

## Chapter 3

### **Supporting competition and savings through framework agreements: Multiple Award Schedule contracts**

*An important mandate for the Public Procurement Service (PPS) involves the operation of framework agreements – contracts containing set terms from which individual orders can then be placed. Framework agreements are an important driver of efficiency in public procurement, allowing for reduced administrative duplication as well as potential savings from centralised purchasing. This chapter presents the PPS implementation of the Multiple Award Schedules (MAS) system of framework agreements, including a detailed look at their current function and future directions.*

Among the tools for delivering efficiency through public procurement, many countries are adopting and expanding the use of centralised purchasing. This change in purchasing behaviour can serve a number of purposes. By purchasing commonly used goods or services centrally, substantial administrative savings can be generated through the elimination of duplicative procurement practices. Standardisation of goods purchased by a government can also reduce costs for maintenance or related goods, as spare parts or additional materials (for example, printer toner) are also standardised. Perhaps most importantly, purchasing centrally can allow for the aggregation of demand, providing access to price discounts due to economies of scale that cannot be realised if each entity purchases on its own.

Framework agreements, which involve awarding contracts containing set terms from which individual orders are then placed, can serve many of the same benefits. For frequently purchased goods and services, a framework agreement can reduce administrative costs for both public purchasers and suppliers by allowing simplified ordering processes once the agreement is in place. Depending on the nature of the framework agreement, the benefits of aggregating demand and standardising models can also be realised. If structured to allow second stage competition, where multiple holders of a contract under a framework agreement compete to receive orders by offering discounts on the stated price, additional cost savings can be generated.

The importance of these two tools for increasing the efficiency of the public procurement process is recognised in the OECD “Recommendation of the Council on Public Procurement” (hereafter, the “OECD Recommendation”) (see Box 3.1).

### Box 3.1. OECD Recommendation on efficiency

**VII. RECOMMENDS** that Adherents develop processes to drive **efficiency** throughout the public procurement cycle in satisfying the needs of the government and its citizens.

To this end, Adherents should:

...

- iii) **Develop and use tools to improve procurement procedures, reduce duplication and achieve greater value for money**, including centralised purchasing, framework agreements, e-catalogues, dynamic purchasing, e-auctions, joint procurements and contracts with options. Application of such tools across sub-national levels of government, where appropriate and feasible, could further drive efficiency.

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

## History of the Multiple Award Schedules (MAS) system

While unit-price and lump-sum contracts had been issued by Public Procurement Service (PPS) for many years, there was a recognition that a lack of diversity among goods offered through such contracts was not providing an effective solution, because it limited the options for end-user public buyers. An attempt was made to take better advantage of the existing contracts by implementing an automated process called the Multi-goods Supplying System in 2001. This system selected multiple suppliers in the order of lowest price, but the same limitations on the end users' options resulted from an insignificant quantity of contracted goods and a lack of diversity among those goods. For this reason, the system was abolished.

To address the issue, PPS undertook research of the arrangements for framework agreements in several countries with developed public procurement systems. The US Multiple Award Schedules (MAS) programme was studied in August of 2003; framework agreements in the United Kingdom were examined in May of 200; and the Canadian standing offer system was researched in July of 2004. On the basis of this research, a legal foundation for the implementation of Korea's MAS was implemented through amendment of the Enforcement Decree of the Government Procurement Act and implemented through additional related regulations (see Box 3.2). On the basis of these changes, implementation of MAS began in January of 2005.

### Box 3.2. Related laws and regulations

#### Article 5 of the Government Procurement Act

The Administrator of the Public Procurement Service may enter into contracts according to the contracting methods prescribed by Presidential Decree, if he/she deems it necessary to purchase and supply demand commodities and stockpile commodities commonly required by each end user.

#### Article 7-2 of the Enforcement Decree of the Government Procurement Act

Where the Administrator of the Public Procurement Service deems it necessary to satisfy the diverse demand of end users when he/she purchases commodities in demand commonly required by each end user pursuant to Article 5-1 of the Act, he/she may enter into a contract for supply with two or more persons as parties to a contract so that each end user may select commodities in demand equal or similar to one another in quality, performance, efficiency, etc.

## Features of MAS

### *Overview*

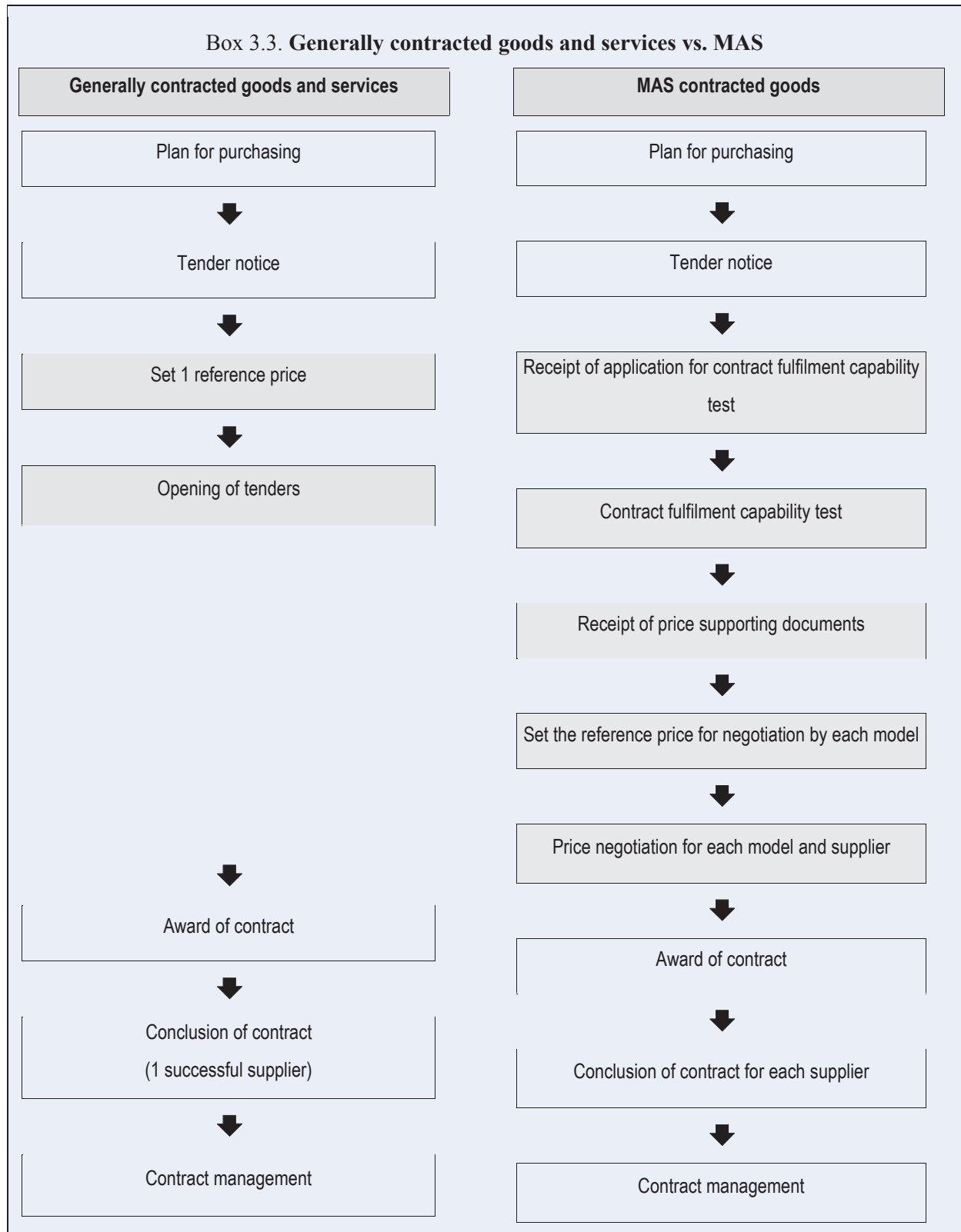
MAS was designed to meet the differing needs of various end users through contracts awarded to multiple suppliers, each offering goods of similar quality, performance and efficiency. PPS issues unit-price contracts annually with qualified suppliers, who must have an acceptable past delivery performance and satisfactory financial standing. These products and prices are then listed in the Online Shopping Mall, and each end user can make purchases directly, without the need for direct involvement of PPS contracting staff or the issuance of a new contract.

This arrangement provides a number of benefits. First, it provides more options for end users by providing access to a broader range of suppliers. It also allows more suppliers to participate in the public procurement process – as long as the minimum requirements for satisfactory past performance in at least three instances and a credit rating above a certain threshold are satisfied, any supplier can participate. This increased number of suppliers also generates increased competition. Not only do suppliers compete on price, but also on quality of similar product, delivery terms and rated after-sales service, which refers to the suppliers' responsiveness to inquiries, requests for action on defects and other performance elements.

When compared side-by-side, the process to establish a MAS contract involves more complexity than the process involved in generally contracted goods and services, as illustrated in Box 3.3. However, once established, the MAS contracts provide substantial savings in the form of streamlined processes for individual orders from multiple purchasing entities.

The establishment of MAS in Korea follows international good practices in terms of tender and competition as the initial tender is always an open procedure. Several OECD and non-OECD countries have developed different models with different degrees of centralisation and usage of framework agreements, usually allied with the establishment of central purchasing bodies (CPBs), as is the case in Portugal (see Box 3.4), New Zealand (see Box 3.5) and Austria (see Box 3.6).

As of December 2014, 326 409 items were contracted with MAS, which accounts for 88.5% of total goods registered in the Korean ON-line E-Procurement System (KONEPS), totalling USD 53.9 million. This represents an increase of approximately 50% of annual value supplied since 2008. The number of contractors increased over 80% since 2008, to reach more than 5 000 (see Table 3.1). Further, small and medium-sized enterprises (SMEs) account for 98.4% of MAS contractors, which is solid evidence of the outreach of the programme. The vast majority of MAS is covering products, with different degrees of standardisation and complexity, covering a wide range of goods for many diversified uses. A list of categories covered by MAS contracts is presented in Annex A.

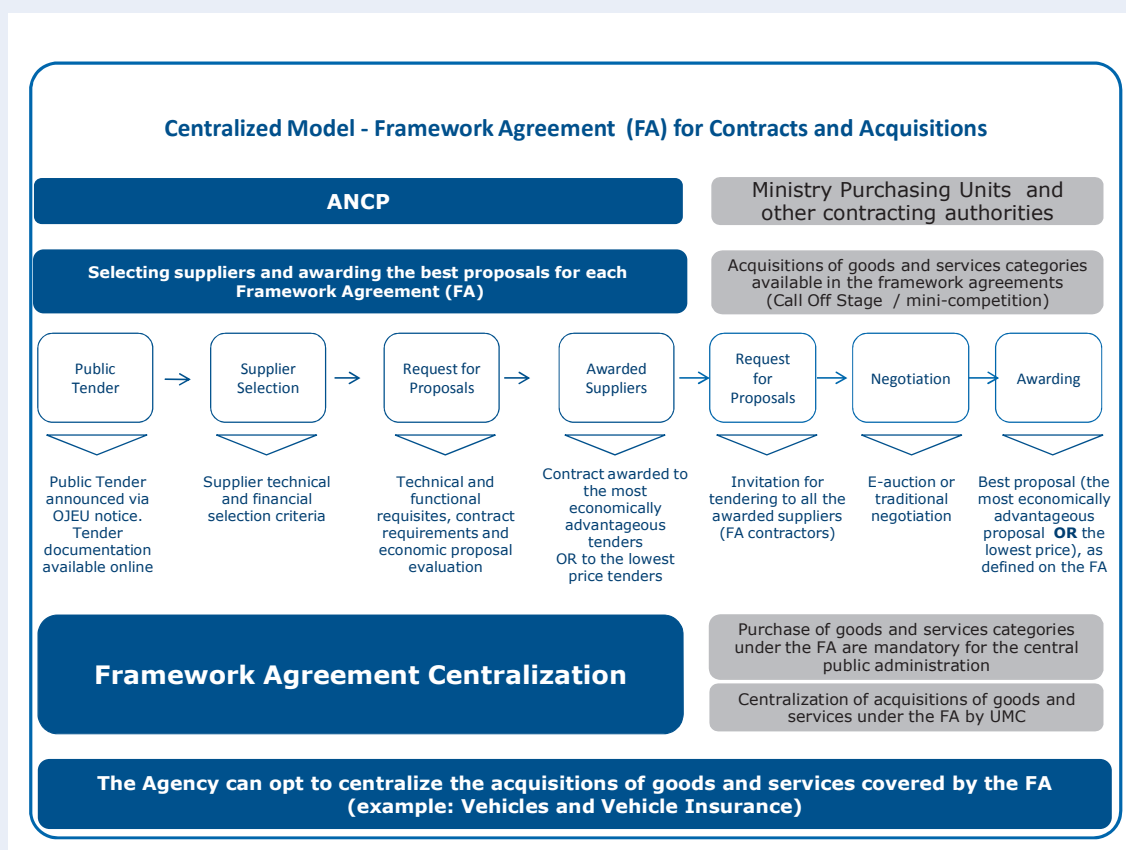


### Box 3.4. The development of framework agreements in Portugal

The utilisation of framework agreements (FAs) by electronic means and through e-procurement was the instrument used for connecting all users into the Portuguese national public procurement system. Framework agreements are a widely used instrument within CPBs in the European Union as it privileges the principles of rationalisation, standardisation, efficiency and transparency.

The framework agreements in Portugal cover a list of transversal goods and services and call-offs are mandatory. Contracting authorities in the central administration must use the existing FA<sup>1</sup> to buy the items, via the existing e-catalogue, in principle using aggregation processes conducted at central purchasing units at ministerial level (UMC). Each FA has a set of rules and tender documents to facilitate the launch of the call-offs. There is also a web process to authorise specific exceptions to the use of FA, upon request from the contracting authority, given by the Agency or the Minister of Finance, depending on the type and amount of the request.

Also, the entities in the *Sistema Nacional de Compras Públicas* (SNCP) have to use the e-platform contracted by the *Agência Nacional de Compras Públicas* (ANCP) to run call-offs, free of charge, therefore allowing the Agency to better control and monitor the performance of the system.



Whenever it is possible, the design of the framework agreements is done including ecological criteria, either for use in the public tender award, or during the call-off stage. Some of the FAs are included in the National Green Procurement Strategy, jointly elaborated by ANCP and by the Portuguese Agency for the Environment.

1. The definition of the categories of goods and services covered by the FA is a competence of the Minister of Finance, upon ANCP's indication.

Source: Magina, Paulo (2013), "The national public procurement system of Portugal", presentation made in Kuwait for the MENA-OECD Network on Public Procurement.

### Box 3.5. Centre-led collaborative contracts in New Zealand

Complemented by Procurement Functional Leadership (PFL) since 2012, the Government Procurement Reform programme has been centred around three main objectives: *i*) create sound business environment for New Zealand businesses; *ii*) increase performance, add value and maximise results; and *iii*) unlock cost savings. Some key achievements of the reform programme include support for agencies to identify procurement skills gaps and areas for capability improvement, new rules for government sourcing, establishment and development of All-of-Government (AoG) contracts that have the potential to deliver cost savings and efficiencies.

A number of collaborative contracts — such as syndicated contracts, common capability contracts and AoG contracts — are managed and facilitated under the Ministry of Business, Innovation and Employment and its use has been further developed under the reform programme. Collaborative contracts allow the government agencies to achieve greater cost savings through economies of scale and produce greater value from providing consistency of policy implementation, aligning business requirements, saving transaction costs and establishing a common contract and governance framework. Recognising the potential benefits of it, an increasing number of government agencies participate in collaborative contracts. According to the PFL Progress Report of September 2014, more than 720 agencies are participating in the AoG contracts, whose number is expected to continue to grow. Total forecast savings over the lifetime of all AoG contracts have also augmented from USD 348 million to USD 415.1 million, representing in general between 10-15%.

In order to participate in an AoG contract, a government agency needs to sign a Letter of Agreement to a Memorandum of Understanding on AoG contract participation. Once the LoA is signed, the participating government agency receives a panel directory containing provider details, the primary service lots they were selected for, relative value-for-money and quality rankings, plus contracted fees. In this process, the Centre of Expertise, specialising in managing relationships and resolving issues, maintains the overall contractual relationships with each of the panel providers and government agencies maintain operational relationships with their individual panel providers (more detailed information can be found in the *AoG Buyers Guide*). The process demonstrates several benefits of the centre-led procurement process including, in addition to unlocking cost savings through aggregation of spending, improved ability to influence capability and capacity development, enforced strategic procurement and stronger centralised leadership and support.

*Sources:* Lyons, Grant (2013) Presentation made in Kosovo for the World Bank Workshop; Ministry of Business innovation and Employment, Government Procurement branch, [www.procurement.govt.nz](http://www.procurement.govt.nz).

### Box 3.6. Framework agreements in Austria

In addition to a broad range of policy responsibilities, a consulting service and the development of e-procurement applications, Austria's *Bundesbeschaffung GmbH* (BBG) is responsible for the establishment of framework agreements. As a centralised purchasing body owned by the Ministry of Finance, Austrian ministries are obligated to use the services of BBG, while the services are also available to all other contracting authorities. Purchasing volume in 2013 reached EUR 1.2 billion, with approximately 730 000 products in 12 product families available for purchase by government authorities.

In addition to evaluating government need, BBG also analyses the willingness and suitability of a given market to accept delivery through framework agreements in determining which products or services to pursue. Reference prices are determined through market analysis and historical pricing data, and framework agreements can last a maximum of three years, apart from exceptional cases where there is justification (for example, by the subject of the agreement) for an additional three years.

Austrian law provides an obligation to set out how additional competition for orders (mini-competitions) will be conducted as an element of the establishment of a framework agreement, if applicable. In cases where needs and preferred features can be clearly identified in the initial competition, the mini-competition will focus primarily on ensuring the best price. In these cases, the principle of most economically advantageous tender is used during the first stage to achieve appropriate levels of quality. In cases where some elements of the need or preferred features are not identified in the first competition, the most economically advantageous tender principle can be used during the mini-competition phase as well. While the law does not provide an explicit obligation on when and how to set the criteria for the mini-competition, experience has shown that the question is best addressed in the first phase in order to support transparency and competition most effectively.

*Source:* *Bundesbeschaffung GmbH*, Austria.

Table 3.1. Annual Multiple Award Schedules performance

|  | 2008    | 2009    | 2010    | 2011    | 2012    | 2013    | 2014    |
|--|---------|---------|---------|---------|---------|---------|---------|
| No. of goods                           | 240 764 | 297 585 | 273 070 | 297 190 | 300 633 | 305 095 | 326 409 |
| No. of contractors                     | 2 938   | 3 732   | 4 082   | 4 405   | 4 701   | 5 304   | 5 568   |
| Total value supplied (in USD billions) | 3.8     | 5.1     | 4.8     | 4.7     | 5.1     | 5.6     | 5.4     |

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

### ***Establishment of MAS contracts***

The workflow for MAS is provided in Box 3.7, and additional details about the steps in the process are provided below.

#### **Box 3.7. MAS workflow**

1. Plan for purchasing
  - Market research, price analysis, etc.
2. Announcement for purchasing
  - Tender notice on KONEPS
3. Receipt of application for contract fulfilment capability test
  - Past delivery performance and credit rating (checked through on line)
4. Contract fulfilment capability test
  - Evaluated by contracting division and notified on KONEPS
5. Receipt of supporting documents for price
  - Received by related contracting division  
(mail, e-mail or in person)
6. Set the reference price for negotiation
  - Set by related contracting division
7. Price negotiation
  - Negotiate with a qualified supplier and select a contractor
8. Conclusion of contract
  - E-contract through KONEPS
9. Request for delivery (the second stage competition)
  - End users purchase directly through KONEPS
10. Payment
  - E-payment
11. Contract management
  - Modify the contract upon contractor's request



Goods or services targeted for MAS must meet four general criteria. They must have a commercialised specification, allow for contracting via unit price, be supported by a competitive market, and have sufficient demand among end users. For goods or services that satisfy these criteria, PPS prepares an announcement for purchasing, and the tender notice is posted to KONEPS.

For most products, potential suppliers are subjected to a contract fulfilment capability test. This involves evaluation of past delivery performance and credit rating. Past delivery performance must include at least three successful contracts, though these do not need to be contracts with PPS; private sector and other public sector contracts also satisfy this requirement. Past delivery performance is rated out of 30 points. Credit rating is worth 70 points, and a credit rating of a B- equates to a score of 55 for this criterion (approximately 60% of suppliers are rated at this level). A passing score for this evaluation is 85, meaning that a contractor with a B- credit rating must receive full points for past delivery performance. In July of 2011, PPS began conducting a more thorough evaluation of suppliers for certain products (see Box 3.8).

### Box 3.8. Pre-qualification review for MAS suppliers

As of March 2015, PPS has applied a pre-qualification review process to 18 products and services, for which quality management is deemed more important for health, safety and environmental reasons. First introduced for seven products and services on 1 July 2011, nine additional products and services were added on 1 January 2013 and two additional products were added in March of 2015. These products include: artificial grass, elastic paving materials, solar generators, non-skid paving materials, air sterilizer, air circulator, synthetic wood, stone for landscaping, bridge rails, guard rails, flooring material, urethane flooring material, water heaters, water purifiers, rock fall protection netting and lane-diving poles, natural boundary stones and median strips.

In addition to the past delivery performance and credit rating criteria, the pre-qualification review also involves an evaluation of technical capability, satisfaction rate from the post-delivery feedback from public buyers, and contractual/regulatory compliance records. For this review, a passing score is also 70, but a limited grace period of one year applies following the addition of an item to the list of those requiring pre-qualification review. During this grace period, a passing score of 65 applies. Details of the pre-qualification criteria appear in Table 3.2.

Independently of the evaluation of potential suppliers, the contracting division establishes a reference price for the subject of the MAS contract. The reference price is a hypothetical price deemed appropriate by the contracting officer for economic purchase, in consideration for the budget, the purpose of purchase, specific nature of the subject matter, and the contracting environment. This reference price acts as a ceiling price for the intended procurement, and is used as a reference in awarding contracts through bidding or negotiation. The reference price is established by the contracting official in accordance with a standard manual that reflects the appropriate legal requirements.

Table 3.2. **Pre-qualification criteria and the ceiling for allotted scores**

| Classification                                 | Allotted score | Examined area             | Allotted score | Examined item                               | Allotted score |
|--|----------------|---------------------------|----------------|---|----------------|
| Total  | 100            | Total                     | 100            | Total                                       | 100            |
| I. Past delivery performance                   | 20             | Past delivery performance | 20             | Past delivery performance                   | 20             |
| II. Technical capability                       | 17             | Level of technology       | 13             | High-level technology                       | 13             |
|  |                |                           |                | General certification                       | 6              |
|  |                |                           |                | Green certification                         | 6              |
|  |                |                           |                | Highly skilled labour force                 | 2              |
|  |                |                           |                | Production capacity                         | 4              |
| III. Credit rating                             | 20             | Credit rating             | 20             | Credit rating                               | 20             |
| IV. Satisfaction rate                          | 40             | Price satisfaction        | 10             | Price satisfaction                          | 10             |
|  |                |                           |                | Quality satisfaction                        | 10             |
|  |                |                           |                | Service satisfaction                        | 10             |
|  |                |                           |                | Overall satisfaction                        | 10             |
| V. Contractual / regulatory compliance records | 3              | Ex post management        | 3              | Performance review of contract              | 3              |
|  |                |                           |                | Average delay on payment                    | -10            |
|  |                |                           |                | Reliability on contract performance         | -40            |
|  |                |                           |                | Sanctions as wrongful contractors           | -15            |
|  |                |                           |                | Online Shopping Mall transaction suspension | -15            |

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

The reference price is determined through a holistic evaluation of the subject matter. Beginning with the direct price of the goods, services or works contemplated by the contract, many additional factors are considered. These include logistics costs, installation costs, necessary training costs, costs for obtaining permits, testing and inspection costs, any taxes directly associated with the procurement (for example, value-added tax, consumption taxes, education taxes, custom tariffs, or special taxes for rural development), and any other costs that need to be considered ad hoc. These additional factors are included only when they are not already considered in the direct price of the goods, services or works being procured.

Where previous transaction practices have been developed, these actual transactions are the basis of the calculation of the reference price. To survey actual transaction prices, the contracting official is instructed to survey prices published by specialised price survey institutions registered with the Ministry of Strategy and Finance, when they are available. If these are not available, the contracting official surveys two or more businesses, with information verified by tax documents, contract documents or sales ledgers.

In cases where actual transaction prices cannot be determined (for example, for newly developed products or products with particular specification requirements), the reference price is calculated through cost accounting. If there is no adequate or appropriate basis for cost accounting, reference price can be established through appraisal, transaction prices for related products, or quotations from suppliers. The priority order for these approaches is summarised in Box 3.9.

### Box 3.9. Application priority for establishing reference prices

- price referenced in related regulations
- applicable actual transaction price
- price from cost accounting
- appraisal price
- actual transaction price for similar products (in terms of function and purpose of use)
- quotations from suppliers.

For lump sum contracts, the reference price is prepared on the total for the entire contract. For contracts where there is a continuous performance or delivery over a period of time, including MAS contracts, reference prices are prepared on a unit-price basis. In competitive tendering the contracting officials determined reference prices is considered preliminary, and the final reference price is determined through a randomising function that yields a final reference price within a percentage range of the preliminary price (the range is 2% for central government entities, and 3% for local government entities). This randomisation is conducted within KONEPS. The system generates 15 random prices within the appropriate percentage range. Each bidder for the contract then selects 2 of these 15 random prices blindly. Of those selected by bidders, the four most frequently selected are averaged to calculate the final reference price.

Once the reference price is established, PPS conducts negotiation with each approved supplier. To support this negotiation, each supplier is required to provide proof of transactions over a period of two months for each product model. This documentation is provided in the form of e-tax invoices for all MAS contracted goods; these e-tax invoices include quantities and unit prices. It is the responsibility of each supplier to download e-tax invoices from the National Tax Service and register this information on KONEPS on the 15th of every month. These registered e-tax invoices are used for the price monitoring of MAS-contracted products.

For those suppliers that reach an agreement on price negotiation, a contract is awarded. Three or more suppliers are required for a MAS contract. While MAS contracts were originally awarded for a period of one year, PPS noted that this created a burden on suppliers – and particularly on small and medium-sized enterprises – by requiring that they prepare the documents to renew the contract each year. To address this, the period for MAS contracts is now two years. Recognising that some products, such as electronics, are more vulnerable to changes in price and technological development, such products are excluded from this change, and retain one-year contract periods.

### ***Ordering procedures***

Once MAS contracts are established, the products are available within the KONEPS Online Shopping Mall. It is then the responsibility of each end user to compare, search and purchase within their needs. For simple transactions, this process is a straightforward ordering through automated processes within KONEPS. However, in certain cases there

is a requirement to conduct a second stage competition for price and quality within the MAS contracting framework.

The requirements for second stage competition were introduced in 2008 in order to enhance transparency and competitiveness in larger purchases. Since March of 2012, second stage competition applies to all orders for one-time purchasing of more than USD 42 400 in the case of goods manufactured by large enterprises, and purchases over USD 84 800 for goods manufactured by SMEs. Exceptions to the requirements for second stage competition are strictly limited to cases where immediate assistance is required (for example, in response to a natural disaster) or in cases where the existing product cannot be replaced by a similar, but not identical, product because of compatibility issues.

In order to prevent public entities from avoiding this requirement by dividing the purchase into multiple smaller lots, KONEPS Online Shopping Mall is configured to track repetitive orders. If a single entity places repetitive orders for the same product and the cumulative total ordered within a rolling 30-day period exceeds the USD 42 400 or USD 84 800 threshold, the system automatically blocks further orders by the entity for the products in question.

For orders subject to second stage competition, the buying entity is required to determine evaluation criteria and request proposals from five or more suppliers. Beginning in November 2013, the system incorporates a feature whereby KONEPS automatically selects two additional suppliers at random, in addition to those selected by the buying entity, to further increase competition.

Once quotations are received, the buying entity is responsible for evaluating them according to the evaluation method selected: lowest price, standard assessment or comprehensive assessment (see Table 3.3). Based on the evaluation method selected, a period of between three to five full days is allowed for the buying entity to conduct the evaluation. In cases where a contacted supplier does not submit a proposal for evaluation, the previous contract terms and conditions are considered to be the proposal. Following evaluation and selection of the winning bidder, a request for delivery is made, and the buying entity processes payment directly through the online systems within KONEPS.

While one of the intentions of the second stage competition is to increase savings through additional competition, there is a competing concern that this pressure could cause SMEs to contract at unprofitable rates. To address this concern, PPS limits the maximum allowable discount offer to 10% for SME products. While the intention behind this limitation is virtuous, it is unclear whether a limit of 10% discount on the offered price will ultimately represent the best value for the public buyer. While some other systems enforce similar discount limits, they are often not as restrictive as 10%. For example, Portugal only blocks bids below 50% of the estimated price as unreasonably low bids. PPS should study whether this requirement is necessary, or necessarily set at this value.

Table 3.3. Comparison of assessment methods

|  | Comprehensive assessment  |                                       | Standard assessment  | Lowest price assessment |
|--|---|---------------------------------------|--|-------------------------|
| Items  | Basic assessment<br>(over 60 pts)                               | Price<br>(45~75 pts)                  | ○ (65~75 pts)  | Proposed<br>price only  |
|  |   | Delivery on time<br>(10~20 pts)       | ○ (10~15 pts)  |                         |
|  |   | Quality inspection<br>(5 pts)         | ○ (5 pts)  |                         |
|  | Selective<br>assessment<br>(below<br>40 pts)                    | Technological certificate<br>(10 pts) | ○ (10 pts)   |                         |
|  |   | Preference<br>(below 5 pts)           | ○ (5 pts)  |                         |
|  |   | Local supplier<br>(below 5 pts)       | X  |                         |
|  |   | Delivery term<br>(below 5 pts)        | X  |                         |
|  |   | Post management<br>(below 5 pts)      | ○ (5~10 pts)   |                         |
|  |   | Past experiences<br>(below 5 pts)     | ○ (5~10 pts)   |                         |
|  |   | Financial stability<br>(below 5 pts)  | X  |                         |
| Socially disadvantaged supplier<br>(below 5 pts) | ○ (5 pts)   |                                       |  |                         |
| Feature  | Some assessment items can be selected by end-user public buyers |                                       | 4 types of standard assessment exist, and the end-user entity may select 1 of the 4 based on their purpose of purchase | Focused on price        |

### *Contract management*

MAS contracts contain provisions to ensure that the most favourable price is offered to buyers. Suppliers are only allowed to increase their prices in the case of inflation of more than 3%, pursuant to the Enforcement Decree on the Act on Contracts to Which the State is a Party. This type of raise is also only possible if at least 90 days have passed since the issuance of the contract.

Suppliers are allowed to lower the price of their products at any time. In addition, they are required to maintain a MAS price that is the most favourable price, which is determined in comparison to the market price. For this purpose, market price is the lowest price offered by the supplier to the sole distributor or its dealers, the price listed on its homepage or in catalogues, or otherwise available for purchase. In cases where a lower price is offered outside of MAS, the supplier is required to notify PPS and either adjust the price to match the lower offered price or prove that the MAS price is really the most favourable price. Exceptions apply if the difference between the market price and the PPS price is smaller than 3%, if the period of reduction in market price does not exceed 15 days (short-term sales), and as long as the number of times of price reduction is equal to or less than two times during the course of the MAS contract period. In cases where the contractor fails to voluntarily report a lower offered price for a MAS product, penalties can be applied, including the suspension of the transaction, cancellation of the contract, or debarment from future contracting for the supplier.

In cases where a supplier would like to add an additional product model to an existing contract, the contract must be revised. Such revision is allowed after 60 days have passed from the issuance of the contract, or from the most recent contract revision.

## Future directions

### *MAS contracts for services*

While most of the MAS contracts made by PPS focus on standardised commercial products, public buying has trended toward increased reliance on services, or on hybrid contracts where goods are supplied along with support services necessary for their operation. To keep pace with this trend, PPS is working to develop and expand the use of MAS contracting for services. Between 2012 and 2013, the number of services provided on MAS increased from 185 to 753. During the same period, purchasing volume increased from USD 26.6 million to USD 181.8 million.

To date, the covered services include collective insurance, mobile surveys, school field trips and other commoditised services. Building on the momentum developed in 2013, PPS established a unified service classification system to systematically increase the use of MAS contracts in service products, manage statistics, and nurture the public contracting services industries. PPS opened a designated aisle for specific services within KONEPS Online Shopping Mall in 2014, including school field trips, collective insurance and mobile surveys. Additionally, PPS has created a Service Contract Division in January of 2015 to expand MAS contracts for services.

### *Recommendations for expansion of MAS contracts for services*

Selection for MAS contracting includes a requirement that the procured item be subject to industry-wide commercial standards and test standards. Current efforts to incorporate more services in the MAS framework contracts involve a similar effort to begin by systematically classifying services in a uniform way. While this approach will yield solid and standardised results, its application may be limited as more and more complex services are contemplated for inclusion in MAS contracts, as complex services are not always easy to characterise in a neat and standard way.

For this reason, consideration of approaches that incorporate additional flexibility may be required. For complex services, a category management approach may be necessary. Under such an approach, PPS could assemble individuals with market expertise to appropriately structure framework agreements for complex services in the absence of criteria that are easily standardised. For such cases, comprehensive evaluation during second stage competition would be necessary, as price alone would likely be a poor indicator for complex services. But this approach is applied in other OECD countries, for example, through the application of Quality Assurance Plans in France (see Box 3.10) and strategic sourcing and collaboration (see Box 3.11). As most of the current MAS contracts focus primarily on awarding to lowest cost providers, the move to services and a category management approach necessitates consideration of additional workforce skills and training. Contracting based on best value requires additional skills and experience as well as new training for the workforce.



### Box 3.10. Quality assurance plan: An example of cleaning services in France

The *Union des groupements d'achats publics* (UGAP, Union of Public Purchasing Groups) is a French central purchasing body that buys products and services and sells them to the government and government agencies, regional authorities and hospitals. Its purchasing categories include vehicles, information technology (IT), furniture and equipment, medical supplies, maintenance and technical services and facility management services.

In 2014, UGAP concluded a framework agreement for cleaning services. The agreement has a duration of four years and is divided into 26 regional lots. For each lot, seven to ten suppliers are selected. When buyers wish to place a purchase order, they conduct a mini-tender in which suppliers submit bids to win the order, in accordance with the mini-tender award criteria defined in the framework agreement.

This agreement includes a quality assurance plan to evaluate the quality of the services rendered by the supplier and assess whether it is within specific thresholds established by UGAP. The quality assurance plan formed part of the tender documents, so bidders were aware that they would be bound to it if they won the contract.

In order to evaluate the quality of services, the quality assurance plan foresees with three different kinds of inspections of the services, to take place at agreed intervals (once a month or a trimester):

1. self-inspections carried out by the supplier
2. planned inspections carried out by the supplier and the public buyer
3. unplanned inspections carried out by the supplier and the public buyer.

For the self-inspection, the supplier has to monitor itself the quality of the services, carrying out verification operations and taking immediate corrective measures where needed. At the end of the inspection, the supplier has to evaluate the level of services according to a predefined index and is responsible for the accuracy of the information.

For the planned inspections, the buyer has to inform the supplier at least 48 hours before the inspection. At the end of the inspection, the supplier has to evaluate the level of services according to the predefined index. If the rating is under a certain threshold, the supplier has 48 hours to solve the problem and is liable for a penalty. The amounts of penalties depend on the extent of the defect in performance, i.e. their amounts increase as quality levels fall.

The unplanned inspections are carried out after an obvious worsening of the quality of the services that does not correspond to the agreed quality levels. The supplier and buyer carry out the inspection 24 hours following a demand. At the end of the inspection, the supplier has to evaluate the level of services according to the predefined index. If the rating is under a certain threshold, the supplier has 48 hours to solve the problem and is liable for a penalty.

In addition, any buyer who notices defective performance of services has to inform UGAP through a webpage. UGAP monitors that and forwards the information to the supplier. The supplier has 48 hours to solve the problem otherwise he can be excluded from the next phases of the framework agreement.

*Source: OECD (forthcoming), Improving ISSSTE's Public Procurement for Better Results.*

### Box 3.11. A strategic sourcing and collaborative approach: Cleaning services in Croatia

Cleaning is defined as the process of removing dirt, dust, organic matter and other stains from the floor, equipment and furniture in order to achieve an acceptable standard of cleanliness associated with the aesthetic appearance of space by using and combining different cleaning techniques. Cleaning services was a suitable category to be split by regions, and therefore for creating a framework agreement.

First, market research was conducted in order to gain knowledge on the specificities related to cleaning services.

A few big suppliers of cleaning services were contacted and their experiences were discussed. This was a mandatory step before starting the demand aggregation, as the procurement team needed to understand how to formulate tables for the demand aggregation, what data to ask for, etc.

The procurement team learned about the classification of space, the types of cleaning services, the percentage of labour in the price of service per square metre, the types of cleaning products used, etc. Information on the current contracts of the cleaning service suppliers was also very useful.

As understood during the initial market research step, the two major classifications of cleaning services are per type of space and per frequency of cleaning.

A call for tender was published, with the following details:

- Procurement procedure: Open public procurement procedure to conclude an FA with at least three economic operators for a period of three years.
- Lots: Division of procurement into 30 lots. The largest city, Zagreb, was split into several lots according to the locations of the ministries.
- A detailed list of locations and cleaning surface quantities for each lot and for each location was provided.
- Selection criteria:
  - a list of the bidder's services contracts executed over the past three years, indicating the amount and service
  - bidder's registration, taxes, criminal record
  - tender guarantee.
- Additional requirements: List of cleaning products:
  - self-declaration with the list of cleaning products that the supplier is going to use
  - the list becomes a part of the FA and can be checked accordingly.
- Price definition and adjustment:
  - The bid price shall include all costs and discounts without VAT, including wages, supplies (garbage bags), accessories, machinery and materials for cleaning.
  - The price does not include hygienic supplies – toilet paper, hand towels, liquid soap, etc.
  - Changes of the unit prices are related to a change in the minimum wage in Croatia.



### Box 3.11. A strategic sourcing and collaborative approach: Cleaning services in Croatia (continued)

In order to support the bidders in making better offers and due to the varying quality of surfaces and spaces, suppliers were allowed to visit each location prior to bidding. Visits were arranged with advance notice with the designated contact person for each location. Documentation was provided in advance of the specified times when the inspections could be performed, as well as the contact persons of the ministries.

Certain important questions were raised during the design and execution phases of the FA, including:

- How can it be verified whether the bidder executes the service according to the standards set in the agreement?
- What should be done if the service is not performed according to the standards?
- What standards should be introduced for the cleaning services?
- How should the minimum wage for the cleaning profession be defined and calculated?

The FA expired in August 2014. The procedure for setting up a new FA for the next period started well in advance of the expiration date. A revision of the initial FA took place in order to identify which items needed to be adjusted as a result of external changes as well as feedback on the performance of the FA. Some new conditions that tailored the new tender included:

- a government decision on outsourcing
- problems reported with call-offs for the 30 lots; there were many changes of facilities during the FA period.

Further to the internal revision of the initial FA, meetings with CAs and suppliers were held. These helped to rationalise the amount of hours for cleaning and decrease the number of lots from 30 to 20.

*Source: OECD (forthcoming), Manual on Framework Agreements for Greece.*

### ***Expansion of goods in MAS contracts***

In addition to expanding MAS contracts for services, the Shopping Mall Planning Division is responsible for identifying new products suitable for MAS contracting and dramatically expanding the number of items currently available through the Online Shopping Mall. This effort is currently focused on goods receiving social attention, and goods related to safety and security.

### ***Recommendations for the Shopping Mall Planning Division***

As with the expansion of MAS contracts for services, the use of a commodity management approach could benefit the efforts to expand the range of goods available in the Online Shopping Mall. As with complex services, there are some goods that are not easy to buy according to readily standardised qualities or commercial and test standards. In these cases, and with the expertise of the industrial specialists, processes for evaluating proposals during second stage competition according to comprehensive assessment may allow for the inclusion in MAS contracting of products that were otherwise excluded. The experience of the United States in establishing better centralised purchasing for printers is a relevant example (see Box 3.12). It illustrates the importance of identifying the true cost

drivers when evaluating contracting approaches designed to lead to increased efficiency and cost savings. Printers are a relatively simple, commoditised good, but driving real savings in their use requires a much more detailed and sustained approach than simply establishing effective framework agreements for their purchase. Similarly, purchase of more complicated goods and services will often require a more in-depth understanding of the product or service, as well as ongoing activity to ensure that buyers' behaviours (for instance, in conducting second stage competition among MAS contract stakeholders) lead to efficient outcomes.

### Box 3.12. PrintWise in the United States

A Federal Strategic Sourcing Initiative (FSSI) was begun in the United States to standardise purchasing and drive cost savings through consolidation. As a team of commodity experts was assembled, it quickly became clear that, while printers themselves are a relatively simple commodity, driving true cost savings with respect to government printing was a much more complicated issue. The United States Government Accountability Office reported that federal agencies spent an average of USD 440.4 million a year in unnecessary printing, with few agencies having established or enforced printing guidelines detailing when it was appropriate to print or refrain from printing. A focus on the devices themselves would ignore these cost drivers, as well as the lifecycle costs of toner, ink and maintenance.

To address these issues, the FSSI Print Management initiative was the first strategic sourcing solution to include a behavioural component. In addition to providing a framework agreement for the purchase of printers and toners, this initiative, dubbed PrintWise, also included a detailed change management campaign to improve printing practices across the US government.

The PrintWise change management initiative is built around “Seven Steps to Lowering Print Costs Within 90 Days”:

1. Set your default to “duplex” (double-sided) printing.
2. Set your default to “black-and-white” or “grayscale” (rather than “colour”) printing.
3. Set your default to “draft” quality (rather than “high” quality) printing.
4. Use one of the three approved toner-efficient fonts (Times New Roman, Garamond, and Century Gothic).
5. Improve your use of sleep mode for your printers.
6. Encourage the removal of personal printers.
7. Freeze purchases of personal printers.

These steps were supported by a PrintWise Campaign Toolkit, containing a guide for how to implement PrintWise at the agency level, a series of guiding principles for leading change implementation, resources for communications officials and a “message map,” as well as graphical logos and posters, tent cards and stickers that could be used as visual elements in support of the change.

*Source:* General Services Administration (n.d.), “Printwise campaign toolkit”, United States, <https://strategicsourcing.gov/printwise-campaign-toolkit> (accessed 16 October 2015).

This is also an area where more comprehensive procurement data of the sort that will be available in the Public Procurement Data System will be very useful. As one of the

criteria for establishing MAS contracts is sufficient cross-government demand, a clearer picture of that demand, incorporating all public buyers, can help inform the New Product Development Team as they look for additional products to include in MAS contracting.

## Key findings and recommendations

PPS implementation of MAS contracting offers a number of examples of good practices, particularly in the areas of standardisation, efficiency and competition. By developing a uniform process that also allows for appropriate flexibility, many elements of the OECD Recommendation are addressed through implementation of MAS.

Element IV (ii) of the OECD Recommendation calls for the delivery of “clear and integrated tender documentation, standardised where possible and proportionate to the need.” MAS contracting satisfies this element in a number of ways. The potential for vendors to apply for MAS contracts on a rolling timetable serves to “encourage broad participation from potential competitors.” Standard processes for the establishment of and ordering from MAS contracts involves “providing clear guidance to inform buyers’ expectations and binding information about evaluation and award criteria and their weights.” The process of pre-qualification review helps to ensure that “the extent and complexity of information required in tender documentation and the time allotted for suppliers to respond is proportionate to the size and complexity of the procurement.” This purpose is also served by the requirements for second stage competition, and the availability of a variety of assessment mechanisms for such competitions – simple needs can be satisfied with lowest price competitions, while goods to satisfy more complex needs are assessed according to more detailed criteria. MAS contracting also supports Element IV (iii) of the OECD Recommendation, encouraging competition both by providing an open-market environment for new vendors who would like to add their products and by explicitly requiring second stage competition in the case of large purchases.

MAS contracting also supports Element VII, “processes to drive efficiency throughout the public procurement cycle in satisfying the needs of the government and its citizens.” The purpose of MAS contracting – to reduce duplication, inefficiency and waste by establishing framework agreements – is in line with Element VII (i), by streamlining the public procurement system and its institutional frameworks. By allowing dedicated PPS contracting officials to manage the work of establishing the MAS contracts, officials in other public-buying entities are freed to order with reduced burden and overlap, and to focus their own efforts on purchases with high priority within their organisations.

The implementation of MAS contracting also satisfies Element VII (ii), as a “sound technical process to satisfy customer needs efficiently.” Identifying relevant targets for the award of MAS contracts and conducting the initial competition involves “developing appropriate technical specifications,” and the decision to apply pre-qualification testing involves “identifying appropriate award criteria.” PPS officials maintain the MAS contracts throughout their life, “ensuring adequate resources and expertise are available for contract management following the award of a contract.” The establishment of centralised purchasing and framework agreements (such as MAS contracts) are explicit examples contained in Element VII (iii) of the OECD Recommendation. Further, this element calls for “application of such tools across sub-national levels of government, where appropriate,” which is implemented through the availability to order from MAS contracts across the levels of government in Korea.

Given these good practices in implementing MAS contracting by PPS, the recommendations for improvement in this area focus largely on expansion of the system, rather than on necessary improvements.

### *Summary of recommendations*

- Consider the necessity of the restriction on discounts during the second stage competition, and perhaps study whether 10% is the appropriate threshold.
- Consider implementation of broader commodity management efforts to allow for MAS contracts for complex services.
- Consider implementation of commodity management to allow for MAS contracts for non-standard goods.
- Consider workforce training and skills requirements necessary to support implementation of more complex MAS contracts for services and non-standard goods.
- Utilise whole-of-government data available from the Public Procurement Data System to develop a better understanding of demand in looking for additional products for MAS contracts.

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**From:**  
**The Korean Public Procurement Service**  
Innovating for Effectiveness

**Access the complete publication at:**  
<https://doi.org/10.1787/9789264249431-en>

**Please cite this chapter as:**

OECD (2016), "Supporting competition and savings through framework agreements: Multiple Award Schedule contracts", in *The Korean Public Procurement Service: Innovating for Effectiveness*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264249431-6-en>

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