

États généraux de la commande publique et de la carte d'achat  
Paris, 16 juin 2009

**Edwin Morley-Fletcher**

**Gestion des dépenses de santé de faibles  
montants: l'expérience en Italie de la  
Région Emilia-Romagna**

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**The move towards e-procurement  
requires us to look differently at public  
administration's transaction costs**

## Goodbye Pareto Principle, Hello Long Tail

- ◆ The 80/20 mathematical formula, introduced in 1906 by the Italian economist Vilfredo Pareto to describe the unequal distribution of wealth, has long been a recurrent mantra in organization studies.
- ◆ The so-called Pareto's Principle, or **80/20 Rule**, states that 20 percent of something would normally be responsible for 80 percent of the results.
- ◆ A recent paper in economics, titled *Goodbye Pareto Principle, Hello Long Tail* (E. Brynjolfsson, Y.J. Hu, and D. Simester, November 2007) has reverted the traditional 80/20 approach, following the innovative insight of Chris Anderson's book, *The Long Tail* (2006), and the concept that, when transaction costs are greatly lowered, “**the biggest money is in the smallest sales**”, whereby a series of small niches cumulatively achieve a much larger amount than the traditional focus on selling the preferred 20% of the items.

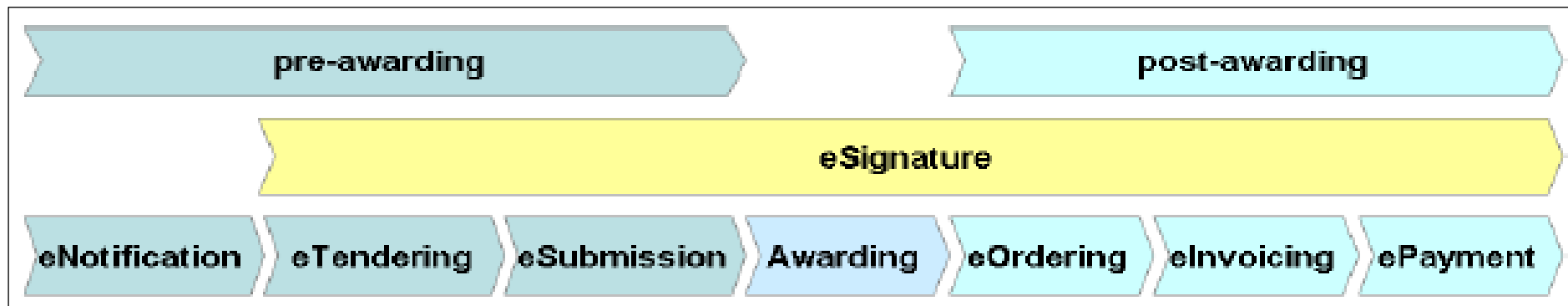
## The Long Tail in the area of e-payment

- ◆ The **Long Tail insight** can also be **applied to the area of public administration**, and specifically of **public procurement**, if the implied transaction and processing costs are considered.
- ◆ A similar concept lies behind the understanding of the importance of **e-invoicing**, though it is not yet adequately understood for the use of **e-payment for e-procurement**, and for public procurement in general.
- ◆ **Purchases of modest amount** normally account for **over 70 percent** of transactions in public procurement.
- ◆ The **related payments** constitute only a **small proportion of total expenditure** for the purchasing of goods and services (**less than 10 percent** in general).

## E-government, e-procurement, e-payment

- ◆ E-procurement is a crucial aspect of e-government
- ◆ E-payment is a crucial segment of e-procurement

### Functional cycle of e-procurement



Source: [http://www.epma.cz/Docs/EEEGD08/Mondorf\\_BRITE.pdf](http://www.epma.cz/Docs/EEEGD08/Mondorf_BRITE.pdf)

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# **The role of public procurement cards: significant reference experiences**

## Using Purchasing Cards for micro-purchases

- ◆ The problem of the **high administrative costs** associated with **procurement** has already been **solved** in many privately owned companies and government bodies both in some European countries and in the United States **with no decrease but rather an increase in overall control**.
- ◆ The solution adopted is a **purchasing card** to be used **for payments of modestly priced goods and services**.
- ◆ The **savings** obtained through use of the purchasing card **can amount to as much as 70-80 percent of the administrative costs** of the procurement transactions compared to traditional channels.
- ◆ The **further savings** to be obtained include, first and foremost, **price reductions** to be negotiated with suppliers in return **for prompt payment**.

## A technological lever for reducing administrative costs

- ◆ The purchasing card can be regarded as a “technological lever” for the **modernisation of public administration**, capable of introducing:
  - radical **innovations** into the **procurement processes**,
  - **savings** in terms of **time** and **costs**,
  - an **increase** both in the **transparency of transactions** and in **efficiency**,
  - a substantial **decrease** in the proportion of **personnel assigned to administrative activities of authorization and control**.
- ◆ Human resources can be **freed from self-administration tasks** and can be assigned duties more directly connected with the institutional mission.
- ◆ This also means **cutting costs over time** through a reduction in personnel turnover.
- ◆ All in all, the **introduction of an administrative purchasing card** through procedures that have been tried and tested in the United States, and are perfectly reproducible **in the EU**, would potentially offer **transaction costs savings** which can be conservatively estimated at not less than **€3.6 billion** a year for the whole of the EU, and are likely to be potentially much **larger**.

## US regulatory support for the use of SmartPay in public procurement

- ◆ The **Purchase Card** was introduced in the United States by the General Services Administration (**GSA**) in the **late 1980s**.
- ◆ In **1994** the Federal Acquisition Streamlining Act (**FASA**) encouraged the use of purchase cards by removing certain restrictions and **shifting micro-purchase authority** to personnel **other than** government **procurement professionals**.
- ◆ In **1999** it became **obligatory** to carry out **all public payments through electronic transfer (EFT)**, and the **Smartpay Card** was one of the channels recognized for this purpose.
- ◆ The purchase card was designated as the **preferential tool for micro-purchases**, defined as transactions involving amounts **up to \$ 2,500**.
- ◆ Tax Increase Prevention and Reconciliation Act of **2005 (TIPRA)** generally requires Federal, State, and Local governments to **withhold 3% of contractor payments**.
- ◆ **Withholding** requirements **will not apply** to any payment that is **less than** the payment threshold amount of **\$10,000**.
- ◆ In the American Recovery and Reinvestment Act of 2009 (**P.L. 111-5**) passed in **February 2009** launched over \$787 billion in new spending; **Sec.1511** has **delayed** the TIPRA implementation of **withholding** on all payments made to government contractors **until after December 31, 2011**.

## SmartPay purchases represent 0.75% of 2007 federal expenditures

- ◆ The **growth** in card purchases by the Federal government agencies has been huge, **\$56 million** in 1990 to **\$18.7 billion** in 2007.
- ◆ Similarly the number of **purchasing card transactions** grew from **271,000** in 1990 to **24.7 million** in 2007, performed by **372,000 cardholders** out of **3.6 million federal employees**.
- ◆ **Additional figures** must be added for the **travel card** program, with approximately **\$7 billion** in expenditure, **41 million transactions**, **2 million cardholders**, and the **Fleet Card** program, with approximately **\$1.8 billion** in expenditure, **32 million transactions**, **659,000 cards**.
- ◆ In 2008 there were **over 350** government **agencies/organizations** participating in the SmartPay program spending **\$30.6 billion annually**, through **100 million transactions** on over **3.2 million cards**.
- ◆ The rate of **increase** from 2007 had been **12.2%**.
- ◆ Purchases by **SmartPay** represent **0.75%** of total **federal expenditures**

## Cost per transaction represents 25.5% of cost without purchase card

- ◆ The average **cost per transaction** was \$21.83, corresponding to 25.5% of the **cost without purchase card**
- ◆ The average **completion time** for the whole **transaction cycle** was 3 working days, corresponding to 25.9% of the time required **without purchase card**.
- ◆ 10.2% of **personnel** were SmartPay **cardholders**
- ◆ 37% of payments with purchase card were **below \$2,500**.
- ◆ 19% of payments were **between \$2,500 and \$10,000**.
- ◆ **Fraud** had been 0.025, and **inappropriate use** 0.027.

R. Palmer and M. Gupta, *The North American Purchasing Card Experience*, APECA Conference on “Dematerialization and Payment Cards: Tools of the Digital Economy”, Paris, December 4, 2008:

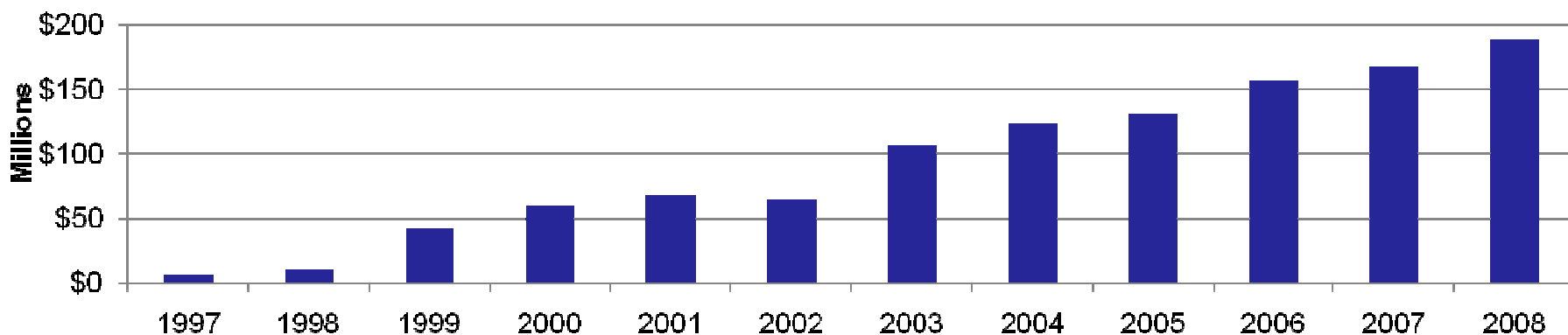
- “The **US government is underperforming**: the use of the purchase card **could be 10 times bigger**”.
- “The **challenge** now is mainly in **process engineering**, i.e. **shifting the authorization to buy**”
- “The purchase card is **not only a payment tool**”

## SmartPay “bulk discounts” and “issuing rebates”

- The availability of **digital reporting on itemized purchasing** through SmartPay made it possible to negotiate **bulk discounts** with suppliers, as well as **issuing rebates** with issuing banks, in proportion to the volumes of spend and transactions involved.
- Government Agencies and Organizations received **\$187 million in refunds in 2008**.
- A total of **\$1.1 billion** in refunds have been received **since 1997**.

### Agency Refunds

|                    | 1997 | 1998  | 1999  | 2000  | 2001  | 2002  | 2003   | 2004   | 2005   | 2006   | 2007   | 2008   | Total    |
|--------------------|------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|----------|
| Total Refunds Paid | \$6M | \$10M | \$41M | \$51M | \$66M | \$64M | \$106M | \$123M | \$131M | \$156M | \$166M | \$187M | \$1,113M |



Source: David J. Shea, *GSA SmartPay® In Review*, Visa Forum, April 28, 2009.

## A European-wide use of purchasing cards comparable to the US could generate at least €3.6 billion costs savings

- In 2007 SmartPay purchases represented 0.75% of total U.S. federal spending
- The US government saved about \$63.8 in transaction costs for every one of its 24.7 million transactions using the purchasing card, or around \$1.6 billion overall.
- In the EU public procurement is reckoned to amount to 16% of GDP, i.e. around €1,800 billion.
- If, by using a magic wand, the EU could achieve a comparable level of purchasing card use in the whole of its public procurement as the US have in relation to their total federal expenditures, this would imply reaching a purchasing card expenditure of €42.3 billion, with around 76.5 million transactions, and expected transaction costs savings (assuming all other elements to be similar to the US federal government costs) of approximately €3.6 billion per year.

## The UK Government Procurement Card

- ◆ The Government Procurement Card (**GPC**) was introduced in the United Kingdom in **1997** for the purchasing and payment of **goods and services of minor value**, with a view to improving efficiency and reducing procurement costs.
- ◆ By the end of 2007 there were a total of **112,000 cards**, approximately **4.7 million transactions** in the year, with a total expenditure of over **£ 795 million**, representing around **0.015% of public expenditure**.
- ◆ The **average spend** per transaction was **£168** in 2007.
- ◆ The **National Audit Office** had initially estimated (1997) that about **£ 28** could be **saved** on each transaction by using the **GPC** rather than traditional procedures.
- ◆ **Cumulative savings** on costs obtained from 1997 to 2007 were calculated to amount to nearly **£500 million**, of which **£ 132.5million** was in **2007**.
- ◆ The **expenditure** carried out via GPC was **18% greater in 2007** than in 2006 while **transactions** had increased by **22%**.
- ◆ Improved administrative **transparency**: the GPC is providing a **clear audit trail**, **itemizing** the detail of **every purchase**, and **indentifying** the person **who made it**.

## Environment-friendly, and strongly reducing payment times

- ◆ On average, **10 sheets of A4** paper are **saved for every purchase** made using the **GPC**.
- ◆ In **2007**, the program saved public sector bodies from processing **47.3 thousand sheets of A4** paper, equivalent to **182.2 tones of CO2** in paper production costs (excluding the energy needed to transport, print and dispose of the paper).
- ◆ Independent research from **FreshMinds** has **quantified the improved cash flow** that could be injected into the UK economy if more public sector payments to suppliers were made using the GPC.
- ◆ The **reduction in payment times** from a current average of **30 working days to just 4** working days would mean that **£14.3 billion** of **faster cash flow** would reach the UK economy over the next year.
- ◆ The **Government target** is **10 days**.

## The French Carte d'Achat

- ◆ 3 guiding principles led to the adoption in 2004 of the **Carte d'Achat** in France:
  - **modernisation** of payment systems,
  - **dematerialisation** of transactions,
  - **renewal** of methods of monitoring public expenditure.
- ◆ A study by the Ministry of Finance confirmed that also in France orders involving **amounts below €1,500** :
  - account for about **2/3** of the procurement **transactions** of public bodies at central and local levels,
  - represent only **4%** of their total **expenditure**.
- ◆ The Carte d'Achat is a tool for the **ordering** and **payment** of purchases involving **modest amounts** (*de faible enjeu*).
- ◆ The **ceilings of expenditure** on cards are set by the individual public bodies concerned.
- ◆ The Carte d'Achat has been **included**, as advanced process, **into CHORUS**, the new public system under development for budgeting and accounting.

## The French 'state of the art'

- ◆ As in the UK (and contrary to the US), the programme is **optional**.
- ◆ The **use of the Carte d'Achat is recommended** for the procurement of:
  - “**simple and recurrent**” goods and services,
  - involving **modest amounts**,
  - whenever the **transaction cost exceeds 5%** of the value of the item purchased.
- ◆ Using the Carte d'Achat, the cost of **processing invoices** can be reduced:
  - from **€20.00** to **€7.40**,
  - and to **€5.00** if operated on an **e-invoicing** basis.
- ◆ The Carte d'Achat is **growing steadily**, but remains **comparatively small**:
  - around **100.000 transactions** in 2007,
  - for a total of **€31.4 million**,
  - representing around **0.008%** of public expenditure,
  - the average transaction is **€325**.

## French stakeholders' satisfaction

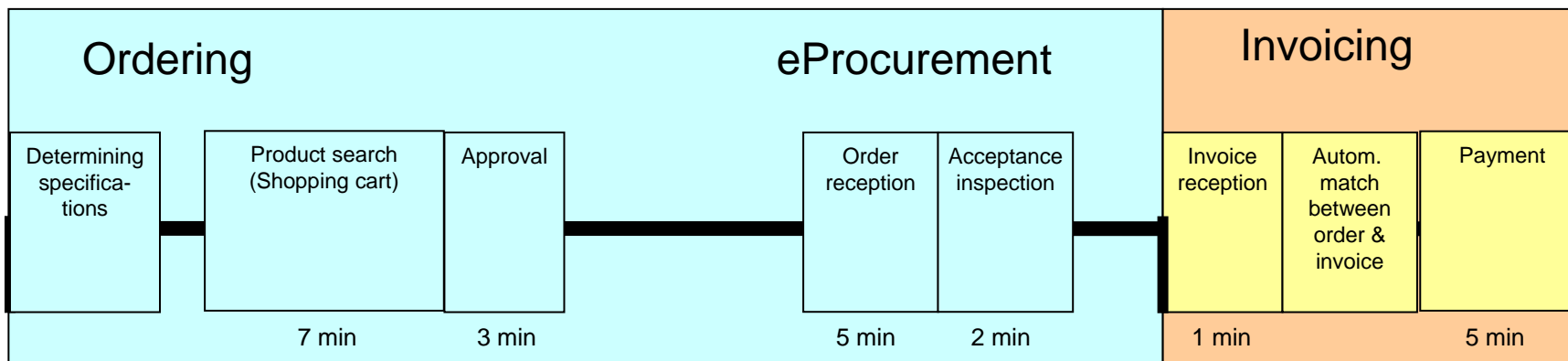
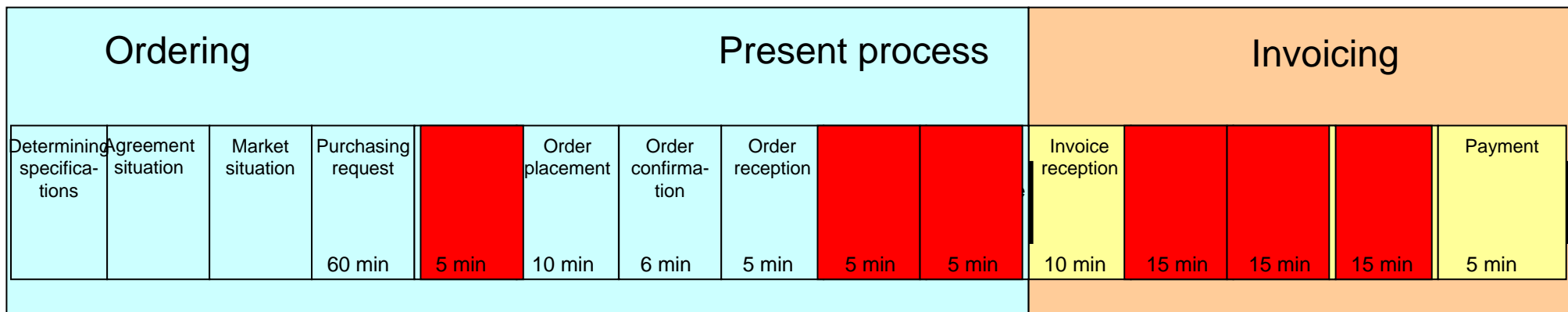
- ◆ All **key stakeholders** appear to **appreciate** the tool Carte d'achat:
  - **5 issuing banks** (Dexia, le groupe Caisse d'Epargne, CIC-Crédit Mutuel, BNP Paribas et la Société Générale), and the **3 card circuits** through which they are operating (American Express, MasterCard, Visa),
  - **Public administrations** involved, enjoying **cost savings** and productivity gains and (often) **better prices** by suppliers, especially when card purchases are **within** framework **procurement agreements** determining **economies of scale**.
  - **Cardholders**, enjoying purchase **process simplification**, feeling **empowered**, perceiving their **increased responsibility** not only as a purchasing mandate, but also **as a delegation of trust**, favouring a broad **extension** of the area of utilisation of the Carte d'Achat.

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**E- invoicing:  
other experiences in significant  
transaction cost reduction and other  
cases of mandatory innovation**

# A Finnish analysis of e-procurement, e-invoicing, and e-payment potential savings

## Process automation savings



### Present process

- Order 156 min = 2,6 h
- Value of a working hour 38 €
- Process costs 98,8 €

### eProcurement

- Order 23 min = 0,38 h
- Process costs 14,4 €
- Savings 84,4 €

# Estimated e-procurement and e-payment process savings in Finland in 2005

## Process savings

Number of manual purchasing processes in a year: 2.700.000 Invoices / year  
(Invoices / year)

Time savings in electronic processes: 60 min / order

Savings in working hours: 2.700.000 hours  
360.000 days  
1.800,00 man-years

Average value of a man-year: 50.000 €

**Savings 90.000.000 €/ year**

## A European successful mandatory experience in e-procurement

- ◆ E-invoicing became mandatory in Denmark on 1<sup>st</sup> February, 2005.
- ◆ Currently, over 200,000 companies are exchanging more than 1 million invoices per month with public sector institutions.
- ◆ The new set-up has resulted in time savings of 12 to 20 minutes per invoice, entailing an estimated cost saving of € 500 million per year.
- ◆ Companies can send their invoices in different ways, according to their level of IT readiness:
  - directly through their own ERP system,
  - through an internet based digital invoice portal,
  - or by sending a paper invoice to a Read-In bureau where it is converted into an electronic invoice and forwarded to the recipient public body.
- ◆ E-invoicing is considered by the Danish government as a step towards the competitive advantage of having a fully digital public procurement process.

## A mandatory approach also in **Spain**

- ◆ It was mandated by law that Spanish public administrations receive all invoices electronically from their suppliers:
  - by 2008 (for central administrations),
  - by 2009 (for regional and local administrations).

## E-invoicing saving potential and full SEPA migration

- ◆ A calculation made by the EACT–CAST project
  - There are around **10 billion** invoices per year in the **EU**
  - The average **processing cost** of paper invoice is **€ 30**
  - **E-invoicing** makes it possible to **save 80%** of costs = **€ 240 billion per year**
  
- ◆ The Single Euro Payments Area (**SEPA**) is well on-track for a full and timely implementation of the **Payment services directive** by the end of **2009**
  
- ◆ E-invoicing allows reaping **maximum** potential **benefits** of full and early **SEPA migration**.

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# A competitiveness and innovation issue

# E-invoicing requires e-payment. So does e-procurement

- ◆ In the area of public procurement the EU is lagging far behind the US in as far as purchasing cards are concerned.
- ◆ It would now be a mistake to focus only on e-invoicing.
- ◆ How to pay for public purchases of modest amounts is part of a specific issue regarding the competitiveness and innovation of payment systems used in public procurement.
- ◆ This issue requires new attention by the EC and some focused action.
- ◆ Avoiding massive government failures in the use and implementation of IT is the hidden threat of e-government: often budgets are exceeded, deadlines are over-run, and the quality of the new system is far below the standard agreed when the project was undertaken.

## What room can there be for a European-supported approach?

- ◆ Competitiveness and Innovation are two of the explicit goals of the Lisbon Agenda and i2010.
- ◆ Would appropriate **pilots** deserve being **funded** by the EC within its **Competitiveness and Innovation Programme (CIP)**, or in other areas related to **e-government**?
- ◆ Why not try a **bottom-up approach**, using the existing **commercial standards** guaranteeing immediate **interoperability**, and promoting the dissemination and sharing of **innovative practices** in the area of **micro-purchases within public procurement**?

## Bottom-up change through Public Procurement Cards

- ◆ While centralised applications of ICT often give rise, even in the most successful cases, to slow and comparatively modest improvements in efficiency and transparency,
- ◆ **accelerated bottom-up change** could be generated by:
  - issuing a potentially growing number of **public procurement cards**,
  - gradually defining the **common European parameters** required in order to interact both with suppliers and with the necessary administrative checks.

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# The Emilia Romagna Region (ERR) and its healthcare procurement

# ERR and its healthcare procurement

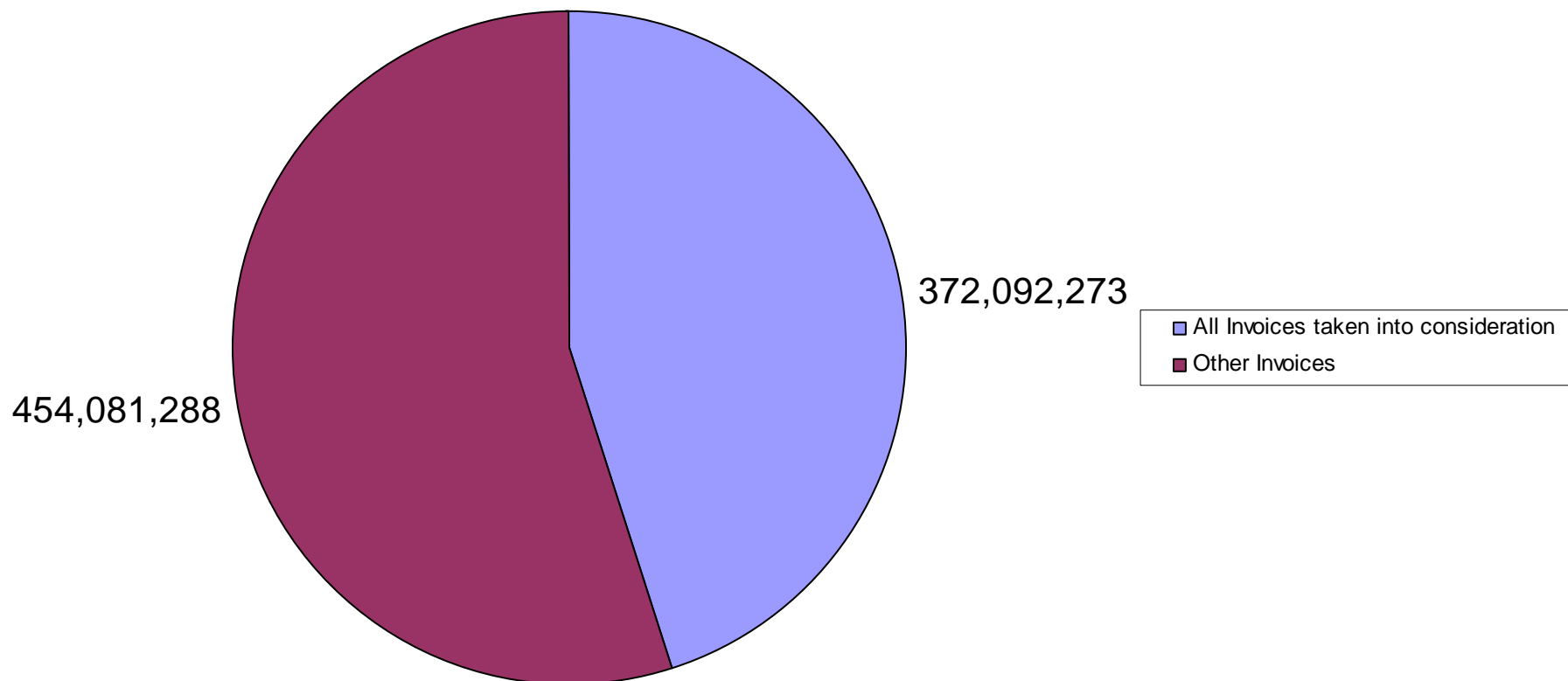
- ◆ ERR is currently **leading** the **Lisbon Regions Network**.
- ◆ ERR has traditionally played a leading role in fostering **technological innovation** in public management.
- ◆ ERR has been successful running **Intercent-ER**, its **in-house e-procurement agency**.
- ◆ In Italy, **healthcare** expenditure represents **80%** of **regional public expenditures**.
- ◆ In ERR **local healthcare** administrative units (**AUSL**) within the regional system have recently introduced advanced **electronic money transfer systems** operating through **treasury banks**.
- ◆ ERR represents therefore **a very challenging case** for assessing the **competitiveness** of alternative payment systems based on **public procurement cards**.
- ◆ Lynkeus analysed the **transaction costs** incurred by the **ERR** in handling a representative sample of the approximately **450,000 invoices < €5,000** that are currently paid every year by its regional healthcare system.

# The Lynkeus Study

- ◆ All **2006 invoices** taken into account were **< €20,000**.
- ◆ The invoices had been received by 3 healthcare administrative units in Emilia-Romagna:
  - University Hospital of Bologna,
  - AUSL of Ravenna,
  - AUSL of Piacenza.
- ◆ Only the invoices **relating to** specific goods and services were taken into account:
  - Healthcare goods
  - non Healthcare goods
  - Maintenance
  - Technical Services
  - Leasing
  - Equipment, Furniture, Vehicles
- ◆ The invoices taken into account represent over **4/5** of the total number of 2006 invoices paid by the 3 administrative units.
- ◆ As a **value**, they represent **less than half** of all the invoices for 2006.

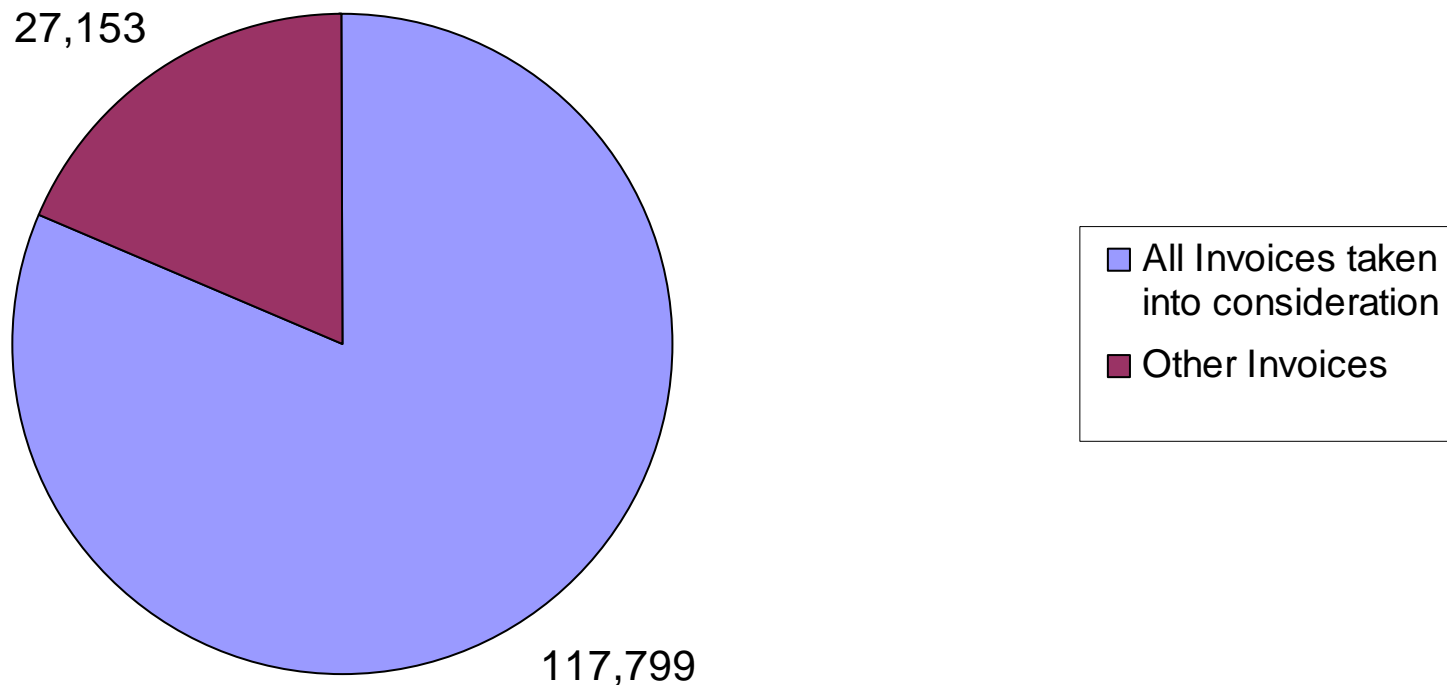
## Emilia Romagna Region (3 healthcare centres) : Value in €

Invoices relating to items taken into consideration (Healthcare goods, non Healthcare goods, Maintenance, Technical Services, Leasing, Equipment, Furniture, Vehicles)



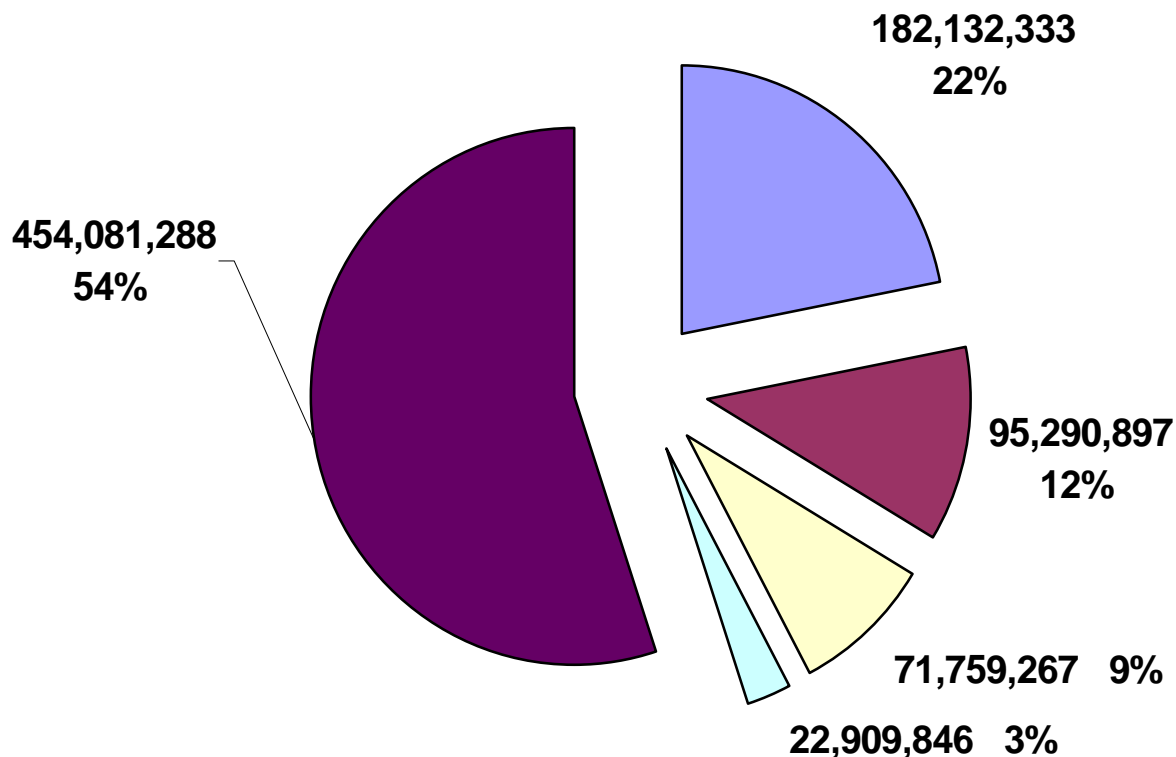
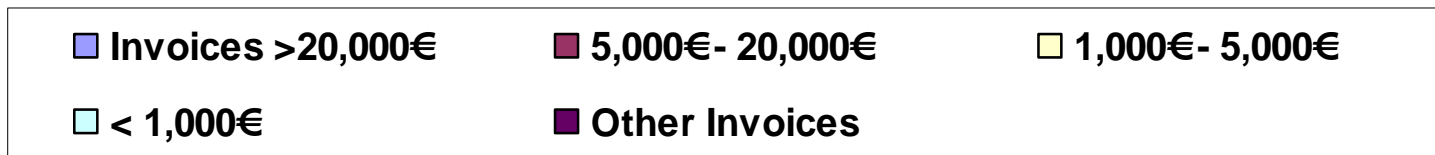
## Emilia Romagna Region (3 healthcare centres): **Volume**

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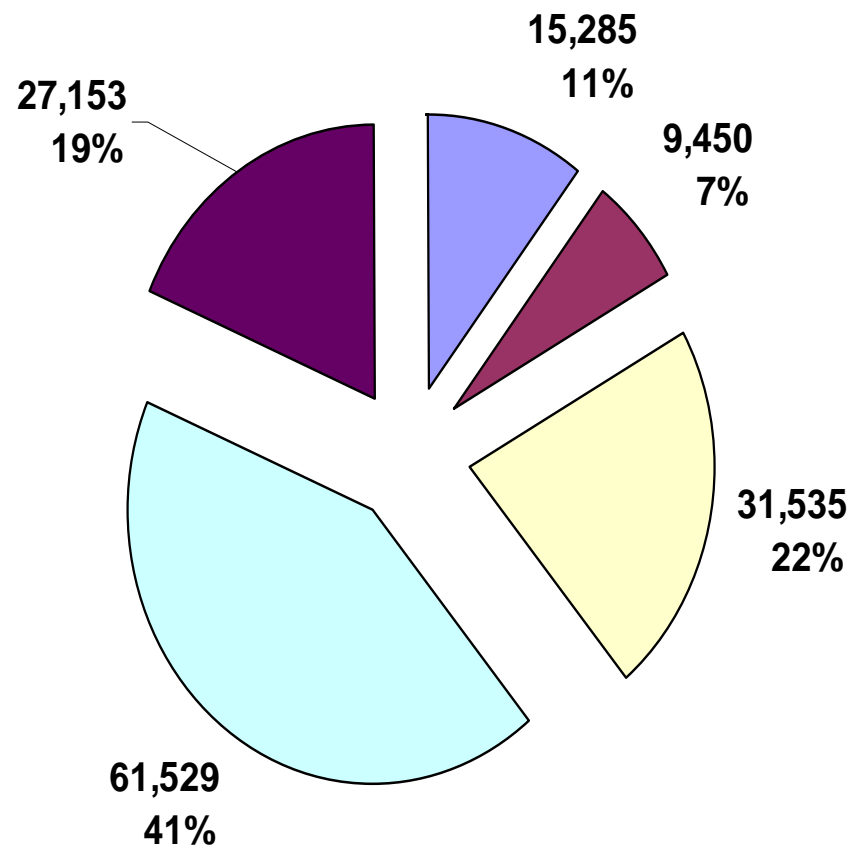
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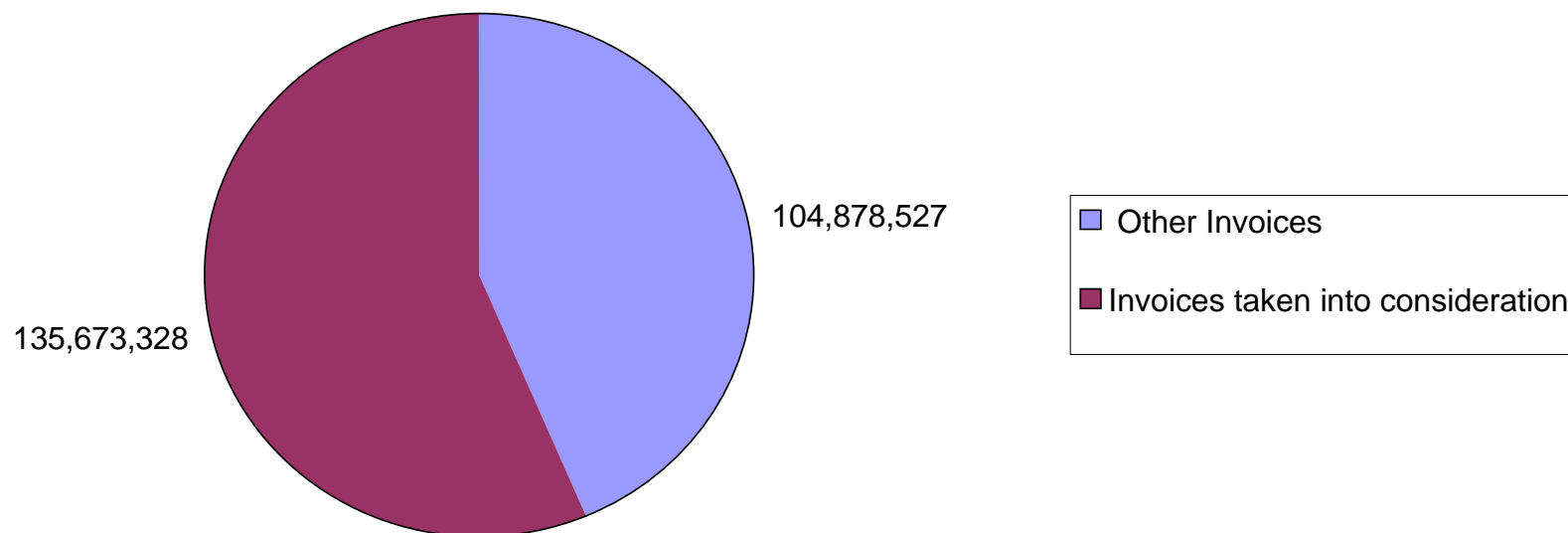


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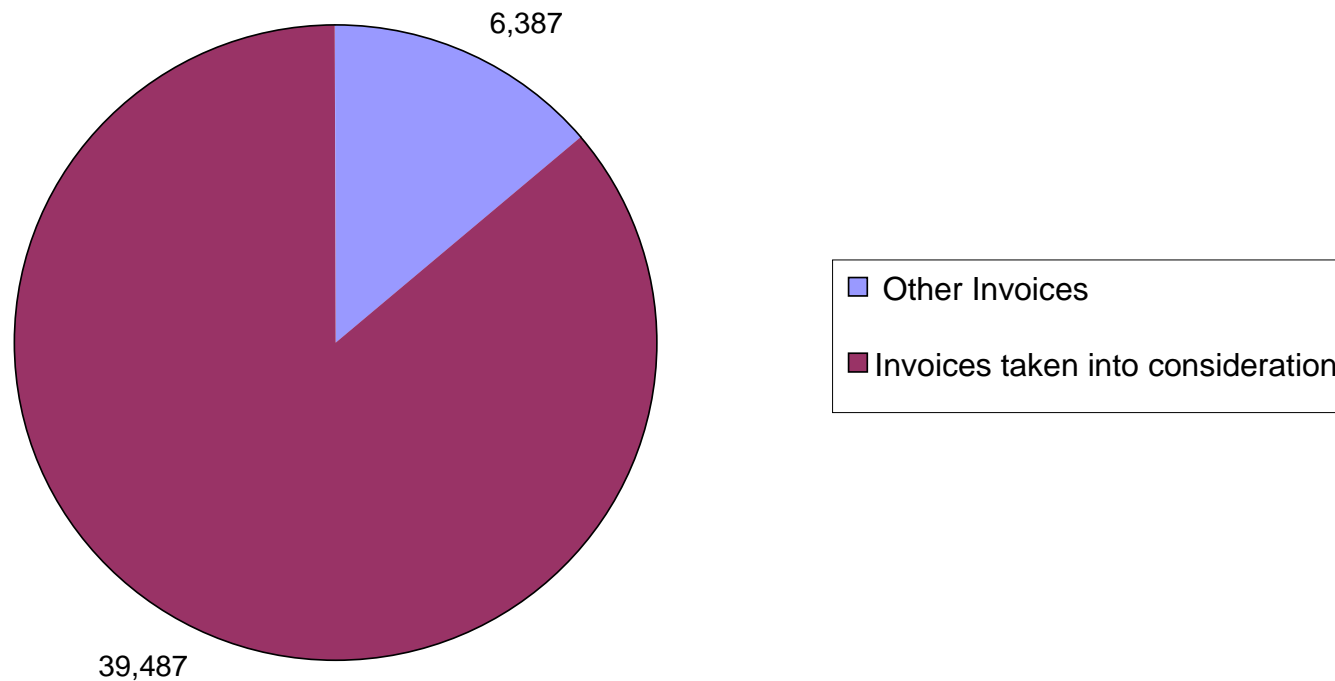


**University Hospital Bologna – 2006 Invoices: Value in €**  
**Invoices relating to items taken into consideration (Healthcare goods, non Healthcare goods, Maintenance, Technical Services, Leasing, Equipment, Furniture, Vehicles)**



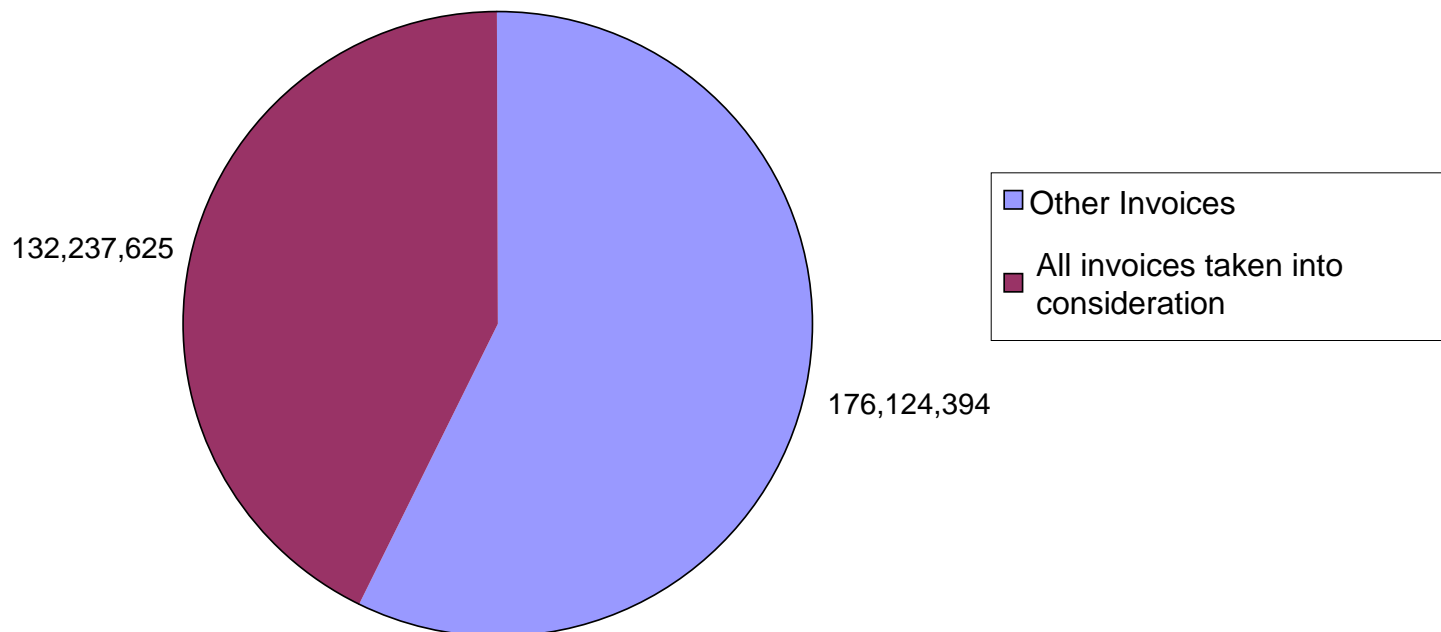
## University Hospital Bologna – 2006 Invoices: **Volume**

**Invoices relating to items taken into consideration (Healthcare goods, non Healthcare goods, Maintenance, Technical Services, Leasing, Equipment, Furniture, Vehicles) as a proportion of all invoices**



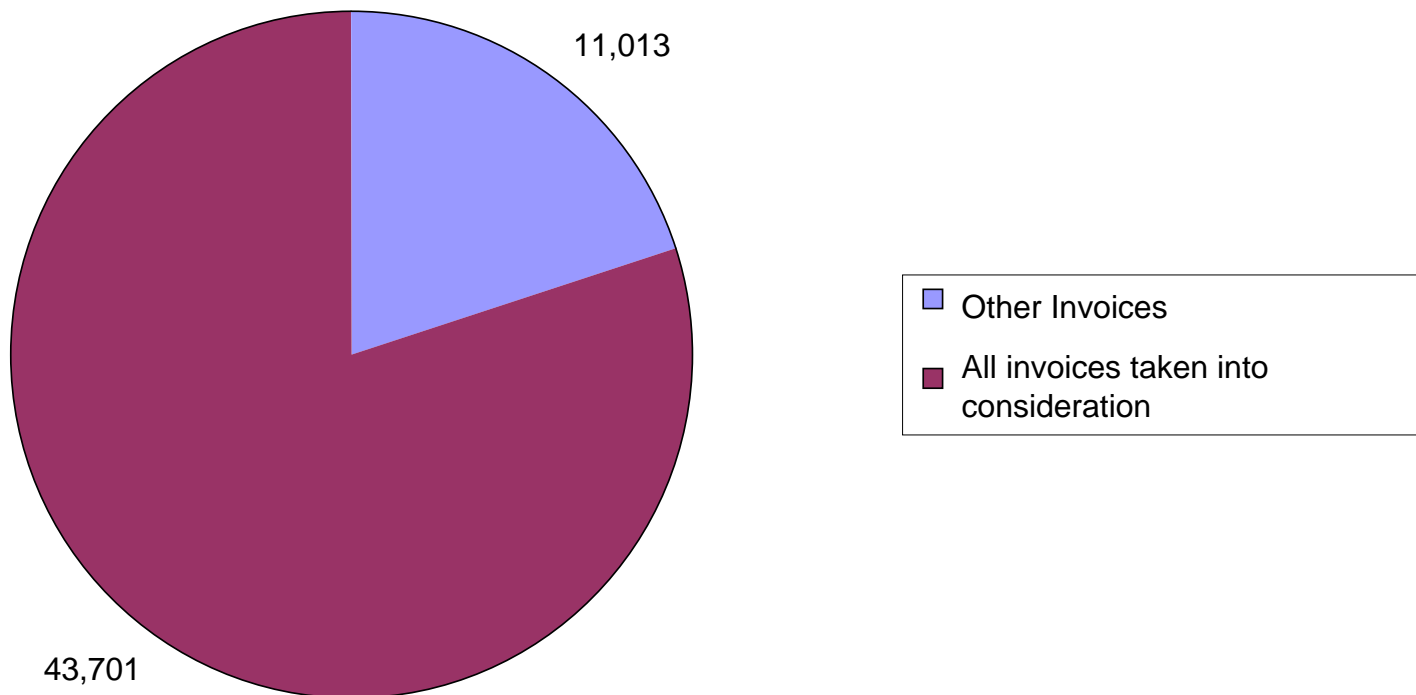
## USL of Ravenna – 2006 Invoices: Value in €

Invoices relating to items taken into consideration (Healthcare goods, non Healthcare goods, Maintenance, Technical Services, Leasing, Equipment, Furniture, Vehicles) as a proportion of all invoices



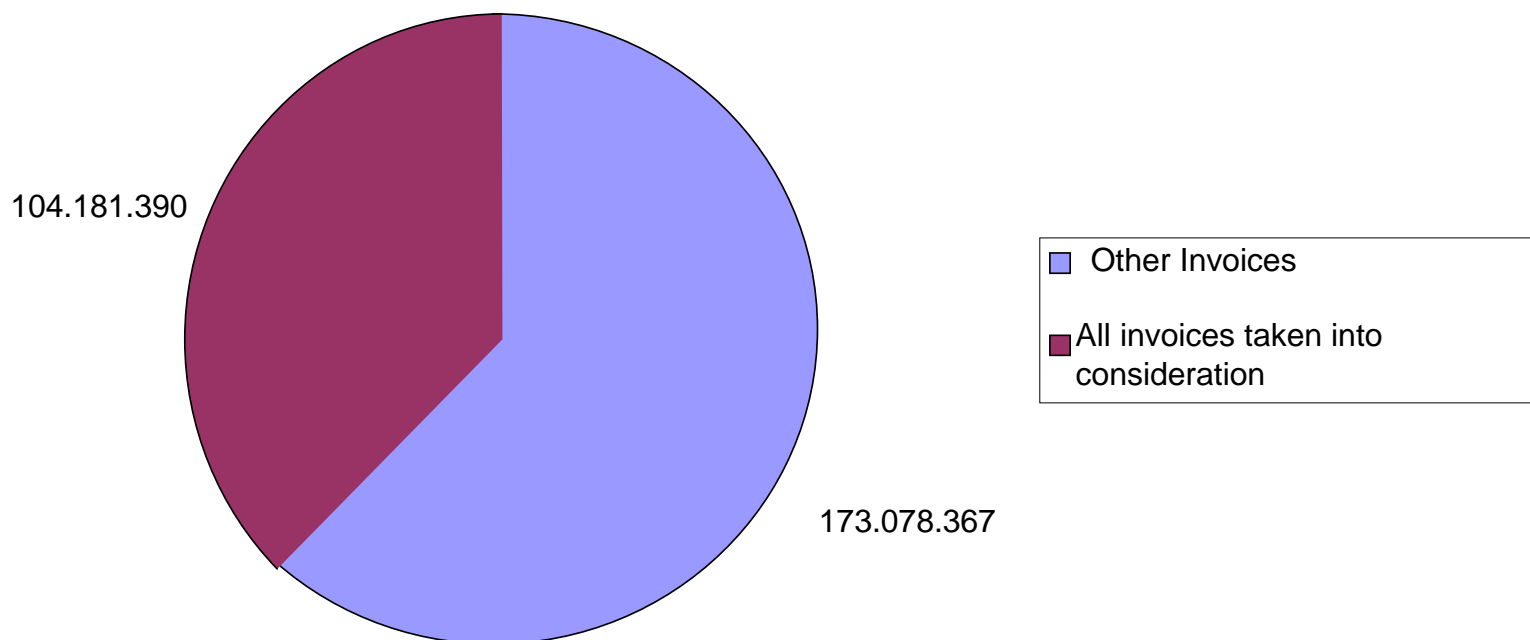
## USL of Ravenna 2006 Invoices: **Volume**

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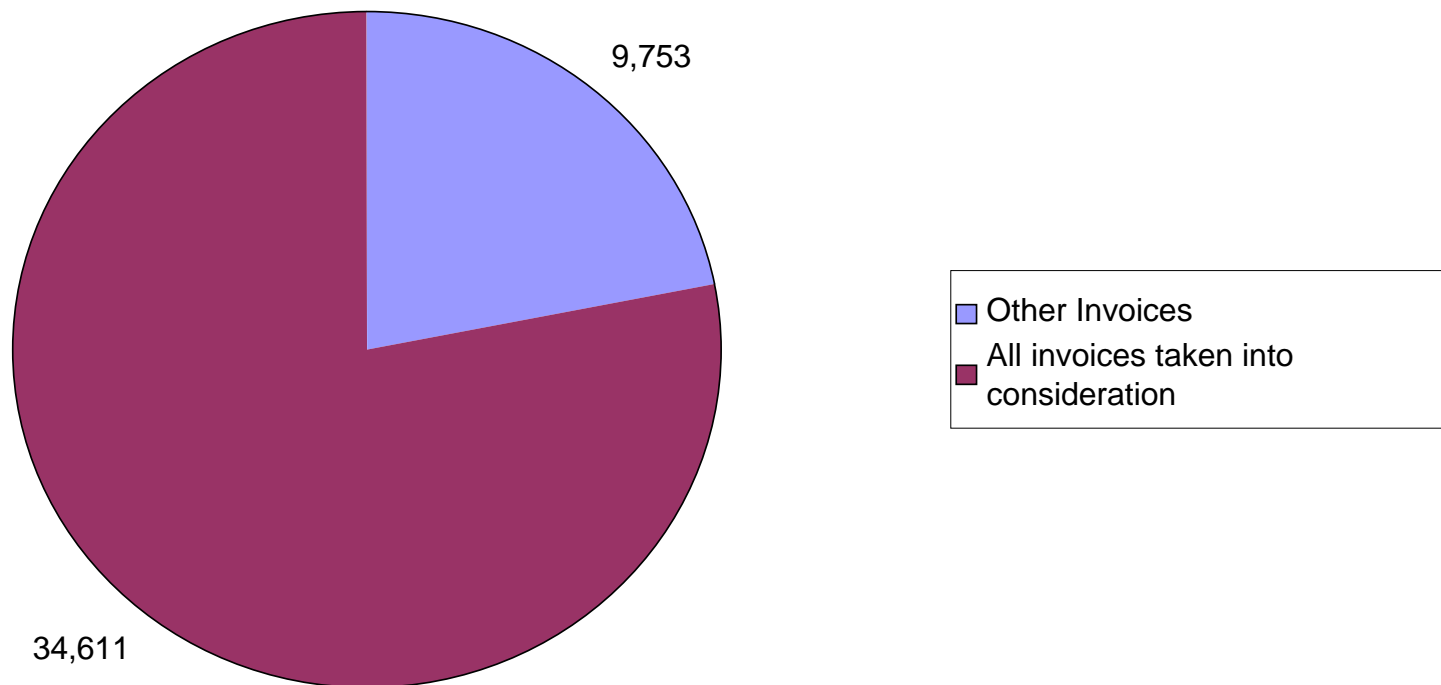
## USL of Piacenza – 2006 Invoices: Value in €

Invoices relating to items taken into consideration (Healthcare goods, non Healthcare goods, Maintenance, Technical Services, Leasing, Equipment, Furniture, Vehicles) as a proportion of all invoices



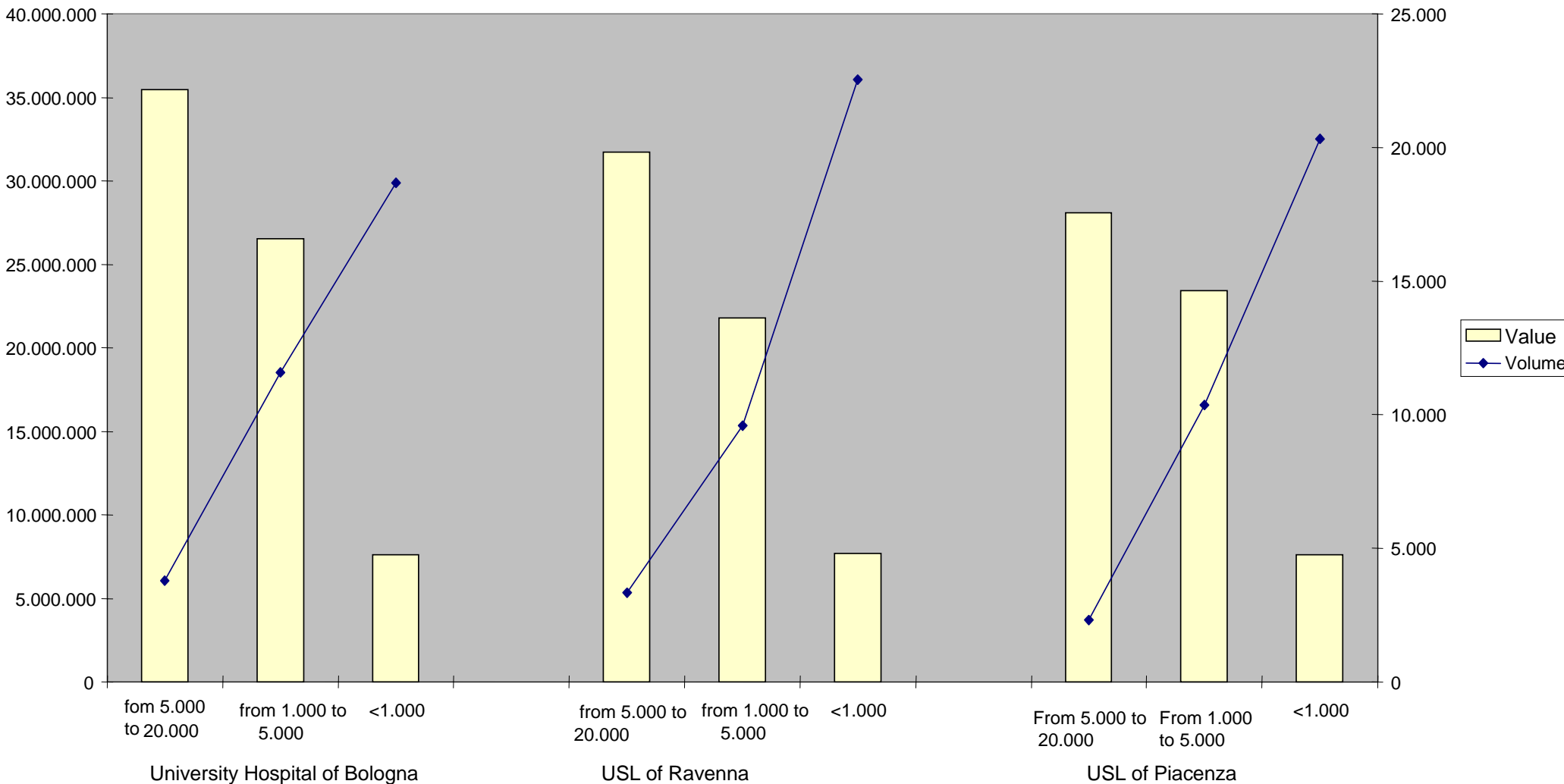
## USL of Piacenza : Volume

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# Invoices thresholds taken into account for the selected items

## Value & Volume



## Invoices < €20,000 recorded in 2006, Value and Volume

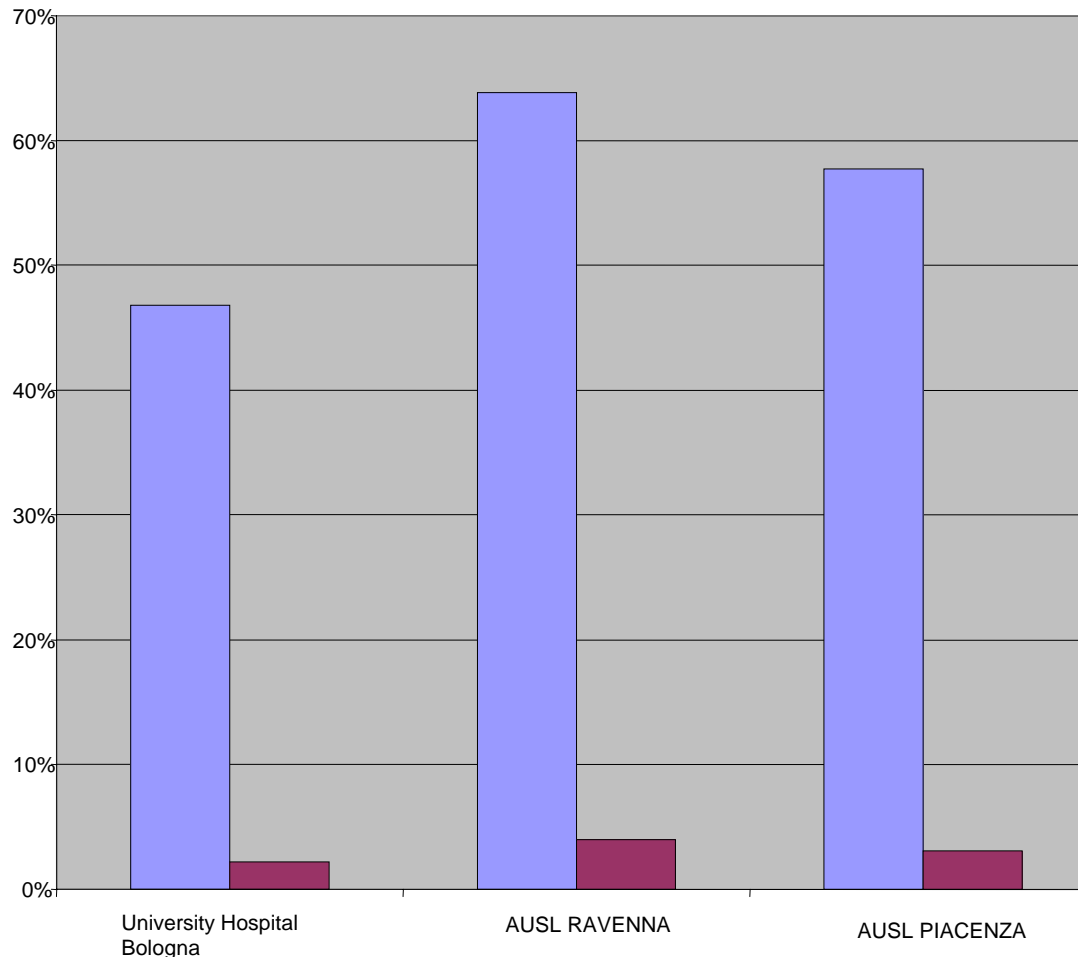
- ◆ A similar percentage of the total **value** of the invoices < €20,000 for the surveyed items:
  - in Bologna **29%** of all invoices recorded at the healthcare unit,
  - in Ravenna **20%**,
  - in Piacenza **21%**.
- ◆ High incidence of invoices < €20,000 for the surveyed items:
  - in Bologna and in Piacenza it corresponds to **74%** of all invoices,
  - in Ravenna **65%**.
- ◆ The invoices under consideration < €20,000, as a **proportion of all the invoices** for the same **surveyed items** without threshold limit, show that:
  - the **value** of invoices < € 20.000 represents:
    - in Bologna **51%** of all the invoices referring to all the selected items,
    - in Ravenna **46 %**,
    - in Piacenza **57%**.
  - the **volume** of invoices < € 20.000 is quite significant:
    - **86%** in Bologna,
    - **81%** in Ravenna,
    - **95%** in Piacenza.

## Invoices thresholds for the surveyed items

### Value and Volume

- ◆ A tight **inverse relationship** can be noticed between **value** and **volume** of invoices < €20,00 for the items under consideration
- ◆ University Hospital of Bologna :
  - invoices < €1,000 represent only 11% of the **value** of the invoices < €20,000, but as much as 55% of the **volume**.
  - Invoices < €5,000 represent 49% of the **value** for all invoices < €20,000 and 89% of the **volume**.
- ◆ Similar outcomes were found at the AUSL of Ravenna and Piacenza:
  - For invoices of < €1,000:
    - the **value** represents 13% of the total for both,
    - while the **volume** rises to 64% and 62% respectively.
  - For invoices of < €5,000:
    - the **value** is respectively 48% and 53%,
    - the **volume** of invoices reaches 91% and 93% respectively.

## Suppliers with annual billings < 10,000 €



- Suppliers with annual billings < € 10,000 to the 3 healthcare units as percentage of all the suppliers issuing invoices < 20,000 euro
- Value of the suppliers' billings < € 10,000 to the 3 healthcare units, as percentage of the total value of invoices < € 20,000

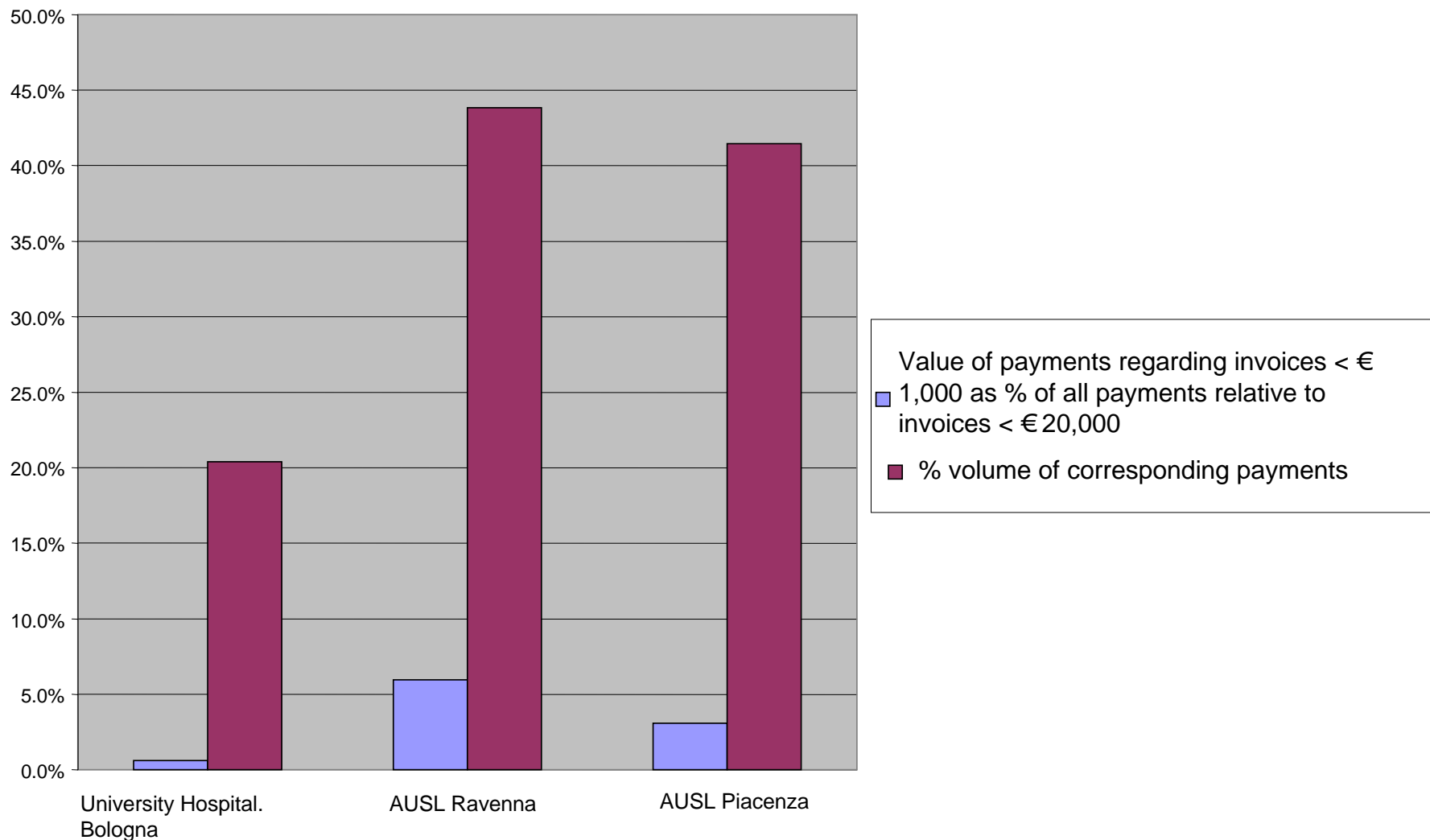
## Value of suppliers with annual billings < €10,000

- ◆ The **suppliers** to the 3 healthcare units with annual billings < €10.000 are **numerous**, but their **total billings are low** compared to the total of all billings < 20.000 €.
- ◆ The **number** of suppliers with billings < €10,000, compared to the total number of suppliers who issue invoices < 20,000 €, range from **47%** for the University Hospital of Bologna, to **64%** for USL of Ravenna, representing billings that, **in total**, do not exceed **4%** of invoices < €20,000.

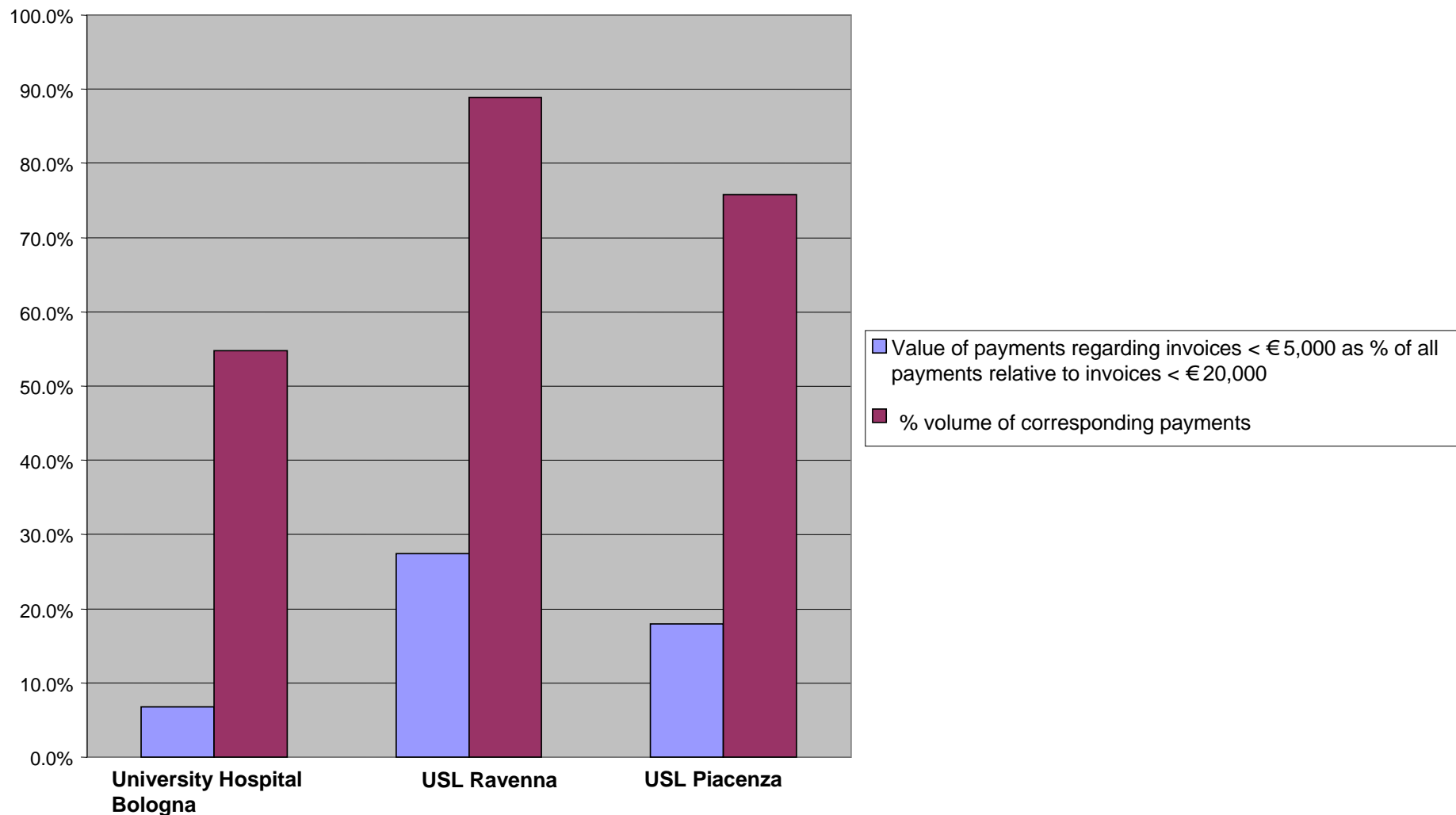
## Suppliers with annual billings exceeding €250,000 for the types of items under consideration

|   | Univ. Hospital<br>Bologna | USL Ravenna | USL Piacenza |
|---|---------------------------|-------------|--------------|
| Number of suppliers for the types of items under consideration      | 1,035                     | 1,541       | 1,142        |
| Suppliers with billings > € 250,000                                 | 63                        | 55          | 55           |
| % of suppliers with billings > € 250,000                            | 6%                        | 4%          | 5%           |
| Total value of items taken into consideration (invoices < € 20,000) | 69,606,345                | 61,205,888  | 59,147,777   |
| Billings of suppliers with total billings > € 250,000               | 38,925,536                | 32,930,591  | 33.324,682   |
| % of the total value of items under consideration                   | 56%                       | 54%         | 56%          |

## Value and Volume of payments < €1,000



## Value and Volume of payments < €5.000



## Value and Volume of payments < €1,000 and < €5,000

- ◆ There is an **inverse relationship** between the value and number of payment transactions. The higher the value of the **payment transactions**, the smaller the number of related invoices.
- ◆ The payments of less than €1,000 for the 3 organisations in Bologna, Ravenna and Piacenza show percentage results of **0,6%**, **6%** and of **3%**, compared to the **total value** of payments, while the percentage on the numbers of payments was **20.4%**, **44%** and **41%**.
- ◆ The group of payments < €5,000 is significant by **volume**, representing **55%** for Bologna, **89%** for Ravenna, and **76%** for Piacenza, while the corresponding figures for **value** are much lower: respectively **7%**, **27%** and **18%**.

## The procedure for **purchase** of **stock** products

| Function                   | Operation | Subject                                | Duties Performed   | Minutes |    |    |
|----------------------------|-----------|--|--|---------|----|----|
|                            |           |  |  | BO      | RA | PC |
| ISSUANCE OF PURCHASE ORDER | 1.1       | Storekeeper                            | Software automatically detects a low stock level and, after evaluation, submits a proposed order to purchasing dept.   | 10      | 10 | 10 |
|                            | 1.2       | PC Pharmacy/<br>requesting departments | Evaluates the proposal as to merit and quantity, and forwards it to purchasing dept.   |         |    | 7  |
|                            | 1.3       | Purchasing dept<br>BO - RA             | Evaluates the proposal as to merit and quantity, checks the contract recorded in the system, prepares the order by entering the price  | 8       | 8  |    |
|                            | 1.4       | Purchasing dept<br>PC                  | Confirms the authority of the requesting department, evaluates the proposal as to merit and quantity, checks the contract recorded in the system, prepares the order by entering the price |         |    | 10 |
|                            | 1.5       | Purchasing dept<br>BO                  | Sends the order via WinFax and files the fax transmission receipt  | 4       |    |    |
|                            | 1.6       | Purchasing dept<br>PC                  | Prints the order for manager's signature   |         |    | 7  |
|                            | 1.7       | Manager PC                             | Signs the order  |         |    | 2  |
|                            | 1.8       | Purchasing dept<br>RA - PC             | Prints and sends the order manually by fax, files the fax transmission receipt   |         | 7  | 7  |
|                            | 1.9       | Purchasing dept<br>RA                  | Prints and sends the order by post to the supplier   |         | 4  |    |
|                            |           | TOTALE                                 |  | 22      | 29 | 43 |

## The procedure for **purchase of stock products** (2)

| Function  | Operation | Subject                        | Duties Performed  | Minutes |    |    |
|-----------|-----------|--------------------------------|---|---------|----|----|
|           |           |                                |   | BO      | RA | PC |
| CLEARANCE | 2,1       | Storekeeper                    | At the time of delivery, checks package and delivery note                       | 5       | 5  | 5  |
|           | 2,2       | Storekeeper\<br>Administration | Records details of the delivery note on the management system                   | 4       | 4  | 4  |
|           | 2,3       | Storekeeper                    | Forwards the delivery note to the relevant department                           | 2       | 2  | 2  |
|           | 2,4       | Administration                 | On receipt of the invoice, stamps it and forwards it to the relevant department | 4       | 4  | 4  |
|           | 2,5       | Administration                 | Records details of the invoice on the management system                         | 5       | 5  | 5  |
|           | 2,6       | Administration                 | Settlement of the bill (checks purchase order, delivery note, invoice)          | 12      | 10 | 10 |
|           | 2,7       | Administration BO              | Delivery note and invoice are files as hard copies                              | 3       |    |    |
|           |           | TOTAL                          |   | 35      | 30 | 30 |

## The procedure for **purchase of stock products** (3)

| Function            | Operation | Subject                    | Duties Performed   | Minutes |    |     |
|---------------------|-----------|----------------------------|--|---------|----|-----|
|                     |           |                            |  | BO      | RA | PC  |
| PAYMENT OF INVOICES | 3,1       | Administration<br>RA PC    | Prepares the list of payments and forwards it for signature to the person responsible  |         | 8  | 8   |
|                     | 3,2       | Manager RA PC              | Signs list of payments and forwards it to the office dealing with payments   |         | 4  | 4   |
|                     | 3,3       | Administration<br>BO RA PC | Checks the list of payments and verifies availability of funds   | 6       | 4  | 4   |
|                     | 3,4       | Administration<br>BO       | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 7.3 invoices per payment) | 4       |    |     |
|                     | 3,5       | Administration<br>RA       | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 2.4 invoices per payment) |         | 5  |     |
|                     | 3,6       | Administration<br>PC       | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 3.0 invoices per payment) |         |    | 5   |
|                     | 3,7       | Manager BO RA<br>PC        | Signature of payment mandate   | 2       | 1  | 2   |
|                     | 3,8       | Manager BO RA<br>PC        | Electronic transmission of mandate   | 3       | 3  |     |
|                     | 3,9       | Manager PC                 | Transmission of mandate on paper   |         |    | 6   |
|                     |           | TOTAL                      |  | 15      | 25 | 29  |
|                     |           | GRAND TOTAL                |  | 72      | 84 | 102 |

# The procedure for **purchase of goods not taken into stock**

| Function             | Operation | Subject                    | Duties Performed   | minutes |    |    |
|----------------------|-----------|----------------------------|--|---------|----|----|
|                      |           |                            |  | BO      | RA | PC |
| ISSUANCE OF PURCHASE | 1,1       | Ward sister                | Paper or electronic request send to purchasing dept  | 5       | 5  | 5  |
|                      | 1,2       | Pharmacy PC                | Evaluates the proposal as to merit and quantity, and forwards it to purchasing dept.   |         |    | 7  |
|                      | 1,3       | Purchasing dept<br>BO - RA | Evaluates the proposal as to merit and quantity, checks the contract recorded in the system, prepares the order by entering the price  | 8       | 8  |    |
|                      | 1,4       | Purchasing dept<br>PC      | Confirms the authority of the requesting department, evaluates the proposal as to merit and quantity, checks the contract recorded in the system, prepares the order by entering the price |         |    | 10 |
|                      | 1,5       | Purchasing dept<br>BO      | Sends the order via WinFax and files the fax transmission receipt  | 3       |    |    |
|                      | 1,6       | Purchasing dept<br>RA      | Prints and sends the order manually by fax and files the fax transmission receipt  |         | 7  |    |
|                      | 1,7       | Purchasing dept<br>PC      | Prints the order for manager's signature   |         |    | 7  |
|                      | 1,8       | Manager PC                 | Signs the order and refund   |         |    | 2  |
|                      | 1,9       | Purchasing dept<br>PC      | Prints and sends the order manually by fax, files the fax transmission receipt   |         |    | 7  |
|                      | 1,10      | Purchasing dept<br>RA      | Prints and sends the order by post to the supplier   |         | 4  |    |
|                      |           | <b>TOTAL</b>               |  | 16      | 24 | 38 |

## The procedure for **purchase of goods not taken into stock** (2)

| Function  | Operation | Subject        | Duties Performed  | Minutes |    |    |
|-----------|-----------|----------------|---|---------|----|----|
|           |           |                |   | BO      | RA | PC |
| CLEARANCE | 2,1       | Storekeeper    | At the time of delivery, checks package and delivery note                             | 5       | 5  | 5  |
|           | 2,2       | Storekeeper    | Delivery to the department with signed delivery note                                  | 4       | 4  | 4  |
|           | 2,3       | Department     | Verifies delivery and signature of the delivery note                                  | 4       | 4  | 4  |
|           | 2,4       | Storekeeper    | Forwards the delivery note to the relevant department                                 | 3       | 3  | 3  |
|           | 2,5       | Administration | Records details of the delivery note on the management system                         | 4       | 4  | 4  |
|           | 2,6       | Administration | On receipt of the invoice, stamps it and forwards it to the relevant department       | 4       | 4  | 4  |
|           | 2,7       | Administration | Records details of the invoice on the management system                               | 5       | 5  | 5  |
|           | 2,8       | Administration | Settlement of the bill (checks purchase order, delivery note, invoice)                | 12      | 10 | 10 |
|           | 2,9       | Administration | Prepares the list of payments and forwards it for signature to the person responsible |         | 8  | 8  |
|           |           | <b>TOTAL</b>   |   | 41      | 47 | 47 |

# The procedure for **purchase of goods not taken into stock** (3)

| Function            | Operation | Subject              | Duties Performed   | Minutes   |           |            |
|---------------------|-----------|----------------------|--|-----------|-----------|------------|
|                     |           |                      |  | BO        | RA        | PC         |
| PAYMENT OF INVOICES | 3,1       | Manager RA -PC       | Signs list of payments and forwards it to the office dealing with payments   |           | 4         | 4          |
|                     | 3,2       | Admin.               | Checks list and agrees the total amount  | 6         | 4         | 4          |
|                     | 3,3       | Admin. BO            | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 7.3 invoices per payment) | 4         |           |            |
|                     | 3,4       | Admin. RA            | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 2.4 invoices per payment) |           | 5         |            |
|                     | 3,5       | Admin. PC            | Prepares mandates, checks Equitalia, list of payments and transmission details for signature and despatch (an average of 3.0 invoices per payment) |           |           | 5          |
|                     | 3,6       | Manager              | Signature of payment mandate   | 1         | 1         | 1          |
|                     | 3,7       | Manager              | Electronic transmission of mandate   | 3         | 3         |            |
|                     | 3,8       | Manager              | Transmission of mandate on paper   |           |           | 5          |
|                     |           | <b>TOTAL</b>         |  | 14        | 17        | 19         |
|                     |           | <b>GENERAL TOTAL</b> |  | <b>71</b> | <b>88</b> | <b>104</b> |

## 3 different organisation models, 3 different administrative times

- ◆ 3 healthcare units digitised with different **systems** and **processes**: FORMULA, OLIAM, ENCO
- ◆ The **purchasing management** uses:
  - » 3 **computerised systems** for purchase ordering and settlement
  - » for the payment of invoices, the organisational models are **different**:
- ◆ University Hospital of Bologna
  - » uses a completely **computerised system**
  - » **grouping more payments together**
  - » recorded greater delays in payment to suppliers than the USL of Ravenna in 2006
- ◆ USL of **Ravenna**
  - » has more continuous payment management
  - » recorded a net reduction in payment delays
- ◆ Both the University Hospital of Bologna and the USL of Ravenna introduced the local computerised order system (**OIL**)
- ◆ USL of **Piacenza** has a more **centralised organisation model**
  - » with more administrative checks at various stages of the procedure
  - » has **not** introduced **OIL**
- ◆ USL of **Piacenza**
  - » takes **more time** for the asset management cycle
  - » records a similar level of late payments to the University Hospital of Bologna

## Average delay for payment of invoices < €20.000

|                                |                                    | Average Invoice | Average Delay |
|--------------------------------|------------------------------------|-----------------|---------------|
| <b>Healthcare goods</b>        | <b>University Hospital Bologna</b> | <b>1.943</b>    | <b>389</b>    |
|                                | <b>USL Ravenna</b>                 | <b>1.702</b>    | <b>292</b>    |
|                                | <b>USL Piacenza</b>                | <b>1.747</b>    | <b>382</b>    |
| <b>Non Healthcare Goods</b>    | <b>University Hospital Bologna</b> | <b>1.753</b>    | <b>341</b>    |
|                                | <b>USL Ravenna</b>                 | <b>1.107</b>    | <b>223</b>    |
|                                | <b>USL Piacenza</b>                | <b>1.208</b>    | <b>328</b>    |
| <b>Maintanance</b>             | <b>University Hospital Bologna</b> | <b>2.137</b>    | <b>345</b>    |
|                                | <b>USL Ravenna</b>                 | <b>1.683</b>    | <b>229</b>    |
|                                | <b>USL Piacenza</b>                | <b>1.479</b>    | <b>345</b>    |
| <b>Technical Goods</b>         | <b>University Hospital Bologna</b> | <b>3.759</b>    | <b>341</b>    |
|                                | <b>USL Ravenna</b>                 | <b>2.215</b>    | <b>181</b>    |
|                                | <b>USL Piacenza</b>                | <b>2.584</b>    | <b>295</b>    |
| <b>Leasing costs</b>           | <b>University Hospital Bologna</b> | <b>3.522</b>    | <b>390</b>    |
|                                | <b>USL Ravenna</b>                 | <b>2.161</b>    | <b>300</b>    |
|                                | <b>USL Piacenza</b>                | <b>1.675</b>    | <b>354</b>    |
| <b>Equipment, Furniture, V</b> | <b>University Hospital Bologna</b> | <b>3.405</b>    | <b>139</b>    |
|                                | <b>USL Ravenna</b>                 | <b>3.026</b>    | <b>262</b>    |
|                                | <b>USL Piacenza</b>                | <b>2.964</b>    | <b>340</b>    |

## Main findings on the Emilia-Romagna case

- ◆ About 80% of payments for invoices < €20,000 were made up of invoices < €5,000:
  - with an average value per payment of €1,375
  - for a total value of about €32 million, corresponding to 17% of the value of all payments related to invoices < €20,000
- ◆ 91% of the invoices < €20,000, for the items under consideration, had a value < €5,000
  - with an average value of €1.017
  - corresponding to about 93.000 payment operations (PO) (comprising the entire procedure, from order to payment, for each invoice), made by the 3 Healthcare units analysed, out of a total of 102.000 PO
- ◆ Using a weighting system with respect to the overall costs, an estimate of the total number of transactions made by the 17 Healthcare units of Region Emilio Romagna, might be about 423.000 PO
- ◆ The conclusion from the study of the procedures followed by the 3 Healthcare units, with around €30 as a first approximation of the average hourly cost of continuous work, is that:
  - the administrative cost per PO varies between €36 and €51
  - the total cost, on a regional scale, should currently vary from €15 to €21,5 million

## Reducing payment delays by using Procurement Cards

- ◆ **Delays in the payment of invoices** are **distinctly lower** in the healthcare unit following a procedure based on **continuous payments for smaller amounts**, instead of monthly payments of higher amounts.
- ◆ The payment of low value invoices by using a **Procurement Card** would be **in line with the practice of the Ravenna AUSL**, and would represent a step towards the following **objectives**:
  - **Providing suppliers with the certainty of getting paid on a known date** (replacing the debt relationship with suppliers with a debt relationship with the Issuing Bank).
  - Obtaining as a consequence **more competitive prices**.
  - Allowing to expand the **range of suppliers**.
  - **Reducing stock levels**
  - **Simplifying and reducing the transaction costs** of payment for invoices of small amounts
  - **Producing detailed electronic reports on purchases**, specifying each supplier, and thus allowing for more **effective purchasing policies**, including the negotiation of **discounts on quantity purchases**.

## Increased competition, smaller stocks, greater bargaining power

- ◆ In a situation of guaranteed immediate payment, **suppliers** would **no longer** need to apply an **implicit surcharge** or mark-up **on the initial prices** charged.
- ◆ More accessible conditions of entry to the public procurement market would also imply a substantial **increase in the range of potential suppliers**, especially smaller firms, with obvious benefits in terms of **increased supply-side competition**.
- ◆ Further savings would derive from a **reduction** in the average cost of the **management and financing of stocks** of public material made possible by the fact that all card holders know they can make purchases when required, within the set ceilings on expenditure, in a perspective of **greater flexibility** and hence **more effective management of public liquidity**.
- ◆ Further savings would derive from **increased bargaining power** with respect to suppliers operating within the framework of public procurement agreements.
- ◆ The immediate **digital registering of every transaction** carried out via purchasing card would ensure the **availability in real time** also at the central level of precise **information on effective purchasing** and hence make it possible to obtain “bulk discounts” and “**issuing rebates**”, like in the United States with the Smartpay Card.

## 6

**Reducing item costs, widening competition and providing cash flow to enterprises by cutting down delays in payments for public purchases**

# The Italian debate on reducing delays in payment by public administrations

- ◆ Despite Directive 2000/35/EC and national laws aimed at combating late payment in commercial transactions, the current situation was well described by the Governor of the Bank of Italy, Mr. Mario Draghi, on 17 March 2009:
  - “**Commercial credits** claimed by enterprises with respect **to public administrations** postponing or **delaying the payment** of goods and services are very high: approximately **2.5% of GDP**, more than **30% of annual expenditure** by public administrations for consumption and investments.”
- ◆ In consideration of this situation, Mr. Draghi also added that:
  - “**Accelerating these payments** would provide **support** to enterprises **without structurally burdening public accounts.**”
- ◆ Mr. Draghi has repeated the same statement in the *Final Considerations* accompanying the annual Bank of Italy Report delivered on 29 May 2009.

## Concerns expressed by the Italian Ministry of Economy and Finance (MEF)

- ◆ In the *Discussion materials* prepared by the MEF for a Credit and Liquidity Day meeting on **25 March 2009** it was stated that:
  - “There is a large amount of credits claimed by companies to public administrations, mainly due to healthcare (at least 30 billion euros). Even if foreseen by law, it is complex to find a solution for ‘**certifying**’ the credits, because this would entail **exposing more public debt.**”
- ◆ However, on **19 May 2009** a decree by the MEF has introduced the possibility of having such a **certification of credits** made by the Audit Office of each public administration.

# An extreme case in Italy, but a European debate: the UK

## ◆ Gordon Brown, House of Commons, 8 October 2008:

“Cash flow is a particular problem for small companies during this critical time for the economy.”

“The government can ease the situation, and **we can help cash flow through prompt payment.**”

“The government has already agreed to move its procurement rules from payments within 30 days to a commitment to pay as soon as possible.”

“In the current climate, we ... will **aim to make SME payments within 10 days.**”

“The government will pick up the cost of that, but it is a small price to pay for **greatly increasing cash flow associated with £8bn of contracts with SMEs.**”

## European governments could provide **€65 billion stimulus** to economies by paying on time

- ◆ The **European Payment Index survey of over 5000 European businesses**, conducted simultaneously in 25 countries between January and March 2009:
  - “**Governments are more unreliable** than private businesses or consumers **when it comes to paying suppliers**, taking an average of an additional 37 days to pay an invoice on a 30 day average contract term.”
- ◆ Lars Wollung, CEO, Intrum Justitia, 11 May 2009:
  - “On the one hand we have **governments across Europe pumping huge sums of money into their economies to increase cashflow**, yet on the other hand, **these same entities are not paying invoices on time.**”
  - “European businesses and in particular SMEs are fighting for survival and **an injection of at least €65 billion** into the economy could prove a real lifeline.”

7

A proposal for a specific EU approach

## Any lessons to be learnt from the US Procurement Card experience?

- ◆ Electronic payments are **mandatory** in the US.
- ◆ The Procurement Card is the **preferential tool** for electronic payments < \$ 2,555.
- ◆ This way a **new category of public administration creditors** has been introduced:
  - issuers of **micropurchases** invoices.
- ◆ If a similar approach were followed in the EU, **little value** would be at stake, but **huge numbers** of **invoices** and **suppliers** would be involved.
- ◆ Notwithstanding the Danish and Spanish examples, a mandatory approach for public procurement cards below a specific threshold seems still unlikely to be widely adopted in the EU, at least so long as no major member state has started to follow this path.

## A different European approach

- ◆ For countries with large payment delays a public procurement card for micropurchases would be **socially meaningful**.
- ◆ It would be worth while for the **European Commission** to foster and support such an **innovative change**, not only because of increased competitiveness, reduction of administrative burdens, cash flow injection, etc., but also because it could be promoting at the same time a **European-wide market for micropurchases**.
- ◆ This approach would imply that the **EC support** to public **administrations** willing to **experiment** using the **procurement card** in paying for micropurchases would be **conditional** on the acceptance to allow **web transparency** on these purchases.

## A European-wide market for micropurchases

- ◆ EC funding and direction in this area could be built on top of the **eCatalogue** system being developed by the Pan-European Public Procurement Online European project (**PEPPOL**).
- ◆ Incidentally, the eCatalogue work package within PEPPOL is led by the Italian MEF's procurement agency, **CONSIG**, with the participation also of the Emilia-Romagna's agency, **Intercent-ER**.
- ◆ What is suggested here is **a development going beyond** what is currently being done in **PEPPOL** on two grounds:
  - It would be **dealing with e-payments**;
  - it would be **fostering a European-wide market for micropurchases** based on the effective demand of local public administrations, rather than on suppliers' offers.

## Adding a demand-driven marketplace to PEPPOL

- ◆ The PEPPOL project has been working since 2008 to develop a number of tools for pan-European procurement.
- ◆ The eCatalogue objective is the creation and testing of solutions to manage electronic catalogues used in the frame of public procurement procedures, both as part of a bid submitted by competing tenderers, and as a basis for issuing orders to economic operators.
- ◆ Could a “demand-driven” approach be developed that provided European suppliers with information on Public Authorities’ procurement history and live procurement needs?
- ◆ The online marketplace would provide enterprises across Europe or initially a subset of Member States’ local public authorities with information on pricing, volume and scheduling for all their micropurchases.
- ◆ To avoid privacy concerns the details of the micropurchases could be anonymised providing only information on Nation, Region and department.

## Lisbon Regions Network (LRN)

- ◆ A number of local authorities within the LRN have already assured their interest to partner in an Electronic Micropurchases Payments by European Local Authorities (EMPAY-ELA) project led by the ERR.
- ◆ The aim of the proposal to be submitted to the EC will be to start pilots experimenting:
  - e-payment innovation in local public administrations through the usage of procurement cards for micropurchases,
  - enhanced procurement transparency by developing the initial elements of a European-wide market for micropurchases based on the effective demand of local public administrations.
- ◆ Land Hessen (Germany), West Midlands (UK), Valencia (Spain), Ljubljana (Slovenia), Riga (Latvia), are the first local authorities having shown their interest.
- ◆ Who is willing to join from France?

**[emf@lynkeus.com](mailto:emf@lynkeus.com)**