2. As LCC considerations are weighted by 20% within the value system evaluation, offer 1 earns 2 points (20% of 11 points) and offer 2 earns 20 points (20% of 100 points).

Hence, the example shows how the inclusion of LCC considerations into the value system of tender evaluation can significantly influence its result. As offer 2 receives many points for comparably low LCCs, in total, offer 2 wins the tender with 83 instead of 82 points for tender 1.

4.5.3 Preference for domestic products

Article 67 of the Presidential Regulation (No. 16/2018) also provides for the possibility to grant a price preference to domestic products (as compared to imported products). Besides, it is important to stress in this context that also the Presidential Regulation (No. 9/2018)⁵⁶ governs aspects of price preferences for domestic products as compared to imported products as far as fisheries, commodities, salt and raw materials are affected. It is therefore recommended to also compare the provisions of the Presidential Regulation (No. 9/2018) in the course of the implementation of the provisions of the Presidential Regulation (No. 16/2018).

In the following, however, only the provisions of the Presidential Regulation (No. 16/2018) are considered. Accordingly, the following provisions are applicable⁵⁷:

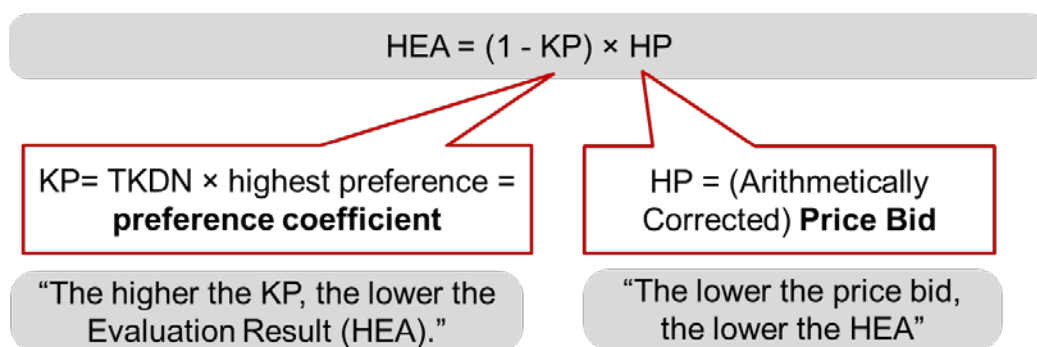
⁵⁶ Presidential Regulation Nr. 9/2018, <https://www.informea.org/sites/default/files/legislation/Pres%20Reg%209%202018%20%28Procedures%20Controlling%20Imports%20Fisheries%20Commodities%20Salt%20Raw%20Materials%29.pdf> (in Indonesian language)

⁵⁷ Refer to Article 67 of the Presidential Regulation (No. 16/2018)

- Price preference is an incentive for domestic products in the selection of Supplier in the form of an acceptable price excess.
- Price preference shall apply to the Procurement of Goods / Services with a minimum value of above IDR 1,000,000,000.00
- Price preference is given to goods / services with TKDN [=domestic content] of at least 25% (twenty-five percent).
- Price preference for goods / services shall be no higher than 25% (twenty-five percent).
- Price preference for construction work carried out by national business entities shall be no higher than 7.5% above the lowest bid price from foreign business entities.

Finally, the winner of a bid can be determined “based on the order of lowest price from Final Evaluation Result (HEA)”.⁵⁸ Furthermore, HEA is defined as the product of (arithmetically corrected) price bid (HP) and an inverse preference coefficient (1-KP). The following illustration provides insights into the calculation of the final evaluation result KEA.

Figure 4-6: Determination of the Final Evaluation Result (HEA) in Article 67



Source: Own illustration based on Article 67, Presidential Regulation (No. 16/2018).

As illustrated above, the final evaluation result (HEA) is determined by the (arithmetically corrected) price bid (HP). The lower the price bid, the lower the HEA and, hence, the higher the probability that a tender wins the bid. Secondly, HEA is determined by the preference coefficient KP (inversely, by 1-KP). The higher the KP, the lower the HEA and hence, also the higher the probability that a tender wins the bid.

It is noteworthy that the KP is defined as the product of the local content (TKDN) and the highest preference in the tender process. Hence, the higher the local content (TKDN), the higher the probability to win the bid. In the following, an example shall illustrate this evaluation method.

⁵⁸ Refer to Article 67 of the Presidential Regulation (No. 16/2018)

Table 4-3: Example of the Final Evaluation Result (HEA) including price correction due to local content (TKDN)

Award Criterion	Calculation Formula	Value System	Tender bid values	
			Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	75%	2.000.000.000	2.400.000.000
Share of local content (TKDN)			5%	50%
Preference Coefficient (KP) if local content >25%			No	Yes
Corrected Price according to Preference Coefficient KP (=HEA)			2.000.000.000	2.160.000.000

Source: Own example and calculations

Again, two fictional tenders for office furniture are received by a procurement agency. Offer 1 includes an offer price of 2,000,000,000 Rp whereas Offer 2 comes with an offer price of 2,400,000,000 Rp. However, the furniture of tender 2 consist of 50% of local content (TKDN) and the highest preference among the tenders is 20% (price for offer 2 is 20% more expensive than price for offer 1), the resulting preference coefficient (KP) for offer 2 is 10%. The preference coefficient only applies to offer 2 as its local content (TKDN > 25%) is higher than 25%. As offer 1 only consist of 5% of local content, a price preference correction is not applicable.⁵⁹

Summarizing, it is allowed to correct the price bid (HP) of offer 2 by 10%. This, however, only leads to a corrected final evaluation result of the price bids of 2,160,000,000 Rp for offer 2 (HEA=(1-KP)*HP). Offer 1 (HP=2,000,000,000 Rp) still results in the lowest HEA and wins the bid.⁶⁰

Company Benefit Weight (BMP)⁶¹

It shall be mentioned, that the Presidential Regulation (No. 16/2018) also introduces an obligation to use domestic products from “*participants offering goods/services with a Local Content (TKDN) plus Company Benefit Weight (BMP)⁶² value of at least 40%*”. Thus, the BMP mechanism is a part of the TKDN scheme. The purpose is to provide an added value of maximum 15% to the overall TKDN value (i.e. maximum BMP value is 15%). Example: A product that has a TKDN value of 30%. To achieve a BMP value of at least 40%, the producer of this product can apply for BMP certification to catch up with the TKDN value deficiency.

The criteria for the assessment of BMP score include: (1) The weight of empowerment of Micro and Small Businesses and small cooperatives through partnerships; (2) Maintain occupational health, safety and the environment; (3) Empowering the environment (community development);

⁵⁹ Refer to Article 67 of the Presidential Regulation 16/2018

⁶⁰ It is noteworthy that a TKDN of 100% of Offer 2 would lead to a price correction of 20% and result in a HEA of 1,920,000,000 Rp. In such a case, offer 2 would win the bid as the corrected HEA is lower than 2,000,000,000 Rp (HP=HEA of offer 1).

⁶¹ Peraturan Menteri Perindustrian 02/M-IND/PER/1/2014, Tentang Pedoman Peningkatan Penggunaan Produk Dalam Negeri Dalam Pengadaan Barang/Jasa Pemerintah

⁶² Refer to Article 66 of the Presidential Regulation 16/2018

and (4) Provide after-sales service facilitation. Thus, the use of BMP can drive attention to the social, economic and environmental elements that are not a priority when the product already fulfils the minimum requirements of 25% TKDN. For instance, procurement authorities can include the BMP mechanism as an award criterion in the tender evaluation and provide higher rating with respect to increasing BMP value.

In Indonesia, the BMP certification can be issued by the Ministry of Industry or by selected independent surveyors appointed by the Ministry of Industry (currently PT Sucofindo and PT Surveyor Indonesia).

4.5.4 Value System Evaluation including price correction due to local content (TKDN)

As the Presidential Regulation (No. 16/2018) explicitly calls upon the possibility to use a value system evaluation, in the following, a possibility to include the price preference method for local products into the above-introduced tender evaluation process using a Cost-Utility Analysis (CUA) is considered. Therefore, it is proposed to insert the corrected offer price into the value system evaluation directly as illustrated below.

Table 4-4: Example for Value System Evaluation including price correction due to local content (TKDN)

Award Criterion	Calculation Formula	Value system evaluation	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	75%	2.000.000.000	2.160.000.000	100	93	75	69
Durability	yes: 100	5%	Yes	No	100	0	5	0
	no: 0							
Life Cycle Costs (mostly Refurbishment, repair etc.)	Bid value x 100 / Max. value	20%	9.000.000	1.000.000	11	100	2	20
SUM		100%					82	89

Source: Own illustrative example. Based on Articles 39 and 67 of Presidential Regulation 16/2018.

Accordingly, if the corrected price is included into the overall value system evaluation, the inclusion of other aspects such as durability and LCC considerations will mean that tender 2 will be successful again.

4.5.5 Evaluation of Consultancy Services

Besides the evaluation of tenders for products or other services, Presidential Regulation 16/2018 lays down provisions concerning the evaluation of consultancy services. Articles 1, 27, 41 (1) and (2) refer to the consultancy services in the following manner. First, consultancy services are defined as follows:

- Art. 1: "Consultancy Service is a **professional service** that requires certain **expertise** in various scientific and prioritizes sound reasoning."

Furthermore, the necessary **types and elements** of contracts for consultancy services are specified:

- Art. 27: "Types of Contract for Procurement of Consultancy Service consist of:
 - a) **Lump Sum** [where the service is remunerated by a fix amount of money];

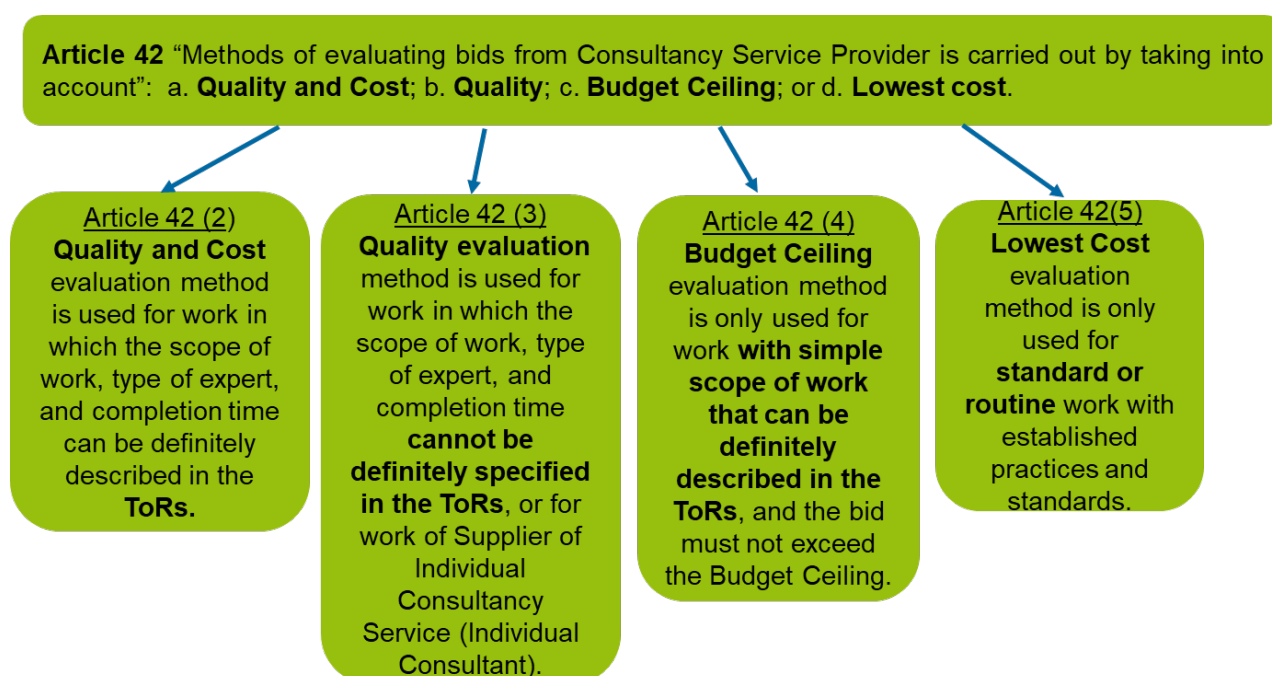
- b) **Assignment time** [defining clear time responsibilities and deadlines for the service] and
- c) **Umbrella contract** [that allows for several sub-contracts, e.g. in case that the service is divided in several work packages: in such a case an umbrella contract would allow for direct assignments under the umbrella contract instead of several contracts].

Moreover, Presidential Regulation 16/2018 defines several methods for the selection of consultancy service providers⁶³:

- a) **Method of selection** (Definition Art. 41, (2): "Selection" as referred to in paragraph (1) letter a is carried out for Consultancy Service with a **minimum value of above IDR 100,000,000.00 (one hundred million rupiah)**.
- b) **Method of direct procurement** (Definition Art. 1, (41): "Direct Procurement of Consultancy Services is a selection method for Consultancy Service Providers with a **maximum value of IDR 100,000,000.00 (one hundred million rupiah)**.
- c) **Method of direct appointment** ("by inviting 1 (one) selected business, followed by technical and price negotiations" (Art. 50, (6); this method can only be applied two times (Art. 41, (6).

Furthermore, selection methods are specified in Article 42.

Figure 4-7: Selection methods for consultancy services



Source: Own illustration based on Presidential Regulation 16/2018 (Article 42)

As illustrated in Figure 4-7, the following four evaluation methods can be used in line with Presidential Regulation 16/2018:

- a) A comparison of the **quality and costs** of a bid based on Terms of References, ToRs⁶⁴,
- b) Evaluation of the **quality** only (if the work cannot be specified within ToRs)⁶⁵,

⁶³ Refer to Article 41 (1) of the Presidential Regulation (No. 16/2018)

⁶⁴ Refer to Article 42 (2) of the Presidential Regulation (No. 16/2018)

- c) Budget **ceiling method** if the scope of work “is simple” and can be specified by ToRs⁶⁶, and
- d) **Lowest cost** evaluation method (for routine and standard work)⁶⁷.

Finally, it is important to consider how qualifications for consultancy service are to be evaluated according to Presidential Regulation 16/2018⁶⁸. Therefore, it is necessary to distinguish between cases where the qualification is evaluated before tender evaluation (as mandatory requirements, called “pre-qualification”) or within the tender selection process itself (“post qualification”).

Figure 4-8: Pre-qualification vs. Post-qualification



Source: Own illustration based on Presidential Regulation 16/2018 (Article 44).

Figure 4-5 summarizes the two possibilities for qualification of tenders, either before the evaluations (pre-qualification) or within tender evaluation (e.g. in case of individual consultancy services or using the so called “knock out method” based on mandatory requirements).

As Article 44, (6) also allows for a **weighting system** for tender evaluation including threshold qualification levels for a consultancy service provider (pre-qualification), the following simplified example shall illustrate, how such an evaluation method could look like in practice.

⁶⁵ Refer to Article 42 (3) of the Presidential Regulation (No. 16/2018)

⁶⁶ Refer to Article 42 (4) of the Presidential Regulation (No. 16/2018)

⁶⁷ Refer to Article 42 (5) of the Presidential Regulation (No. 16/2018)

⁶⁸ Refer to Article 44 of the Presidential Regulation (No. 16/2018)

Example: Example of a simplified tender evaluation for consultancy services according to ToRs, a project proposal and qualification requirements (pre-qualification) including a transparent weighting system⁶⁹

The simplified example below differentiates between **mandatory pre-selection criteria** that must be fulfilled in a first step (pre-qualification/Knock-out method) and **award criteria** for tender evaluation using a weighting system.

Example: Simplified Consultancy Tender							
Mandatory Criteria		Tender 1	Tender 2	Tender 3	Knock-out method evaluation of pre-qualification of a tender		
1 Work experience in the field >10 years		yes	yes	no			
2 At least 3 projects in the last 5 years		yes	yes	yes			
Award Criteria		Absolute Points			Weighted Points		
	Weight	Tender 1	Tender 2	Tender 3	Tender 1	Tender 2	Tender 3
1 Quality of the Proposal (max 100 points)	45%	80	95	does not qualify	36	42,75	does not qualify
2 Price (max 100 points)	45%	100	85		45	38,25	
3 Gender proportion (max 20 points)	10%	0	20		0	2	
Sum		180	200		81	83	

Weighting system with a threshold for Consultancy Service Provider
(e.g. min 80 points)

The example assumes that three tenders are received. However, as the first mandatory criteria requires work experience of min. 10 years in the field of work that cannot be fulfilled by tender 3, this tender does not qualify for further consideration (and is “knocked out”). This even holds when all tenders fulfil the second mandatory pre-qualification criteria of at least 3 proven projects in the field in question during the past five years.

Accordingly, only tender 1 and 2 qualify for tender evaluation based on the award criteria (quality of a project proposal based on the ToRs, price and gender proportion). The exemplary weighting system assigns a weight of 45% to the first award criterion (quality of the proposal), another 45% to the price of the consultancy services and finally, another 10% to gender proportion. If tender 2 receives 95 of 100 points for the quality of the proposal (award criterion 1) whereas tender 1 (slightly worse proposal) only receives 80 points of 100, the relative weight of 45% leads to 36 points for tender 1 and 42,74 points for tender 2. Assuming, furthermore, that the offer price of tender 1 is 15% cheaper than tender 2, tender 2 only receives 85 points whereas tender 1 receives full points (100, based on the least expansive bid). By weighting the received points based on the offer price, tender 1 receives 45 points and tender 2 receives 38,25 points. Finally, it is assumed that if gender proportion of the consultants is reached, another 20 points can be assigned. As tender 1 does not fulfil this criterion, 0 points are given. Tender 2, however, reaches gender proportion and earns another 20 points. However, as the relative weight of the award criterion itself is only 10%, only 2 additional points are assigned to tender 2.

The final evaluation result, however, shows that even two points can make a difference, as tender 2 wins the competitive tender with 83 points as compared to tender 1 that only received 81 points. Also, a necessary minimum threshold could be set on the total amount of points (e.g. min. 80 points, a case where both, tender 1 and 2 would have received enough points).

⁶⁹ Source: Own example based on the provisions of the Presidential Regulation 16/2018, Art. 1, 27, 41

4.6 Practical LCC-Tools for the application in Owners Estimate (OE) and tender evaluation

In order to calculate or estimate Life-Cycle Costs (LCC) in practice and for the implementation of the Owners Estimate (OE) (see section 4.4) and application in tender evaluation (see section 4.5), so-called LCC-Tools can be used. They are suitable instruments to specify and calculate Life-Cycle Costs for products of different suppliers. A commonly used template in Europe is the “Smart SPP-LCC Tool”⁷⁰. Besides, other tools were developed for specific countries and specific purposes such as:

- An LCC tool produced by the Swedish National Agency for Public Procurement:
<https://www.upphandlingsmyndigheten.se/en/subject-areas/lcc-tools/>
- LCC tool by the OnePlanet-Network:
<https://www.oneplanetnetwork.org/initiative/life-cycle-cost-tool-lcc-tool>
- Overview on LCC tools in the European Union:
https://ec.europa.eu/regional_policy/sources/good_practices/GP_fiche_28.pdf
- An LCC tool developed within the BUY SMART project:
<https://ec.europa.eu/energy/intelligent/projects/en/projects/buy-smart#results>

LCC tools typically capture important cost elements and parameters. All costs elements and parameters need to be clearly defined to ensure a meaningful and transparent comparison of offers.

An LCC tool typically includes the following elements:

- General information and basic parameters (number of products, life-span of procurement, discount rates)
- Cost
 - Initial cost of acquisition
 - Recurring and one-off costs during life-time (operating costs, maintenance costs, ...)
 - End-of-life-costs

Some of these parameters and costs relate to all products from potential suppliers (e.g. considered planning horizon, possibly handling or transaction costs) and some are specific to each product / supplier (e.g. expected life-span / durability of a product, cost of consumables).

In general, products and services can be categorized as (1) energy-using products (e.g. devices that need electricity for the operation) and (2) non-energy using products. Whereas the first are related to direct operation costs, i.e. due to electricity consumption, the latter are not associated with comparable running costs. However, also for this product category, life-cycles costs can be estimated. The most relevant factor determining the LCCs of non-energy using product is its life-time. Accordingly, criteria can be set in such a way as to make sure that low LCCs are considered.

⁷⁰ The latest version is available at <https://smart-spp.eu/index.php?id=6988>

4.6.1 Application of LCC tools for energy-using products

Generally, the LCC tools are better suited for energy-using products. In the following, a calculation example for the procurement of new lamps for a public theatre hall shall provide insights into the application of LCC tools for energy-using products.

Example: Procurement of new lamps and application of an LCC Tool for energy-using products⁷¹

A procurement officer who is responsible for a public theatre hall is entrusted with the replacement of 100 outdated very inefficient filament lamps. In general, she has the choice among three different technologies: (1) Fluorescent lamps, (2) LED-lamps and (3) Halogen lamps. After a market consultation, the officer has received the following information: For the purpose of lighting the theatre hall, 100 lamps are needed, each with a luminous flux of 800 lumen. Fluorescent lamps have a typical purchase price of 10'000 Rp/piece, a high-quality LED-lamp has a purchase price of 20'000 Rp/piece and Halogen lamps cost 4'000 Rp per piece. A typical life-time of a fluorescent lamp is 10 years, for a LED lamp it is 20 years and for a halogen lamp it is 2 years. The most energy efficient option is the LED lamp at 100 lm/W, the fluorescent lamp is related with an efficiency of 80 lm/W and the halogen lamp reaches 13 lm/W.

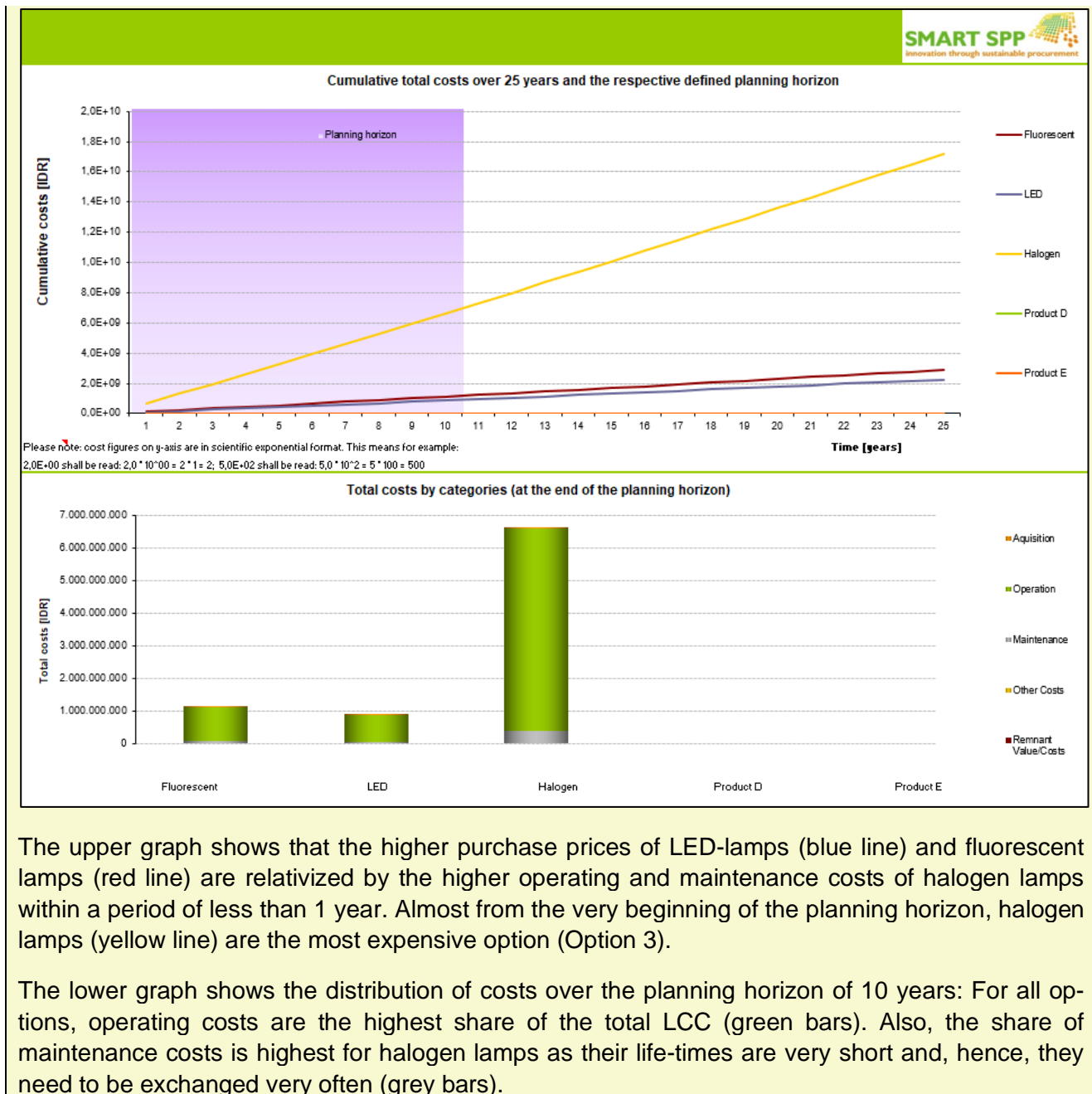
Furthermore, an exchange of all lamps once is related to maintenance costs of 800'000 Rp.

	Price per piece [IDR]	Lifetime [y]	Energy Costs per year [IDR]	Maintenance Costs per year [IDR]	LCC [10 years] per unit	Total LCC [100 units]
Fluorescent Lamp	10,000	10	1,012,043	80,000	10,930,428	1,093,042,800
LED-Lamp	20,000	20	809,634	40,000	8,516,342	851,634,240
Halogen Lamp	4,000	2	6,072,257	400,000	64,726,568	6,472,656,800

All information gathered can be inserted into the LCC Tool that calculates total LCC of each option over the defined planning horizon (here 10 years). It considers (repeating) acquisition costs (due to different life-times), operating costs (according to specific electricity costs) and maintenance costs (exchange of lamps according to different life-times). End-of life costs or other costs are not considered in this example.

Results: The results of the LCC tool show that within a planning horizon of 10 years, option 2, the LED-Lamps are the most cost-effective choice. All related costs of the 100 LED-Lamps amount up to 851'634'240 IDR, whereas option 1, fluorescent lamps, are related with LCC [10 years] of 1'093'042'800 IDR. By far the most expensive option is option 3. The 100 halogen lamps are related to LCC [10 years] of 6'472'656'000 IDR. The Smart-SPP Tool also provides the results graphically as illustrated below.

⁷¹ Source: Own example based on the Smart-SPP Tool adapted for Indonesia in 2014. The example does not consider current electricity prices.



4.6.2 Application of LCC tools for non-energy-using products

Whereas the use calculation of LCC data for energy-using products can be relatively straightforward, the case of non-energy using products is more complicated and related to some challenges. Therefore, the following case study from the UK in the context of furniture procurement shall be used for illustration.

Case-Study: Integration of LCC for office furniture in EU GPP⁷²

Generally, operating costs are not associated directly with furniture items. Subsequently, the most important factor for Life-Cycle Costs (LCC) is the life-time of the furniture item. Accordingly, it is the choice of durable and resistant materials that matters. Beyond, component parts and how materials are combined are particularly important. If these two aspects are of high quality, products can be regarded as robust while at the same time permitting easy repair or refurbishment. As special role for the calculation of LCC in this context are foreseeable costs of spare parts.

In the EU, the easiest way to ensure purchase of such a product is to require compliance with relevant EN technical standards that also include a minimum warranty. However, due to the increased risk and responsibility, extended warranties might be associated with price increases. Whether an extended warranty is attractive or not will depend on the nature of the product itself and what it is to be used for, i.e. moving parts, outdoor use etc.

For example, the typical life-time of office furniture in the UK is estimated to be 9-12 years – even if furniture might be designed for much longer function life-times. The premature End-of-Life (EoL) of office furniture is often determined by corporate decisions to redecorate or relocate offices resulting in perfectly functional furniture being disposed of for aesthetic reasons for example. In general, the need for new furniture stock in a public organisation may be due to:

- (1) New premises / staff or expansion of existing premises,
- (2) Existing furniture is not adequate after renovation of existing public buildings (for example the wrong colour, shape or size),
- (3) Existing furniture falls into disrepair (damaged furniture that is no longer safe and/or fully functional).

In the latter two cases, it would be possible to refurbish existing furniture instead of buying new products. In June 2014, the UK government published the latest version of a guidance document for furniture procurement. Anecdotal evidence states that the refurbishment of existing furniture has clear and substantial economic savings compared to the purchasing of equivalent new furniture. Concrete data is difficult to find on the actual cost savings associated with choosing furniture refurbishment. Estimated savings are 25-50% and the UK government has published the following data as an indicative guide:

Estimated average unit prices for furniture items as new, reused or refurbished:

	Desks (£)	Chairs (£)	Shelving (£)	Pedestal (£)
New Recommended Retail Price	209	122	100	107
Reused Recommended Retail Price (proxy)	105	86	50	53
Refurbished Recommended Retail Price (proxy)	84	49	40	43

Markets for good quality second-hand office furniture in the EU generally involve dealers and auctioneers while non-profit organisations are strongly involved with lower quality second-hand furniture. Neither of these types of suppliers is well set up to respond to invitations to tender.

⁷² Commission Staff Working Document: EU Green Public Procurement criteria for furniture, https://ec.europa.eu/environment/gpp/pdf/toolkit/furniture_gpp.pdf, last accessed 01.07.2020

Based on the indicative guide costs above, cost savings of up to 50% can be achieved. Finally, the biggest obstacle to growth in the furniture refurbishment sector in the EU appears to be a lack of demand. It must be borne in mind that furniture refurbishment is most attractive for high quality and expensive furniture items, such as professional office furniture, and that simple refurbishment tasks can even be carried out onsite by technicians.

Based insights in this EU case study on furniture, data on **life-time, fix annual maintenance costs, costs for spare parts, fix refurbishment costs, and/or prices for refurbished furniture** as compared to new furniture can be integrated into LCC tools. This allows for a comparison of all relevant costs and can reveal substantial cost savings. However, in practice it might be difficult to receive suitable data or estimate retail prices of re-used or refurbished products. Also, the case study from the EU shows that markets might not be ready to react to tenders for second-hand products.

This illustrates the importance of the first procurement steps of procurement planning (see section 3.1) and procurement preparation (see section 3.2) with its special focus on market consultation and the determination of the Owners Estimate (OE). In case the relevant data is available (e.g. costs for spare parts) also for non-energy using products, LCC considerations can be considered and estimated by suitable LCC tools.

4.6.3 Further parameters for more detailed LCC calculations

Ideally, LCC tools are developed and available for the specific Indonesian context and the typically procured product groups. For a more sophisticated comparison of the Life-Cycle Costs of different products, typical parameters listed in Table 4-5 can be considered. For parameters provided by suppliers, necessary means of proof need to be clearly defined as well.

Table 4-5: Core parameters for practical Life-Cycle Cost comparisons⁷³

Parameter	Definition / description	Provided by?	Means of Proof
Planning horizon	Time period over which offers shall be compared (typically 1-25 years). This corresponds to the overall time for which a product or service shall be used (could be longer than the expected life-time of a product). The longer the planning horizon the more emphasis is placed on product durability.	This is specified by the procurer	-
Currency	Currency related to the country in which the procurement takes place or the currency in which the procurement shall be administered.	This is specified by the procurer	-
Discount rate (nominal)	The factor at which future cash flows are recalculated to a "net present value". This can be incurred from applicable interest rates (e.g. for government bonds).	Procurer	National statistics

⁷³ For a comprehensive list of terms and definitions, please consult the glossary in the Smart SPP LCC tool, available at <https://smart-spp.eu/index.php?id=6988>

Parameter	Definition / description	Provided by?	Means of Proof
Inflation rate	Country-specific inflation rate to account for de-valuation of future money flows. The inflation rate is used to calculate the real discount rate (nominal discount rate minus inflation rate).	Procurer	National statistics, typically yearly change in consumer price index
Number of units to be purchased	The specific amount of a good, service or work to be procured (e.g. 10,000 pieces, 3 million kWh, 300 hours).	Procurer or supplier	-
Life-span / durability of products	The expected life-time of a product during which a specified performance is ensured.	Supplier (based on performance re-quirements and operational parameters / usage intensity provided by procurer)	e.g. through warranties provided by the supplier
Acquisition costs	Purchase price, net present value of future investment costs, installation costs, other one-off costs (e.g. training).	Supplier based on specifications by procurer	contractual obligations
Operation costs	Costs for energy, water, consumables.	Procurer or supplier (unit costs are provided by procurer or supplier, usage intensity by supplier)	e.g. contractual obligations
Maintenance costs	Costs for regular or expected maintenance checks, spare parts.	Supplier	
Resale value and disposal costs	Expected resale value if product still has a value at end-of-life. Disposal costs if product needs to be discarded, incurring costs.	Supplier or procurer	Supplier could guarantee take back of products at end-of-life at a guaranteed cost / price. This cost / price could be agreed in the contract.
Other costs	e.g. taxes		

Source: Oeko-Institut; based on User Guide for the Smart LCC Tool

In order to gather information from suppliers, two general options can be distinguished:

1. Suppliers are asked to provide very specific and clearly defined information/ costs (see section 4.4 on Procurement preparation and the determination of Owners Estimate). The information gathered from different suppliers is then entered into an LCC tool / calculation by the procurer as the basis for determining Life-Cycle Costs, and together with the other criteria for identifying the most economically advantageous tender (MEAT).
2. The LCC tool can be sent directly to potential suppliers (see section 4.3 Procurement Planning) participating in the tender process. By this, they can fill in their information directly as part of their offer. This information can then be copied from all suppliers into the common tool for the assessment.

4.6.4 Implications for an e-procurement system

As introduced in section 3.1.4, the Presidential Regulation (No. 16/2018) also provides the legal framework for an e-procurement system (SPSE).⁷⁴ Accordingly, practical implementation shall contain (1) an Electronic Catalogue, (2) an Online Store and (3) Supplier Selection.⁷⁵ Furthermore, the SPSE shall include a stepwise approach including inter alia (a) procurement planning, (b) procurement preparation, (c) supplier selection, (d) contract implementation, (e) handover of work, (f) supplier management and (g) an electronic catalogue.

Based on the elaborations on economic criteria (sections 4.1- 4.6.2), the following implications and considerations for an e-procurement system (SPSE) are derived:

- Procurement planning (as introduced in sections 3.1, 4.3 and 5.2.1) can be considered in an SPSE with regard to the definition and communication of clear **procurement needs** to the market. Furthermore, an electronic system could also be used for **market consultation**, e.g. within an online based questionnaire for companies.
- Regarding procurement preparation, from an economic point of view, an e-procurement system could also include tools for the calculation of Life-Cycle Cost (LCC) in order to determine the **Owner's Estimate (OE)** as illustrated in sections 3.2.1 and 4.4. For example, suppliers could be asked to upload information on parameters that are necessary for the calculation of LCC of goods and services (see section 4.6).
- Regarding supplier selection, award criteria can be included and communicated in an e-procurement system with regard to LCC in order to make sure that all applying companies have access in a transparent manner (see also sections 3.3 and 4.5). It is conceivable that suppliers would have to calculate LCCs of their good / service according to an online tool following precise instructions and hand in or **upload the completed tool as means of proof for the award criterion**.
- Regarding an electronic catalogue for procurement officers, the lists of suppliers and their goods / services could not only contain purchase prices, but also transparent information on the LCC of the several goods and services. LCC tools can be used to calculate the respecting LCCs, for **display in the catalogue**, but also to provide related background information such as life-times, economic break-even points in cost-effectiveness comparison (point of time when one good starts to be less expensive as compared to another) or even graphical illustrations. The inclusion of LCC graphs into an electronic catalogue can support the process of getting familiar with LCC considerations from the perspective of a procurement officer.

⁷⁴ Refer to Articles 69-73 of the Presidential Regulation (No. 16/2018)

⁷⁵ Refer to Article 70 of the Presidential Regulation (No. 16/2018)

4.7 Further reading

European Commission Buying Green Handbook (3rd edition), in particular Chapter 5.3:
<https://ec.europa.eu/environment/gpp/pdf/Buying-Green-Handbook-3rd-Edition.pdf>

User Guide for the Smart LCC Tool:

https://smart-spp.eu/fileadmin/template/projects/smart_spp/files/Guidance/Final_versions/EN_SMART_SPP_Tool_User_Guide_2011_FINAL.pdf

Smart LCC Excel Tool:

https://smart-spp.eu/fileadmin/template/projects/smart_spp/files/Guidance/Final_versions/ENG_SMART_SPP_LCC_CO2_tool_v2.1.xls

Toolbox Sustainable Procurement - A guide on how to include aspects of sustainability in public procurement procedures for Financial Cooperation projects, published by KfW: <https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Toolbox-zur-Nachhaltigen-Auftragsvergabe-EN.pdf>

A Guidelines for sustainable public procurement by UNEP:

https://www.un-page.org/files/public/3.1_spp_guidelines_.pdf

5 Social criteria in Indonesian Public Procurement

The Presidential Regulation (No. 16/2018) directly addresses social impacts of public procurement and indicates which impacts shall be supported by Indonesian public procurement, including

- **Guarantee of fair working conditions**
- **Empowerment of small businesses**
- **Empowerment of local communities / businesses,**
- **Equality**
- **Diversity⁷⁶**

Thereby, the Presidential Regulation (No. 16/2018) acknowledges the important role of public procurement regarding social impacts of goods / services. It sets a strong focus on business development in Indonesia and intends to increase the demand for products and services with a positive social impact.

5.1 Translating social impacts in procurement criteria

The following sections provide an overview of how the social impacts referenced in the Presidential Regulation (No. 16/2018) could be translated into criteria in public procurement. Furthermore, it offers guidance on how to identify additional relevant social criteria.

5.1.1 Guarantee of fair working conditions

The core conventions of the International Labour Organization (ILO) can be used to guarantee fair working conditions. The **eight ILO core conventions** (see Table 5-1) serve as a guiding principle to **avoid the most adverse abuses of human rights along the value chain**. Indonesia has ratified all eight core conventions⁷⁷, and thereby has paved the ground to abolish child and forced labour and discrimination, and to support freedom of association and collective bargaining.

⁷⁶ Refer to Article 68 (2) of the Presidential Regulation (No.16/2018)

⁷⁷ ILO Website: https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:102938, last accessed 19.05.2020

Table 5-1: The eight ILO core conventions

Number	Title
ILO No. 138	Minimum Age Convention
ILO No. 182	Worst Forms of Child Labour Convention
ILO No. 29	Forced Labour Convention
ILO No. 105	Abolition of Forced Labour Convention
ILO No. 87	Freedom of Association and Protection of the Right to Organise Convention
ILO No. 98	Right to Organise and Collective Bargaining Convention
ILO No. 111	Discrimination (Employment and Occupation) Convention
ILO No. 100	Equal Remuneration Convention

Source: International Labour Organization

Example: Practical integration of ILO core conventions⁷⁸

In all tender documents, requirements regarding fair working conditions should be defined precisely, including a direct reference to relevant ILO conventions. It is also advisable to include at least a link to the ILO website (www.ilo.org).

There are additional ILO conventions with high relevance for fair working conditions, which can be included as well (some relevant conventions are listed in Table 5-2). Depending on the product group, market readiness (see chapter 3.1.2) and priorities of the Indonesian government, compliance with additional ILO conventions can be requested right from the beginning or added at a later stage. In any case, it should be made sure that added value is provided continuously, and that re-evaluation and regular development of social criteria are co-planned from the outset.

Table 5-2: Additional ILO conventions with high relevance for social hotspots

Number	Title
ILO No. 1	Hours of Work (Industry) Convention
ILO No. 30	Hours of Work (Commerce and Offices) Convention
ILO No. 102	Social Security (Minimum Standards) Convention
ILO No. 131	Minimum Wage Fixing Convention
ILO No. 135	Workers' Representatives Convention
ILO No. 155	Occupational Safety and Health Convention
ILO No. 158	Termination of Employment Convention
ILO No. 169	Indigenous and Tribal Peoples Convention
ILO No. 170	Chemicals Convention

Source: Own compilation based on International Labour Organization

⁷⁸ WEED e.V. 2009, *Buy it fair*, <https://www2.weed-online.org/uploads/leitfaden.pdf>, last accessed 01.04.2020

Higher impact can be reached by not only requesting proof of fair working conditions by the company offering the products or services, but also by upstream suppliers.

Case Study: Integration of ILO conventions in Sweden's Public Procurement processes⁷⁹:

Since 2017, a Swedish law stipulates that ILO core conventions must be included in public contracts whenever there is a risk of violation in the supply chain.

In this context, a sustainability clause is provided to be integrated into tender documents:

"The supplier shall have procedures to ensure that offered products are produced under conditions that are compatible with:

- *The United Nations Universal Declaration of Human Rights (1948);*
- *ILO Nuclear Conventions on Forced Labor, Child Labor, Discrimination, Association*
- *Freedom and Organizational Law (Nos. 29, 87, 98, 100, 105, 111, 138 and 182);*
- *The United Nations Convention on the Rights of the Child (Article 32);*
- *The occupational safety and occupational health and safety legislation in the country of manufacture;*
- *Labor law, including minimum wage legislation, and social security protection in the country of production;*
- *Environmental protection legislation in the country of manufacture;*
- *United Nations Declaration Against Corruption.*

In cases where there is a difference between national and international regulations, the highest standard applies.

The supplier is obliged to report upon request from the customer how these requirements are met by reporting according to the attached response form. The supplier is obliged to allow the buyer to carry out on-site inspections or on-site inspections by the supplier and / or any supplier's subcontractors to ensure that the requirements are met."

5.1.2 Empowerment of small businesses

Within the Presidential Regulation (No. 16/2018), the Indonesian government sets a strong focus on the empowerment of small businesses⁸⁰. Several Articles contain specific requirements which support the participation of small businesses in practices.

Procurement packaging shall be done by setting as many packages as possible for small businesses⁸¹, and procurement packages with a certain maximum value shall be reserved for small businesses as well⁸². Furthermore, it is prohibited to centralize packages which could be offered by

⁷⁹ Ecovadis 2019, Toward Sustainable Public Procurement, <https://www.oneplanetnetwork.org/case-studies>, last accessed 19.05.2020

⁸⁰ Refer to Article 65 of the Presidential Regulation (No.16/2018)

⁸¹ Small Businesses are defined as Micro and Small Enterprises in Article 65 §1. Definitions of Micro and Small Enterprises can be found in the Presidential Regulation No 16/2018 Article 1 §45 and §46.

⁸² Refer to Article 65 (3) and (4) of the Presidential Regulation (No.16/2018)

small businesses considering their value⁸³. Moreover, the reservation and allotment of packages for small businesses is listed as one specific focus for the internal supervision of procurement processes⁸⁴ (also see chapter 3.1.3).

The focus on empowerment of small businesses offers the chance to inter alia contribute to economic development, increase local employment, access to resources and secure living conditions. Furthermore, an increased involvement of small businesses in public procurement is an important step towards market transformation. With a suitable design, future tenders can set incentives to support micro-, small- and medium-scale enterprises (MSMEs) to develop environmentally, economically and socially advantageous products and services and potentially make use of their innovation power, flexibility and growth prospects.

The targeted demand and purchase support the companies in buffering possible additional up-front costs arising from the transformation. As MSMEs make up around 99% of existing business enterprises in Indonesia, and 56 % of the GDP⁸⁵, they are key to this market transformation.

Example:

A public agency wants to pursue the strengthening of capacity of small local suppliers in providing durable furniture for their offices, in correspondence with the overall government objectives. They are establishing several elements in their procurement process to achieve this objective by specifying:

... the subject matter as: "provision of durable furniture from sustainably harvested wood" or "provision of durable furniture from locally retrieved secondary materials".

... exclusion criteria: No specific emphasis is placed on previous experience managing large contracts.

... award criteria: a concept must be included in the tender for reuse/repurposing/upcycling of product at end-of-life in the local community, weighted at 10 %.

... cost elements: Owners Estimate is given for local servicing / maintenance.

...tender evaluation: a price preference is given to goods / services with a domestic content (TKDN) of at least 25 %.

... contract performance clauses: availability of local servicing / maintenance on demand.

... a limited size in value of each contract not exceeding capacity of very small suppliers. Contract is awarded in several independently published invitations for tenders to fulfil overall demand.

Additionally, the agency decides to ensure that a range of potential small local suppliers is aware of the tendering opportunity and that ample time is provided to prepare a formal quotation.

Before specifying these criteria and requirements, they could enter into a market dialogue (as part of procurement planning – see chapter 3.1.2) to assess the existing capacity of local suppliers.

⁸³ Refer to Article 20 (2) of the Presidential Regulation (No.16/2018)

⁸⁴ Refer to Article 76 (4) of the Presidential Regulation (No.16/2018)

⁸⁵ Global Business Guide 2016, *Indonesia SMEs: Increased Government Support to Overcome Challenges*, http://www.gbgindonesia.com/en/main/why_indonesia/2016/indonesia_smes_increased_government_support_to_overcome_challenges_11603.php, last accessed 02.07.2020

In the context of small businesses participation, the Presidential Regulation (No. 16/2018) specifically supports the encouragement of creative industries⁸⁶. Creative industries are defined as those industries which produce tangible or intangible artistic and creative output, and which have a potential for income generation through the exploitation of cultural assets and the production of knowledge-based goods and services (both traditional and contemporary)⁸⁷. As most of those industries are community- or family-based, they are often small businesses as well.

5.1.3 Empowerment of local communities and businesses

The empowerment of local communities and businesses is anchored in various sections of the Presidential Regulation (No. 16/2018). In this context, the regulation makes the use of domestic products obligatory⁸⁸, defining domestic products to be designed, built and engineered in Indonesia⁸⁹. In practice, compliance can be verified by a local content (TKDN) plus Company Benefit Weight (BMP) of at least 40%⁹⁰ (see chapter 4.5.4).

Additionally, a price preference is given as incentive for the use of domestic products. Those goods / services, which have a local content (TKDN) of at least 25%, can receive a price preference of up to 25% in tender evaluation⁹¹. The price preference for construction work carried out by national businesses can be considered with up to 7.5% in tender evaluation⁹² (see chapter 4.5.4).

Additionally, foreign businesses that participate in International Tender / Selection are requested to carry out business cooperation with national businesses. Cooperation can be implemented “[...] *in the form of consortium, subcontract or other forms of cooperation.*”⁹³. Furthermore, foreign businesses “[...] *must cooperate with domestic industries that manufacture spare parts and provide after-sales services.*”⁹⁴

The empowerment of local communities and businesses is not only intended to be anchored in tender evaluation (see chapter 3.3.1), but also in pre-qualification based on the Electronic Procurement System (SPSE). The Electronic Procurement System is requested to include the management of community participation⁹⁵, thus containing another important instrument to strengthen local institutions.

5.1.4 Equality and Diversity

The request to support equality and diversity is not further specified in the Presidential Regulation (No. 16/2018). Equality could address economic or gender equality within Indonesia. Diversity could address the respect of indigenous rights. Respective criteria could aim to support local employment, reduce the risk for land conflicts and in this context request sustainably managed forest. The request for economic and gender equality is also anchored in the ILO core conventions No.

⁸⁶ Refer to Article (4) of the Presidential Regulation (No.16/2018)

⁸⁷ Definition provided by KLHK in May 2020

⁸⁸ Refer to Article 4 of the Presidential Regulation (No.16/2018)

⁸⁹ Refer to Article 66 (1) of the Presidential Regulation (No.16/2018)

⁹⁰ Refer to Article 66 (2) of the Presidential Regulation (No.16/2018)

⁹¹ Refer to Article 67 (1-4) and (6) of the Presidential Regulation (No.16/2018)

⁹² Refer to Article 67 (5), (6) of the Presidential Regulation (No.16/2018)

⁹³ Refer to Article 63 (3) of the Presidential Regulation (No.16/2018)

⁹⁴ Refer to Article 63 (4) of the Presidential Regulation (No.16/2018)

⁹⁵ Refer to Article 71 (3) of the Presidential Regulation (No.16/2018)

87,98,100 and 111 (see chapter 5.1). The freedom of association, protection of the right to organise and collective bargaining as well as equal remuneration support equality and are addressed in the ILO core conventions.

The criteria listed above constitute examples. Depending on priorities of the Indonesian government, different aspects of equality and diversity might be addressed.

Case Study: Social criteria on diversity⁹⁶

The Yvelines Department in France makes use of public procurement processes to support integration in the labour market of formerly unemployed people. A respective template for the contract performance clauses was developed, which sets a number of working hours for the duration of the contract that must be worked by the long-term unemployed. The department aims to make it compulsory to integrate formerly unemployed people in half of its public contracts by 2020.

5.1.5 Other social criteria

There are additional social impacts of products and services besides those social impacts referenced in the Presidential Regulation (No. 16/2018), such as consumer privacy, end-of-life responsibility or respect of intellectual property rights. Table 5-3 provides an overview of social aspects which could possibly be addressed in Indonesian procurement.

Table 5-3: Social impacts addressed in the Social-LCA guideline by UNEP

Freedom of Association and Collective Bargaining	Cultural Heritage
Child Labour	Safe & healthy living conditions
Fair Salary	Respect of indigenous rights
Working Hours	Community engagement
Forced Labour	Local employment
Equal opportunities/Discrimination	Secure living conditions
Health and Safety	Public commitments to sustainability issues
Social Benefits/Social Security	Contribution to economic development
Health & Safety	Prevention & mitigation of armed conflicts
Feedback Mechanism	Technology development
Consumer Privacy	Corruption
Transparency	Fair competition
End of life responsibility	Promoting social responsibility
Access to material resources	Supplier relationships
Access to immaterial resources	Respect of intellectual property rights
Delocalization and Migration	

Source: UNEP 2009; GUIDELINES FOR SOCIAL LIFE CYCLE ASSESSMENT OF PRODUCTS
<http://wedocs.unep.org/bitstream/handle/20.500.11822/7912/>

⁹⁶ Ecovadis 2019, *Toward Sustainable Public Procurement*, <https://www.oneplanetnetwork.org/case-studies>, last accessed 19.05.2020

[Guidelines%20for%20Social%20Life%20Cycle%20Assessment%20of%20Products-20094102.pdf?sequence=3&isAllowed=y](https://www.lifecycleinitiative.org/wp-content/uploads/2013/11/S-LCA_methodological_sheets_11.11.13.pdf)

Defining and verifying social criteria can be very complicated. The United Nations Environment Programme (UNEP) has developed the so-called methodological sheets for defining, measuring and verifying life-cycle based social criteria (social life-cycle assessment, s-LCA). These methodological sheets could be used especially for interpreting criteria such as equality and diversity, which are not clearly defined⁹⁷.

5.1.6 Hotspot identification

As global value chains are complex, it is not possible to address all social issues in all input materials and production steps of a product. Instead, it is recommended to initially **focus on criteria for the worst social impacts (hotspots)**. In most cases, the hotspots of a product group can be extracted from the criteria sets of labels and publications of NGOs and academic institutions working in the field of human rights. Experiences from other countries in dealing with social criteria in the procurement process can also be helpful. If those sources fail to deliver starting points for criteria development, a social hotspot analysis can be commissioned.

Example: Possible negative social impacts (hotspots) of the supply chain of wooden furniture

- Illegal logging might threaten the livelihood of indigenous people or communities
- Insufficient occupational health and safety measures might expose workers in the mill to severe risks
- Toxic chemicals might have been used, thus having negative health impacts on workers and end consumers

Aiming to include social criteria, it should be kept in mind that social hotspots, and thereby effective criteria, vary among different product groups and services. Therefore, it is **important to identify and formulate social criteria according to the specific value chains**. Although some aspects are common for numerous products and services, an individual adjustment is necessary.

Example: Products group specific hotspots

Child labour is a social hotspot in many product groups. As it is part of the ILO core conventions, abolition of child labour should be included as minimum criteria for all product groups.

On the other hand, the ILO chemicals convention No 170 is only relevant for product groups where the unsound use of chemicals represents a social risk. If unsound use of chemicals represents a social hotspot in furniture and paper production in Indonesia, this ILO convention should be referred to.

5.2 Including social criteria in the Indonesian procurement process

In principle, social criteria can be included in all five steps of the Indonesian procurement process (see chapter 3). The final choice where to include them mainly depends on (1) identified hotspots, (2) market readiness and (3) priorities.

⁹⁷ UNEP 2013, The methodological sheets for sub-categories in Social Life-cycle Assessment (s-LCA), https://www.lifecycleinitiative.org/wp-content/uploads/2013/11/S-LCA_methodological_sheets_11.11.13.pdf, last accessed 01.07.2020

Priorities are especially important to solve conflicts of interests. Conflicting objectives can exist between different social aspects (see example below).

Example: Priorities are needed to solve the conflict of interest between different social criteria

The Presidential Regulation (No. 16/2018) explicitly supports the empowerment of small businesses. If a criterion is included for suppliers to verify compliance with ILO convention No. 155 on occupational health and safety; a conflict of interests could arise if there are no small businesses which are able to verify compliance. Clear priorities are necessary to solve the conflicting objectives. Publishing the weighting in tender evaluation at the beginning can be used to communicate those priorities to suppliers in advance.

5.2.1 Procurement Planning

Social criteria should be considered from the beginning of the procurement process, including procurement planning (see chapter 3.1). It is important to take social aspects already into account throughout the following activities:

- Identification of procurement needs: Embed social impacts already in procurement needs, e.g. *“Need for furniture which protects the rights of indigenous communities”*
- Market consultation: Integrate social criteria in market consultation if compliance with targeted requirements is not known, e.g. *“Are suppliers capable of verifying compliance with additional ILO conventions exceeding core conventions?”*. Market consultation should also be used to inform suppliers about foreseen priorities of future tenders, which is why those social criteria that are planned to be included should be addressed in market consultation.
- Procurement packages: Define packages in order to support positive social impact, e.g. in suitable sizes for MSME participation (see chapter 5.1). It is also important to consider a timeframe which allows fair working conditions and hours for (small) suppliers, meaning the delivery date should allow for enough working weeks to provide the goods/services. A tight timeframe increases the risk of unfair working conditions (especially in small businesses).
- Deciding which type of procurement to use: Select a procurement procedure which allows for the consideration of social aspects, e.g. national tenders for the empowerment of local businesses. Express tenders should only be used if suppliers with suitable pre-qualifications regarding social aspects are already listed.

5.2.2 Procurement Preparation

Throughout procurement preparation (see chapter 3.2), social criteria can be integrated into the technical specifications or Terms of Reference (ToRs) of a tender:

- Subject matter: The subject matter of the tender can be used to emphasize a social focus, e.g. *“Furniture free from child labour”*. As criteria and contract performances clauses must relate to the subject matter, it is very important to include social criteria already at this stage.

Examples: Further options to integrate social criteria in the subject matter

There is evidence about highly toxic chemicals in furniture, which pose a health hazard to both industrial workers and furniture users. The following subject matter could be used to address this issue:

“Furniture free of toxic chemicals”

Furthermore, there are reports about missing occupational health and safety measures for workers on different process steps of furniture production (e.g. during logging, in the sawmill, during leather tanning). The following subject matter considers such potential unsound working conditions in the value chain and excludes them pre-emptively:

“Furniture produced under occupational health and safety standards”

Here, the ILO convention No. 155 (Occupational Safety and Health Convention) could be used as the reference in the tender document.

The exclusion or award criteria and / or contract performance clauses would then specify how the subject matter is operationalised.

- Criteria for supplier selection – exclusion and award criteria: Further social criteria can be included as minimum or exclusion criteria in pre-qualification or as award criteria resulting in extra points in tender evaluation (see chapter 4.5). Applying more ambitious social criteria as award criteria makes sense, if the market availability of respective products or services is not known. In this case, a minimum level of performance can be set in pre-qualification, and extra points for even better performance be allocated at the award stage. If it is known that labour rights or other social impacts are insufficiently guaranteed by available operators, a step-by-step implementation is recommended. In this case, very basic approaches to include social objectives can be formulated initially. These can then be expanded, specified and formulated as minimum requirements in the course of future tenders⁹⁸.

Defining social criteria for Goods and Services

Suitable exclusion and award criteria can be derived from reliable standards such as Fairtrade Standards, the SA8000 Standard or other national or international standards (see box below for few examples). In order to identify suitable criteria for the Indonesian context, it is recommended to give preference to reliable national standards or labels from comparative markets, e.g. in neighbouring countries or regions. If criteria are found to be suitable for Indonesia, international standards might be used as well. Existing social hotspot analyses might be used for prioritization and in order to decide on which social criteria should be included as minimum requirement (knock-out criteria) and which ones as award criteria (extra points). One approach could be to use certain ecolabel or fair-trade criteria as minimum requirements in the technical specifications, and then award extra points for fulfilling more ambitious ecolabel and/or fair-trade criteria. To ensure compliance with social minimum standards, effective exclusion criteria could require potential suppliers to demonstrate compliance with all applicable laws and conventions. Any information on past non-compliance could keep them from successfully bid on a public contract for a certain time.

⁹⁸ WEED e.V. 2009, *Buy it fair*, <https://www2.weed-online.org/uploads/leitfaden.pdf>, last accessed 01.04.2020

Example: Reliable standards, initiatives and guidelines for deriving social criteria

Product-Group ^α	Product-group-specific-standards, initiatives and-guidelines ^α
Textiles ^α	Fair-Wear-Foundation, Fairtrade-Cotton, Fairtrade-Textiles, Global-Organic-Textile-Standard-(GOTS), IVN-BEST ^α
Furniture ^α	Forest-Stewardships-Council-(FSC), Programme-for-the-Endorsement-of-Forest-Certification-(PEFC), Level®, IVN-Natural-Leather ^α
ICT-products ^α	Solutions-for-Hope-(SfH), ITRI-Tin-Supply-Chain-Initiative-(iTSCi), OECD-Guideleins-for-Conflict-Minerals-&-other-Resources, TCO-Certified, EPEAT-label ^α
Toys ^α	ICTI-Ethical-Toy-Program, FSC—SLIMF-Standard-(Small-or-Low-Intensity-Management-Forests), Fairtrade-Sport-Balls, Global-Organic-Latex-Standard-(GOLS), Rainforest-Alliance-CertifiedTM ^α

Source: Own compilation

Example:

Illegal logging not only has severe environmental impacts, but also threatens the livelihood of indigenous groups. For the procurement of wood-based furniture, an exclusion criterion could be established as

“The supplier must demonstrate that all wood used in the production of the furniture is or will be derived from legally managed plantations or forests and specified the source plantation(s) / forest(s).”

This could be verified during tender evaluation as a pass / fail criterion:

“Has the supplier submitted sufficient proof or assurance that all wood used in the production of the furniture is or will be derived from legally managed plantations or forests and has he specified the source plantation(s) / forest(s).” Yes [] No []

Such criterion could be further underpinned by “contract performance clauses” through which the supplier is obliged to ensure that all wood is derived from legally managed plantations or forests and that the customer (the procuring agency) has the right to undertake an independent audit at any time.

In the Indonesian context, procurement agencies can also directly use the criteria of the **SVLK (Sistem Verifikasi Legalitas Kayu)** certification system in the technical specifications for wood-based products, such as furniture, paper etc. SVLK represents Indonesia's national timber legality assurance system, which is a mandatory legality and sustainability certification system. Apart from the legality assurance, SVLK incorporates criteria on sustainable forest management and for supporting low-risk, community-based forests. Thus, the SVLK mechanism, similar to the FSC⁹⁹ certification, includes socio-economic requirements pertaining to indigenous rights, community employment, labour rights etc.

⁹⁹ Forest Stewardship Council, <https://fsc.org/en>, last accessed 11.06.2020

A possible formulation using the SVLK mechanism in the public procurement could be:

“All timber used in furniture to be supplied under the contract must comply with the requirements of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system”. (refer to the Annex for detailed examples of using the SVLK mechanism and various possibilities of means of verification).

The procuring agency can also use the criteria of the SVLK scheme as an award criterion and must decide on an appropriate weighting factor to be applied to each criterion, e.g. 20% of the overall possible score (or more to emphasise the criterion even further).

Case Study: Responsible Timber Procurement in Madrid¹⁰⁰:

In 2010, Madrid adopted a new Timber Decree for implementing procurement policies that give preference to suppliers of certified wood and at the same time a guarantee to consider social and environmental criteria. The respective technical specifications for timber-based products include environmental and social aspects:

- *“Source of forest products and use of a specific production process: Products, constructions or services that use in total or in part timber, paper or wood-based products must originate from sustainably managed forests or must come from clean production processes (reduced environmental impact related to resource consumption, emissions and waste production). For paper industry [the production process must be] ECF (Elementary Chlorine Free) or TCF (Totally Chlorine Free).*
- *Compliance with the CITES Convention on International Trade in Endangered Species of Wild Fauna and Flora.*
- *Compliance with ILO core conventions. If forest products come from non-EU countries, compliance with decent working conditions throughout the whole supply chain must be proven. This means that the eight core ILO conventions must be fulfilled.”*

Instruments to verify performance in the supply chain / means of proof

Social impacts can typically not be measured in the final product itself but relate to processes further up in the supply chain. Therefore, special attention should be paid to how tenderers' compliance claims can be verified.

In order to verify compliance with process-based social criteria, such as the payment of minimum wages, instruments like membership in reliable multi-stakeholder initiatives, independent audit reports or available certification with reliable labels can be used (see Table 5-4). Unverified self-declarations and industry self-regulatory systems should be avoided.

Respective instruments may be referenced in the technical specifications or in contract performance clauses for a procurement contract. Consumer-related impacts such as the presence of certain chemicals in the final product to which a user may be exposed may be verified by test protocols and reports from independent laboratories.

¹⁰⁰ Sustainable Timber Action, Case study series, <https://sustainable-procurement.org/case-studies/>, last accessed 19.05.2020

Table 5-4: Compilation of verification instruments

Instrument	Description
Due diligence	<p>Due diligence can be used by companies to reach a higher transparency in their supply chains and to know where risks of human rights violations are the highest. According to the OECD Guidance for Responsible Business Conduct¹⁰¹, it encompasses the process steps: (1) embed responsible business conduct into policies & management systems, (2) identify & assess risks, (3) cease, prevent or mitigate risks, (4) track, (5) communicate how impacts are addressed and (6) remediation when appropriate.</p> <p>It does not contain fixed targets for individual companies, but rather aims to create transparency in international supply chains for the companies themselves and the public.</p> <p>Companies can be required to submit evidence of appropriate due diligence and remedy processes in their supply chain.</p>
Code of conducts	<p>Code of Conducts can be either developed by industry (by individual companies or sector associations) or by a third party (by a civil society organization, government or a multi-stakeholder initiative), to which the company then subscribes. They represent a public commitment for complying with international standards. They cannot substitute for adequately enforced protection under national law but could be a first step towards eliminating abuses in production processes.</p>
Multi-Stakeholder Initiatives	<p>Multi-Stakeholder Initiatives (MSIs) comprise representatives of different interest groups, usually including businesses, trade unions, and civil society. MSIs could develop an own certification scheme, offer a support scheme including continued performance monitoring, and provide access to complaint systems for workers and verification audits (sometime for certification schemes developed by those MSIs).</p>
Certificates and Labels	<p>Certificates and Labels are typically used as third-party verification for identified hotspots. It is important to use only those schemes which are neutral and independent of the manufacturer. They should be endorsed by civil society organizations or multi-stakeholder initiatives (see above). Besides product-specific certifications such as FSC (wood) and GOTS (textiles), there are schemes which can be used for different product groups, as for example the SA8000 Standard or Fairtrade Standards. In Indonesia, the national standard SNI can be used as reference standard¹⁰².</p>
Independent audits	<p>Independent audits can be used if no suitable certificates and labels exist for the integrated social criteria. In such a case, appropriate standards and requirements for independent auditors shall be defined. For instance, a requirement could be that independent audits are performed by organizations accredited to ISO 17021¹⁰³ and conducted by SA8000, Responsible Business Alliance (RBA) or BSCI¹⁰⁴ certified auditors.</p>
Test protocols	<p>Test protocols can be used for product based social criteria, such as for the exclusion of certain chemicals in the end product. In this case, it is important to define which test methods are accepted, and in which format the result has to be presented.</p>
Self-declarations	<p>Industry self-regulatory systems have limitations in terms of their acceptance in civil society organizations. In general, third party verifications should be preferred over self-declarations.</p>

Source: Oeko-Institut

¹⁰¹ OECD 2018, *OECD Due Diligence Guidance for Responsible Business Conduct*, <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>, last accessed 05.06.2020

¹⁰² In principle, the social criteria could be added to the SNI standards for relevant products. This process can be done through SNI revision in a multi-stakeholder consultation.

¹⁰³ ISO 17021: Conformity assessment — Requirements for bodies providing audit and certification of management systems

¹⁰⁴ Business Social Compliance Initiative, <https://www.amfori.org/content/what-we-do-0>, last accessed 05.06.2020

Case study: Use of a shared supplier code of conduct in Sweden¹⁰⁵

Code of conducts are one suitable instrument to verify compliance with process-based criteria, as working conditions throughout contract execution. Since 2010, the Swedish procurement network has been using a shared code of conduct, thus supporting procurement institutions with insufficient capacities to develop individual templates.

Case study: TCO Certified Label or Electronic Industry Citizenship Coalition (EICC) membership as means of proof for socially responsible public procurement of ICT-hardware¹⁰⁶

The German Federal Ministry for Economic Cooperation and Development (BMZ) used a two-step approach in order to procure socially responsible ICT hardware. The tender included binding minimum criteria (technical specifications) and advanced criteria (award criteria). Compliance with ILO conventions and other core labour standards could be verified by:

- “A label, for example a TCO Certified label or equivalent
- An equivalent inspection report issued by an independent third party (product-specific examination of the manufacturing conditions on the basis of the required labour and social standards)
- Membership of the manufacturer in the Electronic Industry Citizenship Coalition (EICC), including the submission of all current audit reports (related to the goods to be delivered) from an independent third party in accordance with the ‘EICC Validated Audit Programme Quality Requirements’.”

Case Study: Membership in a Multi-Stakeholder Initiative as means of proof for the compliance with the ILO core conventions¹⁰⁷:

The Ministry of Labour and Social Affairs in the Czech Republic requested bidders to comply with the ILO core conventions in textile tenders. Compliances could be verified “[...] through membership of the Fair Wear Foundation (FWF) or another system for controlling working conditions along their supply chain. When an organisation joins FWF, it expresses a commitment to implementing the eight FWF labour standards in their supply chain:

- Employment is freely chosen
- There is no discrimination in employment
- No exploitation of child labour
- Freedom of association and the right to collective bargaining
- Payment of a living wage
- No excessive working hours
- Safe and healthy working conditions
- Legally binding employment relationship

¹⁰⁵ Ecovadis 2019, Toward Sustainable Public Procurement, last accessed 19.05.2020
<https://www.oneplanetnetwork.org/sites/default/files/ecovadis-public-procurement-guidelines-v6.pdf>

¹⁰⁶ European Commission 2020, Making Socially Responsible Public Procurement Work: 71 Good Practice Cases: <https://op.europa.eu/en/publication-detail/-/publication/69fc6007-a970-11ea-bb7a-01aa75ed71a1>, Accessed 02.07.2020

¹⁰⁷ European Commission 2020, Making Socially Responsible Public Procurement Work: 71 Good Practice Cases: <https://op.europa.eu/en/publication-detail/-/publication/69fc6007-a970-11ea-bb7a-01aa75ed71a1>, Accessed 02.07.2020

Bidders also had to identify the manufacturer, the brand and the place of manufacturing of each type of product. This is to allow the procurer to have some level of visibility and control over working conditions in the supply chain.”

5.2.3 Selection Process

Different methods can be used for tender evaluation (see chapter 3.3.1). A **value system evaluation allows to integrate social criteria**. The examples below show three scenarios of the integration of a social award criterion (compliance with ILO convention No 155) in a Cost-Utility Analysis.

Scenario 1: The two offers have a different price, a different quality. While offer 1 verified compliance with ILO convention No 155, offer 2 is not compliant. In this scenario, the more expensive offer with a higher quality and ILO No 155 compliance wins the bid.

Table 5-5: Social criterion included in a Cost-Utility Analysis: Scenario 1

Award Criterion	Calculation Formula	Value system evaluation	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	60%	2,400,000 Rp	2,000,000 Rp	83	100	50	60
Quality	Very good: 100 Good: 80	20%	very good	good	100	80	20	16
Compliance with additional ILO Convention No. 155	Yes: 100 No: 0	20%	Yes	No	100	0	20	0
SUM		100 %					90	76

Source: Own calculations

Scenario 2: In contrast to the first scenario, both offers have the same quality. In this scenario, the more expensive offer with additional ILO compliance again wins the bid.

Table 5-6: Social criterion included in a Cost-Utility Analysis: Scenario 2

Award Criterion	Calculation Formula	Value system evaluation	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	60%	2,400,000 Rp	2,000,000 Rp	83	100	50	60
Quality	Very good: 100 Good: 80	20%	very good	very good	100	100	20	20
Compliance with additional ILO Convention No. 155	Yes: 100 No: 0	20%	Yes	No	100	0	20	0
SUM		100 %					90	80

Source: Own calculations

Scenario 3: Compared to the first two scenarios, the weighting of the different criteria has been changed. Whereas before the offer price accounted for 60%, this share now increased to 70%. At the same time, the weighting for the social award criterion is reduced from 20% to 10%. In this scenario, the cheaper offer with no additional ILO compliance wins the bid

Table 5-7: Social criterion included in a Cost-Utility Analysis: Scenario 3

Award Criterion	Calculation Formula	Value system evaluation	Tender bid values		Awarded points (per criterion)		Weighted points	
			Offer 1	Offer 2	Offer 1	Offer 2	Offer 1	Offer 2
Offer price	Min. value x 100 / bid value	70%	2,400,000 Rp	2,000,000 Rp	83	100	58	70
Quality	Very good: 100 Good: 80	20%	very good	very good	100	100	20	20
Compliance with additional ILO Convention No. 155	Yes: 100 No: 0	10%	Yes	No	100	0	10	0
SUM		100 %					88	90

Source: Own calculations

The weighting system and social criteria has an enormous influence on the tender results and hence, should be carefully chosen. As long as the foreseen weighting is communicated transparently and in advance, tender evaluation can follow the chosen priorities and support the government's strategy.

In order to ensure equal treatment of tenderers and to avoid the submission of own vague declarations, standard templates for a tenderer's declaration should be made available. Such templates also have the advantage that they are available to potential contractors at any time as a standard document.

Example: Providing standard templates for the selection of tenderers¹⁰⁸

The tenderer commits to carry out work under decent working conditions. Furthermore, the bidder undertakes to ensure decent working conditions in his supply chain, i.e. in compliance with ILO Core Conventions 87 and 98; 29 and 105; 138 and 182; 100 and 111 and the additional ILO conventions 1 and 155 (www.ilo.org). The enclosed form must be completed as proof (see Annex).

¹⁰⁸ WEED e.V. 2009, *Buy it fair*, <https://www2.weed-online.org/uploads/leitfaden.pdf>, as of 01.04.2020

5.2.4 Contract Implementation and Handover Procedures

The compliance with social criteria is often difficult to demonstrate through certificates, declarations, code of conducts, management systems, membership in initiatives, etc. Including social criteria in exclusion and award criteria may motivate suppliers to produce a range of paperwork as evidence for compliance. However, this may still not ensure actual compliance with basic social standards. Also, some of the work in providing a product or service may not have been undertaken when a bid for a public contract is submitted.

If a risk of non-compliance with the purposes of the procurement is deemed possible, contract performance clauses may be introduced in the contractual requirements. Thus, suppliers could be contractually required to maintain specified social minimum standards, e.g. minimum wage, health and safety procedures, child labour safeguards. In the contract, possibilities for scheduled and unscheduled audits could be included and sanctions could be defined. Suppliers that implement a contract while not maintaining specified social safeguards, risk high fees, other sanctions and exclusion from future contracts. In any case, requirements must be linked to the subject matter and published in the tender call.

Case Study: Integration of social criteria in contract performance clauses in Sweden ¹⁰⁹:

In the open public tender for computer, server, printer and copier, the Swedish government integrated a Code of Conduct regarding ILO core conventions and further social criteria in the contract performance clauses.

Contractor	Stockholm
Products	Computer, server, printer, copier
Contract duration	2011-2014
Total volume	~ 1 Million €/ year
Type of tender	Open public tender
Social criteria	Requirements of the CoC covering ILO Core Conventions (29, 87, 98, 100, 105, 111, 138, 182), the Universal Declaration of Human Rights, Article 32 of the UN Convention on the Rights of the Child, UN Convention against Corruption as well as National legislation in the country of origin w.r.t work safety and workers' rights
Realization in tender	Contract Performance Clauses
Verification	Questionnaire for progress controlling & monitoring and audit (on-site)
Winner	Ricoh, Dell and Atea

¹⁰⁹ WEED e.V. 2016, *Praxisbeispiele: Sozial verantwortliche IT-Beschaffung*, https://www2.weed-online.org/uploads/praxisleitfaden_it_beschaffung_2_auflage_web.pdf, last accessed 01.07.2020

Example: Integration of social criteria in contract performance clauses

The bidder is obligated to ensure humane working conditions throughout the supply chain, i.e. in compliance with the ILO Core Conventions 87 and 98; 29 and 105; 138 and 182; 100 and 111 (www.ilo.org).

The customer can perform unscheduled audits at any time.

If the supplier fails to comply with those standards defined in the contract, a fine of xy Rp. has to be paid.

5.3 Creating the right framework conditions

As shown in the previous chapters, the Presidential Regulation (No. 16/2018) foresees the implementation of sustainable public procurement and has established appropriate framework conditions for integrating social criteria in the procurement process. As the inclusion of social criteria is just being established in Indonesia, it is necessary to minimize legal uncertainties, conduct market analysis and to establish dialogues with manufacturers. These steps are necessary to clarify the scope and feasibility of inclusion of social criteria¹¹⁰. In Indonesia, the starting conditions are good, as all eight ILO core conventions have been ratified, and aspects such as minimum wages, working hours and occupational health and safety are addressed in national laws and regulations. It is important to ensure that uncertainty about recognition and inclusion of social criteria is not passed on to suppliers. Government agencies and procurement officers should ensure that invitations to tender are very clear and deliberate about all requirements and criteria they expect to be fulfilled by a potential supplier.

5.4 Further reading

European Commission 2010, Buying Social – A Guide to taking into account of social considerations in Public Procurement: <https://op.europa.eu/en/publication-detail/-/publication/cb70c481-0e29-4040-9be2-c408cddf081f/language-en/format-PDF/source-search>

European Commission 2020, Making Socially Responsible Public Procurement Work: 71 Good Practice Cases: <https://op.europa.eu/en/publication-detail/-/publication/69fc6007-a970-11ea-bb7a-01aa75ed71a1>

ISO 260000 Social responsibility: <https://www.iso.org/iso-26000-social-responsibility.html>

Legality verification in timber supply chains, example from Indonesia: “Policy on Timber Legality Verification System for Sustainable Public Procurement and Green Products”: <https://www.researchgate.net/publication/336848481>¹¹¹

OECD Due Diligence Guideline: <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>

One Plante Network – Case studies on SPP: <https://www.oneplanetnetwork.org/case-studies>

¹¹⁰ WEED e.V. 2009, *Buy it fair*, <https://www2.weed-online.org/uploads/leitfaden.pdf>, last accessed 01.04.2020

¹¹¹ Timber Legality Verification is only suitable to prove that used wood is coming from legal sources. It is not suitable to verify a sustainable origin of wood in the course of SPP and should always be complemented with additional sustainability requirements as FSC certification.

Social Accountability International - SA8000 Standard: <http://www.sa-intl.org/index.cfm?fuseaction=Page.ViewPage&PageID=1689>

TCO Certified for Notebooks (Version 8): <https://tcocertified.com/files/certification/tco-certified-generation-8-for-notebooks.pdf>

UNEP 2009; GUIDELINES FOR SOCIAL LIFE CYCLE ASSESSMENT OF PRODUCTS
<http://wedocs.unep.org/bitstream/handle/20.500.11822/7912/-Guidelines%20for%20Social%20Life%20Cycle%20Assessment%20of%20Products-20094102.pdf?sequence=3&isAllowed=y>

UNEP 2012, Sustainable Public Procurement Implementation Guidelines:
https://www.oneplanetnetwork.org/sites/default/files/sustainable_public_procurement_implementation_guidelines.pdf

UNEP 2013, The methodological sheets for sub-categories in Social Life-cycle Assessment (s-LCA),
https://www.lifecycleinitiative.org/wp-content/uploads/2013/11/S-LCA_methodological_sheets_11.11.13.pdf

UN Guiding Principles in Business and Human Rights:
https://www.ohchr.org/documents/publications/guidingprinciplesbusinesshr_en.pdf

6 Environmental criteria in SPP

The Presidential Regulation (No. 16/2018) stipulates that public procurement shall contribute to sustainable development, of which environmental sustainability is a major component. According to the Presidential Regulation (No. 16/2018), the “*reduction of negative impacts of health, air quality, soil quality, water quality, and use of natural resources in accordance with the provisions of laws and regulations*” shall be pursued¹¹². In this way, Presidential Regulation (No. 16/2018) can clearly be seen as the instrument for supporting the Indonesian government in meeting its national and international environmental goals and commitments, such as the Paris Agreement on climate change and the Convention on Biodiversity to name a few.

Environment aspects in the public procurement are also regulated in the Ministry of Environment and Forestry Regulation No. 5/2019 concerning Procedures for the Application of Ecolabel for Procurement of Green Goods and Services (*Bahasa: Peraturan Menteri Lingkungan Hidup dan Kehutanan Republik Indonesia Nomor P.5/MENLHK/SETJEN/KUM.1/2/2019 tentang Tata Cara Penerapan Label Ramah Lingkungan Hidup Untuk Pengadaan Barang dan Jasa Ramah Lingkungan Hidup*). The Ministerial Regulation No. 5/2019 contains an appendix of the list of references for green goods and services. Currently, six product groups are listed in the appendix: photocopy paper, plastic stationery folder / file, wooden furniture, two types of medical waste processing equipment (autoclave hybrid and microwave hybrid) and air-conditioning devices (inverter and non-inverter).

6.1 Environmental impacts of procured goods and services

Goods and services may impact the environment and health in different ways along their full life-cycle. For instance, greenhouse gases are emitted during the manufacturing, transportation and use of products and components; hazardous substances and chemicals are used in products, coatings etc.; deforestation, landscape destruction and biodiversity loss occur as a result of the extraction of raw materials, such as wood, metals, cotton etc. Hence, the procurement and consumption of products and services are associated with several environment impacts such as:

- Climate change
- Ozone depletion
- Ecotoxicity for aquatic fresh water
- Human toxicity
- Acidification
- Terrestrial and aquatic eutrophication
- Resource depletion
- Land transformation
- Biodiversity loss
- Photochemical ozone formation

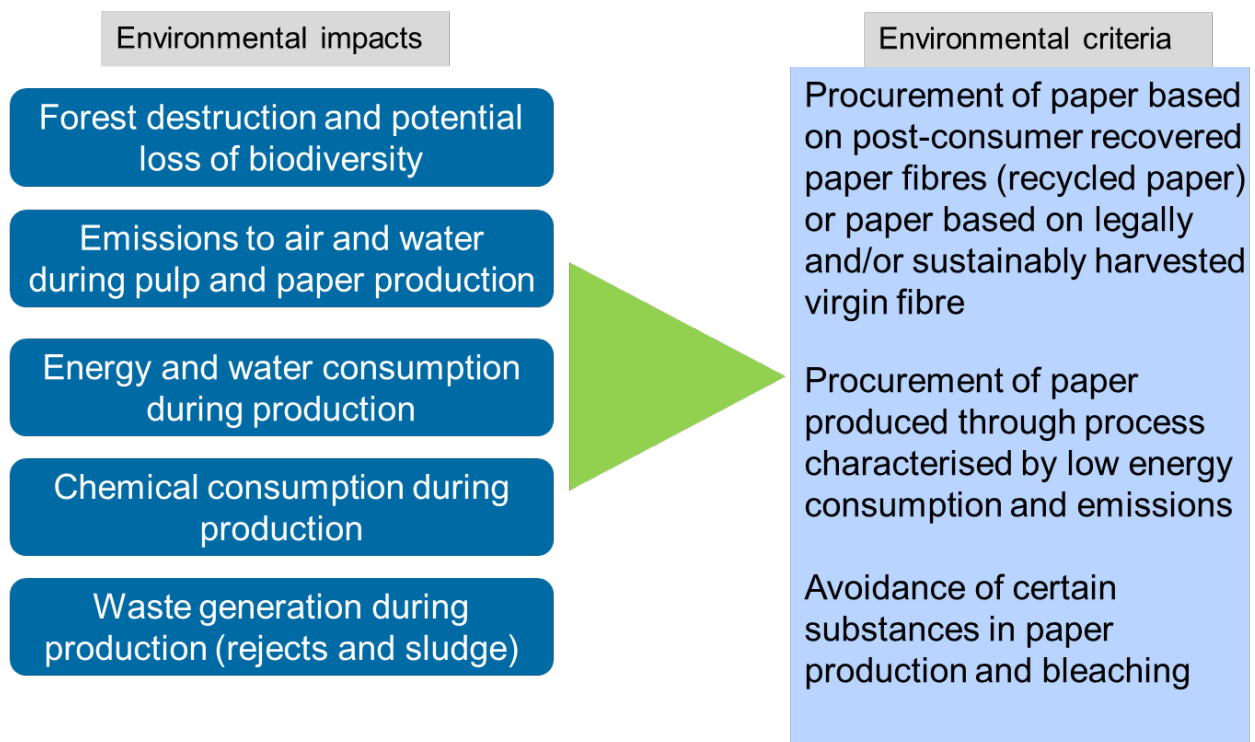
Environmental criteria in public procurement address and mitigate environmental impacts typically associated with the product or service to be procured. Criteria should be defined to implement en-

¹¹² Refer to Article 1 (50) of the Presidential Regulation (No. 16/2018)

environmental policy objectives and address the environmental “hotspots” of the product or service to be procured. Hotspots are the processes with the biggest environmental impact throughout the product life-cycle. However, the magnitude of the above-mentioned environmental impacts may vary significantly between the products and services. Some products might be highly relevant for the climate change impact (e.g. building materials, vehicles), while others are key to ecotoxicity (e.g. detergents). The environmental impacts can also be distributed evenly or unevenly over the whole life-cycle of products. For instance, climate change could be a dominant environmental impact during the manufacturing of a product (e.g. laptops), and photochemical ozone formation may be more relevant in the use-phase (e.g. paints).

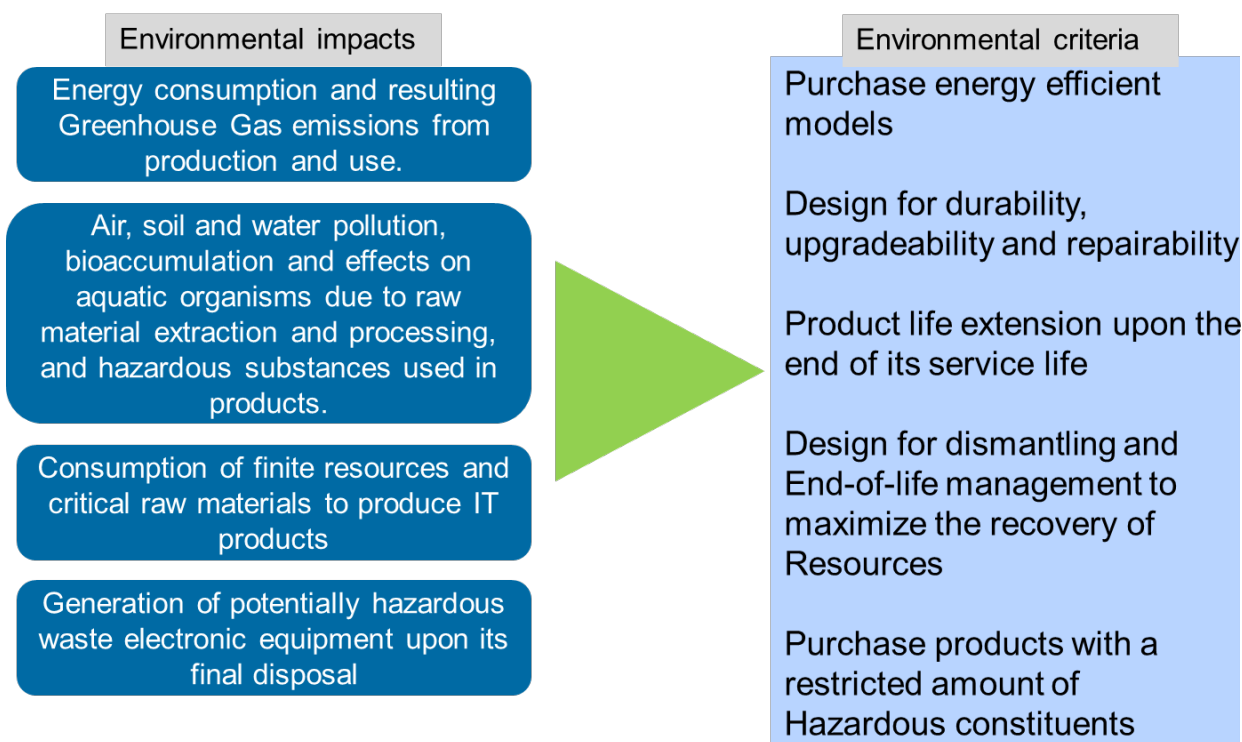
Thus, before deriving technical specifications for the procurement of environmental-friendly options, it is important to understand the specific environmental impacts associated with products and services, their distribution over the life-cycle, and which materials and processes are responsible for the respective impacts.

Figure 6-1: Example of environmental impacts and possible procurement criteria for copying & graphic paper



Source: Own Illustration ; Based on European Commission (2008): Copying & graphic paper - GPP Product Sheet; https://ec.europa.eu/environment/gpp/pdf/toolkit/paper_GPP_product_sheet.pdf; last accessed: 22.06.2020

Figure 6-2: Example of environmental impacts and possible procurement criteria for computers & monitors



Source: Own Illustration ; Based on European Commission (2008): EU GPP Criteria for Computers and Monitors, <https://ec.europa.eu/environment/gpp/pdf/toolkit/computers%20and%20monitors/EN.pdf>; last accessed: 22.06.2020

Assessing the environmental impacts of products and services is a very complex task. Generally, such assessments are conducted by experts on Life-Cycle Assessment (LCA) with a strong technical background. Subsequently, formulation of specific criteria to address the identified environmental impacts is not trivial either. Therefore, it cannot be expected from the public procurement agencies to be able to perform this task completely on their own. The public procurement agencies, in general, lack technical resources for conducting such studies themselves. In most cases, financial resources for commissioning consultancy services are not available as well.

Accordingly, the key questions from the perspective of public procurement agencies and considering the above-mentioned limitations are:

- How to integrate environmental considerations into tender procedures?
- How to consider environmental criteria during tender evaluation?
- Where to find assistance in developing environmental criteria?
- How to assess and verify environmental claims made by tenderers?

6.2 Translating environmental impacts in procurement criteria

Chapters 3, 4 and 5 have described in detail how sustainability-related considerations can be integrated at different stages of the procurement procedure into the framework of Presidential Regulation (No. 16/ 2018) in Indonesia. Therefore, the detailed explanation of a stepwise sustainable procurement approach is not repeated in this chapter, and it is recommended to consult chapters 3, 4 and 5. Like economic and social considerations, environmental aspects can be integrated at all the stages of a procurement cycle. For example, during the:

- market consultation for judging the capacity and capability of potential suppliers to deliver products and services that fulfil certain environmental standards,
- definition of procurement packages to allow small and innovative businesses focussing on environmental-friendly production technologies to participate in tenders,
- definition of the type of procurement, for instance, by applying direct procurement, express tenders or e-purchasing for suppliers offering environmental-friendly products and services
- definition of the subject matter where the scope and message can be formulated at the very beginning, for instance, by asking for the *supply of ecological and recycled paper*,
- formulation of exclusion criteria to exclude suppliers with professional misconduct in the past, including cases of non-compliance with environmental legislation,
- formulation of selection criteria as minimum environmental requirement for pre-qualification to the tendering process, for instance by asking for the evidence of environmental technical capacity, establishment of an Environment or Energy Management System etc.,
- formulation of award criteria for setting incentives for the best performers and providing extra award points during the tender evaluation,
- provision of weightage to environmental aspects in the tender evaluation phase,
- phase of contract implementation & handover procedures to include certain environmental considerations during the execution of the contract, in cases where the market does not seem to be ready for certain environmental requirements at the time of publishing the tender, and
- definition of means of verification applied by the contracting authority to check compliance, and adequate sanctions & penalties in cases of breach.

This chapter focusses on first two bullet points highlighted on the last page, i.e. where to find assistance in developing environmental criteria and how to assess and verify environmental claims made by tenderers.

6.3 Identification of environmental criteria for technical specifications

6.3.1 Type I ecolabels and other reliable environmental labels

The easiest way to define environmental criteria is to **extract the criteria from reliable environmental labels and standards** available in Indonesia. Especially, **type-I ecolabels**¹¹³ offer a very good opportunity to use their criteria for the purpose of developing technical specifications in public procurement. Type-I ecolabels develop science-based criteria considering the whole life-cycle of a product or service, address multiple key environmental and health impacts, and are awarded by an independent and unbiased third party.

Several ecolabels (not necessarily type-I ecolabels) are already present in the Indonesian market. Few examples of ecolabels in Indonesia are:

- Indonesian ecolabel (Ramah Lingkungan), managed by the Indonesian Ministry of Environment, for forest products/ paper and furniture
- Forest Stewardship Council (FSC) for forest products / paper
- Global Organic Textile Standard for textiles
- EU-Ecolabel for appliances, building products, cleaning products, forest products / paper, electronics, textiles, tourism etc.
- Green Seal for many products and services
- TCO certified for IT products

More information on the availability of ecolabels in Indonesia can be found at: <http://www.ecolabelindex.com/ecolabels/?st=country.id>.

Furthermore, the list of references for green goods and services, as presented in the appendix of the Ministerial Regulation Number 5 of 2019, is shown below (status August 2019):

¹¹³ According to ISO categorisation, environmental claims can be classified as:

Type I: Voluntary environmental labels based on a multi-criteria system which analyses the entire product life-cycle, subject to external certification by an independent body (ref.: ISO 14024)

Type II: Environmental self-declarations by manufacturers, importers or product distributors without the intervention of an independent certification board (self-declarations also include “Recyclable”, “Compostable” etc.) (ref.: ISO 14021)

Type III: Include declarations based on pre-established parameters, and which contain a quantification of the environmental impacts associated with the product life-cycle through an LCA (life-cycle assessment). They should be subject to an independent check and presented in a clear and comparable format. The International EPD “Environmental Product Declarations” system is among these (ref.: ISO 14025)

Table 6-1: Appendix, The Minister of Environment and Forestry Regulation Number 5 of 2019 concerning procedures for the application of ecolabel for the procurement of green goods and services

No.	Product category	Product	Ecolabel scheme	Criteria	Logo
1	Paper	Photocopy paper	Ecolabel Type I (MoEF)	Ecolabel Criteria are stipulated in SNI Ecolabel Criteria.	
2	Plastic	Stationary (Folder/ File)	Ecolabel Type II (MoEF)	Ecolabel claim is declared by the Manufacturer based on SNI ISO 14021:2017 Environmental label and declaration - Self-declared environmental claim (Ecolabel Type II).	 (Claim on specific environmental aspect)
3	Wood	Wood for Furniture	Timber Verification and Legality System (SVLK) (MoEF)	SVLK criteria based on: Regulation of the Director General of Sustainable Production Forest Management Number P.14/PHPL/SET/ 4/2016 on Standards and Guidelines for the Implementation of Performance Assessment of Sustainable Production Forest Management (PHPL) and Timber Legality Verification.	
4	Medical Waste Processing Equipment	Autoclave Hybrid	Green Technology Verification (MoEF)	Green Technology Verification based on: a. Green Technology Verification Scheme. b. SNI ISO 14034:2017 Environmental Management - Environmental Technology Verification.	Green Technology Registration Letter
5	Medical Waste Processing Equipment	Microwave Hybrid	Green Technology Verification (MoEF)	Green Technology Verification based on: a. Green Technology Verification Scheme. b. SNI ISO 14034:2017 Environmental Management - Environmental Technology Verification.	Green Technology Registration Letter
6	Air-Conditioning Devices (AC)	Inverter and Non-Inverter	Energy Saving Label for AC (Ministry of Energy and Mineral Resources)	Minimum Energy Performance Standard (SKEM) Criteria and Energy Saving Label based on: a. MEMR Regulation Number 57 of 2017 concerning Application of Minimum Energy Performance Standard and Inclusion of Energy Saving Label for Air Conditioning Devices. b. SNI 04 6958:2003 Household and similar electrical appliances - Energy saving label.	

Source: EKONOMI HIJAU (Green Economy), August 2019 Edition, Jakarta

It is important to know that many environmental labels and claims are present in the market. Even in the Indonesian context, many such claims may exist in the form of labels, logos and campaigns. Many companies and initiatives try to lure specific consumer groups with the projection of a green image. In many cases, reliability and seriousness of such claims cannot be judged appropriately, mostly due to a lack of transparency in the process. **From the perspective of public procurement, it is advisable not to include or accept such self-declaration claims or purely company-specific labels in the tendering process.** At the most, self-declaration can be used only in special cases in order to reduce the barriers for market access, for instance, for community-based small organizations, SMEs etc. On the other hand, self-declaration mechanism can be applied in a multi-year umbrella contract only for few initial years of contract implementation, but then shall be required to be substituted by reliable independent, third-party verification mechanisms.

As the criteria of ecolabels (especially type-I ecolabels) are based on a scientific analysis of all environmental impacts over the whole life-cycle of products and services and certification process is independent, they are ideal to be taken up completely in the technical specifications of a public procurement procedure.

Case study: Use of ecolabels in public procurement¹¹⁴

In 2015, the Korean National Health Insurance Service (NHIS) procured 3,697 indoor LED lights that carried an ecolabel. This activity led to substantial savings of electricity and costs for NHIS. According to 2015 data, the total value of ecolabelled indoor LED lights procured by public agencies in Korea amounted to 700,000 USD. The environmental benefits gained from the purchase of ecolabelled LED lights by the National Health Insurance Service in 2015 were equivalent to a total monetary value of about 50,000 USD.

According to the Green Purchasing Network Malaysia (2017), *“key success factors for this procurement were the legal mandate for all public organizations and institutions to purchase green products, the establishment of internal green procurement guidelines by the National Health Insurance Service, and the specific inclusion of LED lights in the NHIS’s energy saving action plan”*. GPP and Korea Eco-label were introduced in tandem under the Act on Development and Support of Environmental Technology of 1994. State agencies were recommended to preferentially purchase products with the Korea Eco-label. In 2005, the Act on Encouragement of Purchase of Green Products was passed, which obliged the government institutions to submit an implementation plan on green purchases of the year and the performance records of the previous year. Thus, usage of ecolabelled products was seen to be helpful in meeting this requirement.

The products and services applicable for green public procurement are defined by the Act of 2005 as:

- certified or meeting the underlying criteria set by the Korea Eco-label;
- certified or meeting the criteria of the quality certificate for recycled products (Good Recycled Mark);
- complying with other environmental criteria set by the Ministry of Environment following consultation with the relevant ministries.

According to the Act of 2005, state agencies should purchase green products and services for which the eco-label criteria exist.

¹¹⁴ Green Purchasing Network Malaysia (2017): A sampling of successes in green public procurement, Case Studies of Green Public Procurement Implementation in Asia-Pacific Countries, https://www.oneplanetnetwork.org/sites/default/files/case_studies_140317_web.pdf, last accessed: 02.07.2020

In case, criteria of the national type-I ecolabel do not exist for a certain product or service, it is recommended to derive the criteria from another type-I ecolabel, preferably from other countries in the region (e.g. Thailand, Malaysia, China, Japan, Korea, Singapore, India etc.). The reason is the similarity in the market conditions and consumer behaviour because of close inter-trade relationships. As a second resort, type-I ecolabelling schemes of other world regions such as Europe can be consulted as well. Even though criteria of ecolabelling schemes outside Indonesia may not be specific to the national or local market context, the criteria would still serve as a good basis for starting a supplier dialogue (market consultation) and adapt for the procurement technical specifications accordingly.

The website of the Global Ecolabelling Network (GEN) provides a list of (type-I) ecolabelling schemes that can be considered to be reliable and robust: <https://globalecolabelling.net/gen-members/gen-full-members-list/>

6.3.2 Focussing on most important life-cycle stages and environmental impacts

If market consultation shows that potential suppliers may not be able to fulfil all ecolabel criteria, it may be appropriate to select only those ecolabel criteria that can be fulfilled by the best performing suppliers. This means that only a part of the ecolabel criteria document can be used for deriving technical specifications. For instance, if the market seems to be ready for fulfilling the criteria related to the energy efficiency of appliances, but not yet for complying with the durability requirements, ecolabel criteria addressing energy efficiency can be included in the technical specifications.

On the other hand, focussing on key environmental impacts of products and services, and / or targeting key life-cycle stages, could also be an appropriate approach. As type-I ecolabel are multi-criteria based, seeking to reduce the overall environmental impact of products and services, their criteria generally address several environmental aspects and life-cycle stages.

Thus, depending upon the specific product or services, and on the objectives followed by the procurement process (e.g. contribution to climate change mitigation or reducing negative health impacts on human beings), it is absolutely justified to focus on one or few environmental impacts and selected life-cycle stages for defining the technical specifications.

Case Study: Public Health Wales - Reuse and remanufacture of office furnishings¹¹⁵

“When Public Health Wales (PHW) moved offices in 2016, it wanted the successful bidder to use as much of its existing office equipment, furniture and flooring as possible, as well as supplying remanufactured goods from other sources. The winning consortium of social enterprises supplied over 2,500 items, with only 6% from new stock. The circular approach diverted 41 tonnes of waste from landfill with a CO₂ saving of 134 tonnes.”

Ecolabel criteria can either be used as the minimum requirement and / or a preference (award criteria). The approach could be to use certain ecolabel criteria as minimum requirements in the specifications, and then award extra points for fulfilling more ecolabel criteria.

¹¹⁵ ICLEI Sustainable Procurement Platform, *Case studies*, <https://sustainable-procurement.org/case-studies/>, last accessed 19.05.2020

Example: Durability requirements for laptops as award criteria

Manufacturing and use-phase represent the most dominant life-cycle phases in terms of overall environmental impacts of a laptop. Only the manufacturing phase represents about 50 to 80% of the total greenhouse gas emissions of a laptop, which means that prolonging the life-span of a laptop would result in the reduction of greenhouse gas emissions¹¹⁶. Prolongation of life-span of laptops require standards and strategies for higher durability, reparability and re-use.

In the last few years, development of such strategies, often under the umbrella of a Circular Economy approach and as measures to counter planned obsolescence, have gathered pace worldwide. For instance, the so-called resource efficiency requirements that targeted the improvement of conditions for the independent repair sector in five product categories were passed in 2019 within the framework of the European Ecodesign Directive.

On the other hand, standards to measure and verify energy consumption of laptops have been widely available and developed. For instance, the Energy Star labelling scheme for energy efficient appliances, including laptops, has been implemented worldwide. Many labels have harmonized their standards with the Energy Star labelling scheme.

In case that most of the suppliers in the Indonesian context are not yet ready for implementing durability standards in a short time, it may be appropriate to set energy efficiency requirements as minimum criteria in the technical specifications, and award extra points for suppliers that can guarantee a longer life-span of laptops.

Furthermore, supplier dialogue can also be used to communicate to the market that increased durability is the key measure for reducing the environmental impacts of a laptop. Therefore, durability requirements may become minimum requirements in few years so that potential suppliers can start developing their products accordingly.

Example: Public procurement for a circular economy

As mentioned in the example above, the Circular Economy approach seeks to reverse the wastage of valuable materials and resources by breaking away from existing linear consumption and production models. Public procurement can play an important role in promoting the principles of a circular economy. In this regard, Germany revised its Circular Economy Act (Kreislaufwirtschaftsgesetz, KrWG) in 2020 and introduced the obligation to prefer resource-efficient products in the public procurement (§ 45 KrWG)¹¹⁷.

¹¹⁶ Prakash et al. (2016a): Influence of the service life of products in terms of their environmental impact: Establishing an information base and developing policies against "obsolescence", Oeko-Institut e.V. in cooperation with Friedrich-Wilhelm-Universität Bonn (2016), Commissioned by: German Federal Environment Agency (UBA), Dessau

Prakash et al. (2016b): Ecological and economical aspects in a comparison of desktop computers intended to be used by public authorities, under consideration of the user behavior, Oeko-Institut e.V. in cooperation with Technische Universität (TU) Berlin (2016), Commissioned by: German Federal Environment Agency (UBA), Dessau

Prakash et al. (2012): Timely replacement of a notebook under consideration of environmental aspects - life-cycle analysis using the data basis of the EuP preparatory study, ProBas, and Ecoinvent, Oeko-Institut e.V. in cooperation with Fraunhofer IZM (2011), Commissioned by: German Federal Environment Agency (UBA), Dessau

¹¹⁷ Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU): Neue Instrumente im Einsatz gegen Vermüllung und Ressourcenverschwendung, Website: <https://www.bmu.de/pressemitteilung/neue-instrumente-im-einsatz-gegen-vermüllung-und-ressourcenverschwendung/>; Accessed: 01.12.2020

Circular economy can also be promoted within the public procurement by using innovative approaches for reducing the number of products and amount of materials and resources purchased. Examples include application of Product-Service-Systems (PSS) in the public procurement, as the following examples shows¹¹⁸.

In 2012, the City of Zurich switched from buying (or leasing) multifunctional devices to procuring an optimised Output Management Service. Accordingly, the city paid only as per page printed and did not invest in hardware. As a result, the city was able to drastically reduce its costs as well as the amount of printed materials produced. It was calculated that the city was able to save 34% energy and 30 million pages per year.

In 2013, the City of Turin introduced a measure for its school catering contract by obliging the contractors to shift from using plastic to reusable dishes. This requirement resulted in a reduction of 157 tonnes/year of plastic waste.

Case Study: EU GPP criteria for textiles products and services¹¹⁹

The EU GPP criteria for textile products and services defined the minimum specification for cotton fibres as follows:

A minimum of 20% of the content of cotton goods used to fulfil the contract must be either:

- Organic: grown according to the requirements laid down in Regulation (EC) No 834/2007, the US National Organic Programme (NOP) or equivalent legal obligations set by trade partners of the EU; or
- Integrated Pest Management (IPM): grown according to IPM principles as defined by the UN Food and Agricultural Organisation (FAO) IPM programme or EU Directive 2009/128/EC

For award criteria, it is foreseen that points will be awarded in proportion to each 10% improvement upon the minimum technical specification of certified IPM or organic cotton.

Applying ecolabel criteria only as award criteria makes sense if market availability of such products is not clear. In such a case, minimum level of performance in the technical specifications can be defined and then extra points for meeting the ecolabel requirements at the award stage can be allocated.

In case of energy-related products,¹²⁰ usually the use phase is the most important life-cycle stage (e.g. refrigerators, heat pumps etc.), even though there are energy-related products where the environmental impacts of the production are equally or even more important (e.g. computers, televisions, printers etc.).

¹¹⁸ European Commission (2017a): Public Procurement for a Circular Economy - Good practice and guidance, https://ec.europa.eu/environment/gpp/pdf/CP_European_Commission_Brochure_webversion_small.pdf, last accessed 01.12.2020

¹¹⁹ European Commission (2017b): EU green public procurement criteria for textiles products and services, Commission Staff Working Document, SWD(2017) 231 final, <https://ec.europa.eu/environment/gpp/pdf/criteria/textiles/EN.pdf>, last accessed 02.07.2020

¹²⁰ According to the European Commission, an energy-related product is any energy-using product or energy-saving product "having an impact on energy consumption during use." European Parliament and Council (2009)

In case of non-energy products (e.g. paper products), it is often sufficient to consider the impacts only in the production phase as the environmental impacts during the use phase are often not that important or are rather assigned to other product groups. Of course, there are always exceptions, as illustrated in the example below.

Example: Focusing on key life-cycle stages¹²¹

In case of copy paper, the impacts of the 'use phase' should rather be assigned to printers or multi-functional devices. However, there may be some exceptions, as for instance paints and varnishes that can cause health hazards to human beings during the emissions in the use-phase.

In case of copy paper (non-energy product), it is usually sufficient to take the raw material acquisition and the production phase into account, as these are the main causes of the environmental impacts. Regarding the distribution and use phase, there is almost no difference between the alternatives (virgin and recycled paper), except in cases, where long-distance transportation of one of the alternatives may play a certain role.

In case of lamps (energy-related product), it is necessary to include the use phase in any case, as the differences in efficacy cause differences in energy consumption during use. Moreover, also the production phase is relevant in this case, as lamp technologies have different durability. In case of lamp technologies with a high durability, fewer lamps must be produced in the same period.

Likewise, depending on the product group and objectives, it is justified to focus on the most important impact categories and indicators. The climate crisis is surely one of the most important environmental challenges worldwide, therefore it is recommended to select the impact category addressing climate change (i.e. Global Warming Potential) in any case. In arid countries / regions, water scarcity might be a crucial issue and therefore a corresponding indicator might be chosen for the product groups.

¹²¹ Ruedenauer, I. and Prakash, S. (2019): Measuring the environmental performance of ecolabels - A guidance document for the type-I ecolabelling schemes, commissioned by the German Environment Agency (Umweltbundesamt - UBA) as part of the Environmental Research Plan (research code 3717 37 316 0)

Example: Focusing on key environmental impacts¹²²

The impact category ‘ecotoxicity’ is important for the assessment of detergents, however, less important when considering refrigerators. For refrigerators, Global Warming Potential, which addresses climate change, and cumulative energy demand, will be more appropriate.

A very good source of information is the website of the European Commission on Green Public Procurement (GPP) which provides criteria for several products and services:

https://ec.europa.eu/environment/gpp/eu_gpp_criteria_en.htm.

6.4 Verifying compliance

Environmental requirements are often complex and assessing compliance requires technical expertise. A golden rule in the public procurement is to set only those requirements that can be measured and verified in a reliable manner. There are several ways of ensuring the compliance with the requirements of the technical specifications, as also described in chapter 5.2.2.

While using Ecolabel criteria, presence of an Ecolabel certificate or alternative equivalent forms of evidence should be accepted (for instance, independent test report that criteria is fulfilled).

Case Study: Example of a verification system¹²³

The EU GPP criteria used the following verification system for the minimum energy performance of computers:

“The tenderer shall provide test reports carried out according to the test methods laid down in the latest version of the Energy Star. These shall be provided upon award of the contract or prior to that upon request.

Models that have qualified for EU Energy Star and are registered on the programme's database shall be deemed to comply. Energy Star registrations under the latest version in the USA shall also be accepted provided that testing according to European input power requirements has been carried out.

Products holding the EU Ecolabel for personal, notebook and tablet computers or another relevant Type I Ecolabel fulfilling the specified requirements will be deemed to comply.”

As it can be seen in the example above, products with type-I ecolabels can produce the ecolabel certificate as means of compliance.

However, it may be important to accept alternative and comparable forms of evidence, as is the case with the use of ecolabels in GPP in the EU. According to the European Commission (2019)¹²⁴, ecolabels may be used in public procurement, providing some conditions are met¹²⁵:

¹²² Ruedenauer, I. and Prakash, S. (2019): Measuring the environmental performance of ecolabels - A guidance document for the type-I ecolabelling schemes, commissioned by the German Environment Agency (Umweltbundesamt - UBA) as part of the Environmental Research Plan (research code 3717 37 316 0)

¹²³ European Commission (2008): EU GPP Criteria for Computers and Monitors; <https://ec.europa.eu/environment/gpp/pdf/toolkit/computers%20and%20monitors/EN.pdf>, last accessed 22.06.2020

¹²⁴ European Commission (2019): Ecolabel and Green Public Procurement, <https://ec.europa.eu/environment/ecolabel/ecolabel-and-green-public-procurement.html>, last accessed: 02.07.2020

- Procurers are not allowed to demand that a product carries an ecolabel but may only indicate that the criteria underpinning a certain ecolabel must be met and that the ecolabel may be used as one form of proof of compliance.
- Procurers may only use ecolabel criteria that refer to characteristics of the product or service itself or production processes, not those relating to the general management of the company.
- Procurers may only refer to ecolabels that meet certain requirements (the Type I or ISO 14024 ecolabels, such as the EU Ecolabel, meet these requirements).
- The requirements for the label are based on scientific evidence.
- The ecolabels are adopted with the participation of all stakeholders, such as government bodies, consumers, manufacturers, distributors and environmental organisations.
- They are accessible to all interested parties.

The Presidential Regulation (16/ 2018) emphasized that the use of Indonesian National Standard (SNI) be encouraged and SNI products be promoted¹²⁶. Therefore, wherever available and possible, relevant SNI standards shall be used for verifying the compliance with the technical specifications.

In cases, when verification through ecolabels or other standards is not possible, independent test reports from an independent third party can be required. In the medium term, it may be important to establish a list of independent testing centres eligible for third-party certification (e.g. according to ISO/EC 17025 for independent testing laboratories, ISO 17065 for bodies certifying products, processes and services or comparable standards)

6.5 Further reading

Detailed information on how **green public procurement** is implemented in the EU can be found in the *Buying Green Handbook*: https://ec.europa.eu/environment/gpp/buying_handbook_en.htm

Further information:

Indonesian National Standard (SNI): <http://sni-certification.com/>

ISO 20400 Sustainable procurement — Guidance: <https://www.iso.org/standard/63026.html>

SNI ISO 20400 Pengadaan berkelanjutan (Indonesia): <https://bsn.go.id/main/berita/detail/10138/bsn-tetapkan-sni-iso-20400-pengadaan-berkelanjutan>

One Planet Network, Sustainable Public Procurement: <https://www.oneplanetnetwork.org/sustainable-public-procurement>

EU GPP Criteria (2020): https://ec.europa.eu/environment/gpp/eu_gpp_criteria_en.htm

EU GPP Toolkit (2019): https://ec.europa.eu/environment/gpp/toolkit_en.htm

UNEP 2012: Sustainable Public Procurement Implementation Guidelines: <http://www.unep.fr/scp/procurement/docsres/ProjectInfo/UNEPImplementationGuidelines.pdf>

¹²⁵ According to the EU Procurement Directives (2004/18/EC and Directive 2004/17/EC)

¹²⁶ Refer to Articles 5, 19, 72 of the Presidential Regulation (No. 16/2018)

Green Purchasing Network Malaysia (2017): A sampling of successes in green public procurement, Case Studies of Green Public Procurement Implementation in Asia-Pacific Countries, Available: https://www.oneplanetnetwork.org/sites/default/files/case_studies_140317_web.pdf

7 Monitoring and Evaluation

Monitoring and evaluation constitute indispensable parts of the implementation of SPP policies and action plans. The implementation of SPP should be framed by a set of clear targets and goals, as for example the reduction of CO₂ equivalent emissions, the economic benefits archived through the reduction of negative environmental and social impacts and the number of jobs created. In Indonesia, the MSME share of bidders and successful suppliers, and the number of workers for which fair working conditions have been ensured, could also represent respective goals. In order to know if those goals have been reached, SPP implementation should be monitored from the beginning. The evaluation allows to identify deviations from original planning and set corrective measures. The resulting quantification of SPP impacts can, for example, be used to identify which product groups contribute the most to achieving the pre-defined objectives. This, in turn, can be used to prioritize actions and to set future targets.

As the promotion of sustainable public procurement practices is anchored in the Sustainable Development Goal 12 “*Responsible consumption and production*”, SPP monitoring is currently being addressed within the international process on SDG monitoring. Within this UN-lead process, a methodology, has been developed to monitor the SDG indicator 12.7.1 “*Number of countries implementing sustainable public procurement policies and action plans*” [SPP Index Methodology: SDG indicator 12.7.1 Version 5.0 Post IAEG – February 2020].

The methodology for this specific indicator was tested in a pilot phase in 2019 and has been published in February 2020¹²⁷. This process offers practical support and could be used as starting point to build up a monitoring and evaluation system for SPP in Indonesia. The core of the methodology is an index, which “*was developed to measure the level of implementation of SPP in a single country. The idea of the index is to assess the means dedicated to SPP policies, the level of implementation of the usual components of SPP policies and the outcomes of these policies at national, subnational or both levels. All these factors will then be combined in a single measure*”.

The index covers 8 sub-themes assessing:

- i. the existence of SPP policies and/or SPP legislation,
- ii. the efforts and means dedicated by countries towards the implementation of SPP policies (process indicators),
- iii. the outputs developed through these policies (outputs indicators) and
- iv. the results achieved by these policies (outcome indicators)

The SDG 12.7.1 index on SPP monitoring can be measured using the following formula:

¹²⁷ UNEP & One Planet Network Public Procurement Programme & 2020, *SPP Index Methodology: SDG indicator 12.7.1*, <https://www.oneplanetnetwork.org/resource/spp-index-methodology-sdg-indicator-1271>, last accessed 02.07.2020

Figure 7-1: SPP Index Methodology: SDG indicator 12.7.1

Sub-index 1 (National) : $S = A_1 \times \sum_{i=B}^F i_1 = A_1 \times \sum\{B_1 \dots F\}$

Sub-index 2 (Sub-national): $S = p \times A_2 \times \sum_{i=B}^F i_2 = A_1 \times \sum\{B_2 \dots F_2\}$

Where p is the percentage of the population living in responding sub-national entity(ies).

Sub-index 3 (National and Sub-national average): Sub-index 1 + Sub-index 2

Denoted as:	Parameter and sub-indicators	Scoring
P	Only to be used in the subnational case (sub-indicator 2 and 3). It corresponds to the percentage of the population living in the responding entities considered at sub-national level.	0-100%
A	0 means no SPP policy in place, 1 means existence of SPP action plan, policy and/or SPP regulatory requirements at national, local or both levels.	0 or 1
B	SPP regulatory framework is conducive to sustainable public procurement	Index 0 to 1
C	Practical support delivered to public procurement practitioners for the implementation of SPP.	Index 0 to 1
D	SPP purchasing criteria/ buying standards / requirements identified.	Index 0 to 1
E	Existence of an SPP monitoring system.	Index 0 to 1
F	Percentage of sustainable purchase of priority products/services.	0-100%

Source: UNEP & One Planet Network Public Procurement Programme & 2020, SPP Index Methodology: SDG indicator 12.7.1, <https://www.oneplanetnetwork.org/resource/spp-index-methodology-sdg-indicator-1271>, last accessed 02.07.2020

Additionally, the UNEP published very practical recommendations for SPP monitoring implementation at the policy level and at the management / implementation level¹²⁸. Recommendations at policy level include an enabling framework, the decision on which government level monitoring should take place, SMART objectives (Specific, Measurable, Achievable, Realistic, Robust and Time-based), the involvement of all relevant parties, ensuring leadership, clear responsibilities and the consideration of incentives. For the implementation level, a stepwise implementation cycle is suggested, consisting of the following process steps:

1. Establishing the foundation
2. Key (Performance) Indicators
3. Definition of “sustainable”
4. Data tracking and reporting
5. Piloting and deployment
6. Communication of results
7. Estimation of benefits

Further elaborations and case studies can be found in the publication chapters 2 and 4.

¹²⁸ UNEP 2016, Monitoring Sustainable Public Procurement Implementation, https://www.oneplanetnetwork.org/sites/default/files/monitoring_sustainable_public_procurement_implementation.pdf, last accessed 02.07.2020

The above-mentioned international processes can be a good starting point for the Indonesian government to start building the SPP monitoring and evaluation system. To start with, SPP monitoring and evaluation at the federal/ national level may be appropriate to gather experience with respect to data gaps, challenges and further technical requirements. Once such a system is established at the federal/ national level, SPP monitoring can be expanded to the sub-national levels, i.e. provinces, cities etc.

Case study: Annual SPP impact monitoring in Korea^{129,130}

Korea Environmental Industry & Technology Institute has developed a methodology to estimate the impacts of Green Public Procurement on the reduction of CO₂ equivalent emissions, the economic benefits achieved through the reduction of environmental impacts and the number of jobs created. Additionally, the total expenditure on green products is documented in the annual monitoring. The environmental benefits of a product group are calculated by the comparison of test results of environmental parameters between green and non-green products. The calculation of indicators inter alia considers savings related to resource circulation and energy consumption, as well as the reduction of harmful substances and waste. Further details on the developed methodology can be found in chapter 3 of the report.

As also explained under chapter 3.1.4, Korea has developed an efficient e-procurement system, which also helps in the e-monitoring of SPP. Within the system of e-monitoring, the Green Products Information System (GPIS) is linked with the electronic procurement system of the Korea Public Procurement Service (PPS) – the central public procurement agency. Thereby, records of the green purchases procured through the PPS are automatically transferred to the GPIS. It is noteworthy that if the total amount of purchase exceeds a certain threshold, the purchase is commissioned by the PPS, which makes data collection easier. In addition, the records of the green purchases made individually by the organizations are added up if the respective organizations keep track of purchase data and upload them on the GPIS. In total, it is expected that about 60% of the total GPP is covered by this system. The results are uploaded on the website & covered by the media. Key monitoring indicators for GPP are:

- number of public organizations that submit an implementation plan and performance records
- total amount of annual green procurement in economic value and units
- green standards and specifications of service and construction contracts

As instruments of Korea ecolabel and GPP are closely linked (refer to chapter 6.3; Case study: Use of ecolabels in public procurement), it was possible to track the number of products certified by the Korea Eco-label. It was found that the number of products certified by the Korea Eco-label increased by a factor of 3.8 between 2004 and 2012 and the total public expenditure in green purchases increased by a factor of 6.7 between 2004 & 2012.

The e-monitoring helped in realizing that irrespective of the existence of such a modern e-procurement and e-monitoring system, GPP only account for 5-6% of the total domestic procurement executed by the Korean Public Procurement Service.

¹²⁹ UNEP & KEITI 2019, Green Public Procurement in the Republic of Korea: A Decade of Progress and Lessons Learned, <https://www.oneplanetnetwork.org/resource/green-public-procurement-republic-korea-decade-progress-and-lessons-learned-0>, last accessed 26.06.2020

¹³⁰ OECD (2015): Going Green: Best Practices for Sustainable Procurement, https://www.oecd.org/gov/ethics/Going_Green_Best_Practices_for_Sustainable_Procurement.pdf, last accessed 02.07.2020

The Korea Environmental Industry and Technology Institute (KEITI) is operating the overall GPP system and the Korea Eco-label. The KEITI oversees collecting green procurement implementation plans from the state agencies and monitoring the results.

Case study: SPP monitoring in Sweden: A coordinated follow-up system¹³¹

The Swedish monitoring system for SPP foresees to prioritize two or three products every year. The supply chains of those products are then analyzed in detail, including (1) a self-assessment, (2) an office audit and (3) a factory audit. In this context, not necessarily all three steps are conducted. After the self-assessment has been conducted with the help of a questionnaire, the identified risk decides whether step two is taken, whose outcome decides whether a factory visit will be conducted in the country of production.

¹³¹ Ecovadis 2019, Toward Sustainable Public Procurement, <https://www.oneplanetnetwork.org/case-studies>, last accessed 19.05.2020

List of References

- Business Social Compliance Initiative: <https://www.amfori.org/content/what-we-do-0>, last accessed 05.06.2020
- Commission Staff Working Document: EU Green Public Procurement criteria for furniture, https://ec.europa.eu/environment/gpp/pdf/toolkit/furniture_gpp.pdf, last accessed 01.07.2020
- Ecovadis (2019): *Toward Sustainable Public Procurement*, <https://www.oneplanetnetwork.org/case-studies/as-of-19.05.2020>
- European Commission (2008): EU GPP Criteria for Computers and Monitors, <https://ec.europa.eu/environment/gpp/pdf/toolkit/computers%20and%20monitors/EN.pdf>, last accessed 22.06.2020
- European Commission (2017a): Public Procurement for a Circular Economy - Good practice and guidance, https://ec.europa.eu/environment/gpp/pdf/CP_European_Commission_Brochure_webversion_small.pdf, last accessed 01.12.2020
- European Commission (2017b): EU green public procurement criteria for textiles products and services, Commission Staff Working Document, SWD(2017) 231 final, <https://ec.europa.eu/environment/gpp/pdf/criteria/textiles/EN.pdf>, last accessed 02.07.2020
- European Commission (2018): EU GPP criteria for indoor cleaning services, Commission Staff Working Document, SWD(2018) 443 final, https://ec.europa.eu/environment/gpp/pdf/toolkit/cleaning_product/en.pdf, last accessed 29.06.2020
- European Commission (2019): Ecolabel and Green Public Procurement, <https://ec.europa.eu/environment/ecolabel/ecolabel-and-green-public-procurement.html>, last accessed: 02.07.2020
- European Commission (2020): Making Socially Responsible Public Procurement Work: 71 Good Practice Cases: <https://op.europa.eu/en/publication-detail/-/publication/69fc6007-a970-11ea-bb7a-01aa75ed71a1>, last accessed 02.07.2020
- European Commission (n.d.): EU GPP Toolkit; https://ec.europa.eu/environment/gpp/toolkit_en.htm
- European Union (2011): Buying green! A handbook on green public procurement, 2nd Edition, https://ec.europa.eu/environment/archives/gpp/buying_green_handbook_2011_en.pdf, last accessed: 29.06.2020
- European Union (2016): Buying Green Handbook: A handbook on green public procurement, 3rd Edition, https://ec.europa.eu/environment/gpp/buying_handbook_en.htm, last accessed 29.06.2020
- Fairtrade Deutschland; https://www.fairtrade-deutschland.de/fileadmin/DE/01_was_ist_fairtrade/03_standards/fairtrade_textilstandard_englisch.pdf, last accessed 11.06.2020
- Forest Stewardship Council, <https://fsc.org/en>, last accessed 11.06.2020
- GHK/Ecorys/pwc (2014) on behalf of the EU DG Internal market and Services, <https://op.europa.eu/en/publication-detail/-/publication/c0681db7-e56e-11e5-8a50-01aa75ed71a1>

- Global Business Guide 2016, *Indonesia SMEs: Increased Government Support to Overcome Challenges*, http://www.gbgindonesia.com/en/main/why_indonesia/2016/indonesia_smes_increased_government_support_to_overcome_challenges_11603.php, last accessed 02.07.2020
- Global Organic Textile Standard; <https://www.global-standard.org> as of 11.06.2020
- Green Purchasing Network Malaysia (2017): A sampling of successes in green public procurement, Case Studies of Green Public Procurement Implementation in Asia-Pacific Countries, https://www.oneplanetnetwork.org/sites/default/files/case_studies_140317_web.pdf, last accessed: 02.07.2020
- ICLEI Sustainable Procurement Platform(n.d.): *Case studies*, <https://sustainable-procurement.org/case-studies/>, last accessed 19.05.2020
- ILO Website (n.d.): https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11200:0::NO::P11200_COUNTRY_ID:102938, last accessed 19.05.2020
- ISO 17021: Conformity assessment — Requirements for bodies providing audit and certification of management systems
- LUBW (2014): Nachhaltige Arbeitskleidung, Den fairen Faden aufnehmen - Wegweiser für eine nachhaltige Beschaffung von Arbeitskleidung, Ministerium für Umwelt, Klima und Energiewirtschaft Baden-Württemberg und Landesanstalt für Umwelt, Messungen und Naturschutz Baden-Württemberg, Stuttgart
- Ministerium für Umwelt, Klima und Energiewirtschaft Baden-Wuerttemberg, LUBW (2014), Nachhaltige Beschaffung konkret: <https://www.lubw.baden-wuerttemberg.de/documents/10184/147663/Nachhaltige+Beschaffung+konkret+2017.pdf/aa413776-352c-4167-a7e7-5448be7ca817>, last accessed 11.06.2020
- OECD (2015): Going Green: Best Practices for Sustainable Procurement, https://www.oecd.org/gov/ethics/Going_Green_Best_Practices_for_Sustainable_Procurement.pdf, last accessed 02.07.2020
- OECD (2016): The Korean Public Procurement Service: Innovating for Effectiveness, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264249431-en>, last accessed 29.06.2020
- OECD 2018, *OECD Due Diligence Guidance for Responsible Business Conduct*, <https://mneguidelines.oecd.org/OECD-Due-Diligence-Guidance-for-Responsible-Business-Conduct.pdf>, as of 05.06.2020
- Prakash et al. (2012): Timely replacement of a notebook under consideration of environmental
- Prakash et al. (2016a): Influence of the service life of products in terms of their environmental impact: Establishing an information base and developing policies against “obsolescence”, Oeko-Institut e.V. in cooperation with Friedrich-Wilhelm-Universität Bonn (2016), Commissioned by: German Federal Environment Agency (UBA), Dessau
- Prakash et al. (2016b): Ecological and economical aspects in a comparison of desktop computers intended to be used by public authorities, under consideration of the user behavior, Oeko-Institut e.V. in cooperation with Technische Universität (TU) Berlin (2016), Commissioned by: German Federal Environment Agency (UBA), Dessau

Presidential regulation of the Republic of Indonesia Number 16 of 2018 concerning Government Procurement of Goods/Services, (Presidential Decree No 16/2018)

Presidential Regulation Nr. 9/2018:
<https://www.informea.org/sites/default/files/legislation/Pres%20Reg%209%202018%20%28Procedures%20Controlling%20Imports%20Fisheries%20Commodities%20Salt%20Raw%20Materials%29.pdf> (in Indonesian language)

ProBas, Ecoinvent, Oeko-Institut e.V. in cooperation with Fraunhofer IZM (2011): aspects - life-cycle analysis using the data basis of the EuP preparatory study, Commissioned by: German Federal Environment Agency (UBA), Dessau

Public Procurement Service – KONEPS(n.d.): <https://www.pps.go.kr/eng/jsp/koneps/overview.eng>, last accessed 26.06.2020

Ruedenauer, I. and Prakash, S. (2019): Measuring the environmental performance of ecolabels - A guidance document for the type-I ecolabelling schemes, commissioned by the German Environment Agency (Umweltbundesamt - UBA) as part of the Environmental Research Plan (research code 3717 37 316 0)

Sustainable Timber Action(n.d.): Case study series, <https://sustainable-procurement.org/case-studies/>, last accessed 19.05.2020

UNEP (2009): GUIDELINES FOR SOCIAL LIFE CYCLE ASSESSMENT OF PRODUCTS
<http://wedocs.unep.org/bitstream/handle/20.500.11822/7912/-Guidelines%20for%20Social%20Life%20Cycle%20Assessment%20of%20Products-20094102.pdf?sequence=3&isAllowed=y> as of 15.06.2020

UNEP (2013): The methodological sheets for sub-categories in Social Life-cycle Assessment (s-LCA)
https://www.lifecycleinitiative.org/wp-content/uploads/2013/11/S-LCA_methodological_sheets_11.11.13.pdf, last accessed 01.07.2020

UNEP (2016): Monitoring Sustainable Public Procurement Implementation,
https://www.oneplanetnetwork.org/sites/default/files/monitoring_sustainable_public_procurement_implementation.pdf, last accessed 02.07.2020

UNEP & KEITI (2019): *Green Public Procurement in the Republic of Korea: A Decade of Progress and Lessons Learned*, <https://www.oneplanetnetwork.org/resource/green-public-procurement-republic-korea-decade-progress-and-lessons-learned-0>, last accessed 26.06.2020

UNEP & One Planet Network Public Procurement Programme (2020): *SPP Index Methodology: SDG indicator 12.7.1*, <https://www.oneplanetnetwork.org/resource/spp-index-methodology-sdg-indicator-1271>, last accessed 02.07.2020

Vasuvat, K. (30.06.2020 and 01.07.2020), GIZ-Thailand: E-Mail:

WEED e.V. (2009): *Buy it fair*, <https://www2.weed-online.org/uploads/leitfaden.pdf>, last accessed 01.04.2020

WEED e.V. (2016): *Praxisbeispiele: Sozial verantwortliche IT-Beschaffung*, https://www2.weed-online.org/uploads/praxisleitfaden_it_beschaffung_2_aufgabe_web.pdf, last accessed 01.07.2020

Annex

The annex contains the proposal for the SPP criteria on wooden furniture and photocopy paper. The proposal was prepared by a technical core team that was led by the Oeko-Institut and comprised of experts and practitioners on public procurement in Indonesia. The technical core team was established after the completion of the online training module for SPP implementation.

7.1 Proposal for the SPP criteria on Photocopy Paper

7.1.1 Subject Matter

- Purchase of sustainable photocopy paper, or
- Purchase of photocopy paper produced in an environmental-friendly and socially responsible manner, or
- Purchase of photocopy paper fulfilling environmental, social and economic criteria

7.1.2 Definition and Scope

The definition and scope of the product group “photocopy paper” is in accordance with the SNI 7188.1.3:2016 [Criteria of ecolabel - Part 1: Category of paper product - Section 3: Uncoated paper and multi-purpose paper]

7.1.3 Technical Specification

Minimum Criteria

The photocopy paper to be supplied under the contract must comply with the requirements of the following schemes:

- SVLK (Sistem Verifikasi Legalitas Kayu)
- SNI 7188.1.3:2016 [Criteria of ecolabel - Part 1: Category of paper product - Section 3: Uncoated paper and multi-purpose paper]
- Gramasi should be 70 GSM

Award Criteria

- (1) Using the value system evaluation method, as also prescribed in the Article 39 (1) of the Presidential Regulation (No. 16/2018), higher rating will be awarded in accordance with the increasing share of wastepaper/ recycled paper (percentage of weight) in the procured product. Thereby, the applicant or its raw material supplier or its other direct supplier provides a written statement and documentation regarding the source of wastepaper/ recycled paper used. The procuring entity reserves the right to ask for a confirmation by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on wastepaper/ recycled paper shall also be accepted as the means of verification in this case.

(2) The Higher Company Benefit Weight (BMP - Bobot Manfaat Perusahaan)¹³², the higher the rating that will be awarded. The applicant shall declare the value of BMP. Compliance can be verified in **one** of the following ways:

- a. The BMP¹³³ Certificate for product purchased from Ministry of Industry, or
- b. BMP Audit/Verification report from an independent surveyor that confirms BMP score for the product purchased.

The higher the BMP, the higher the weight, the higher the technical value of the offer evaluated by the tender officer or given a reward through a performance appraisal in the vendor management system by the user / PPK.

7.1.4 Verification

The applicant shall declare compliance with the requirements of the SVLK (Sistem Verifikasi Legalitas Kayu) **and** SNI 7188.1.3:2016 [Criteria of ecolabel - Part 1: Category of paper product - Section 3: Uncoated paper and multi-purpose paper]. Compliance can be verified in **one** of the following ways:

- Product to be purchased bears official logos of the SVLK (Sistem Verifikasi Legalitas Kayu) **and** the Ecolabel certification (SNI 7188.1.3:2016) on the product packaging, or
- Product to be purchased and the applicant or its raw material supplier or its other direct supplier are visible on the following lists of the Ministry of Environment and Forestry (MoEF) at the time of tender application:
 - o List of ecolabelled green products (SNI 7188.1.3:2016)¹³⁴
 - o List of SVLK-certified companies¹³⁵
- The Applicant or its raw material supplier or its other direct supplier is listed as such on the official common list¹³⁶ of the Ministry of Environment and Forestry (MoEF), showing the compliance with the SVLK-certification² for the purchased product as well as Ecolabel certification (SNI 7188.1.3:2016)¹ and , or
- Audit report from an external, independent certification body that confirms the compliance of applicants or it's raw material supplier or it's other supplier with the requirements of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system as well as Ecolabel certification (SNI 7188.1.3:2016). The certification body should be accredited by the National Accreditation Committee (KAN).

¹³² [Peraturan Menteri Perindustrian 02/M-IND/PER/1/2014, Tentang Pedoman Peningkatan Penggunaan Produk Dalam Negeri Dalam Pengadaan Barang/Jasa Pemerintah](#)

¹³³ Peraturan Menteri Perindustrian Republik Indonesia Nomor 15/M-IND/Per/2/2011 Tentang Pedoman Penggunaan Produk Dalam Negeri Dalam Pengadaan Barang/Jasa Pemerintah

¹³⁴ http://standardisasi.menlhk.go.id/wp-content/uploads/2016/04/Daftar-Produk-Tipe-I_Ed-15-april-2020.pdf

¹³⁵ <http://silk.depht.go.id/index.php/info/iuiphk>

¹³⁶ This list does not exist yet. Currently, there are two lists: 1 for SVLK, and 1 for ecolabelled green products. The possibility to combine the two lists in a way that products complying with both requirements are visible needs to be discussed with the MoEF.

For Gramasi, the tenderer shall submit a written statement confirming the compliance with the Gramasi 70 GSM criteria.

The applicant or its raw material supplier or its other direct supplier is exempted from the SVLK certification if the photocopy paper is produced from 100% wastepaper/ recycled paper¹³⁷. In this case, the Ecolabel certification (SNI 7188.1.3:2016) is sufficient as the only means of verification. The applicant or its raw material supplier or its other direct supplier shall provide a written statement and documentation regarding the source of wastepaper/ recycled paper used. The procuring entity reserves the right to ask for a confirmation by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on 100% wastepaper/ recycled paper shall also be accepted as the means of compliance in this case.

7.1.5 Proposals for Contract Implementation

Please find below few proposals for the Contract Implementation phase. Procuring entities may change, adapt and combine the suggestions according to their own needs.

Proposal 1

- In the draft contract, the User determines a long-term contract of minimum 1-year period.
- In the clause of the quality control procedures for the handover of goods, contractor must meet the criteria for delivery of goods in accordance with the SVLK (Timber Legality Verification System) and Ecolabel certification (SNI 7188.1.3: 2016) and all other criteria stipulated in the contract.
- In the draft contract and tender requirements, medium and large businesses are required to partner with micro and small businesses as sub-providers to support the fulfilment of service level agreement which is minor items in the implementation of work. (for example: shipping, packing and other services).
- In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact not to employ minors and provide wages in accordance with applicable regulations (UMP / UMR). If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations.
- Alternative (1) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the ILO conventions, which are:
 - o Freedom of Association and Protection of the Right to Organise Convention (C087)
 - o Right to Organise and Collective Bargaining Convention (C098)
 - o Forced Labour Convention (C029)

¹³⁷ Wastepaper / recycled paper includes both post-consumer recycled fibres and pre-consumer recycled fibres from paper mills, also known as broke. Post-consumer recycled fibres may come from consumers, offices, printing houses, bookbinders, or similar

- Abolition of Forced Labour Convention (C105)
- Minimum Age Convention (C138)
- Worst Forms of Child Labour Convention (C182)
- Equal Remuneration Convention (C100)
- Discrimination (Employment and Occupation) Convention (C111)
- Minimum Wage Fixing Convention (C131)

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. SA8000, FSC etc.) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- Alternative (2) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the national regulations on following social issues:
 - Freedom of Association, Right to Organise & Collective Bargaining
 - Forced Labour
 - Child Labour
 - Equal Remuneration
 - Discrimination (Employment and Occupation)
 - Minimum Wage

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- In the event that a provider fails to fulfil the obligation to deliver goods according to the SVLK (Timber Legality Verification System) criteria and Ecolabel certification (SNI 7188.1.3: 2016) and all other criteria stipulated in the contract, the contractor must be willing to replace or bear all product replacement costs, in accordance with criteria in the contract, which is carried out by users to other providers. Failure to do so will result in a fine of x% of the total contract (excluding additional administrative costs associated with implementing sanctions procedures) and/or being excluded from the list of providers (vendor

management system or framework agreement) or blacklisting sanctions prohibiting from being appointed as future government provider as long as x years.

- At the end of the contract, the user is obliged to provide a performance certificate to the supplier with objective assessment criteria during contract execution, as agreed in the contract. Example: For suppliers that have shown the best performance based on compliance assessment and improvement from User/PPK, in achieving the SPP criteria, they will get performance certification and facilitated to increase product certification and business entity registration¹³⁸.

Proposal 2

- In the draft contract, the User determines a long-term contract of minimum 1-year period.
- Micro, Small and Medium-Scale Enterprises can, on written official request, be exempted from providing the verification documents at the time of tender application, if they declare the compliance with the requirements, but are unable to produce the required documents during the tendering process. In such a case, the Micro, Small and Medium-Scale Enterprises **may be** required by the procuring entity to submit an audit report of an external, independent certification body accredited by the National Accreditation Committee (KAN) describing the current performance of the procured product with respect to each criterion of the SVLK (Sistem Verifikasi Legalitas Kayu) and the Ecolabel certification (SNI 7188.1.3:2016) within x months from the date of provision of the contract.
- Subsequently, Micro, Small and Medium-Scale Enterprises are obliged to submit a Corrective Action Plan after x+y months from the date of provision of the contract showing how and when they will fulfil all the criteria of the above-mentioned certification schemes.
- In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact not to employ minors and provide wages in accordance with applicable regulations (UMP / UMR). If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations,
- Alternative (1) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the ILO conventions, which are:
 - o Freedom of Association and Protection of the Right to Organise Convention (C087)
 - o Right to Organise and Collective Bargaining Convention (C098)
 - o Forced Labour Convention (C029)
 - o Abolition of Forced Labour Convention (C105)
 - o Minimum Age Convention (C138)
 - o Worst Forms of Child Labour Convention (C182)

¹³⁸ Not practiced yet in Indonesia. Use of performance-based incentives needs to be developed.

- Equal Remuneration Convention (C100)
- Discrimination (Employment and Occupation) Convention (C111)
- Minimum Wage Fixing Convention (C131)

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. SA8000, FSC etc.) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- Alternative (2) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the national regulations on following social issues:
 - Freedom of Association, Right to Organise & Collective Bargaining
 - Forced Labour
 - Child Labour
 - Equal Remuneration
 - Discrimination (Employment and Occupation)
 - Minimum Wage

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- Micro, Small and Medium-Scale Enterprises are obliged to submit all necessary verification documents showing compliance with the criteria of the above-mentioned schemes latest by x+y+z months from the date of provision of the contract. Failure to do so will result in a penalty of abc% against the total tender value (excluding additional administrative costs related to executing the sanction procedure) and/or exclusion from the list of providers (vendor management system or framework agreement) or blacklisting sanctions prohibiting from being appointed as future government provider as long as d years.
- At the end of the contract, the user is obliged to provide a performance certificate to the supplier with objective assessment criteria during contract execution, as agreed in the contract. Example: For suppliers that have shown the best performance based on compliance assessment and improvement from User/PPK, in achieving the SPP criteria, they will get

performance certification and facilitated to increase product certification and business entity registration¹³⁹

Proposal 3

- In the draft contract, the User determines a long-term contract of minimum 1-year period.
- Micro, Small and Medium-Scale Enterprises can, on written official request, be exempted from providing the verification documents at the time of tender application, if they declare the compliance with the requirements, but are unable to produce the required documents during the tendering process.
- In such a case, the contracting authority is entitled to carry out random verification tests at any time during the term of the contract by commissioning an external, independent certification body, accredited by the National Accreditation Committee (KAN). If the results of the independent verification show that the delivered products do not comply with the requirements, the contracting authority shall then apply penalties (tbd) and reserves the right to terminate the contract. If the product is found to comply with the requirements during the spot-check, the testing costs will borne by the contracting authority; but if the requirements are not met, the costs have to be borne by the contractor.
- In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact not to employ minors and provide wages in accordance with applicable regulations (UMP / UMR). If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations,
- Alternative (1) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the ILO conventions, which are:
 - o Freedom of Association and Protection of the Right to Organise Convention (C087)
 - o Right to Organise and Collective Bargaining Convention (C098)
 - o Forced Labour Convention (C029)
 - o Abolition of Forced Labour Convention (C105)
 - o Minimum Age Convention (C138)
 - o Worst Forms of Child Labour Convention (C182)
 - o Equal Remuneration Convention (C100)
 - o Discrimination (Employment and Occupation) Convention (C111)
 - o Minimum Wage Fixing Convention (C131)

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any

¹³⁹ Not practiced yet in Indonesia. Use of performance-based incentives needs to be developed.

other equivalent, third-party certification (e.g. SA8000, FSC etc.) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- Alternative (2) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the national regulations on following social issues:
 - o Freedom of Association, Right to Organise & Collective Bargaining
 - o Forced Labour
 - o Child Labour
 - o Equal Remuneration
 - o Discrimination (Employment and Occupation)
 - o Minimum Wage

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- At the end of the contract, the user is obliged to provide a performance certificate to the supplier with objective assessment criteria during contract execution, as agreed in the contract. Example: For suppliers that have shown the best performance based on compliance assessment and improvement from User/PPK, in achieving the SPP criteria, they will get performance certification and facilitated to increase product certification and business entity registration¹⁴⁰

7.2 Proposal for the SPP criteria on Wooden Furniture

7.2.1 Subject Matter

- Purchase of sustainable wooden furniture
- Purchase of environmental-friendly and socially responsible wooden furniture
- Purchase of wooden furniture fulfilling environment, social and economic criteria

¹⁴⁰ Not practiced yet in Indonesia. Use of performance-based incentives needs to be developed.

7.2.2 Definition and Scope

The purchased “wooden furniture” should be made from timber and timber products falling in the scope of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system. The scope of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system refers to the Harmonised Commodity Description and Coding System established by the International Convention on the Harmonised Commodity Description and Coding System of the World Customs Union as described in Peraturan Menteri Perdagangan Republik Indonesia Nomor 74 tahun 2020¹⁴¹ Lampiran 1 nomor 282 until 290.

7.2.3 Technical Specification

Minimum Criteria

All timber used in furniture to be supplied under the contract must comply with the requirements of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system.

Award Criteria

The Higher Company Benefit Weight (BMP) ¹⁴² the higher the rating that will be awarded.

7.2.4 Verification

Minimum Criteria Verification:

The applicant shall declare compliance with the requirement of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system. Compliance can be verified in **one** of the following ways:

- Applicant or it's raw material supplier or it's other direct supplier is SVLK-certified for the purchased product and is listed as such on the website of the Ministry of Environment & Forestry (MoEF)¹⁴³, or
- Audit report from an external, independent certification body that confirms the compliance of applicant or its's raw material supplier or it's other supplier with the requirements of the SVLK (Sistem Verifikasi Legalitas Kayu) certification system. The certification body should be accredited by the National Accreditation Committee (KAN), or
- Self-declaration in the form of Supplier Conformity Declarations / Deklarasi Kesesuaian Pemasok (DKP) of the applicant or it's raw material supplier or it's other direct supplier that the purchased product is produced from timber from low-risk, community-based forests.

Award Criteria Verification:

The applicant shall declare the value of BMP (Bobot Manfaat Perusahaan). Compliance can be verified in **one** of the following ways:

¹⁴¹ http://standardisasi.menlhk.go.id/wp-content/uploads/2016/04/Daftar-Produk-Tipe-I_Ed-15-april-2020.pdf

¹⁴² [Peraturan Menteri Perindustrian 02/M-IND/PER/1/2014, Tentang Pedoman Peningkatan Penggunaan Produk Dalam Negeri Dalam Pengadaan Barang/Jasa Pemerintah](#)

¹⁴³ <http://silk.dephut.go.id/index.php/info/iuiphk>

- The BMP¹⁴⁴ Certificate for product purchased from Ministry of Industry, or
- BMP Audit/Verification report from an independent surveyor that confirms BMP score for the product purchased.

The higher the BMP, the higher the weight, the higher the technical value of the offer evaluated by the tender officer or given a reward through a performance appraisal in the vendor management system by the user / PPK.

7.2.5 Proposals for Contract Implementation

Please find below few proposals for the Contract Implementation phase. Procuring entities may change, adapt and combine the suggestions according to their own needs:

- In case of accepting Supplier Conformity Declarations / Deklarasi Kesesuaian Pemasok (DKP) for products from low-risk, community-based forests, the contracting authority is entitled to request verification by one of the independent certification bodies, accredited by the National Accreditation Committee (KAN)¹⁴⁵. If the results of the independent verification show that the delivered products do not comply with the requirements, the contracting authority shall then apply penalties (xy) and reserves the right to terminate the contract. If the product is found to comply with the requirements during the spot-check, the testing costs will borne by the contracting authority; but if the requirements are not met, the costs have to be borne by the contractor.
- In the draft contract and tender requirements, medium and large businesses are required to partner with micro and small businesses as sub-providers to support the fulfilment of service level agreement which is minor items in the implementation of work. (for example: shipping, packing and other services).
- In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact not to employ minors and provide wages in accordance with applicable regulations (UMP / UMR). If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations.
- Alternative (1) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the ILO conventions, which are:
 - o Freedom of Association and Protection of the Right to Organise Convention (C087)
 - o Right to Organise and Collective Bargaining Convention (C098)
 - o Forced Labour Convention (C029)
 - o Abolition of Forced Labour Convention (C105)

¹⁴⁴ Peraturan Menteri Perindustrian Republik Indonesia Nomor 15/M-IND/Per/2/2011 Tentang Pedoman Penggunaan Produk Dalam Negeri Dalam Pengadaan Barang/Jasa Pemerintah

¹⁴⁵ <http://silk.depht.go.id/index.php/info/lvlk>

- Minimum Age Convention (C138)
- Worst Forms of Child Labour Convention (C182)
- Equal Remuneration Convention (C100)
- Discrimination (Employment and Occupation) Convention (C111)
- Minimum Wage Fixing Convention (C131)

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. SA8000, FSC etc.) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- Alternative (2) to the above-mentioned point on labour laws: In the service level agreement, all suppliers including the main contractor must agree to the Integrity Pact by declaring the compliance with the national regulations on following social issues:
 - Freedom of Association, Right to Organise & Collective Bargaining
 - Forced Labour
 - Child Labour
 - Equal Remuneration
 - Discrimination (Employment and Occupation)
 - Minimum Wage

The procuring entity reserves the right to ask for a confirmation of compliance by an external, independent certification body accredited by the National Accreditation Committee (KAN). Any other equivalent, third-party certification (e.g. Type-I ecolabel) that includes the criterion on mentioned ILO conventions shall also be accepted as the means of verification in this case.

If a violation is found in work control, the user has the right to report it to the competent authority and the contractor will be subject to blacklist sanctions in accordance with applicable regulations

- In the event that a provider fails to fulfil the obligation to deliver goods according to the SVLK (Timber Legality Verification System) criteria and all other criteria stipulated in the contract, the contractor must be willing to replace or bear all product replacement costs, in accordance with criteria in the contract, which is carried out by users to other providers. Failure to do so will result in a fine of x% of the total contract (excluding additional administrative costs associated with implementing sanctions procedures) and/or being excluded from the list of providers (vendor management system or framework agreement) or black-listing sanctions prohibiting from being appointed as future government provider as long as x years.

- At the end of the contract, the user is obliged to provide a performance certificate to the supplier with objective assessment criteria during contract execution, as agreed in the contract. Example: For suppliers that have shown the best performance based on compliance assessment and improvement from User/PPK, in achieving the SPP criteria, they will get performance certification and facilitated to increase product certification and business entity registration¹⁴⁶

¹⁴⁶ Not practiced yet in Indonesia. Use of performance-based incentives needs to be developed.