

An ESG-weighted Procurement Portfolio Model (PPM) Approach

Circular Procurement Summit
“Spend Category Sessions“

Circular Innovation Council
15th November 2021

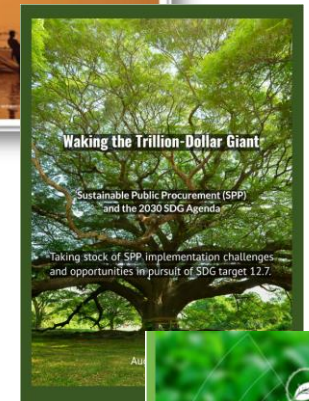
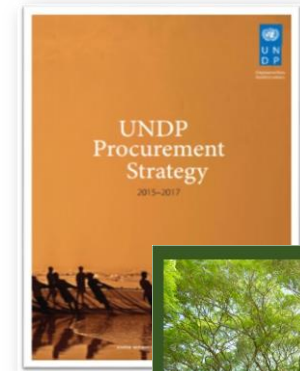
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(UNDP)



SUSTAINABILITY INTEGRATION THROUGH A CATEGORY APPROACH

OUR SPP STARTING-POINT/JOURNEY

- Identifying Barriers and Enablers for SPP – Why is it so hard?
- An ESG-weighted Procurement Portfolio Model (PPM) Approach
 - Reflecting category-specific sustainability risk profiles
 - Develop market and supplier engagement strategies
 - “Walking the Talk”
- The SPP Accelerator Initiative
 - The model is one in a series of initiatives to accelerate SPP and enhance access to tools/templates, and support practitioners to pursue SDG 12.7.



PROCURING FOR A GLOBAL AGENDA



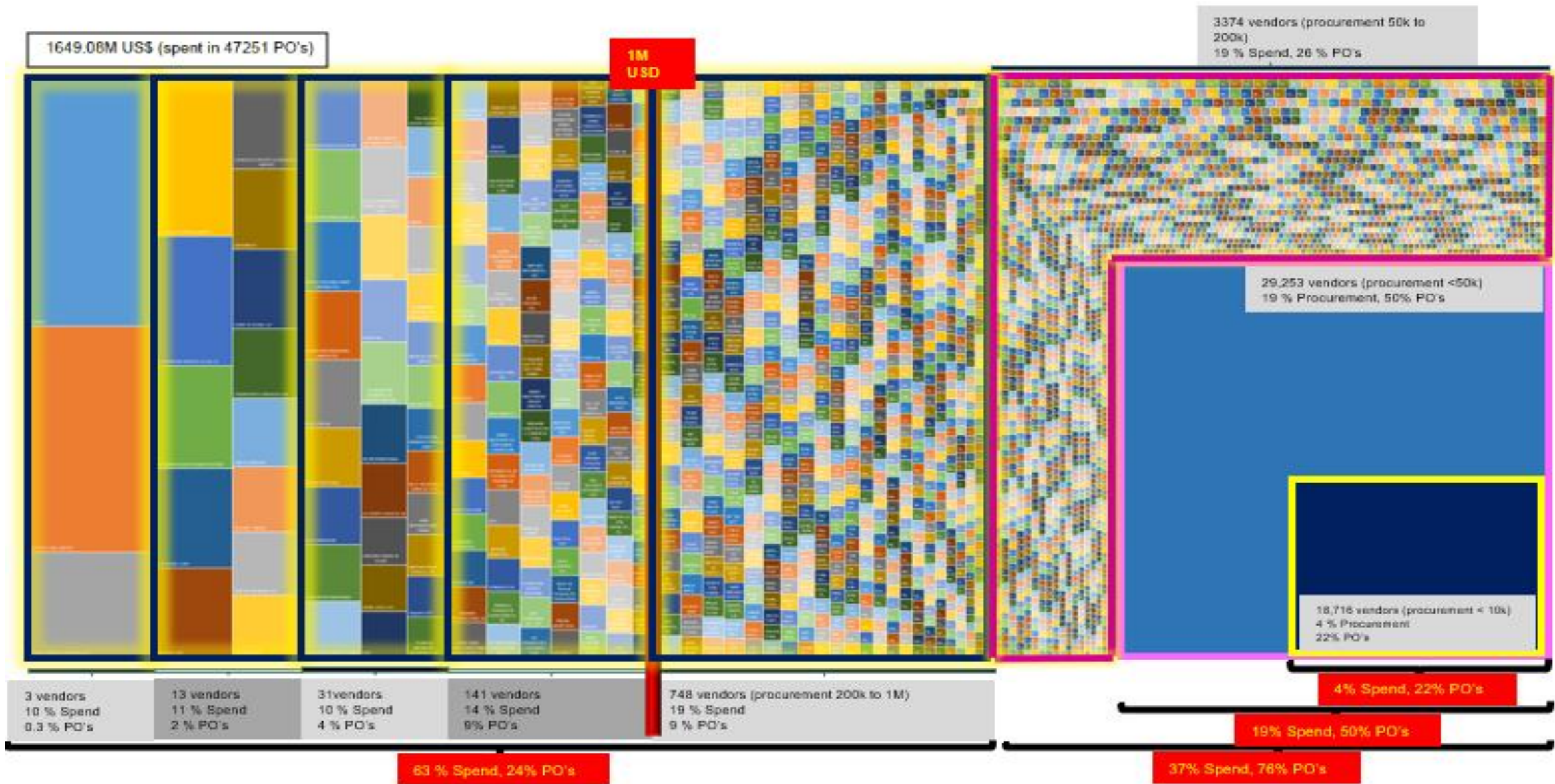
Top Ten Procurement Categories

1. Management and Business Professionals and Administrative Services
2. Engineering and Research and Technology Based Services
3. Transportation, storage and mail services
4. Travel, Food, Lodging
5. Education and Training Services
6. Motor Vehicles, parts and other transportation equipment
7. Information Technology; Broadcasting and Telecommunications
8. Editorial, design, graphic and fine art services
9. Building and Facility Construction and Maintenance
10. Public utilities and public sector related services



- Procurement volume us\$2,146,494,997.62
- Across more than +1020 spend categories
- Delivery across 130 geo-locations
- Representing 1.37% of total UN procurement

SUPPLIER BASE SNAPSHOT



IDENTIFYING BARRIERS AND ENABLING CONDITIONS FOR SPP

- Policy Level:

Concise Legislative Framework, Embedded SPP Targets in Policies, Effective Monitoring System, and Political Goal Setting.

- Organizational Level:

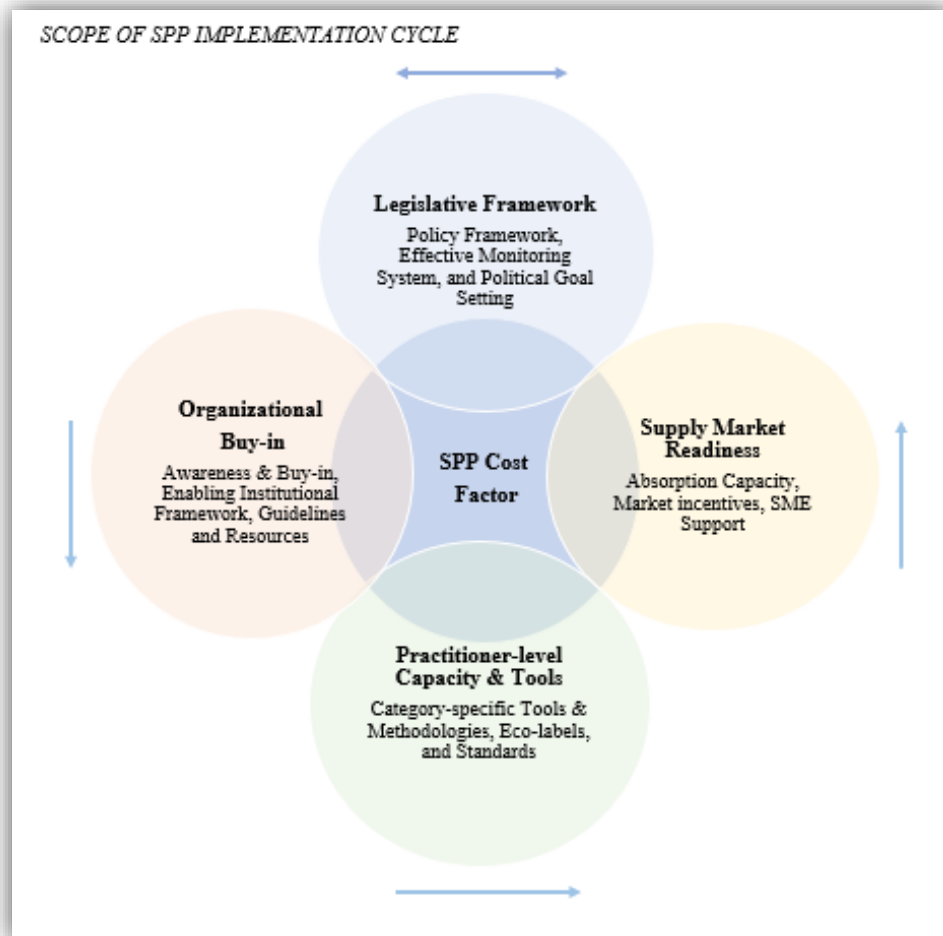
Organizational Awareness & Buy-in, Enabling Institutional Framework, and Financial Resources.

- Practitioner Level:

Practitioner SP Capacity, Category-specific Tools & Methodologies.

- Market Level:

Sufficient Supply Market Readiness, Willingness, and Absorption Capacity, Market Incentives, SME Support, Consumer sentiments.



Carsten Hansen (2020), [“Waking the Trillion Dollar Giant: Sustainable Public Procurement \(SPP\) and the 2030 SDG Agenda”](#), One Planet Network Resource Hub and Green Growth Platform, United Nations.

AN ESG-WEIGHTED PROCUREMENT PORTFOLIO MODEL (PPM)

Objectives:

- Identify and visualize organization-specific ESG procurement portfolio exposure;
- Allow prioritization of organizational sustainable procurement efforts and development of subsequent sustainable procurement guidelines for high-risk/high impact categories;
- Align with UNGM sustainability indicators for UN-wide benchmarking and reporting.

A two-step approach:

Step 1: Reflecting category-specific sustainability risk profiles:

- The approach supports organizations in identifying procurement categories that represent the highest sustainability risk exposure and where mitigation efforts will yield the highest sustainability impact.

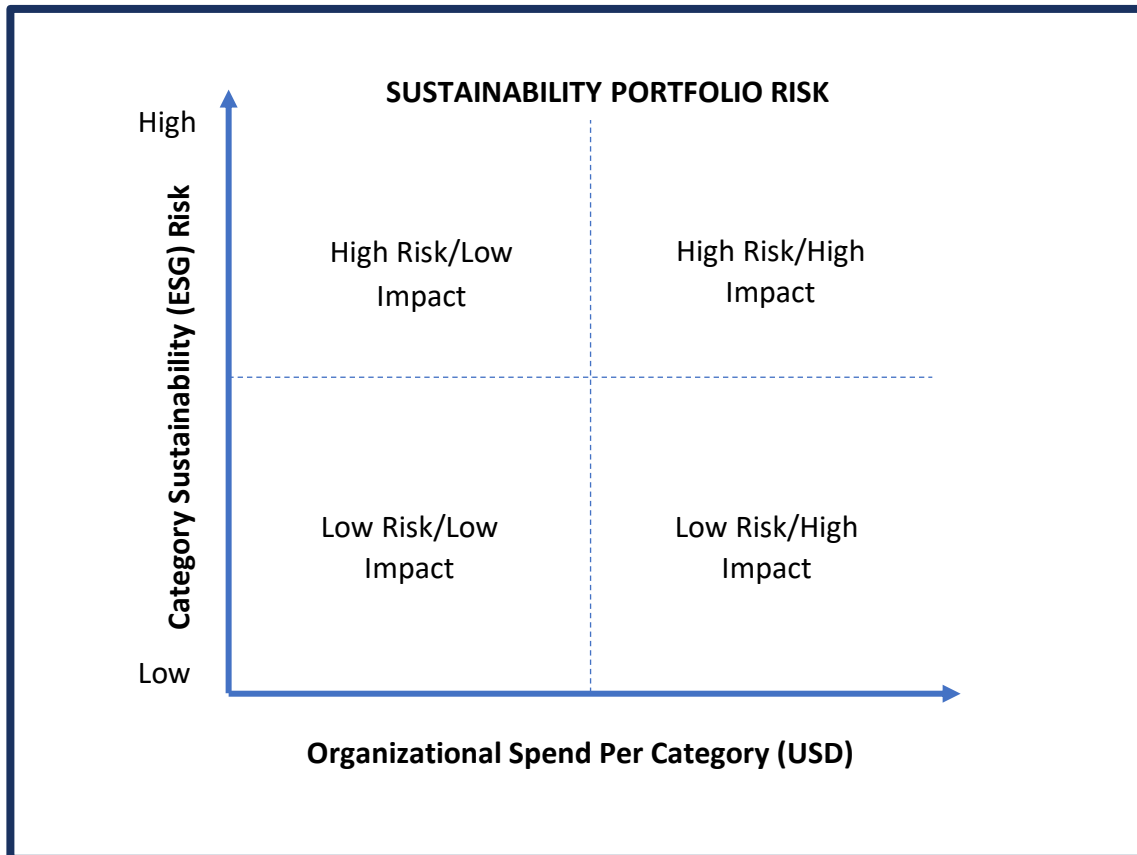
Step 2: Develop market and supplier engagement strategies:

- The approach informs the development of organization-specific sustainable procurement strategies and supplier due diligence reviews.



Carsten Hansen & Farid Yaker (2021), [“Introducing A Sustainability-weighted Procurement Portfolio Model \(PPM\)”](#), One Planet Network Resource Hub, United Nations.

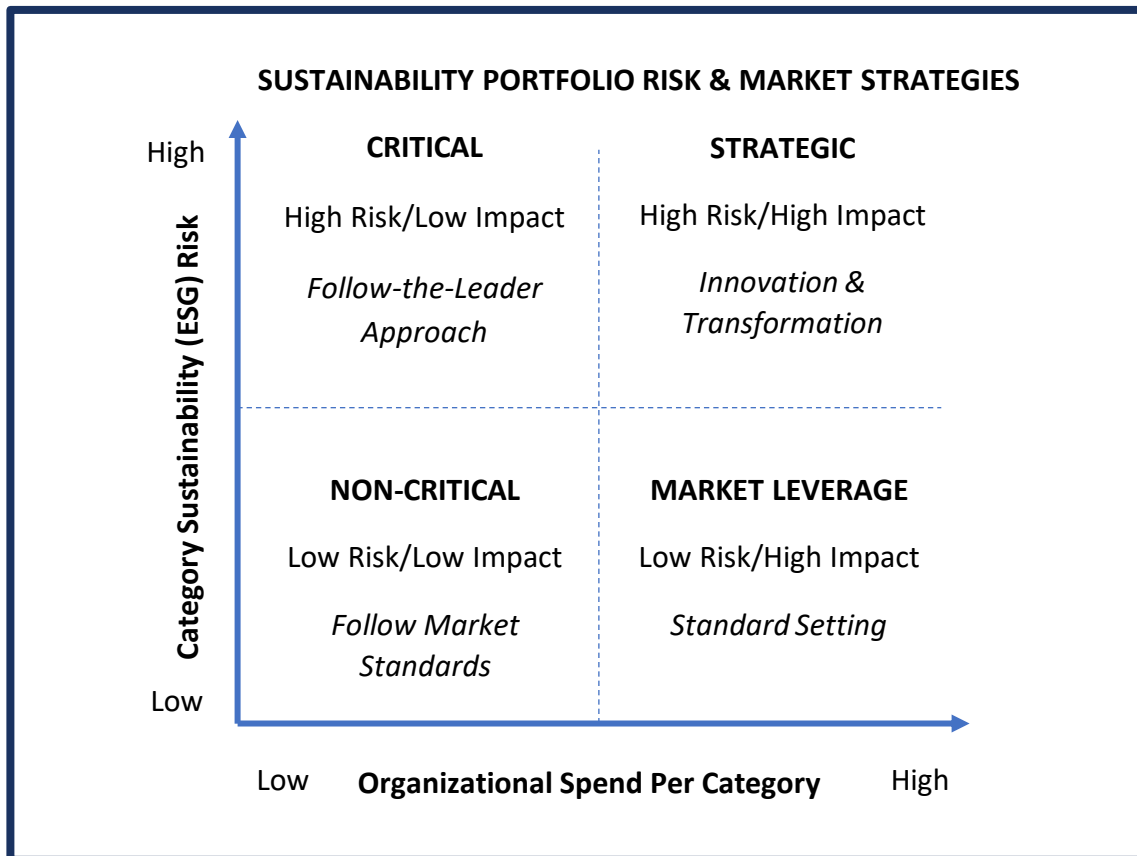
STEP 1: SEGMENTING CATEGORY-SPECIFIC SUSTAINABILITY RISK PROFILES



Using a procurement portfolio model as an analytical tool to create a risk classification framework based on *category (ESG) risk* and *organizational spend*.

- **Indicators:** Aligned with UNGM sustainability indicators allowing for UN-wide benchmarking and reporting.
- **Procurement categories:** Defined by UNSPSC coding system used by most UN agencies:
 - The model applies ratings at the H2 category level, which is in line with current spend analysis practices.
 - The model currently rates approximately 100 commonly used H2 level categories.

STEP 2: DEVELOPING MARKET AND SUPPLIER ENGAGEMENT STRATEGIES



The approach allows for developing subsequent risk-informed sustainable procurement strategies, based on organization-specific sustainability exposure in the procurement portfolio.

The model proposes four distinct market approaches based on the segmentation of categories in Step 1.

Strategic Segment - High Risk/High Impact categories:

- A strategic opportunity for instigating market innovation and transformation.

Critical Segment - High Risk/Low Impact categories:

- Mitigate risk by Identifying market sustainability leaders and follow their lead.

Market Leverage - Low Risk/High Impact categories:

- Opportunity to “raise the bar” and set higher standards for the sector.

Non-critical - The segment of Low Risk/Low Impact categories:

- Reduce transaction cost of applying sustainability measures

ENVIRONMENTAL RISK INDICATORS

Categories:

- Pollution – Hazardous Products:
 - Effluents reaching water bodies
 - Air emissions
 - Use, storage, movement and disposal of hazardous materials
- Pollution – Climate Change:
 - CO2 emissions
 - Other gas emissions with global warming potential
- Resource use:
 - Waste generated
 - High-level of finite material used through life-cycle
 - Water usage
 - Land usage
- Biodiversity and natural habitats:
 - Impact on biodiversity
 - Impact on forests
 - Impact on other natural habitats

SOCIAL RESPONSIBILITY RISK INDICATORS

Categories:

- Human Rights – Indigenous Peoples Rights:
 - Violation of indigenous people's rights (i.e. land-grabbing).
- Human Rights – Labor Rights Issues:
 - Forced Labor Risk
 - Child/Youth Labor Risk
 - Working conditions related risk (wage & working hours)
 - Health & safety
- Gender Issues:
 - Unequal treatment & contracting terms
 - Category-specific sexual harassment risk
- Product/Service implications for health and well-being:
 - Privacy concerns
 - Quality assurance & testing
 - Intellectual Property Risk (IP)
 - Unlawful use of products
- SME participation & support:



GOVERNANCE RISK INDICATORS

Categories:

- Category-specific corruption risk
- Fraud Risk (i.e., Falsification of certifications, origin of inputs etc.)



Determining United Nations Standard Products and Services Code (UNSPSC) Sustainability Ratings

- Category-specific sustainability risk rating determined across HLCM sustainability indicators.
- Sustainability risk determined as the combination of the *likelihood* that a certain sustainability risk may materialize, combined with the *consequences* or *materiality* of the sustainability risk event to the organization.
- Scoring ranges from 1-4, with (1) Low Risk, (2) Medium Low Risk, (3) Medium High Risk, and (4) High Risk.

		Consequence				
		Insignificant	Minor	Moderate	Major	Critical
Likelihood	Rare	1	1	1	2	3
	Unlikely	1	1	2	2	3
	Possible	1	2	2	3	3
	Likely	2	2	3	3	4
	Almost Certain	2	2	3	4	4

Sustainability Risk Across Product/Service Lifecycle

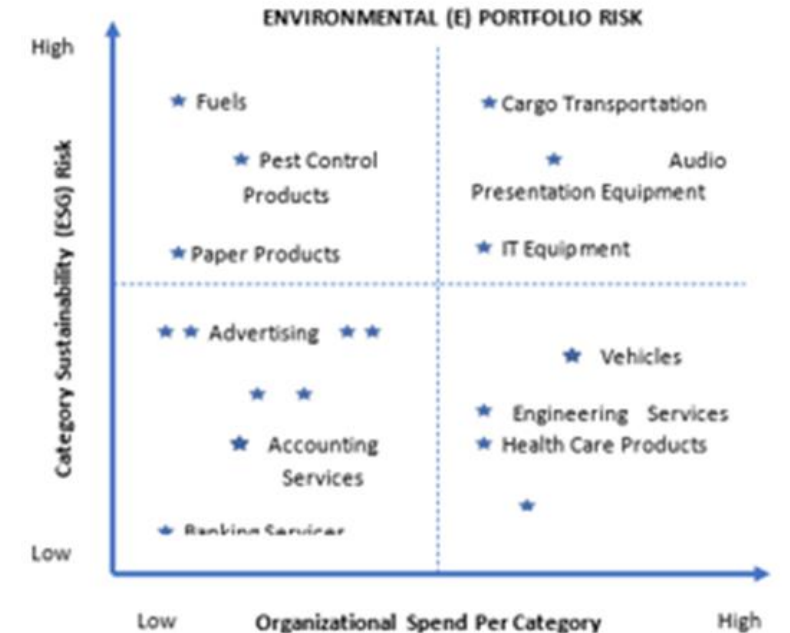
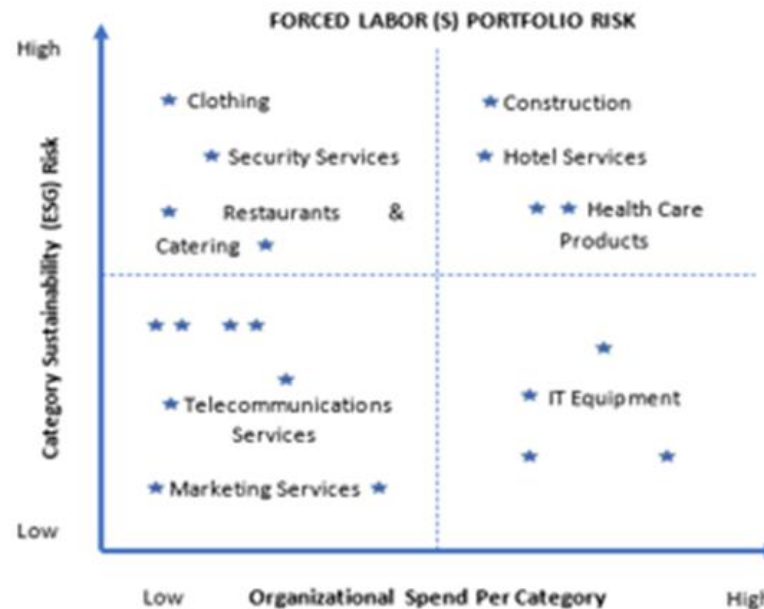
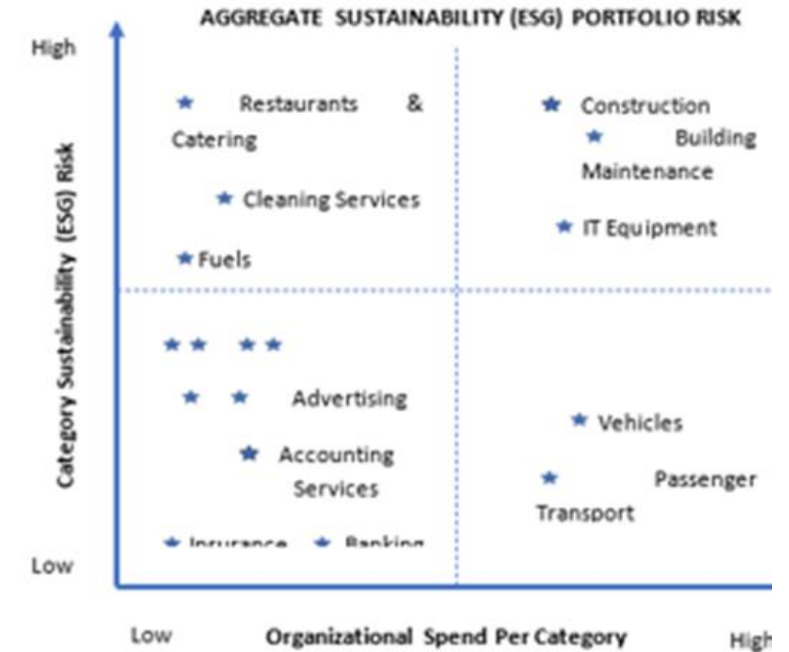


Scores Captured in ESG-weighted Category Database

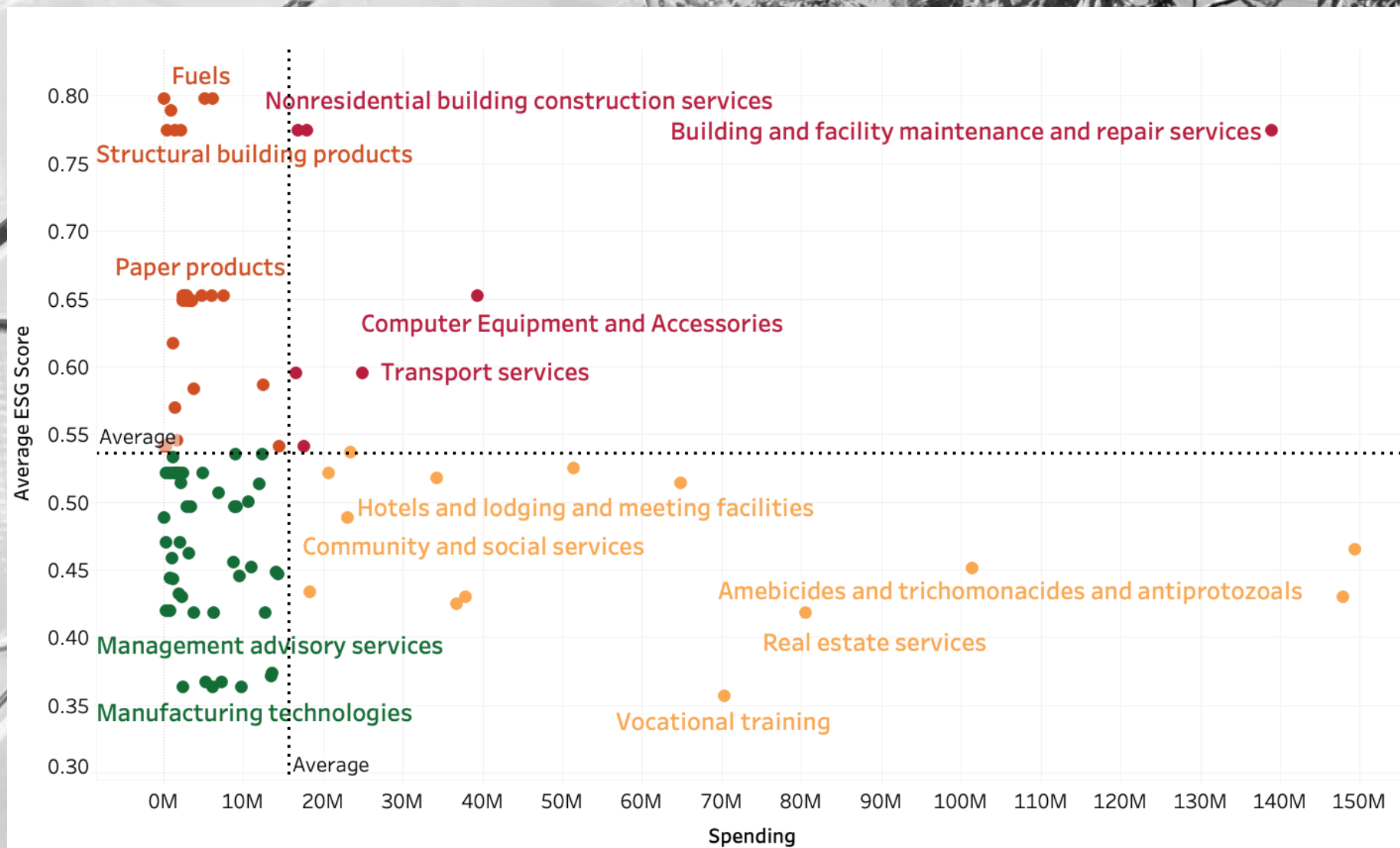
		Indicators for Engineers		Environment		Climate change				Resource use	
		Hazardous products or waste		Pollution		Pollution				Pollution	
		Effluents to which the company is subject, including ground water		Operation of its activities: organic compounds, aerosols, solvents, particulates and noise levels		Potential risks: storage, movement and disposal of environmentally hazardous materials and chemicals		Level of CO2 emissions throughout the life cycle		Level of emissions of other pollutants throughout the life cycle	
										Total Pollution Score	
										Potential waste generated	
										Potential high level of waste materials over the life cycle	
										Use of water	
										Use of land	
E-Module Laboratory & Test Equipment & Supplies & Pharmaceuticals	10000000 Development of new products and materials and "R" personnel and facilities	1	2	1	3	1	65.00%	2	3	2	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
C-Components & Supplies	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
G-Business, Communication & Technology Equipment & Supplies	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1
	10000000 Development of new products and materials and "R" personnel and facilities	1	1	1	1	1	30.00%	2	1	1	1

A DYNAMIC ESG-WEIGHTED PROCUREMENT PORTFOLIO MODEL

The dynamic classification system allows for various representations of sustainability exposures and deep dives into specific risk indicators and sub-indicators.

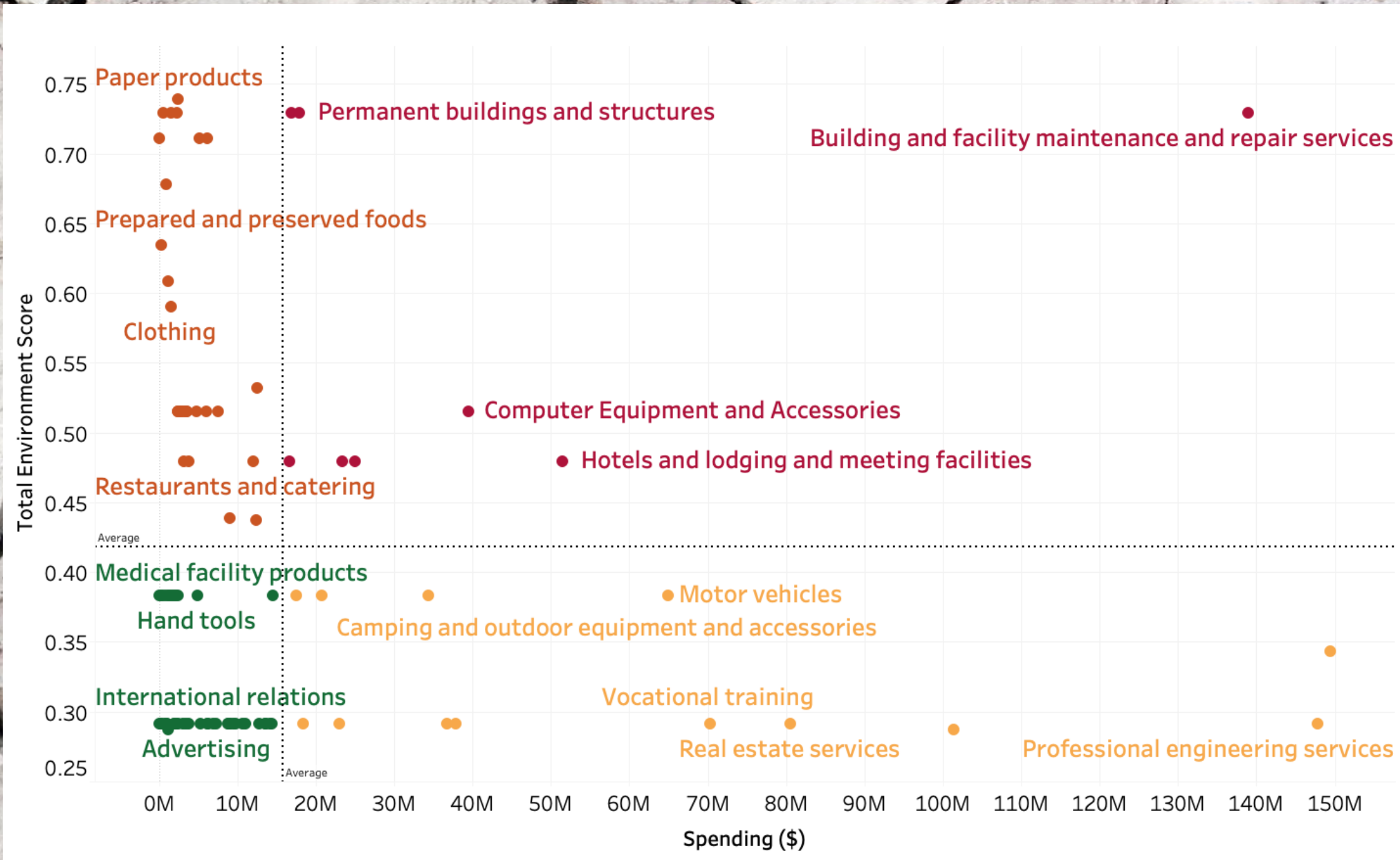


AGGREGATED SUSTAINABILITY (ESG) PORTFOLIO RISK

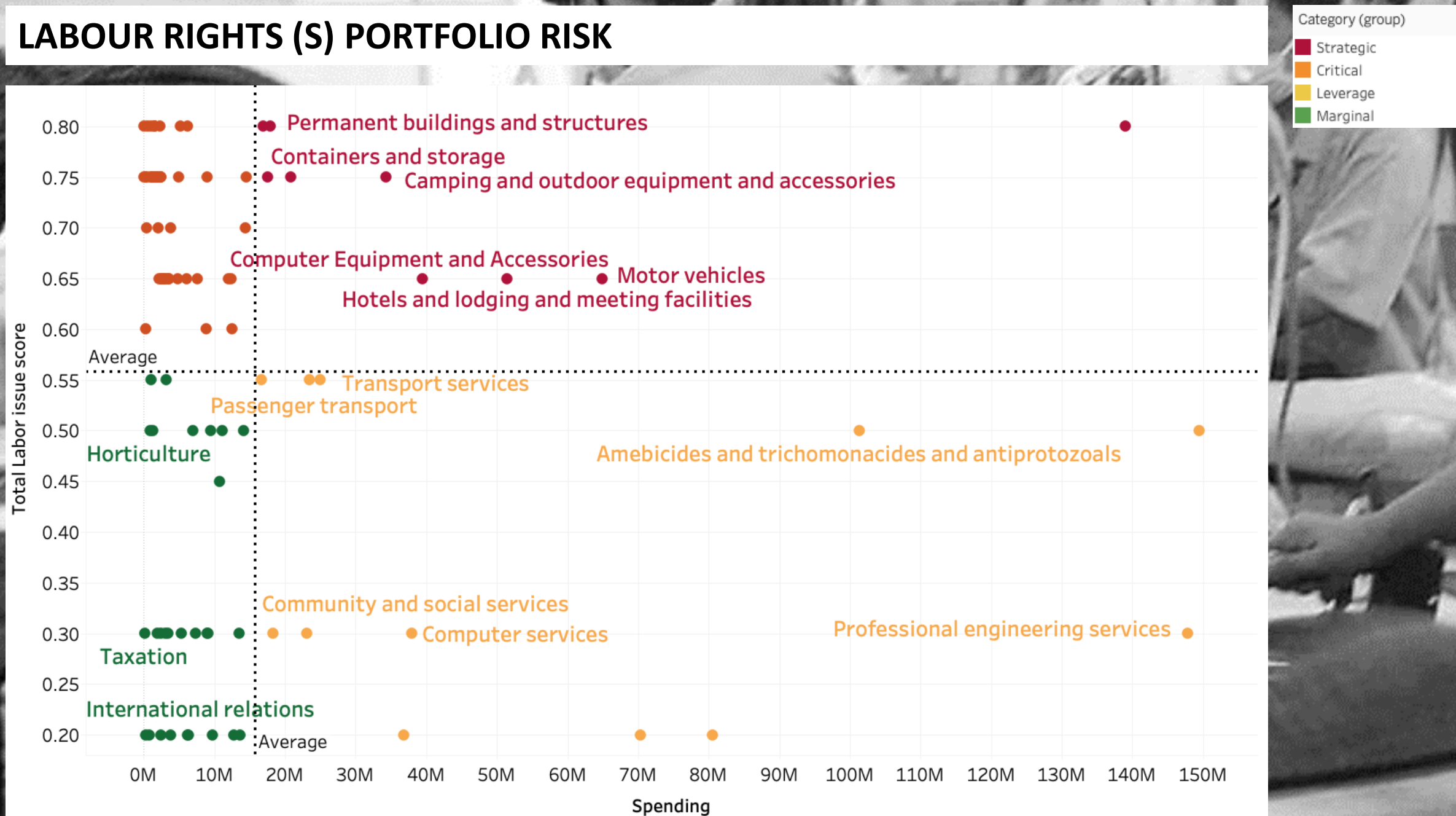


ENVIRONMENTAL (E) PORTFOLIO RISK

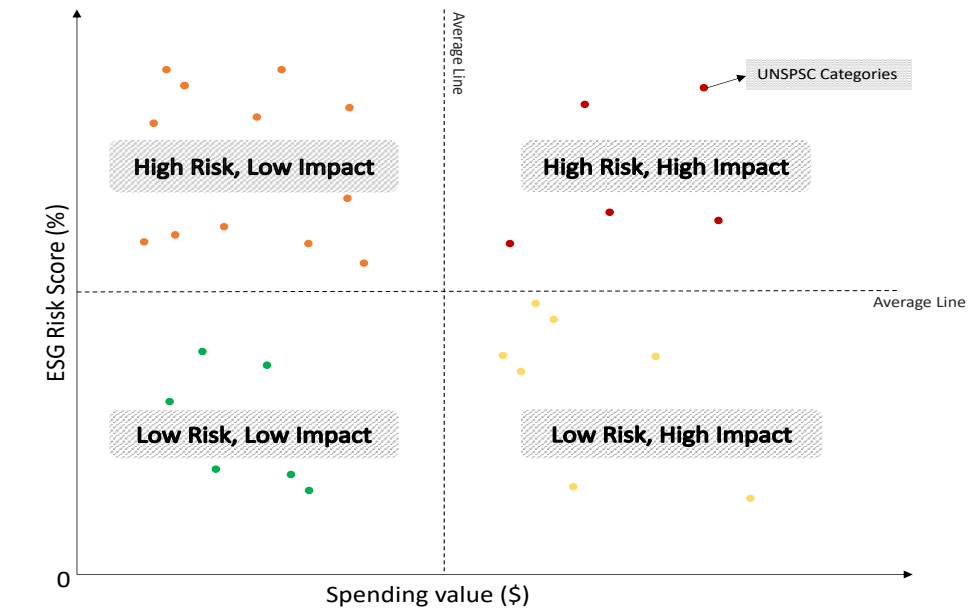
- Category (group)
- Strategic
 - Critical
 - Leverage
 - Marginal



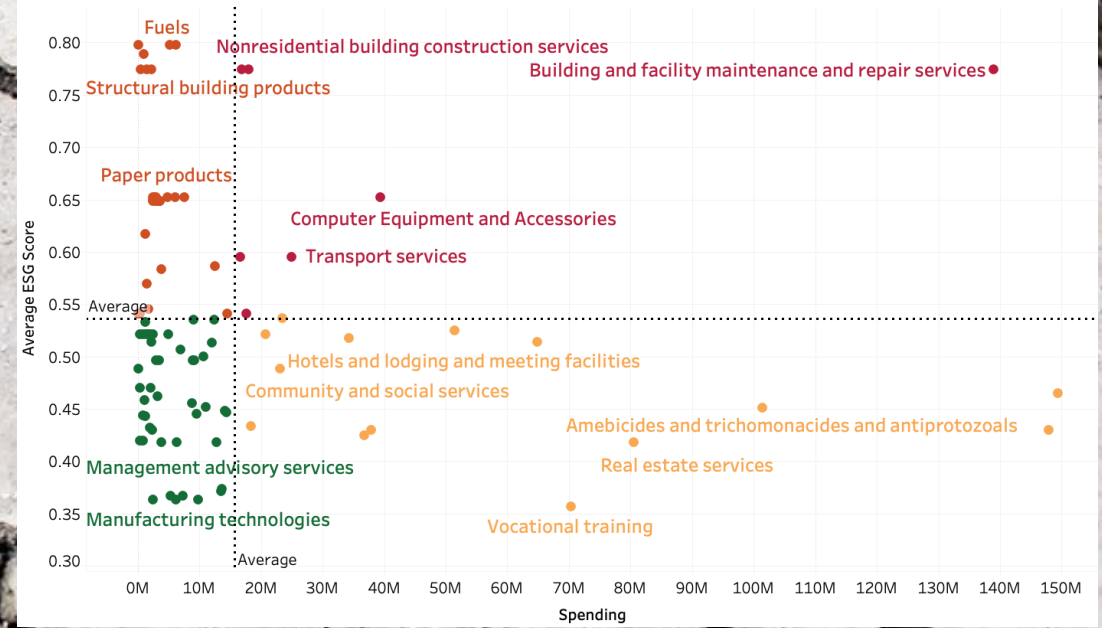
LABOUR RIGHTS (S) PORTFOLIO RISK



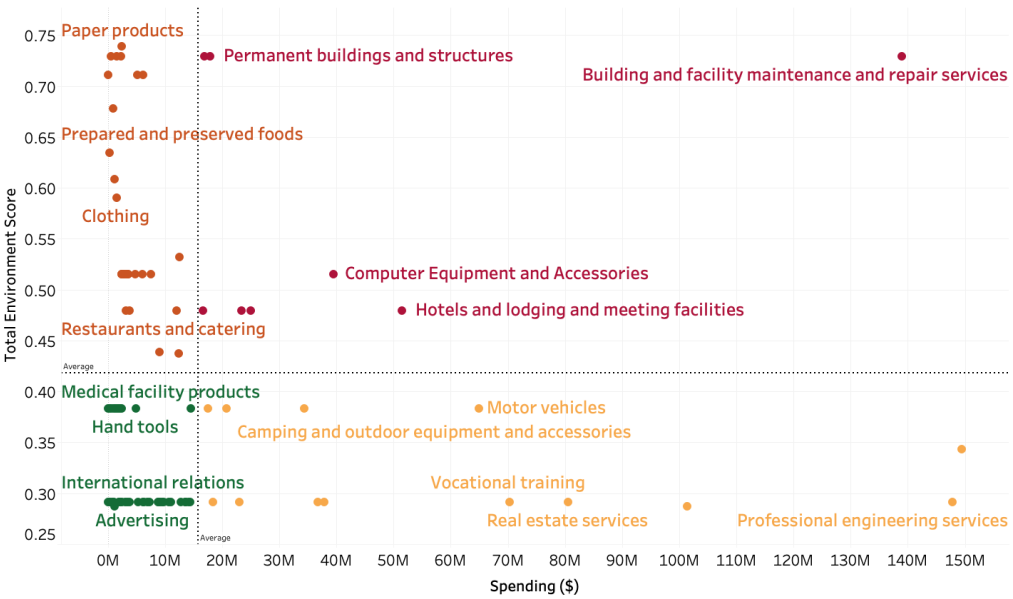
SUSTAINABILITY PORTFOLIO RISK



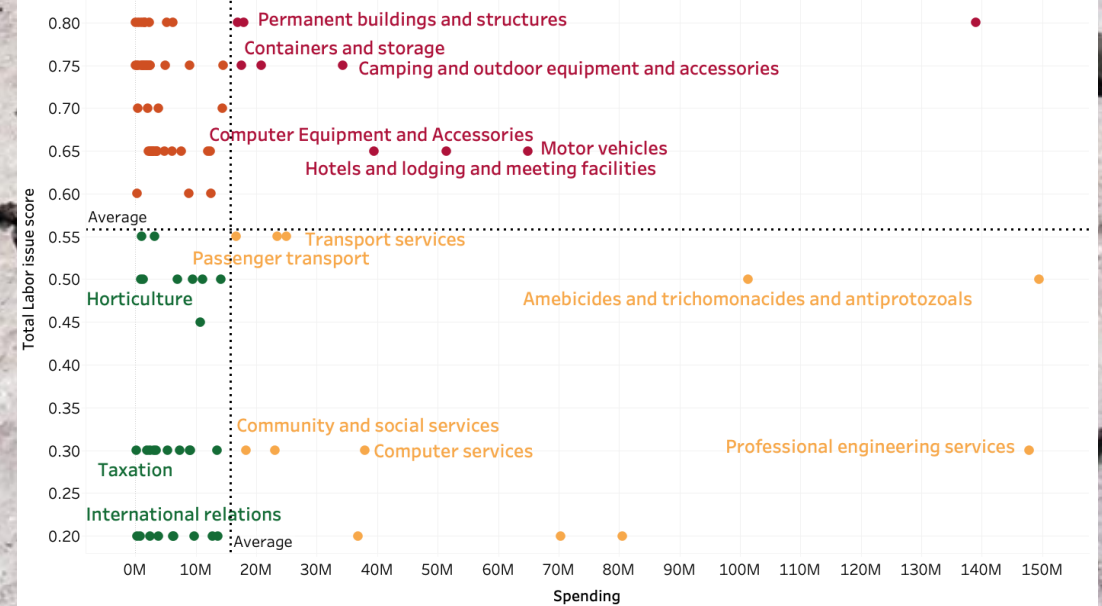
AGGREGATED SUSTAINABILITY (ESG) PORTFOLIO RISK



ENVIRONMENTAL (E) PORTFOLIO RISK



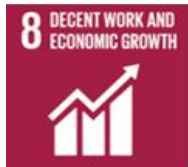
FORCED LABOUR (S) PORTFOLIO RISK



WALKING THE TALK: A SUSTAINABILITY INTEGRATION FRAMEWORK



Goal 12 - Ensuring sustainable consumption and production patterns.



Goal 8 - Decent work and economic growth.



Target 8.7 - Eradicate forced labor, end modern slavery and human trafficking.



Identify sustainability exposure by applying ESG-weighted Procurement Portfolio Analysis;



Develop and implement sustainability integration guidelines across top (10+) risk categories - Construction, Health, ICT, Vehicles, Travel, Freight Forwarding, Hotel & Conferencing, Security, Cleaning, Catering Contracts etc.;



Conduct sustainable procurement training for buyers and key suppliers;



Performance Reporting – Monitor effectiveness and impact performance indicators.

SPP ACCELERATOR INITIATIVE - NEXT STEPS

- Model is “work in progress” and scope evolving
- Review Category Ratings with further experts
- Automate Category Scoring Mechanism (Likelihood & Materiality)
- Delivery Real-time Risk Alerts
- Further research on market engagement strategies and best practices
- Automating accessibility for consistent application and user confidence
- Considering a “Wiki approach” to consolidate category information
- Develop Circular Procurement Opportunity Portfolio Model (PPM)

KEY TAKE-AWAYS FROM OUR SPP JOURNEY

- Category prioritization helps stay focused, deliver impact, and market engagement
- Hard to “go it alone” due to scope of category expertise required (Wiki)





SOURCING FOR A BETTER WORLD

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