



# GREEN PROCUREMENT FOR GREEN INVESTMENT



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Buying green infrastructure and ensuring a more sustainable and greener supply chain are vital, but cannot happen without considering inclusive and equal economic growth and harnessing innovation and technology to achieve fair and equitable public services. Most governments in the EBRD regions are only just embarking on their journeys towards green procurement and sustainable public infrastructure. Local governments around the world are being recognised for developing a better understanding of how sustainability fits into their local community considerations, priorities and governance processes. Municipalities can frame sustainability benchmarks in a clear and meaningful way and use them to manage their public infrastructure investments.



## INTRODUCTION

Since the 2021 United Nations Climate Change Conference known as COP26, there has never been more interest in sustainability. But there has probably never been more frustration, either. With commitments covering a coal phasedown, deforestation, methane and finance in particular, governments now need to translate their climate change pledges into real delivery. This is where sustainability of investment and public contracts comes in.

Public procurement makes up a significant part of the global economy and, depending on levels of economic development, may represent 16-19 per cent of a country's gross domestic product, according to the Organisation for Economic Co-operation and Development (OECD).

What is less frequently mentioned is that government commerce – that is, what governments buy and sell – is responsible for 15 per cent of all GHG emissions annually, according to World Economic Group estimates. That's seven times as much as the global aviation industry.

To tackle this, governments must commit to delivering public infrastructure and public services in a fundamentally different way. It is no longer a choice – whether it is a case of “building back” to recover from the impact of natural disasters or war, or a new public-sector investment programme, public infrastructure and public services must be sustainable to meet climate change pledges.

Sustainability in public procurement refers to several different policy areas and priorities. For governments, it means the challenge of regulating not only how to buy, but also what to buy, to

determine how taxpayer dollars or euros are going to be invested in green projects and sustainability. For procurement officials, meeting the public sector's climate change pledges means carrying out complex and knowledge-intensive public procurements better and more frequently. If the current practice of procuring infrastructure is left unchanged, it will put a brake on environmental progress and leave transition economies most vulnerable.

## EU EXAMPLE OF CLIMATE CHANGE GOALS

The EU's Green Deal aims to create an economy that produces no net emissions of GHGs by 2050 and where economic growth is decoupled from resource use and no person or place is left behind. The EU has acknowledged on the regulatory level that economic development can take a less environmentally damaging path than the one followed by countries that finished industrialising in the 20th century. There have been headline commitments, including across the entire European Union Resilience and Recovery Facility. EU leaders believe procurement can play a major role in sustainable development as 250,000 public bodies spend around 15 per cent of the bloc's annual gross domestic product procuring goods, services and works. Used strategically, procurement can dictate trends in markets – especially those of the food, textile and technology sectors and for public infrastructure. The Green Deal is clear: the European Commission will propose further legislation and guidance on green public purchasing.

## IT'S A LONG WAY FROM A CLIMATE CHANGE PLEDGE TO A SUSTAINABLE INFRASTRUCTURE PROJECT

EU member states realised the potential behind public infrastructure procurement budgets in the early 2000s and several governments started using green procurement strategically. Since then, green public procurement has become the most institutionalised and ambitious strategic procurement area in the EU with, arguably, the highest uptake levels. New EU public procurement directives adopted in 2014 redefined its “most economically advantageous tender” process as “price and other criteria” selection to make it easier to procure goods, services and infrastructure based not only on the lowest-cost criterion, but also considering quality, sustainability, social impact and innovation.

Circular procurement is one of the more recent trends that provides specific opportunities, and countless institutions are working on the green agenda across the EU. Despite the opportunities for green procurement provided in the 2014 EU directives, the daily procurement practices of most public buyers in Europe, especially

municipalities, have changed very little. Sustainability is still an afterthought and not a default way to design and procure public infrastructure projects. So, what are the institutional blocks and barriers – both regulatory and non-regulatory – to wider uptake, and how do we tackle them?

## LEGAL BARRIERS IMPOSED BY PUBLIC PROCUREMENT REGULATION

If we were still in the early 1990s, with public procurement laws highlighting the importance of “value for money” in the short term, legal frameworks could be seen as barriers to reducing GHG emissions. A regulatory concept of green public procurement was born in the 2000s and today, international public procurement legal instruments, starting with the World Trade Organization’s revised 2012 Agreement on Government Procurement, are freeing governments up to focus explicitly on reducing carbon emissions and setting ambitious green public procurement goals.

Several countries have introduced compulsory regulatory instruments to reduce GHG emissions in government commerce, including public



procurement carbon footprint registries (Spain), decarbonising the transport and construction sectors (Norway), promoting life-cycle costing in public infrastructure (Sweden) and reinventing environmental product declarations to inform about product carbon footprint (Germany). Looking at practices in their domestic markets, however, it should be noted that following green public procurement principles remains voluntary for public authorities in the EU. The lack of obligation means there are vast differences in green procurement implementation across the EU.

In some member states, such as Bulgaria, Poland, Romania and the Slovak Republic, fewer than 5 per cent of public contracts include any green procurement considerations. There is no evidence of ambition among EU governments to achieve green targets, with green procurement limited to minor spending categories. In many European countries, green procurement is mandatory only in certain product and service categories. These include Denmark (wood products), Estonia (furniture, cleaning products, information technology (IT)), France (energy efficiency, waste requirements), Greece (transport, road lighting), Latvia (street lighting, food), Malta (office buildings, roads) Norway (construction, food catering), the Slovak Republic (roads) and Slovenia (buildings, roads).

At the same time, there is a clear correlation between the levels of green achievement in public infrastructure and making green procurement principles mandatory for all or most public procurement of goods, services and works. Green procurement principles must be incorporated at all levels of government in Cyprus, Czech Republic, Italy and Norway, but not for all public procurement. Green procurement principles are mandatory for central government procurement in Austria, Croatia, Cyprus, Czech Republic, Finland, Germany, Italy, Norway, Spain, Switzerland and the United Kingdom. Levels of green requirements differ widely, though, from use of minimum sustainability criteria, giving preference to the most environment-friendly bid, to mandating life-cycle analysis. Ireland required all public procurement to incorporate green criteria in January 2023.

Like low-carbon energy debates, green public procurement is a divide between developed and low- and middle-income countries. As they have contributed the least to global GHG emissions, low- and middle-income countries – including several EBRD economies – have resisted linking climate change pledges to their public budget

spending and modernising their public procurement systems with green procurement principles in mind.

## KNOWLEDGE ASYMMETRY AND COMPLEXITY BARRIERS

When it comes to market knowledge, public procurement markets in developed economies (excluding for defence procurement) frequently suffer from knowledge asymmetry between the private and public sectors. This prevents public-sector procurement from innovating and performing at the same level as commercial firms. In transition economies, when public procurement regulations are modernised in line with international legal instruments and the public sector introduces new purchasing methodologies and techniques to domestic commercial markets, green procurement is often a complex topic for both public and private-sector market stakeholders. This is where “green procurement” knowledge products, such as methodologies and tools, are becoming important.

At the same time, few procurement transformation strategies unlock green innovations from markets. Many resources are publicly available under open licences and intensively promoted by various international organisations, from the EU to the United Nations. These include eco-labels, International Organization for Standardization standards, sector- and product-specific technical specifications, sustainability award criteria, life-cycle costing-based calculators, carbon footprint tools, environmental management systems, environmental product declarations and environmental spend analysis. However, it is difficult to discern where and how often these tools are used and at what stage of the procurement process, and their specific application to infrastructure procurement.

As a result, green procurement skills and the expertise of individual public bodies are perceived as low and the public sector continues to search for suitable tools to meet needs in terms of procuring infrastructure. The reason for this may be the complexity of this knowledge. Green procurement is far more information-intensive and complex than standard price-based sourcing and average public-sector bodies with average budgets (also in developed countries) are not incentivised to invest in the development of green procurement expertise in-house, unless strictly mandated by law.



### GREEN PROCUREMENT CAPACITY BARRIERS

The “green excellence” of national centralised purchasing bodies, especially in Austria, Italy and the Netherlands, underscores the impact of green procurement capacity barriers. Centralised purchasing bodies are typically given regulatory or financial incentives to develop green procurement expertise in-house and/or have budgets adequate to purchase top-level expertise from the market.

These entities are more likely to know where to start and how to calculate carbon emissions and source more sustainable building materials for infrastructure projects for the domestic market. They are also more likely to develop and retain expertise and the skills needed to plan, tender, award and deliver truly sustainable public infrastructure. This gives rise to the question of whether investing in centralised green purchasing is the best way to move the public sector towards sustainability and inclusion in public infrastructure projects. Despite the resounding success of centralised green procurement, the question is valid because of the widely known market risks of creating any type of state budget-supported monopoly.

### INSUFFICIENT TRANSPARENCY OF PUBLIC PROCUREMENT INFORMATION TRANSLATES INTO MARKET ACCESS BARRIERS TO GREEN INVESTMENT

The ability to define what constitutes green procurement is closely linked to measuring the environmental impact of green procurement and tracking the domestic economy’s progress towards green objectives. Even the best advice on buying green and using procurement to “green” markets does not immediately translate into new sustainable infrastructure without a comprehensive and standardised infrastructure project governance process and accessible comparable data across the public infrastructure life-cycle, from design to decommissioning.

The speed at which green procurement of infrastructure can become an established mainstream policy depends on political and regulatory decisions, budgetary/financing commitments and digital transition. The OECD says 69 per cent of its members identify procurement as having the highest potential environmental impact, budgetary importance and potential to influence the market, set ambitious green procurement goals

and track progress towards them. Still, mainstreaming green procurement is not happening at the pace and scale needed and evidence of new and green infrastructure mitigating the worst impacts of climate change is relatively limited. For most OECD member states, only indicative green procurement information is available as a percentage of total public procurement spending. Beyond that, there is no reliable information, regular data collection or clear reporting on reduced waste or carbon emissions.

### GREEN, NOT GREENWASHED

With climate pledges taking the political spotlight, it is increasingly clear that fuzzy definitions of what constitutes green procurement and insufficient transparency of information on public procurement are creating market access barriers to genuinely green procurement. For example, Latvia calls its public procurement “green” when just one green criterion is applied to qualify a supplier or award the public contract and it represents at least 5 per cent of the total contract amount. This means that Latvia can claim to have achieved 100 per cent green procurement in the public procurement

market when only 5 per cent of these procurements are green in reality.

As long as green procurement is not defined and mandated by law, buying “green infrastructure” is a strictly declaratory exercise, with no monitoring of the project and procurement cycle from planning through to contract implementation and no measuring of the project’s environmental impact. The lack of common legal standards and no pressure to provide publicly available data on green versus non-green procurement discourages markets from offering green products, services and works. It hampers the capacity of national governments to implement and deliver plans that will turn climate pledge commitments into actual investments in genuinely green public infrastructure.

In this context, it should be mentioned that while national governments are struggling, cities in many countries stand out for their advancement in green procurement at the municipal level.



## CITIES THAT (MAY) LEAD THE WAY

While the sustainable infrastructure challenge is complex politically, economically and institutionally, there may be a way to bridge the divide. Local governments around the world are being recognised for developing a better understanding of how sustainability fits into their local community considerations, priorities and governance processes. This is because cities are major contributors to climate change. Their global share of GHG emissions stands at 70 per cent and is rising. Urban populations are also highly vulnerable to the effects of climate change, and without a redesigning of the delivery of municipal services such as infrastructure, housing, health and safety, cities' capabilities to grow sustainably and inclusively are hampered. Faced with challenges, municipalities are potentially quicker to identify the barriers or limitations that arise when investing sustainably and understand why past sustainable procurement initiatives have failed or succeeded. With some help, cities can frame sustainability benchmarks in a clear and meaningful way and use them to manage their public infrastructure investments.

Copenhagen, Helsinki, Oslo and Stockholm target zero-emission construction sites, have rigorous circular economy standards for construction and civil works, and advance climate neutrality and zero-waste projects through local green public procurement strategies. Barcelona, Berlin, Bremen, Hamburg and Vienna have made green procurement of public infrastructure mandatory for all local government investments, whether privately or state-budget funded. What all these cities have in common is careful selective drawing on market expertise, investing in in-house green procurement skills and advancing digitalised governance of public infrastructure projects. And yes, they are all in developed countries, when the effects of climate change are worse in poor and low-income communities.

Would it be possible for local governments and municipalities in transition countries to follow their example – to become a building block of sustainable public infrastructure and public services for their domestic economies? With this question in mind, the next sections examine the EBRD green investment, finance and technical cooperation available to municipalities in our regions. There is a role to play to provide significant, long-term support to cities to help them invest and adopt policies aimed at preventing or mitigating the negative effects of climate change.

EBRD Green Cities has harnessed the strategic institutional orientation towards a green transition and positioned sustainable infrastructure at the forefront of climate finance.

## EBRD GREEN CITIES

The EBRD has been implementing the Green Cities programme since 2016. This programme promotes municipal leadership in developing sustainable infrastructure in the EBRD regions. Rapid urban growth has greatly increased demand for resources, which, in turn, affects both the environment and the quality of life of urban residents. Worldwide, cities account for 70 per cent of energy use and 80 per cent of GHG emissions. In the EBRD regions, these challenges are particularly acute due to demographic changes, insufficient investment in infrastructure and historical legacies of high energy and carbon intensity.

The Bank developed EBRD Green Cities to build a better and more sustainable future for cities and their residents. The programme helps identify, prioritise and link cities' environmental challenges with sustainable infrastructure investments and policy measures. EBRD Green Cities uses four interventions to help cities achieve sustainable local development with a reduced carbon footprint:

- **Green City Action Plan:** Assessing and prioritising environmental challenges based on specific indicators and developing an action plan to tackle the challenges through policy interventions and sustainable infrastructure investments.
- **Green infrastructure investment:** Facilitating and stimulating public or private green investments in water and wastewater, urban transport, district energy, energy efficiency in buildings, renewable energy, solid waste and climate resilience.



- **Green finance:** Providing green finance for locally delivered projects reducing the carbon footprint.
- **Capacity building:** Providing technical support to city administrations to ensure that sustainable infrastructure investments and green finance are implemented effectively.

At the time of writing, EBRD Green Cities covers 54 cities – most recently, Gaziantep in Türkiye. All participating cities, with EBRD help, work on a Green City Action Plan to create a tailor-made list of environmental investments and policy actions addressing their individual environmental challenges. The Bank aims to mobilise €5 billion to replace dated infrastructure causing environmental degradation and higher GHG emissions and, through these investments, help save 1.2 million tonnes of carbon dioxide equivalent a year.

EBRD Green Cities draws on the Bank's unique internal expertise as an international financial organisation offering green investment. It provides technical support, giving partnering cities market knowledge and on-demand sustainability market expertise and helping them to develop in-house sustainable infrastructure and the necessary digital transformation skills to digitalise governance of public infrastructure projects.

## GREEN PROCUREMENT STRATEGY FOR SUSTAINABLE MUNICIPAL INFRASTRUCTURE AND SERVICES

EBRD Green Cities has harnessed the strategic institutional orientation towards a green transition and positioned sustainable infrastructure at the forefront of climate finance. If required – as demonstrated by the success stories of Barcelona, Berlin, Bremen, Hamburg and Vienna – EBRD Green Cities' technical cooperation may support the development of green procurement strategies to underpin delivery of municipal sustainable infrastructure specified in individual action plans, as well as other projects, including the projects supported by EBRD green finance.

A green procurement strategy with a horizontal impact on several municipal services may strengthen the impact of the Green City Action Plan and harness the benefit from synergies across sectors to maximise the value of green investments. Developing a municipal-level green procurement strategy in the context of a Green City Action Plan has several practical advantages. First and foremost, with priority green infrastructure



investments identified by the action plan that cover both public budget and private sustainable infrastructure investments, the green procurement strategy is fit-for-purpose and is inevitably very sector- and product-focused, to support delivery of specific investments. The framework of the Green City Action Plan should help the municipal administration better navigate knowledge asymmetry and complexity challenges and tailor its green procurement strategy to fit targets of planned sustainable infrastructure. With clearly specified sustainability targets, the municipal administration can better manage the selection of relevant green procurement best practice as well as methodologies and appropriate resources.

As a result of the EBRD's commitment to facilitating and/or stimulating public or private green investments in line with the action plan, municipal-level green procurement strategies also have access to the Bank's procurement expertise for green municipal investments. Importantly, the green infrastructure investments facilitated and/or stimulated by the Bank within the framework of the priorities specified in the action plan give the partnering city an opportunity to pilot and verify the approach of the green procurement strategy in practice. Piloting the green procurement strategy with green investments facilitated and/or stimulated by the Bank creates unprecedented opportunities to learn and improve to fit specific market needs and adopt tested green procurement instruments for regular use with other relevant municipal infrastructure investments.

## DIGITAL TRANSFORMATION ACCELERATES SUSTAINABLE INFRASTRUCTURE

Finally, in the context of a Green City Action Plan and building on technical cooperation knowledge products and resources developed by the Bank to support the modernisation of national public procurement systems, the Bank can help partnering cities develop in-house sustainable infrastructure capacities and new green procurement skills and tools harnessing the technology to accelerate green transition in municipal infrastructure. These include SOURCE – an online platform for managing private-sector investment in sustainable infrastructure projects – as well as several green procurement digital tools developed as part of the Bank’s technical cooperation projects to help public-sector organisations overcome complexity and capacity challenges in implementing energy performance contracts (EnPCs), life-cycle costing and purchasing energy-efficient products for municipal services.



### Sustainable Infrastructure Platform of the EBRD Infrastructure Project Preparation Facility

The EBRD LTP promotes modern regulatory standards for concessions and PPPs and to develop new legislative solutions with governments of the EBRD regions. The EBRD Infrastructure Project Preparation Facility seeks to improve public-sector capacities in preparing and managing quality sustainable infrastructure projects. International finance institutions set up the Sustainable Infrastructure Platform (SOURCE) in 2016 to harmonise regulatory, governance and sustainability standards for infrastructure project preparation and to create a reliable database for infrastructure projects.

Current efforts to improve the functionality of SOURCE will enable interoperable digital solutions that can be integrated with national digital registers, e-procurement systems and online contracting and payment solutions for creating an end-to-end digital governance process for PPPs and concession projects. The update will also enable SOURCE to focus on gender and inclusion issues to support further infrastructure sustainability from the initial design stages. Pilot projects are being developed to integrate the platform with the national e-government systems of the EBRD regions.



### Green procurement digital tools piloted by EBRD LTP technical cooperation projects

The EBRD LTP promotes adoption of new laws and regulations targeting energy efficiency and reversing climate change, including EnPCs, life-cycle costing and eco-labelling. To be effective, regulatory change must be accompanied by accessible implementation tools. The best way to improve the understanding of new environment-friendly regulatory instruments and ensure they are highly accessible to market stakeholders is to use the technology. The programme’s experience from technical cooperation indicates that digital green procurement tools can show that life-cycle costing represents a better indicator of value for money than the initial product price, the eco-labelled products purchased by the government lower public budgets and aid the environment, and a large-scale use of EnPCs helps private-sector investment reverse climate change in municipal communities.

For example, within 12 months from January 2021, a “green online shopping” technical cooperation pilot project with Prozorro Market introduced 23 energy-efficient product categories to public-sector buyers and qualified 203 suppliers of eco-labelled products to participate in public tenders in Ukraine. As a result, energy-efficient products bought in 319 public tenders in Prozorro Market saved the state budget UAH 10 million (€242,530) and generated annual energy savings of 3,856,307 kWh. Similarly, upon adoption of new legislation on EnPCs in Ukraine, a technical cooperation pilot developed and digitalised standard bidding documents and introduced Prozorro ESCOlator – an online automated energy performance public tender for EnPCs. This enabled transparent and competitive online synchronous bidding for ESCO companies with excellent results: within 12 months of the pilot, which started in November 2017, Ukrainian municipalities advertised 172 EnPC contracts and 72 contracts worth UAH 40 million (€970,120) were signed, with energy use expected to be halved.

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## CONCLUSION

EBRD Green Cities helps build the municipal-level capacities and skills necessary to carry out green infrastructure projects and use new digital tools for sustainable infrastructure. If extended to cover developing green procurement strategies, it opens the door for a municipality to access modern digital tools for sustainable infrastructure project management and green procurement tools, which are necessary to implement green investment and green finance programmes successfully.

Developing a green procurement strategy under a Green City Action Plan can help municipal administrations identify the relevant green procurement best practice to implement their green finance and green infrastructure investment projects. The Bank's technical cooperation may support municipal administrations as they identify and prioritise necessary green investments under a Green City Action Plan, designing municipal green investment programmes and facilitating and/or stimulating green investments.



### EBRD Green Cities – Chisinau building project

An EBRD feasibility study in Chisinau Municipality in Moldova identified 119 buildings to be renovated to save enough energy costs to attract private sector investment. The EBRD Green Cities project in the municipality covers Bank loans of up to €25 million and a total project size (loans) and co-financing grants amounting to €37.5 million.

The loans and technical cooperation grants finance energy-efficiency measures in public buildings to be carried out through energy performance contracts. An EnPC mechanism was tailored for Moldova, drawing on the lessons learned in Ukraine to maximise private sector interest. The EBRD Green Cities project with Chisinau included technical cooperation grants to develop a Green City Action Plan, prepare a feasibility study covering technical, environmental and social due diligence, and provide project implementation support that covers (i) energy audits of selected buildings, (ii) selection of buildings to be renovated under the EnPCs and (iii) engineering design, procurement, contract award and administration. The project aims to reduce energy consumption and carbon dioxide equivalent in the buildings.

Chisinau has prepared and adopted the action plan to guide green investment at city level and the first EnPC contracts for 47 buildings are in progress. Despite initial challenges, the private sector has introduced incentive-based outsourcing or management contracts. A solid waste project was developed in 2020, drawing on the action plan.

As the EBRD Green Cities project seeks to promote a replicable financial product for similar energy-efficiency projects across Moldova and enable the private sector to help design and implement energy-saving projects through EnPCs, the EnPC mechanism developed and tested by the project was introduced to national procurement practice. Lessons learned in Ukraine were again helpful. The EBRD LTP has been working with Moldova's Ministry of Finance since 2016 to introduce a new e-procurement system, MTender, which builds on the success of Prozorro Market in Ukraine.<sup>1</sup> Potentially, digital green procurement tools for EnPC, life-cycle costing and purchasing energy-efficient products in online shopping can be used for technical cooperation with Chisinau Municipality.

<sup>1</sup> See <https://mtender.gov.md>, (last accessed on 19 September 2023).



A green procurement strategy gives municipal governments reliable and best practice sustainability information, methodologies and “easy wins” that can make a big difference for local communities. It goes beyond strategic guidance, suggesting concrete steps to take and practical tools to use, because the Bank is harnessing the technological revolution to help local leaders unlock the power of technology and create green change for cities and their residents.

The EBRD’s technical cooperation projects in the area of sustainable infrastructure and green procurement focus on adopting green procurement strategies through digital tools that drive sustainable procurement by helping public and private market stakeholders overcome knowledge and complexity barriers. This will make it easier to capture and share procurement sustainability data and remove market access barriers to green infrastructure investment.

The Bank’s technical cooperation is creating innovative green procurement knowledge and digital products in the hope of making green procurement knowledge tools easily available to market stakeholders through user-friendly online portals. The objective is for green sector and product-specific technical specifications, evaluation methodologies and sustainability award criteria, life-cycle costing-based calculators, carbon footprint tools, eco-labels and environmental spend analysis of public contracts to become both standard and frequently used components of national e-procurement systems.

