



Social Procurement

Paving the Way for Business Resilience and Sustainability

June 2024



Credits

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Preface



At Impact Europe, we aim to accelerate positive social and environmental change by mobilising more capital for impact. Social enterprises within the impact ecosystem play a crucial role, providing innovative solutions for people and the planet while contributing to fulfilling Sustainable Development Goals. However, these enterprises often face challenges in accessing funding and expanding.

Social procurement integrates social enterprises and impact-driven businesses into corporate value chains, offering an opportunity for faster scaling of effective solutions. This approach also holds promise for accelerating the corporate transition to net zero (and even net positive) impact.

Our report shares insights and case studies from over 30 global companies, with a particular emphasis on India, that have embraced social procurement.

It explores what facilitated the change, the value it created, challenges faced, successful strategies, and lessons learned. By highlighting the need for cross-functional collaboration, the report provides a comprehensive view of how social procurement can drive positive social and environmental change and guides corporates in their implementation.

The launch of the Social Procurement report aligns with Business of Impact 2024, the European gathering of corporate impact actors hosted by Impact Europe in The Hague. We aim to spotlight this topic, foster discussions, and mobilise corporate action. We hope you find it insightful!

Roberta Bosurgi
CEO, Impact Europe



Foreword

As a global leader in innovation, SAP is committed to making a positive impact on the world. Our purpose remains steadfast: to help the world run better and improve people's lives. As part of our Corporate Social Responsibility (CSR) initiatives, we strive to generate equitable access to economic opportunity, education, and employment worldwide. One of the ways in which we do this is by supporting the impact business ecosystem.



The World Economic Forum released a report on the state of the social enterprise sector, revealing surprising insights. There are now over 10 million impact businesses, known as social enterprises, prioritizing people and the planet globally. Notably, one in every two social enterprises is led by a woman. These enterprises offer quality goods and services that benefit both companies and consumers alike. They create over 200 million jobs and generate an economic impact of over \$2 trillion annually, surpassing even the apparel industry. However, the sector is also experiencing a significant \$1.1 trillion funding gap, hindering the efforts of social enterprises and in turn, their impact.

One way SAP is helping address the funding gap is through our commitment to advance the social procurement movement. Over the past 15 years, our CSR team has invested in social enterprises and their ecosystems while learning how to integrate them into mainstream supply chains. With more than \$5.1 trillion in annual commerce transacted on SAP's Business Network alone, we want to help shift a percentage of spend to organizations offering quality goods and services that also prioritize people and planet. Ultimately, we recognize that our collective spending power can create an investment in sustainable development in a way that is not possible through corporate philanthropy alone. We could help fill the funding gap with money that has already been budgeted and approved for spend.

Social procurement holds immense potential for companies to create sustainable supply chains and achieve their ESG and diversity and inclusion goals. By embracing businesses that prioritize people and planet, companies can not only stay ahead of ESG regulations and manage risk, but also attract and retain employees to name a few benefits. This report serves as a valuable resource for all stakeholders in the ecosystem, empowering them to explore and enhance their individual and collective contributions to social procurement. Together, we can shape a more inclusive and responsible future.

Alexandra van der Ploeg

Global Head of Corporate Social Responsibility, SAP



Foreword

In today's ever-evolving business landscape, compliance plays a pivotal role in driving ESG and sustainability agendas. However, we are at a transformative juncture where companies are investing in **Social Procurement** not solely due to compliance but to create genuine value for people and the planet across business value chains.



A company's HQ country often becomes a starting point to anchor strategies due to the local regulatory environment. European companies often focus on environmental factors due to regulations and reporting norms. Similarly, companies in India have prioritised social development to meet the unique needs of the country. Though social procurement is driven by statutory norms, our experience in India shows there are more compelling factors, such as stronger community engagement, partnerships with promising social enterprises, risk mitigation associated with over-reliance on certain geographies, and greater visibility through flagship programs.

Social procurement offers significant opportunities to engage social enterprises and, SMEs, stimulating underleveraged parts of the economy and generating widespread value. The benefits are clear—working with large companies helps social entrepreneurs grow their businesses, become resilient, and increase their impact, by providing jobs to the socio-economically disadvantaged. However, for it to be effective, ecosystem-level initiatives are essential where enterprises can access capacity building, financing, expertise, and other resources.

Implementing social procurement in companies requires a comprehensive operating model characterised by cross-functional and cross-departmental collaboration. It necessitates integration across company policies and processes, and building stakeholder buy-in, hence involving procurement, finance, CSR, sustainability, and other teams. Further, infrastructure development to increase the discoverability and integration of social enterprises necessitates investment from diverse players, including philanthropic foundations and DFIs.

Despite the growing focus on social procurement, companies face significant challenges today. These include accessing a pipeline of social enterprises, their limited capacity to meet the criteria of larger companies, and lower procurement volumes compared to mainstream suppliers. Philanthropy can address these challenges by funding grant-based programs for livelihood generation, creating a pipeline of reliable social enterprises, and reinforcing the social procurement mandate through capacity-building programs.

Through this collaboration with SAP and Impact Europe, we're excited to share how more than 35 companies have adopted social procurement, navigated its complexities, and demonstrated good practices in action. Our goal is to advance social procurement agendas across the Global North and South, and we look forward to supporting ecosystems where companies are striving to enhance their procurement to drive enduring impact.

Srikrishna Sridhar Murthy (Krishna)
Co-founder and CEO, Sattva Consulting





Executive Summary

Social procurement is emerging as a significant pathway for companies to meet their sustainability goals while creating social value, particularly evident in the ecosystem of EU-based companies with a global presence. As companies adopt social procurement to engage with mission-aligned social enterprises, it contributes to ESG strategies, the Sustainable Development Goals (SDGs), stimulates underleveraged sections of the economy and ensures compliance with emerging regulations.

Further, social procurement serves multiple benefits for businesses at large:

- ♦ Reducing environmental footprint
- ♦ Furthering innovation in new business models and new markets
- ♦ Cascading ethical practices among supplier networks
- ♦ De-risking supply pressures
- ♦ Bolstering financial performance
- ♦ Creating an impact premium
- ♦ Enhancing brand reputation

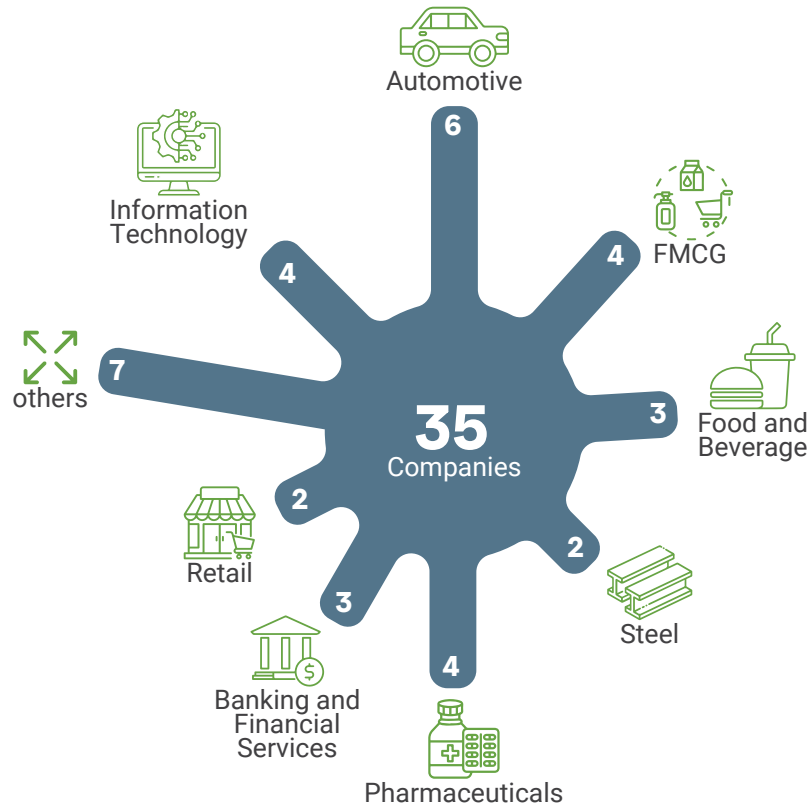
Some early drivers of social procurement include geo-political unrest, black swan events like the COVID-19 pandemic, and extreme weather events due to climate change that significantly disrupt supply chains, giving rise to the necessity to create more resilient and inclusive supply chains.

As we deep-dive into the experience of EU-based companies with an Indian footprint, we observe that the changes in the regulatory environment, such as EU-level procurement directives, India's BRSR reporting mandates, and policies in business and digital, are providing momentum for social procurement. For example, the European Union's public procurement directives, the Critical Raw Materials Act, and the 'Buying Social' Guide have significantly influenced the social procurement and supply chain strategies of companies.

Within India, the government has taken significant steps to enable the growth of MSMEs and small producers across the country - these span initiatives such as the Government eMarketplace (GeM), Open Network for Digital Commerce (ONDC), and Make In India. Additionally, reporting mandates like BRSR have encouraged listed companies to engage more deeply with supply chain sustainability and social procurement.



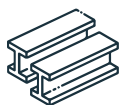
Given this backdrop, this study sought to understand trends and best practices in social procurement across supply chains of global companies with headquarters outside and in India. The study analysed the social procurement strategies of 35 organisations, of which 17 are headquartered in India and 18 are spread globally. The selected companies represent diverse industries:



The study of these 35 companies revealed the following eight trends:

- 1 Over 50% of the companies support indigenous communities and actively engage with local producers in their procurement.
- 2 40% of the companies report comprehensive supplier diversity programs integrating under-represented groups through their enterprises to achieve inclusion in procurement.
- 3 Close to 90% of companies studied reported a transition to sustainable manufacturing and production, adopting circular supply chain practices.
- 4 More than 50% of the companies focus on green logistics, with a third of them optimising transportation routes in their supply chains to enable it.
- 5 While all companies have robust risk management, there is a high prevalence of initiatives reported in Pharmaceuticals, Automotive, Information Technology, and FMCGs
- 6 More than 60% of companies enhance supply chain transparency by utilising digital platforms for real-time traceability, monitoring and compliance.
- 7 More than 50% of the companies offer capacity building for suppliers to amplify transparency, accountability, safety, and environmental performance in supply chains.
- 8 All companies support community development in their areas of procurement through CSR.

Sector Level Insights



For industrial manufacturers like those in the steel and building materials sectors, CSR initiatives are focused on community empowerment through education, skills development, healthcare, infrastructure development, and environmental sustainability. These initiatives aim to uplift communities, particularly those surrounding operational areas, and demonstrate a commitment to responsible business practices.



The banking and financial services sector prioritises social initiatives for youth, small businesses, and marginalised groups through programs focused on education, vocational skills, and financial empowerment. These efforts collectively enhance employability, address systemic inequalities, and foster financial inclusion.



Conglomerates, FMCG companies and retailers prioritise supporting local vendors and suppliers by sourcing from small and medium enterprises and partnering with local communities. This approach enhances local entrepreneurship and competitiveness, driving economic growth and community development.



Pharmaceutical companies prioritise supplier risk assessment, responsible sourcing, and supplier diversity. Their CSR initiatives focus on skilling and empowering local communities, alongside training and raising awareness about healthcare, well-being, hygiene, and related issues.



IT companies prioritise green procurement by adopting environmentally friendly standards to reduce carbon emissions, energy consumption, and water usage. They source from local, diverse, and MSME-owned businesses. This focus is driven by the sector's significant contribution to energy consumption and the need to mitigate environmental impact and promote sustainable practices.



Automotive companies have adopted internal guidelines and policies that extend beyond traditional Supplier Codes of Conduct, driven by the need to mitigate significant environmental impacts. These measures include sustainable procurement, responsible sourcing, green procurement, and sustainable supply chain models. There is a strong emphasis on building supplier and vendor capacity to ensure adherence to these standards.

Going forward, we see the following areas as critical to accelerate the momentum around social procurement:

- ♦ A strategic focus at the leadership level from companies to unlock a percentage of their annual procurement from social enterprises and MSMEs from underrepresented communities.
- ♦ Assessment, certification, capacity building and measurement focused frameworks and initiatives to strengthen the ecosystem for social procurement.
- ♦ Stronger discovery mechanisms and platforms for social enterprises, credible small suppliers and corporates to come together.
- ♦ Policy incentives in India to encourage social procurement in the private sector.





Sattva is a leading development consulting firm focused on building scalable solutions for sustainable social impact. With a team of over 400+ impact professionals operating out of offices in India, South-East Asia, Europe, and North America – Sattva is one of the largest impact consulting organisations based in the Global South. At Sattva, we are committed to tackling extreme global poverty, by effecting systemic change that goes to the root-cause of societal inequity and material deprivation. To this end, Sattva works with stakeholders across the impact spectrum, including corporates, philanthropists, foundations, governments, development agencies, and social enterprises to help them achieve their social impact goals and maximise return on social investment; through service offerings in the space of strategic advisory, program design, implementation, research, impact evaluation and co-creation of sustainable models. Sattva works to realise inclusive development goals across thematic areas, including in education, skill development and livelihoods, healthcare, water and sanitation, digital and financial inclusion, environment and climate action, among others.

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Impact Europe is a unique network of impact capital providers along the full continuum of capital (foundations, impact funds, banks and financial institutions, corporate impact actors, public funders). We strive to increase prosperity and social progress for all, fix inequalities and injustices and preserve the planet. We unite capital providers and social innovators of all sorts – from household names to emerging new players. All capital providers have a crucial role to play in driving transformative change. Impact Europe offers strategies, insights and practical wisdom for wherever you are on the continuum of capital. We rally people, capital, knowledge and data to catalyse, innovate and scale impact.

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