

Chapter 4

Social integration: PPS implementation of secondary policy objectives

Korea utilises public procurement to support the furtherance of policy objectives through a broad and complex array of support mechanisms. These are primarily implemented by the Public Procurement Service (PPS) with support from other relevant ministries. This chapter presents an analysis of the use of public procurement to foster secondary policy objectives in Korea in three primary areas: support for particular types of enterprises, innovation and support for green public procurement.

While efficiency and cost effectiveness are among the primary objectives of public procurement, governments increasingly use this purchasing power as a policy lever to support various secondary objectives such as green growth, the development of small and medium-sized enterprises (SMEs), or innovation. The OECD has monitored these trends as part of its efforts to review country progress in implementing the 2008 OECD “Recommendation of the Council on Enhancing Integrity in Public Procurement”, as well as in the development of public procurement data for the *OECD Governance at a Glance*.

The 2015 OECD “Recommendation of the Council on Public Procurement” (hereafter, the “OECD Recommendation”) encourages a balanced approach to the inclusion of policy goals in public procurement. Recognising the delivery of goods and services necessary to accomplish government mission in a timely, economical and efficient manner as the primary procurement objective, the OECD Recommendation identifies secondary policy objectives as any of a variety of objectives pursued through public procurement, such as sustainable green growth, the development of small and medium-sized enterprises, innovation, standards for responsible business conduct or broader industrial policy objectives. The policy choice regarding whether to pursue secondary policy objectives in public procurement will vary by government and the needs of citizens, but the OECD Recommendation identifies steps that should be taken whenever such objectives are pursued (see Box 4.1).

Box 4.1. OECD Recommendation on secondary policy objectives

V. RECOMMENDS that Adherents recognise that any use of the public procurement system to pursue secondary policy objectives should be **balanced** against the primary procurement objective.

To this end, Adherents should:

- i) **Evaluate the use of public procurement as one method of pursuing secondary policy objectives in accordance with clear national priorities**, balancing the potential benefits against the need to achieve value for money. Both the capacity of the procurement workforce to support secondary policy objectives and the burden associated with monitoring progress in promoting such objectives should be considered.
- ii) **Develop an appropriate strategy for the integration of secondary policy objectives in public procurement systems.** For secondary policy objectives that will be supported by public procurement, appropriate planning, baseline analysis, risk assessment and target outcomes should be established as the basis for the development of action plans or guidelines for implementation.
- iii) **Employ appropriate impact assessment methodology to measure the effectiveness of procurement in achieving secondary policy objectives.** The results of any use of the public procurement system to support secondary policy objectives should be measured according to appropriate milestones to provide policy makers with necessary information regarding the benefits and costs of such use. Effectiveness should be measured both at the level of individual procurements, and against policy objective target outcomes. Additionally, the aggregate effect of pursuing secondary policy objectives on the public procurement system should be periodically assessed to address potential objective overload.

Source: OECD (2015a), “Recommendation of the Council on Public Procurement”, www.oecd.org/corruption/recommendation-on-public-procurement.htm.

The vast majority of OECD member countries use public procurement as a tool to implement policies or strategies to foster secondary policy objectives. In fact, 26 OECD member countries have developed strategies or policies to support green public procurement, SMEs and innovative goods and services. These strategies are predominantly developed at the central level (see Table 4.1).

Table 4.1. **Development of strategic public procurement by objective**

	Green public procurement	Support to SMEs	Support to innovative goods and services
Australia	●	●	●
Austria	●	○	●
Belgium	◆●	●	●
Canada	◆●	●	●
Chile	◆●	◆●	●
Denmark	●	●	●
Estonia	○	○	○
Finland	●	◆	◆
France	◆●	◆●	◆●
Germany	●	●	●
Greece	◆●	●	○
Hungary	◆	●	●
Ireland	●	●	●
Italy	◆	◆	◆
Japan	●	●	●
Korea	●	●	●
Luxembourg	◆●	◆●	◆
Mexico	●	●	●
New Zealand	◆●	◆●	◆●
Norway	■	◆●	◆●
Poland	●	●	●
Portugal	●	◆	◆
Slovak Republic	○	○	○
Slovenia	◆●	●	●
Spain	◆●	◆●	◆●
Sweden	◆●	●	●
Switzerland	◆●	◆●	◆
United Kingdom	●	●	●
United States	●	●	◆●
Brazil	◆●	◆●	●
Colombia	◆	●	●
OECD29			
◆ A strategy / policy has been developed by some procuring entities	13	10	10
● A strategy/policy has been developed at a central level	24	23	20
■ A strategy / policy has been rescinded	1	0	0
○ A strategy/policy has never been developed	2	3	3

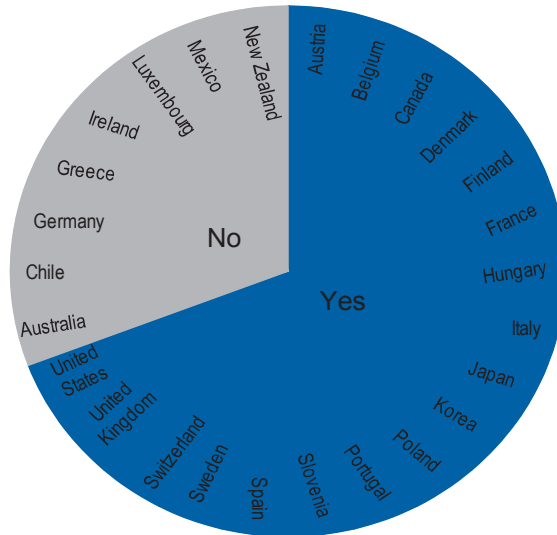
Source: OECD (2015b), *Government at a Glance 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/gov_glance-2015-en.

In sharp contrast, the number of OECD member countries that report measuring the results of their strategies or policies to promote environmental or socio-economic objectives is significantly lower and exhibits differences between the policy objectives. Among the 26 OECD member countries who have a strategy or policy developed at the central level or by procuring entities (line ministries), 18 (69%) measure the results of their strategy or policy to support green public procurement. There are 15 OECD member countries (58%) that measure the results of their strategy or policy to support SMEs. Only

9 OECD member countries (35%) measure the impact of their policy or strategy to foster innovative goods and services (see Figure 4.1).

Figure 4.1. **Measuring results of strategic public procurement's policies/strategies**

A. Support for green public procurement



B. Support for SMEs

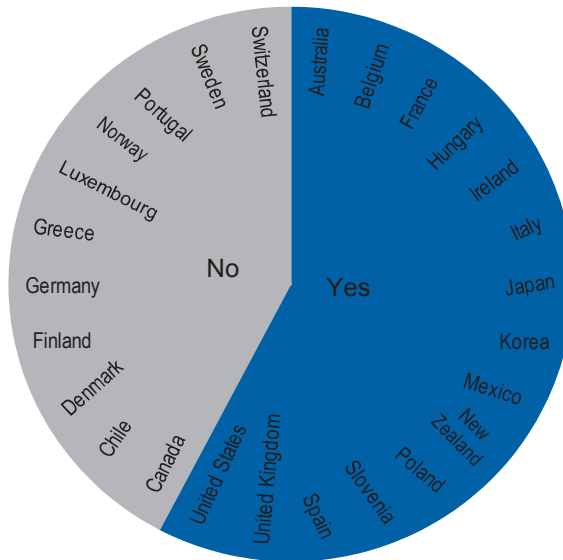
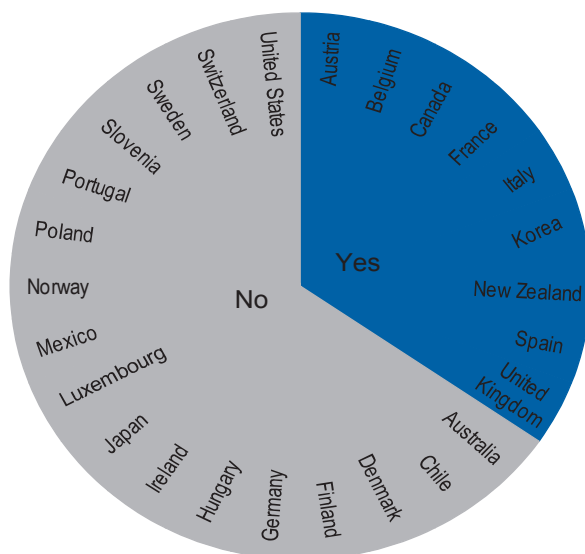


Figure 4.1. **Measuring results of strategic public procurement's policies/strategies** (*continued*)

C. Support for innovative goods and services



Source: OECD (2015b), *Government at a Glance 2015*, OECD Publishing, Paris, http://dx.doi.org/10.1787/gov_glance-2015-en.

PPS policies for supporting social enterprises

Public Procurement Service (PPS) implements the government's policies for increasing public purchases from a variety of types of entities, including small and medium-sized businesses, local businesses, women-owned businesses and other social enterprises.

Support for small and medium-sized enterprises

Support for SMEs in Korea is a strong priority, given the make-up of the economy. There are approximately 3.3 million SMEs in Korea, while there are only 2 900 large businesses: SMEs are 99.9% of businesses. This difference is reflected in the number of SMEs registered with PPS (see Table 4.2). Only 1.8 million employees work for large businesses, while SMEs employ 13 million, or 87.6% of the workforce. An estimated 47.7% of the value-added generated by the Korean economy is attributed to SMEs.

Table 4.2. Registered Businesses in KONEPS

	2009	2010	2011	2012	2013	2014
Total	262 411	261 314	291 245	323 003	353 021	384 994
Subtotal	260 973	259 871	289 068	319 853	348 178	379 927
Small and medium-sized businesses (including non-profit orgs.)						
General goods	106 864	105 432	119 694	134 932	149 417	166 766
Foreign goods	5 205	5 069	5 417	5 675	5 985	6 212
Public works	81 715	74 483	77 226	80 008	82 523	85 186
Services	65 696	74 235	85 973	98 332	109 170	120 472
Commodities	1 294	424	506	611	722	892
Foreign firms	199	228	252	295	361	399
Subtotal	1 438	1 443	2 177	3 150	4 843	5 067
Large businesses						
General goods	586	581	886	1 271	1 886	2 000
Foreign goods	67	58	70	107	151	148
Public Works	308	312	456	632	945	974
Services	441	464	732	1,105	1 845	1 923
Commodities	9	1	6	8	16	22
Foreign firms	27	27	27	27	0	0

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

The legal basis of support of SMEs comes from Article 4 of the Act on Facilitation of Purchase of Small and Medium Enterprise Manufactured Products and Support for Development of Their Markets, which requires the heads of public institutions to provide small and medium-sized businesses with increased opportunities to receive orders when they intend to make procurement contracts for goods, services and construction works. In the past, SMEs were defined by Article 3 of the Framework Act on Small and Medium Enterprises on the basis of either number of permanent employees, overall capital or sales volume. A recent change, which took effect on 1 January 2015, now defines SMEs solely in terms of sales volume (either annual or average). In addition to the criteria for being included as an SME, there are specific factors that can exclude an enterprise from SME status, including total assets exceeding USD 423.8 million. Finally, in addition to meeting the other criteria, a business must also be deemed independent in ownership and business operation (not a subsidiary of a large enterprise) with respect to the relevant laws and regulations.

Businesses must renew SME certification annually, and apply for certification by submitting corporate balance sheets to prove sales volume. Certification is conducted by the Small and Medium Business Administration (SMBA) according to the terms of Article 27 of the Small and Medium Business Framework Act.

Article 4 of the Enforcement Decree of the Act on Facilitation of Purchase of Small and Medium Enterprise-Manufactured Products and Support for Development of their Markets sets an annual purchasing goal for SME-manufactured products of 50% or more of total purchasing value.

For goods and services procurement, SMEs are supported through a broad range of programmes. An SME set-aside programme is run in co-operation with the Small and Medium Business Administration (SMBA). Under this programme, SMBA designates specific products for SMEs, and currently there are 207 products with this designation. For these products designated as competitive products, only SMEs that directly manufacture such products are invited to participate in competitive tenders. Eligibility to participate is managed through a Public E-procurement Information Network, available at www.smpp.go.kr and maintained by SMBA. Direct contracting is allowed for small-sum contracts (below USD 42 400). In order to prevent excessive competition resulting in

unsustainably low prices, discounts below 88% of the established reference price are not allowed (see Chapter 3 for more information on the establishment of reference prices).

In addition to the set-aside programme, large businesses are restricted from participation in tenders for general goods below the World Trade Organization Agreement on Government Procurement (WTO GPA) threshold. There are also SME-related requirements during the second stage competition related to Multiple Award Schedule (MAS) framework agreements, for appropriate products. The award period for MAS contracts was recently doubled to two years, in most categories, as a means of reducing the burden on SMEs of applying for these contracts on an annual basis.

On the basis of these programmes, SMEs captured a substantial share of over 50% of contracts conducted by competition in 2013, a significant increase from the 30% share of 2009, as shown in Table 4.3.

Table 4.3. **Contract performance by competition among SMEs**

In USD billions						
Categories	2009	2010	2011	2012	2013	2014
Competition contracting (A)	11.4	11.3	12.0	13.4	14.7	11.8
Competition among SMEs (B)	3.5	4.3	5.7	6.9	7.7	6.3
Percentage	30.5%	38.2%	47.8%	51.5%	52.1%	53.7%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

SMEs can also benefit from a variety of special designations that are offered by SMBA, PPS and line ministries. Designation as an outstanding SME (for example, through certification for excellent technology or performance, or through designation as an innovative SME by SMBA) provides additional points in contract fulfilment capability tests, allowing such SMEs a competitive advantage. Designation as a supplier of an Excellent Government Supply Product allows for direct contracting, which can increase SME market share. The Excellent Government Supply Joint Brands designation allows direct contracting in a way that supports technology sharing, transfer and joint production among SMEs. These and other certification mechanisms will be examined in more detail below.

For construction works, the Korean Government assigns some projects into multi-use lists that are divided into seven classes according to the size of the work. For works of second class and below (Class 1 is the largest), only small and medium-sized construction companies are allowed to participate in tenders (a breakdown of construction works by class is presented in Table 4.4). These classes include works below USD 127 million for civil engineering works, and works below USD 93.2 million for architectural works. Many of the 207 designated products set aside for SMEs are construction materials. Korea has also recently implemented a programme to better support subcontractors by protecting their rights to timely payments and preventing “dual contracts” that forced subcontractors to perform according to less favourable terms following award of the government contract. This system, the Subcontract Management System for Government Contracts (SMSGC) is demonstrating impressive results in its initial implementation. More detail on SMSGC is presented in Chapter 2.

Table 4.4. **Construction works contracts**

		In USD billions					
		2009	2010	2011	2012	2013	2014
New construction works contracts total		22.3	12.6	9.4	8.2	9.1	7.3
Volume of contracts where multi-use list applies	Class 1	1.9	0.7	0.8	1.4	0.6	0.3
	Class 2 and below	3.3	2.0	1.3	1.6	1.5	1.8
	Subtotal	5.2	2.7	2.0	3.0	2.1	2.0
Percentage (Total/Class 2 and below)		14.9%	15.9%	13.4%	19.4%	17.0%	28.1%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

PPS also provides special financial support to SMEs involved in public contracting. SMEs are entitled to an upfront payment of up to 70% of the value of a government contract (see Table 4.5). For some contracts for goods, including orders against unit-price contracts, lump sum contracts for goods valued up to USD 423 800, or at the request of the end user for other goods contracts, the business is entitled to instant payment upon presentation of the invoice. In these cases, payment is made from the PPS special account and then reimbursed by the end user, as discussed in Chapter 2. Though central government entities are entitled to a payment period of up to five days, instant payment allows SMEs to receive payment within as little as four working hours.

Table 4.5. **Upfront payment**

		In USD millions					
		2009	2010	2011	2012	2013	2014
Total upfront payment		409.4	372.4	301.0	418.9	488.7	479.0
Upfront payment to SMEs		251.6	348.4	291.4	389.1	447.1	443.8
Percentage		61.4%	93.6%	96.8%	92.9%	91.5%	92.7%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Further liquidity support for SMEs in public procurement comes from a network loan programme. Under this programme, 15 commercial banks have partnered with PPS to offer terms that allow SMEs to obtain loans for up to 80% of the contract amount solely based on the contract with PPS, without any lien. This is a valuable means of support for SMEs without the financial standing to otherwise finance performance of public procurement contracts, and it has expanded substantially in recent years, reaching over 11 000 loans and nearly USD 400 million (see Table 4.6). Six institutions - including KIBO (Korea Technical Finance Corporation), Korea Federation of SMEs, Industrial Bank of Korea, Sinhan Bank, Hana Bank and Woori Bank – provide even more comprehensive support for SMEs in the form of warranties, loans and enterprise consulting. As of 31 December 2014, 1 223 warranties, loans and consultations were provided under this programme, for a total amount of USD 571 million.

Table 4.6. **Network loans made to SMEs**

	2009	2010	2011	2012	2013	2014
Number of loans	933	4 754	7 541	10 048	11 472	11 419
Amount (in USD millions)	50.8	147.7	250.6	341.0	398.6	378.6

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Data regarding PPS contract awards to SMEs are contained in Table 4.7, and are further broken down by category in Tables 4.8 and 4.9. In general, SMEs account for two-thirds of total contracting value awarded by PPS. Table 4.10 shows that the PPS proportion of SME contracting relative to total contracting in Korea is around one-third.

Table 4.7. **Total contract awards to SMEs**
In USD billions

	2009	2010	2011	2012	2013	2014
Total contract awards	36.2	32.0	28.2	29.0	32.1	28.3
Awards to SMEs	19.4	19.1	18.5	19.0	21.3	20.4
Percentage of awards to SMEs	53.6%	59.8%	65.7%	65.3%	66.4%	71.9%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.8. **Contract awards to SMEs for goods and services**
In USD billions

	2009	2010	2011	2012	2013	2014
Total contract awards for goods and services	16.0	14.7	15.2	16.9	19.0	19.1
Goods	10.0	9.7	10.5	11.4	12.8	12.7
Awards to SMEs ¹ Services	1.3	1.4	1.3	1.5	2.0	2.1
Total	11.3	11.1	11.8	13.0	14.9	14.8
Percentage of awards to SMEs	70.9%	75.2%	77.6%	76.6%	78.1%	77.4%

1. Awards to social organisations, cooperatives, and social enterprises that meet the SME criteria are included in the figures as of 1 July 2013.

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.9. **Contract awards to SMEs for construction works**
In USD billions

	2009	2010	2011	2012	2013	2014
Total contract awards for construction works	20.3	17.3	13.0	12.2	13.1	9.2
Construction	8.1	8.0	6.6	5.9	6.2	5.4
Awards to SMEs Technical consultancy services ¹	0*	0.2	0.2	0.1	0.2	0.2
Total	8.1	8.1	6.7	6.0	6.4	5.6
Percentage of awards to SMEs	39.9%	46.7%	51.8%	49.7%	49.3%	60.5%

1. Until the end of 2009, technical consultancy services had been categorised under goods and services.

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.10. PPS' share in total public procurement contract awards to SMEs

	In USD billions				
	2009	2010	2011	2012	2013
Total public procurement contract awards to SMEs ¹	67.6	56.8	57.4	61.0	66.8
PPS's contract awards to SMEs*	19.4	19.1	18.5	19.0	21.3
Percentage	28.7%	33.7%	32.3%	31.1%	31.9%

1. Figure includes PPS's contract awards to SMEs for general goods and services and construction works. Awards for foreign procurement and commodity stockpiling/release are not included in this figure.

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Recommendations for improvement of SME support

During the fact-finding mission, it was identified that the public procurement system in Korea can tend to seem overly focused on SMEs, to the exclusion of large suppliers. While much of this focus is intentional, additional steps could mitigate this concern to some extent. PPS should consider evaluating tenders from large suppliers on the basis of support for SMEs provided through subcontracting opportunities. While some subcontracting is set aside for SMEs through various other programmes, there is no systematic method for encouraging large enterprises to subcontract with SMEs. Such programmes in other countries serve to further increase procurement opportunities for SMEs while also demonstrating the value of large enterprises for high-value procurements (see the example from the United States in Box 4.2).

Box 4.2. Small business subcontracting in the United States

As an additional method of encouraging participation by small businesses in federal contracting opportunities, the United States has implemented a mandatory Small Business Subcontracting Program. For all contracts that exceed the simplified acquisition threshold (USD 150 000), contractors are expected to provide the maximum practicable opportunity to participate in contract performance to small business, veteran-owned small business, services-disabled veteran-owned small business, Historically Underutilized Business Zone (HUBZone) small business, small disadvantaged business, and women-owned small business concerns. For contracts or contract modifications expected to exceed USD 650 000 (including options) that contain subcontracting opportunities, the supplier selected for award is required to submit a detailed subcontracting plan. Failure to submit a subcontracting plan renders the supplier ineligible for award, and any contractor or subcontractor that fails to comply in good faith with the requirements of the subcontracting plan is considered in material breach of its contract. The requirement for a subcontracting plan does not apply when the selected supplier is itself a small business, to personal services contracts, or to contracts performed entirely outside of the United States (FAR 19.702).

Each subcontracting plan must include:

1. separate percentage goals for small business, veteran-owned small business, service-disabled veteran owned small business, HUBZone small business, small disadvantaged business and women-owned small business concerns as subcontractors

Box 4.2. Small business subcontracting in the United States *(continued)*

2. a statement of the total dollars planned to be subcontracted and the total dollars planned to be subcontracted to the categories of concerns identified in (1)
3. a description of the principal types of supplies and services to be subcontracted, including identification of the types to be subcontracted to the relevant concerns
4. a description of the method used to develop the subcontracting goals
5. a description of the method used to identify potential sources for solicitation purposes
6. a statement as to whether indirect cost considerations were included in the establishment of goals and estimated share of subcontracts
7. the name of an individual who will administer the subcontracting program, and a description of the duties of the individual;
8. a description of the efforts the offeror will make to ensure that relevant suppliers have an equitable opportunity to compete for the subcontracts
9. assurances that the offeror will include the clause that mandates the Small Business Subcontracting Program in all subcontracts that offer further subcontracting opportunities and require any such subcontracts that exceed USD 650 000 to include their own small business subcontracting plan
10. assurances that the offeror will co-operate in any surveys, studies and reporting requirements necessary
11. a description of the types of records that will be maintained concerning procedures adopted to comply with the requirements and goals in the plan.

Rather than establishing a subcontracting plan for each contract action, contractors may establish a master plan on a plant- or division-wide basis that contains all of the elements necessary except specific goals. For individual contracts, the master plan is then incorporated into the individual subcontracting plan along with the goals for that contract. Such plans are effective for three years after approval, but it remains a contractor's responsibility to maintain and update the master plan. Any changes to the master plan must be approved by the contracting officer (FAR 19.704).

In addition to the compliance requirements imposed by the subcontracting plan, the contracting officer may encourage the development of increased subcontracting opportunities in negotiated acquisition by providing monetary incentives in the form of payments based on actual subcontracting achievement or award-fee contracting. Such incentives are only appropriate when the contracting officer ensures that the goals are realistic and that any such incentives are commensurate with efforts the contractor would not have otherwise expended to achieve them (FAR 19.705).

Source: United States Federal Acquisition Regulation 48 CFR 19.7, www.acquisition.gov/sites/default/files/current/far/html/Subpart%2019_7.html#wp1088741.

Support for local businesses

Both the State Contracts Act and the Local Government Contract Act specify requirements to limit competition to local bidders, below certain thresholds (see Table 4.11).

Table 4.11. **Competition restricted to local bidders**

	Legal basis and application thresholds	
	Central government entities	Local government entities
Legal provisions	Enforcement Decree of the State Contract Act Article 21 Paragraph 1-6, Enforcement Regulations of the State Contract Act Article 24 Paragraph 2	Enforcement Decree of the Local Government Contract Act Article 1 Paragraph 6, Enforcement Regulations of the Local Government Contract Act Article 24 Paragraph 2
Composite works	Below USD 7 million	Below USD 8.5 million
Specialty works,	Below USD 600 000	Below USD 600 000 (For administrative city projects, below USD 850 000)
Other works	Below USD 600 000	Below USD 425 000
Goods (manufacture or supply), services	Below USD 178 000	Below USD 280 000 (Provincial govts. and metropolitan city govts.) Below USD 425 000 (Municipality govts.)

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

For goods and services, details regarding the amount of contracting conducted through restricted competition below the established thresholds is presented in Table 4.12, which indicates a low use of this prerogative.

Table 4.12. **Goods and services contracting through restricted competition**

	In USD millions					
	2009	2010	2011	2012	2013	2014
Total contract awards for goods and services	15 965.4	14 706.0	15 204.6	16 899.1	19 039.3	19 105.2
Contract awards through restricted competition among local businesses	110.3	106.6	110.5	107.6	49.1	1.4
Percentage	0.7%	0.7%	0.7%	0.6%	0.3%	0.0%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

In addition to these requirements for locality-based contracting of overall projects, additional provisions exist that require obligatory subcontracting with local businesses. A mandatory joint local subcontract system must be applied for central government construction works below USD 7 million and public institution construction works below USD 20.8 million. All local government construction work should apply this mandatory joint local subcontract system, but an exception applies to local government construction works that exceed USD 20.8 million that were open to international tender and include a foreign construction firm as one of the contract winners.

Information regarding purchases through restricted competition and obligatory subcontracting is presented in Table 4.13, demonstrating that more than 50% of construction contracts are subject to such restrictions. Additional preference for local business products applies to categories such as ready-mixed concrete, asphalt-concrete and cement products for suppliers located in the region where the work takes place, and

direct contracting is allowed for goods produced by disabled veterans' businesses and businesses located in industrial complexes in rural areas. PPS is also working to increase MAS contracts with local businesses.

Table 4.13. Construction Contracting Through Restricted Competition and Obligatory Subcontracting

	In USD billions					
	2009	2010	2011	2012	2013	2014
New construction works contracts total	22.3	12.6	9.4	8.2	9.1	7.3
Contract awards through restricted competition among local businesses	2.0	1.8	1.6	1.4	1.6	1.4
Obligatory subcontracts to local businesses	7.2	4.5	2.2	3.1	3.5	3.3
Subtotal	9.2	6.3	3.7	4.6	5.2	4.7
Percentage (Subtotal/Total)	41.0%	50.2%	39.5%	55.7%	57.1%	64.7%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Overall data regarding PPS contract awards to local businesses are contained in Table 4.14 and is further broken down by category in Tables 4.15 and 4.16.

Table 4.14. PPS total contract awards to local business

	In USD billions					
	2009	2010	2011	2012	2013	2014
Total contract awards	36.2	32.0	28.2	29.0	32.1	28.3
Awards to local businesses	22.4	20.0	18.9	19.3	21.9	19.8
Percentage of awards to local businesses	62.0%	62.6%	66.8%	66.4%	68.2%	70.0%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.15. PPS contract awards to local businesses for goods and services

	In USD billions						
	2009	2010	2011	2012	2013	2014	
Total contract awards for goods and services	16.0	14.7	15.2	16.9	19.0	19.1	
Awards to local businesses	Goods	9.8	8.8	9.3	10.6	12.2	11.9
	Services	0.8	0.7	0.7	0.8	1.0	1.0
	Total	10.6	9.6	10.0	11.4	13.1	12.9
Percentage of awards to local businesses	66.5%	65.0%	65.6%	67.5%	68.8%	67.4%	

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.16. **PPS contract awards to local businesses for construction works**
In USD billions

	2009	2010	2011	2012	2013	2014	
Total contract awards for construction works	20.3	17.3	13.0	12.2	13.1	9.2	
Awards to local businesses	Construction	11.8	10.4	8.8	7.8	8.7	6.8
	Technical consultancy services	0	0.1	0.1	0.1	0.1	0.1
	Total	11.8	10.5	8.9	7.9	8.8	7.0
Percentage of awards to local businesses	58.4%	60.7%	68.2%	64.9%	67.3%	75.3%	

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Support for women-owned businesses

Article 4 of the Act on Support for Female-owned Businesses instructs, “the head of a public entity shall promote the purchase of goods manufactured and supplied by women-owned small and medium businesses.” Women-owned businesses are defined according to three criteria: 1) the business is owned or managed by a woman; 2) a woman is registered as the executive representing the business; or 3) the business registration was made by a woman pursuant to the Income Tax Act or the Value-added Tax Act. Article 7 of the Enforcement Decree of Act on Support for Female-owned Businesses sets target goals for procurement from women-owned business at 5% or more of total purchasing value of goods and services, and 3% or more of total purchasing value of construction works.

This instruction is implemented through two provisions that allow direct contracting with women-owned businesses. With respect to goods and services procurement, Article 90 of the PPS Regulation of Domestic Procurement Process indicates, “Where the estimated price of a contract is below KRW 20 million and there is no supplier recommended by the end-user entity, the contractor shall be decided through price quotation and negotiation with a women-owned business or a disabled persons’ business recommended by the relevant associations.” For such contracts, PPS directly awards to a woman-owned business recommended by the Review Committee for Recommendations for Small Direct Contracts, which is composed of four women’s associations. For goods tenders, women-owned businesses and businesses with high employment of women or gender equality are given additional points in the contract fulfilment capability test, as indicated in Table 4.17.

Table 4.17. **Women-owned business priority in the capability test**

Categories	Additional points (out of 100 scale)
Women-owned enterprises	For women-owned businesses that have existed for three years or longer: Additional 0.5 point For women-owned businesses that have existed for less than three years: Additional 0.25 point
Businesses with high employment of women	For businesses with 10% or higher employment of women (provided that the number of women employees exceeds ten): Additional 1.25 points For businesses with 5~10% employment of women (provided that the number of women employees exceeds five): Additional 0.75 point
Gender equality businesses	"Gender Equality Business" certified by the Ministry of Employment and Labour: Additional 1.0 point

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Women-owned businesses are also given additional points when selecting Excellent Government Supply Products, with three additional points being awarded for women-owned venture companies, “INNO-BIZ” companies or Innovative SMEs, and two points for products manufactured by women-owned businesses outside these categories.

Article 19 of the PPS Regulation on Construction Works Contracting Process adds, “Where the estimated price of the work is below the designated threshold and there is no supplier recommended by the end-user entity, the head of responsible regional PPS office may select a woman-owned business and negotiate for direct contracting.” Details of the application of this provision appear in Table 4.18.

Table 4.18. **Construction contracting with women-owned businesses**

Threshold			Contracting method
General work	Specialty work	Electricity, ICT, Firefighting work	
Below USD 17 000	Below USD 17 000	Below USD 17 000	Direct contracting with local SMEs, or quotation competition among local women-owned businesses
USD 17 000 ~ USD 42 500	USD 17 000 ~ USD 42 500	USD 17 000 ~ USD 42 500	Direct contracting with local SMEs (including women-owned or handicapped suppliers), or quotation competition among local women-owned businesses
USD 42 500 ~ USD 85 000	-	-	Quotation competition among local women-owned businesses
USD 85 000 ~ USD 170 000	USD 42 500 ~ USD 85 000	USD 42 500 ~ USD 68 000	Quotation competition among local SMEs

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Implementation of these programmes has led to a steady increase in the number and proportion of women-owned businesses registered with PPS, almost reaching 20% in 2013, as demonstrated in Table 4.19.

Table 4.19. **Number of registered women-owned businesses**

	2009	2010	2011	2012	2013	2014
Registered businesses total	262 411	261 314	291 245	323 003	350 338	384 994
Women-owned businesses	41 034	43 542	49 525	56 535	63 666	71 848
Percentage	15.6%	16.7%	17.0%	17.5%	18.2%	18.7%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Statistics regarding PPS contract awards to women-owned businesses, currently around 6% of the total, is contained in Table 4.20, and is further broken down by category in Tables 4.21 and 4.22, showing a higher than average awarding percentage for goods and services and below average awarding for construction works, which is generally aligned with the nature of the delivery. Table 4.23 shows the PPS proportion of contracting with women-owned businesses relative to total contracting in Korea, over 50% of the total in 2013, signalling a relevant capacity of PPS to develop this specific programme.

Table 4.20. **PPS contract awards to women-owned businesses**
In USD billions

	2009	2010	2011	2012	2013	2014
Total contract awards	36.2	32.0	28.2	29.0	32.1	28.3
Awards to women-owned businesses	1.4	1.4	1.5	1.7	2.0	2.1
Percentage of awards to women-owned businesses	3.9%	4.4%	5.4%	5.9%	6.3%	7.5%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.21. **PPS contract awards to women-owned businesses for goods and services**
In USD billions

	2009	2010	2011	2012	2013	2014	
Total contract awards for goods and services	16.0	14.7	15.2	16.9	19.0	19.1	
Awards to women-owned businesses	Goods	0.8	0.7	0.8	1.0	1.2	1.3
	Services	0.2	0.2	0.2	0.2	0.3	0.3
	Total	0.9	0.9	1.0	1.2	1.5	1.6
Percentage of awards to women-owned businesses	5.8%	6.0%	6.8%	7.1%	7.6%	8.5%	

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.22. **PPS contract awards to women-owned businesses for construction works**
In USD millions

	2009	2010	2011	2012	2013	2014	
Total contract awards for construction works (A)	20 257.8	1 301.2	13 016.1	12 150.4	13 081.1	9 238.8	
Awards to women-owned businesses (B)	Construction	489.9	525.8	489.4	507.0	569.6	507.1
	Technical consultancy services	0	6.6	7.0	8.4	1.2	5.3
	Total	589.9	532.4	496.4	515.4	570.8	512.4
Percentage of awards to women-owned businesses (B/A)	2.4%	3.1%	3.8%	4.2%	4.4%	5.5%	

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Table 4.23. **PPS' share in total public procurement to women-owned businesses**
In USD billions

	2009	2010	2011	2012	2013
Total public procurement contract awards to women-owned businesses	2.58	2.0	2.2	2.9	3.8
PPS contract awards to women-owned businesses ¹	1.4	1.4	1.5	1.7	2.0
Percentage	54.7%	71.1%	69.5%	59.5%	53.2%

1. Figure includes PPS's contract awards to women-owned businesses for general goods and services, and construction works. Awards for foreign procurement and commodity stockpiling/release are not included in the figure.

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Support for other social objectives

In addition to the programmes for supporting SMEs, local businesses and women-owned businesses, PPS also implements programmes to support other social objectives, such as veteran and welfare organisations, goods and services provided by persons with severe disabilities, businesses that produce traditional Korean craftwork and social enterprises.

For veteran and welfare organisations, PPS allocates certain goods to be contracted with these organisations through single-source (direct) contracting; these veteran and welfare organisations are defined in the State Contracts Act. Products manufactured by entitled organisations include switchboards, closed-circuit TV products, stage equipment, road signs, broadcasting equipment, lighting towers, landscape lighting and shoe cases, among others. PPS uses an apportionment scheme when purchasing products from entitled organisations, setting aside up to 20% of PPS' total purchase volume of each product. As the purpose of the policy is to support various disadvantaged groups, a controlled distribution of purchase orders is established to allow business to go to each entitled organisation. PPS conducts an annual Purchase Review Committee Meeting to establish the apportionment scheme according to which each organisation will receive orders.

Since the establishment of this programme in 1996, the volume of contracting with such organisations has increased dramatically, though it has reduced slightly in recent years (see Table 4.24).

Table 4.24. **Volume of single source contracting with veteran and welfare organisations**

	In USD millions					
	2009	2010	2011	2012	2013	2014
Total value of domestic procurement	15 965.4	14 706.0	15 204.6	16 899.1	19 039.3	19 105.2
Single source contracting with veteran and welfare organisations	177.3	159.4	135.5	117.9	153.1	165.5
Percentage	1.3%	1.1%	0.9%	0.7%	0.8%	0.9%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Goods and services provided by suppliers that hire persons with disabilities are provided preferential purchasing in order to create more job opportunities for such individuals. Overseen by the Ministry of Health and Welfare with input from the Korea Disabled People's Development Institute and the Korea Vocational Rehabilitation Association for the Disabled, this programme functions through the designation of categories such as office supplies, toilet paper, toothbrushes, gloves, furniture, paper cups, banners, books and printing. Within these categories, suppliers are identified; 404 suppliers were approved as of February 2015. Central government entities, local government entities and other public organisations such as educational institutes are required to submit an annual purchasing plan, the previous year's plan and a purchasing goal to the Minister of Health and Welfare, with a mandatory purchasing rate of more than 1% of the total purchasing value of each end user set by Article 10 of the

Enforcement Decree of Special Act on the Preferential Purchase of Products Manufactured by Persons with Severe Disabilities.

Since 1998, upon administrative order from the President and Prime Minister, PPS has undertaken to nurture Korean culture through the promotion of traditional craftwork. This programme was selected as one of 100 national projects to promote traditional craftwork for use by public organisations, as souvenirs and for event supplies in September of 1999. Since 2006, the Association of Government Procurement Cultural Goods has conducted the task of reviewing the selection of procurement goods subject to this programme. At any time of year, a manufacturer can register a traditional craftwork product. A committee composed of approximately ten experts recommended by PPS and the Cultural Heritage Administration then reviews these registrations. For goods designated as traditional craftwork, a single-source unit-price contract is conducted by PPS and supplied for use of other organisations through the KONEPS Online Shopping Mall. Such goods are also on display for purchase in an exhibit hall at the PPS headquarters in Daejeon City. Data regarding the value of traditional craftwork is provided in Table 4.25.

Table 4.25. **Performance of traditional craftwork**

In USD millions

	2009	2010	2011	2012	2013	2014
Total value supplied	1.8	0.8	1.0	1.9	1.8	2.2

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

Article 12 of the Social Enterprises Promotion Act requires the head of a public entity to promote the purchase of goods and services produced by social enterprises. Social enterprises are defined rather broadly, as businesses pursuing social goals such as providing services or job opportunities for socially disadvantaged groups, or contributing to local communities for raising the communities' standard of living. As of December 2014 there are 669 social enterprises registered with PPS. Support for these enterprises includes business consultancy for start-up social enterprises to broaden their public procurement market opportunities. Additionally, the KONEPS Online Shopping Mall contains a separate section for products from social enterprises, to raise their visibility in the public procurement market. PPS contract awards to social enterprises grew from USD 10.5 million in 2012 to USD 29.8 million in 2013 and USD 65.1 million in 2014.

Certification programmes and innovation

In addition to the programmes outlined above, there are a number of categories within the Korean public procurement system that allow for preferential purchasing of products with new technology. Products manufactured by newly developed technology are evaluated and awarded a New Excellent Product (NEP) certification, which allows preferential purchasing. In product categories where NEP products exist, central government agencies, local government entities and other public organisations are mandated to purchase more than 20% of their total volume within that category from NEP products. For such products, single-source contracting is allowed in accordance with Articles 26 Paragraph 1-3 of the Enforcement Decree of the Act on Contracts to Which the State is a Party.

In order to increase public purchase of new technology products developed by SMEs, SMBA designates newly developed technology products for priority purchase according to Article 14 of the Act on Facilitation of Purchase of Small and Medium Enterprises - Manufactured Products and Support for Development of their Markets, and Article 13 of its Enforcement Decree. Within this broad category of newly developed technology products, there is a complex collection of additional certifications, summarised in Box 4.3. Central government agencies and public organisations are mandated to purchase at least 10% of their purchases from SMEs from among SME-manufactured goods with new technology. To achieve this mandate, single-source contracting or selective competitive contracting is allowed in accordance with the Enforcement Decree of the Act on Contracts to Which the State is a Party.

Box 4.3. Types of newly developed technology products

1. Excellent Performance Certification (EPC): Certification given to new technology products developed by an SME.
2. Excellent Government Supply Products: Products excelling in performance, technology or quality. PPS designates products in this category, which allows direct contracting with any public entity.
3. New Excellent Product (NEP): Certification for new products using a technology that is newly developed in Korea, or that brings innovative improvements over existing ones.
4. Good Software Certification (GS): Certification for high quality software developed in Korea.
5. Eight other categories designated by SMBA:
 - a. New Excellent Technology certified products
 - b. Products developed from purchase-conditioned R&D (research and development) programme: developed under the scheme that the government subsidises R&D for product development with a view to purchasing the outcome product
 - c. Green label products
 - d. Products on Excellent Government Supply Joint Brand Programme
 - e. Products from convergence and fusion technology development projects
 - f. Products designated by Ministry of Trade, Industry and Energy as "industry fusion" products
 - g. Select products from joint R&D projects between public entities and SMEs
 - h. Products jointly developed on "technology development for shared outcome" projects, through collaboration among large enterprises and SMEs

These certification programmes represent a detailed and advanced approach to encouraging innovation through public procurement. As each certificate has a limited time before expiring, and the innovation that led to certification as new technology is not sufficient to obtain the next certificate, there is a constant pressure to provide new features, updated functionality and pioneering development to products proposed for government procurement. For suppliers, the focus is not so much on the goals set for government procurement from these categories, but on the competitive advantage that

results from obtaining the certifications. During the fact-finding mission, suppliers identified the value of certifications as a distinguishing characteristic during MAS second stage competition and additional points on evaluation criteria as primary reasons for pursuing certifications. The fact that certification as an Excellent Government Supply Product allows direct contracting with any public entity for purchases is a substantial incentive to achieve this certification, though such purchase requests must be monitored to ensure that the product is purchased in accordance with relevant laws and regulations.

Despite these benefits, there are concerns that the programmes might not operate as efficiently or effectively as desired. During the fact-finding mission, the peers identified some concern among suppliers about the number of various certificates and the complexity of the system. Additionally, concern was expressed regarding the effectiveness of the certification programmes in truly identifying outstanding products: one supplier indicated that in categories where dozens of products all carry the Excellent Government Supply Product rating, despite sharp differences in quality and performance, the certificate is not as effective as it could be in identifying products truly worthy of support.

In addition to these concerns, there is also a substantial investment of time and resources that must be made to obtain these certifications, especially the Excellent Government Product Certification. One interview subject indicated that the total process will take between ten months and a year, for a certification that will last three years but can be extended up to three years based on meeting additional criteria (such as exporting a certain proportion of sales volume). This time is necessary because achieving the Excellent Government Product Certification requires many other certificates as a prerequisite, including a patent (which must be less than five years old) and achievement of an Excellent Performance Certificate from SMBA. The designation as an Excellent Government Product itself takes three months, and is processed four times per year by quarter, so timing the process correctly is important. Once designated, establishing the contract can take another two months. The need to obtain certifications of various sorts, including for environmental characteristics, was identified by another interview participant as an increased burden that applies to public procurement.

Recommendations for improvement of the certification processes

The fact-finding mission demonstrated that, despite the burden, suppliers were strongly motivated to pursue the certification because the benefits derived from the ability to receive direct awards was much more substantial than participation in framework agreements, generally. While this indicates that the certifications are working as an incentive, it is not clear that the current structure provides the most effective means of driving efficiency in public procurement. PPS, working with SMBA and other stakeholders including the Federation of SMEs, should evaluate the current structure of certificates. This evaluation should include means of simplifying the certification structure, as well as means of better promoting value through a meaningful comparison of new innovations.

As in many OECD countries, there is also a lack of established metrics to evaluate the effectiveness of these programmes, relative to their costs. While measuring the economic benefits to the companies that achieve the certificates as compared with their standing if they had not achieved the certificate is difficult, efforts should be made to balance these potential benefits against the cost of achieving certification. One additional concern is the fact that achievement of the pinnacle certificate, the Excellent Government Product

Certification, yields a limitation of competition through the ability to offer direct awards should be evaluated for effectiveness. This is another area where development of relevant metrics could yield better insights into the value of the programme for Korea’s citizens. PPS, with relevant stakeholders, should study potential means of evaluating the benefits derived not just from the certification programmes, but from the variety of programmes to support secondary policy objectives.

Green standard purchasing

To leverage its purchasing power to enhance competitiveness in both local and global markets, PPS has been encouraging suppliers to develop green technology products through the mandatory purchase of products that meet a “Minimum Green Standard”. Starting in 2010, PPS has designated goods which are required to meet these standards as reflected through lifecycle costing, including energy efficiency, standby power, recycling and other environmental factors. In 2013, PPS selected 25 additional products to meet the Minimum Green Standard, bringing the total number of products to 100. Purchasing of these products has increased dramatically during the life of the programme, from less than 1% of goods purchased in 2010 to more than 13% in 2013 (see Table 4.26).

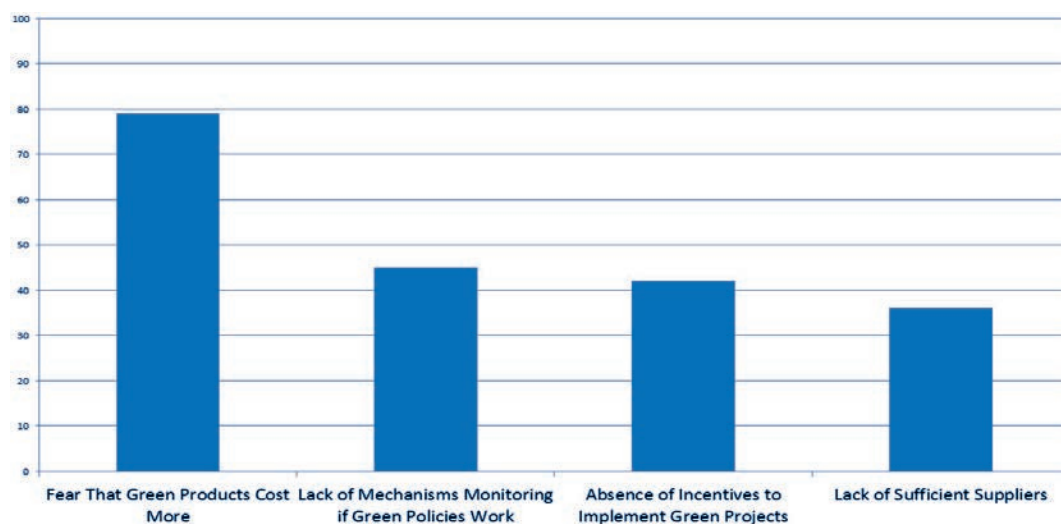
Table 4.26. **Purchase of Minimum Green Standard products**

	In USD millions				
	2010	2011	2012	2013	2014
Total goods purchased	12 057.5	12 614.7	14 036.2	15 714.3	15 527.4
Green purchasing	33.8	1 017.2	1 339.5	2 095.7	2 500.3
Percentage	0.3%	8.1%	9.5%	13.3%	16.1%

Source: PPS response to OECD internal questionnaire, 2014 with updates in 2015.

In 2002, OECD countries adopted the Recommendation on the Environmental Performance of Public Procurement, which advocates setting green targets in procurement and adopting measures to make sure that the targets are met. Since this time, OECD countries have increasingly included environmental objectives in procurement strategies, but a number of obstacles have been identified (see Figure 4.2).

Figure 4.2. **Obstacles to green public procurement**



Source: OECD (2011), *Government at a Glance 2011*, OECD Publishing. http://dx.doi.org/10.1787/gov_glance-2011-en

A collection of best practices has been prepared by the OECD, providing good practices for green public procurement at national and sub-national levels. Available at www.oecd.org/gov/ethics/best-practices-for-green-procurement.htm, the practices cover the areas of:

- green public procurement legal and policy framework
- understanding market capacity and assessing costs and benefits
- introducing environmental standards in public procurement
- professionalising green public procurement
- raising awareness
- monitoring green public procurement.

Training and support

SMEs and other new entrants to public procurement have a variety of training options in Korea. PPS conducts training for suppliers, usually consisting of a two-day course covering public tenders generally and the use of the KONEPS system, at a cost of approximately USD 82.¹ The Federation of SMEs also offers training for its members in the form of a one-day, comprehensive course in how to participate in public tenders and how to use KONEPS. It is offered region by region, and each region is served by one or two courses annually. Other trade associations, such as the Construction Association of Korea, also provide training relevant for their members. Private sector training offerings on the use of KONEPS are also widely available, with third-party training providers basing their curricula on KONEPS manuals published by PPS. While interview participants generally indicated a high level of satisfaction with training opportunities, one suggested that the only concern is the rapid pace of development of new features within KONEPS, which leaves very small businesses without the resources for continuous training struggling to keep up, at times.

PPS also operates a dedicated call centre for addressing questions from public buyers and suppliers. Interview participants generally indicated a high level of satisfaction with the capabilities of the call centre staff on subjects such as the KONEPS system, how to use it, how to address system errors and the reporting of any concerns. For some legal or regulatory questions, the fact-finding mission identified a potential for improvement, as the current process of transferring the caller to the relevant division can sometimes be inefficient.

Recommendations for the improvement of training and support

PPS should consider the impact of continuous upgrades and changes to KONEPS on suppliers, particularly SMEs. While one solution would be to offer trainings more frequently for each new development, this issue could also be managed by establishing a set schedule for release of new features (perhaps semi-annually or quarterly), so SMEs and other suppliers could better anticipate the need to divert resources to learning new features.

PPS should also evaluate the process for addressing questions to the call centre that are directed to matters beyond the function of the KONEPS system. Providing expert advice on all of the specifics of public procurement, including the legal and regulatory

aspects, is a very large task that will necessarily involve a referral process to identify the relevant expert, but this process could perhaps be streamlined to increase usefulness for suppliers using the system.

Potential objective overload

One concern in many OECD countries is the potential of “objective overload:” addressing so many secondary policy objectives through public procurement that the system of mandates and preferences becomes unmanageable or impossible to satisfy. There is some concern that the variety and complexity of programmes for preference in the Korean public procurement system should be carefully evaluated in light of this concern.

During the fact-finding mission, one procurement official described his need to manage the wide variety of secondary policy objectives. In an effort to support an understanding of the various requirements and to prioritise their satisfaction within the agency, this official developed a survey report to identify all of the various secondary policy requirements that applied to public procurement. This report identified 8-10 mandatory requirements, and up to 46 “recommended” procurement priorities. This report was developed independently to help him primarily to manage internal prioritisation as a procurement official at a central government agency; it does not appear that a similar listing of all applicable requirements is directly available from a central source.

One reason for this diffusion of requirements is that different ministries are tasked with different responsibilities. The Ministry of Strategy and Finance; Ministry of Industry Trade and Resources (which houses SMBA); Ministry of Culture, Sports and Tourism; and Ministry of Government Administration and Home Affairs all have control of programmes that implement preferences through public procurement. While there are meetings of the relevant stakeholders as procurement preferences are established, more can be done to ensure visibility into the various demands on the public procurement system.

Recommendation on objectives overload

PPS should establish a central listing of all mandatory and recommended goals or requirements regarding secondary policy objectives, with a brief explanation and reference linking to the origin. If possible, this list should be developed as a guide or a manual, in an interactive and informative way and also published online to achieve maximum dissemination. Furthermore, this consolidated view should be included in the training programmes as a way of improving the capacity of procurement officials to use public procurement strategically. Finally, once established, this list should be evaluated for potential opportunities to consolidate or streamline overlapping programmes, and to inform any future efforts to support additional secondary policy objectives.

Key findings and recommendations

While support for secondary policy objectives takes many forms in public procurement in Korea, this support is generally implemented in line with Element V of the OECD Recommendation, demonstrating recognition that “use of the public procurement system to pursue secondary policy objectives should be balanced against the primary procurement objective.”

The adoption of new methods or goals for supporting secondary policy objectives is conducted according to a consultation process among relevant stakeholders, consistent with Element V (i), “evaluate the use of public procurement as one method of pursuing secondary policy objectives in accordance with clear national priorities.” This element is also furthered by the recognition that public procurement is only one means of supporting secondary policy goals. The existence of additional programmes that are outside of the public procurement process, such as loan guarantees, indicate a balanced approach to the direct use of public procurement.

Stakeholder consultation among ministries also supports Element V (ii), “develop an appropriate strategy for the integration of secondary policy objectives in public procurement systems.” This element is also supported by the mutually reinforcing nature of some programmes to support secondary policy objectives. The creation of certification programmes for small and medium-sized businesses that continue to produce innovative products is a good practice in combining support for two secondary policy objectives. Here, additional work could be done to ensure that buying entities are supported in the implementation of secondary policy objectives, for instance through the development of a central listing of all mandatory and recommended secondary policy objective goals to facilitate prioritisation.

Element V (iii) requires “appropriate impact assessment methodology to measure the effectiveness of procurement in achieving secondary policy objectives.” Unlike in many OECD countries, data about the use of procurement to support secondary policy objectives is available, in the form of annual reports regarding small and medium-sized business goals, data about green public procurement, and data regarding the use of procurement to support innovation. This data is currently used to determine whether secondary policy goals are met, but a next step could involve the development of more detailed indicators, for instance to measure the cost and burden of certification procedures against the benefits they offer to small and medium-sized businesses. This element also indicates that “the aggregate effect of pursuing secondary policy objectives on the public procurement system should be periodically assessed to address potential objective overload.” Given the variety and complexity of support for secondary policy objectives, such an assessment is worth pursuing, particularly with respect to the current structure of certificates and the preferences that result.

Programmes to support secondary policy objectives in Korea, in particular those that support small and medium-sized businesses, also implement Element IV of the OECD Recommendation, “facilitate access to procurement opportunities for potential competitors of all sizes.” Though the variety of programmes is complex, they are generally supported by “coherent and stable institutional, legal and regulatory frameworks,” consistent with IV (i). The work done by PPS to centralise and standardise procurement processes for small and medium-sized businesses also serves to implement Element IV (ii) by delivering “clear and integrated tender documentation, standardised where possible and proportionate to the need.” Finally, while many of the programmes support secondary policy objectives through explicit support of particular categories of suppliers (small and medium-sized businesses, local businesses, female-owned businesses), most still involve an element of competition within the supported group, consistent with Element IV (iii). In cases where this is not true, for example in the case of direct awards to holders of the Excellent Government Product Certification, the effect of such limitations on competition should be evaluated as part of the assessment of the effectiveness of such programmes.

Summary of recommendations for action

- Consider evaluating tenders from large suppliers on the basis of support for SMEs provided through subcontracting opportunities.
- Evaluate the current structure of certificates and the preferences that result. This evaluation should include means of simplifying the certification structure, as well as means of better promoting value through a meaningful comparison of new innovations.
- Develop metrics to evaluate the effectiveness of programmes to support secondary policy objectives:
 - compare cost and burden of certification procedure against benefit
 - evaluate effectiveness of a certification procedure that leads to limited competition.
- Consider methods of mitigating the impact of continuous upgrades and changes to KONEPS on suppliers, particularly SMEs.
- Evaluate the process for addressing questions to the call centre that are directed to matters beyond the function of the KONEPS system.
- Establish a central listing of all mandatory and recommended goals or requirements regarding secondary policy objectives, in an interactive manual for procurement officials. Once established, this list should be evaluated for potential opportunities to consolidate or streamline overlapping programmes, and to inform any future efforts to support additional secondary policy objectives.

Notes

1. This figure was originally reported in USD.

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