

## **REASONS AND OPPORTUNITIES FOR INTRODUCING A GOVERNMENT PROCUREMENT CARD IN ITALY<sup>1</sup>**

Edwin Morley-Fletcher\*

**ABSTRACT.** Electronic payment systems are a powerful tool to reduce the elements of “friction” and “non-transparency” in the functioning of modern economies. A common denominator in public procurement, across many countries, is the link between a very high number of transactions (70%) and the modest amount (5% ) of public expenditure involved by them. Using Government Procurement Cards for micro-purchases has triggered significant effects on savings and efficiency in the last decade, both in the US and in the UK. The paper focusses on the nexus between control over public expenditure, the rationalisation of procurement, administrative costs and innovation in public accounting and in payment systems, outlining a qualitative and quantitative analysis of the advantages which are to be expected by the introduction of a Government Procurement Card in Italy, where it can be an effective “technological lever” increasing the efficiency of government procurement.

### **STRATEGIES FOR A REFORM OF PUBLIC ACCOUNTING**

#### **1.1 The difficulty of achieving greater control over expenditure**

The need to achieve more stringent control over expenditure is commonly recognised among observers of the situation as regards Italy’s public finances. On the one hand, as last year’s *Documento di Programmazione Economico-Finanziaria* (DPEF) report for 2006-09

-----  
\* Edwin Morley-Fletcher *Professor of Administration Science, Faculty of Politics, University of Rome “La Sapienza”, and President of the Policy Advice and Strategic Consultancy company Lynkeus in Rome, Italy. His teaching and research interests are in public policy, public budgeting, public procurement, and technological applications in these areas.*

already pointed out, “experience has shown that a lasting reduction of deficits is only achieved by cutting expenditure. An increase in revenues alone will be followed by renewed growth of expenditure and deficits after a period of apparent improvement.”<sup>2</sup> On the other hand, the presence of a cash deficit constantly exceeding that on an accruals basis means that the primary problem now presents itself drastically as “cutting expenditure as fast as possible.”<sup>3</sup>

Those arriving at these conclusions also indicate the vital need for an effective cash budget susceptible to updating in real time, and offering a substantial improvement on the inadequate system of quarterly reports on spending requirements and the financial situation introduced into the Italian legislative framework in 1978.

In Italy, the national balance sheet is still drawn up on a framework deriving from the system set out in the De Stefani law of 1923, whereby the official budget stems only from the juridical accrual accounting. This is, however, an approach that actually contributes to the lack of a “clear picture of public finances” that is complained of by many<sup>4</sup> and “has always constituted the Achilles’ heel of the Italian system.”<sup>5</sup>

At the same time, the present structuring of Italy’s public accounts is in line neither with the accrual accounting criteria of the International Public Sector Accounting Standards Board, towards which numerous OECD countries are moving,<sup>6</sup> nor with the European System of National and Regional Accounts (ESA 95), adopted as a regulation by the EU Council in 1996.

In accordance with the principle of accrual-based accounting that expenditure and debts are to be entered into the accounts with reference to when the goods and services were delivered or performed, even if payment has not yet taken place,<sup>7</sup> ESA 95 points out the need to have both accrual-based accounts and a cash budget: “on the one hand, it requires the drawing up of non-financial accounts in accordance with economic criteria of accrual, whereby the overall balance, or net debt, is the expression of the principle of flow assessment; on the other, it requires that the financial accounts, being consistent and integrated with those of a non-financial nature, should include ‘other accounts receivable and payable’, i.e. items of credit and debit representing the lapse of time between the registering of an economic transaction and its monetary settlement, in other words, the difference between accrual accounting and cash budgeting.”<sup>8</sup>

The urgent need is therefore confirmed, also in the light of these criteria, for Italy to ensure that all financial movements, today scattered over the different levels of government, are fully traceable, and hence to establish an accounting system really capable of exhaustively combining the cash budget and accrual accounting. It will not in fact be possible to achieve any real monitoring of expenditure policies and assessment of their effects in terms of efficiency and effectiveness without “transition from formal control over expenditure, which is grafted onto the ‘external’ mechanism of registering commitments [...], to an analysis of cash flows capable of reconstructing the factors determining the temporal profiles of outlay, the respective economic and financial characteristics, and the impact with respect to the objectives pursued sector by sector” from the inside.<sup>9</sup>

#### **Objectives of the 1997 Ciampi reform and the permanent nature of the “submerged debt”**

The measures adopted year after year in the recent past have focused essentially on mechanisms of controlling expenditure based on ceilings, quantitative limits, and time frames. They have, however, had far less impact on the structural components of public expenditure and have not yet led to a radical reorganisation of government bodies, their operative models, and their systems of internal control.

On the one hand, the Ciampi reform of 1997<sup>10</sup> introduced into Italy the principle of the budget based on objectives, the linchpin of which is the analysis of efficiency, effectiveness, and economic validity based on a structure of cost centres and budgetary units (UPB), and hence potentially on target functions expressed in terms of measurable parameters. This was designed to provide Italy with performance indicators and forms of continuous control making it possible to subject government action to increasingly effective cost-benefit analysis.

Decree 286/99 was then introduced with the aim of making the adoption of a management control system “obligatory” at the level of central government. An increase in awareness and responsibilities in the field of control has thus developed in ministries, albeit slowly. As the committee for appraisal and strategic control in government bodies points out, however, in its report of 2006,<sup>11</sup> the results are “still fragile, sometimes episodic, and often depend on the good will and responsibility of a limited number of people in each government body”. In short, we are still a long way from making the control mechanisms “themselves the

source of management decisions” so as to “avoid or correct the waste, misuse, mistakes, and dysfunctions of the previous year”, developed not as an “element contrasting with active administration but as a means of decision and policy-making.”<sup>12</sup>

On the other hand, and with wholly immediate effects, the Ciampi reform made it obligatory for the cash disbursements of UPB to be subject to spending authorisations setting a limit on the payments to be made during the financial year of reference.

In this way, by delaying payments on spending commitments (in both accrual account and residual account) and accompanying this with a planned emptying of treasury accounts, it was possible to obtain a marked improvement in accounting results. This subsequently proved to be largely illusory, however, due to the impact of deferred payments on the budgets of subsequent years. It thus became necessary in 2002 to introduce a decree “containing urgent measures for the control, transparency and reduction of public expenditure”. This further accentuated the approach based on discretionary methods of “empirical control”, empowering the Minister of Finance and the Economy to introduce (through what was to become a series of “expenditure-cutting” decrees) limitations on spending commitments (with the exception of expenditure on salaries, pensions, interest, and other “obligatory” items) and to reduce the operating expenses of central government bodies, with the exception of the constitutional organs.<sup>13</sup>

In actual fact, despite the potential for change introduced by the Ciampi reform, there has been a continued predominance of the so-called “incremental method”, whereby budget allocations are made in relation to the requirements of items of expenditure rather than functions. This has worked to the advantage of the centres of expenditure, which have received better allocations with respect to their responsibilities without any clear picture emerging of the relationship between the same and the functional activities supposedly involved.

Any serious attempt to move concretely beyond the simple surveying of yearly appropriations and expenditure commitments broken down in terms of economic classification and initiate a serious policy of control will hinge first and foremost on recognising the vital need to establish control over invoices to be received and those received but not paid.

Together with residues for latent commitments and appropriation residues of previous years, both types of debt account for a substantial

part of the “submerged debt” estimated as amounting to between 10 and 15 percent of GDP.<sup>14</sup> It was indeed established that the total residual debts of the organs of central and local government in Italy was equal to over 30 percent of GDP at the end of the 1990s.<sup>15</sup>

In the absence of more adequate accounting of these balance-sheet items, it is difficult to believe that the largely uncontrolled growth of public expenditure will not continue despite the new legislative restrictions and the significant and potentially extremely positive innovation of web-based accounting control.

### **The SIOPE information system**

One significant innovation is the newly launched SIOPE information system for the transactions of public bodies. The result of collaboration between the General Accounting Department (*Ragioneria Generale dello Stato* – RGS), the Bank of Italy, ISTAT and the CNIPA, the SIOPE pursues the goal of improved knowledge of trends in public accounts as regards both the amount of information available and the quality and prompt delivery of the same.

The database managed by the Bank of Italy will enable the RGS to draw up the public accounts on the basis of figures updated on a daily rather than quarterly basis. This will provide the desired prerequisite making it possible to obtain not only “adequate and reliable monitoring” with a view to “prompt corrective action” but also a “new and more efficient payment system” leading “in time to closer correspondence between cash accounts and yearly accounting – hence facilitating management of the public accounts – due to the concrete possibility of avoiding the accumulation both of large treasury holdings and of large residual debts.”<sup>16</sup>

With the adoption of uniform codes for all operations of collection and payment, the SIOPE makes it possible to overcome the problem of the non-homogeneous nature of the data received from the different accounting systems of the various government bodies and eliminate the asymmetries existing between central and local bodies, which are in danger of being accentuated through the implementation of federalism in the field of taxation. By assigning codes to collection vouchers and payment orders in line with the economic classification system of ESA 95, the SIOPE will make it possible to ensure that Italy’s public accounts comply with the European rules through direct action on the data and

with no need to enforce changes in the accounting systems adopted by the different government bodies.

The decree implementing the SIOPE<sup>17</sup> requires banks and post offices (and the treasurers/cashiers of local authorities) to reject orders of payment or collection not bearing a code. The purpose of this is to create a daily flow of information to fuel the database of public finances managed by the Bank of Italy.

The data on transactions is classified on the basis of uniform codes for the different types of government bodies throughout national territory. Attention can be drawn in particular to the Bank of Italy's report in February 2006 that nearly all the regions and autonomous provinces (21 out of 22), nearly all the provinces and the municipalities with populations of over 20,000 inhabitants, all the universities and nearly all the university departments (an overall total of approximately 2,700 bodies out of a potential total of approximately 3,100) were already providing data on a daily basis as regards payments made by means of the "*mandato informatico*" or "e-order" system.

Given this trend, the Ministry of the Economy and Finance should be receiving information online every day (through the dedicated site [www.siope.it](http://www.siope.it)) about the financial situation as regards *mandato informatico* transactions carried out by public bodies by the end of 2006. At the same time, every body included in the SIOPE should be able not only to access analytical and aggregate information about its own transactions but also to compare its balance-sheet results with those of bodies in the same category, thus obtaining a yardstick to assess the efficiency of its operative management.

### **Comparison with the reform process implemented in the United Kingdom**

Scholars like Giarda, Petretto, Pisauro, Lorenzini and Vignocchi have jointly drawn attention to the example of the reforms launched in Britain by Tony Blair with the *Comprehensive Spending Review* of 1998 and the *Government Resources and Accounts Act* of 2000. Based on the criteria of outcome-focused management and cost effectiveness/value for money, in line with the *National Performance Review* introduced in the United States by the Clinton administration in 1992, the new approach features decision-making procedures that won particular praise from the Italian scholars. These have enabled the British government to obtain more realistic assessments of the effects of action to cut public

expenditure and to ensure the compatibility of the trends as regards the production costs for services and the demand for goods and services with the financial targets set in the budget process.

According to Giarda and the other authors of the study cited here, the absence of such a link is to be regarded as one of the characteristic elements of the Italian system.<sup>18</sup> They draw attention to the predominance of a “fragmentation” effect in Italy as the implicit consequence of the traditional approach to budget definition. Based as it is on “a series of negotiations between the Treasury and individual centres of expenditure with the requests of the latter as their starting point”, this gives rise to the well-known defects of such a “bottom-up approach”, i.e. constant “distortion leading to an increase in expenditure” and the fact that it does not permit “reallocation between ministries and makes it impossible for the political priorities to emerge.”<sup>19</sup>

Drawing inspiration from the British example, the scholars suggest that the solution lies in the adoption of a “top-down type of procedure with a political decision establishing the total level of the expenditure and its allocation among the major programmes as its starting point”. This approach requires a multiyear system of expenditure planning “that contains information on the baseline: budget tendencies in the absence of new political decisions. The key point of the procedure is that each minister has a set limit on expenditure. Once this decision has been taken, the Treasury is no longer concerned with budgetary allocations within the individual ministries but only with the overall level of expenditure. All the ministers are their own chancellors of the exchequer, free to allocate funds among the programmes run by their ministries and the various bodies operating under their control. This gives the different ministers a feeling of ownership with respect to the actions undertaken. The decisions are better because they are more informed” in that the “ministers are those best placed to judge the relative merits of their own programmes.”<sup>20</sup>

This is not the place to retrace the path leading from the Public Service Agreements and Service Delivery Agreements of the Spending Review to the aggregates of reference (Department Expenditure Limits and Annually Managed Expenditure) of the system of control over expenditure contained within the *Appropriation Act*, which is in turn backed up at the end of every financial year by the reports on the expenditure of the individual government departments (*Appropriation*

*Accounts*) and by specific *Value for Money Reports* drawn up by the National Audit Office, an independent body responsible for auditing the management of national finances.

Attention should instead be drawn to the fact that the complex process of restructuring Britain's public finances with a view to rigorous control over expenditure and assessment of results is characterised by four fundamental elements: the top-down definition of budgetary constraints of Total Managed Expenditure, the complete freedom of government departments as regards expenditure within the set limits, the parallel increase in autonomy of territorial structures within the process of devolution, and the close attention focused on internal transaction costs. The latter element is the factor most responsible for the decision to accept the advice of the National Office Audit and increase the efficiency of the public procurement of routine goods<sup>21</sup> through the introduction of a *Government Procurement Card* for items costing smaller amounts.

Initially formulated with specific reference to the Ministry of Defence, this suggestion then became an integral part of the general process of rationalising procurement,<sup>22</sup> which led in 2000 to the creation of the Office of Government Commerce.<sup>23</sup> It is precisely on the nexus between control over expenditure, the rationalisation of procurement, administrative costs and innovation in payment systems that our analysis will focus in the following pages. It will, however, first be necessary to draw attention also to the process of financial reform launched in France in 2001 on the basis of the new *Loi Organique relative aux lois de finance* (LOLF).

### **The reform process initiated in France with the LOLF**

The law of 2001 is often described as the *nouvelle constitution financière*. It has not only introduced marked innovations into the drafting of financial documents and economic planning in general but also pursued the objective of enabling parliament to obtain greater powers of information gathering, examination, and control.

While abandoning the old structure of budget approval by sections, the new law maintains the traditional distinction between accounting units and voting units. The latter consist exclusively of "missions" upon which parliament is called to express its views. Each mission constitutes a "priority of the state and comprises a set of programmes contributing to the definition of a public policy."

The regulation prohibiting the introduction of amendments *in peius* set forth in the constitution of 1958 operates solely with reference to the overall ceiling on expenditure represented by each of the missions making up the state budget. In compliance with this regulation, members of parliament can present amendments to increase the appropriations of one or more programmes included in a mission on condition that there is no increase in the overall appropriation of the mission as a whole.

The new state budget must be drawn up in two versions, one in accordance with the traditional principle of *comptabilité en caisse* and the other on the accrual basis (*comptabilité en exercice*), thus complying both with the European accounting rules and with the International Public Sector Accounting Standards.

The budget has been gradually whittled down from the initial 850 programmes to the 133 programs divided into 34 missions presented for 2006.

In accordance with the strong focus on the assessment of results, a *projet annuel de performance* is drawn up within the framework of each *budget opérationnel de programme* and then followed by a *rapport annuel de performance*.

The law combines the two macro-divisions of missions and programmes with a third consisting of “actions”, which constitute the detailed elements of programmes. These too must be associated with precise targets and indicators of performance. The cost of each action must be calculated in global terms in accordance with the criterion of zero budgeting, which starting from a zero euro base.

The allocation of resources (*crédits*) associated with each action or set of actions within a program is counterbalanced by the marked autonomy accorded to those responsible for its implementation. This finds expression in the principle of regarding the program as an “*enveloppe fongible*”, so that those responsible for its implementation are free to assign the resources allocated (on condition that there is no increase in personnel costs) in relation to the priorities and objectives pursued.

As regards the use of ICT, the various phases of expenditure at the level of central government were initially managed through the ACCORD system (*Application Coordonnée de Comptabilisation, d’Ordonnancement et de Règlement de la Dépense de l’État*), which then

developing into the Palier 2006 project. The latter will in turn give way as from 2008 to Chorus, an integrated system covering approximately 30,000 operators throughout the public sector.

As in the United Kingdom, the process of re-engineering the public accounting system has been accompanied in France by close attention to internal transaction costs.

The modernisation of payment systems, the dematerialisation of transactions, and the radical renewal of methods of monitoring expenditure so as to ensure both prompter and more effective control and greater flexibility of procedures combined with greater fluidity of payment mechanisms are the guiding principles that led, after a long phase of extensive experimentation at a variety of administrative and territorial levels, to the adoption of *décret n° 2004-1144 du 26 octobre 2004 relatif à l'exécution des marchés publics par carte d'achat*.

In the wake of Britain's *Government Procurement Card*, the introduction of a public sector purchase card thus came to be regarded in France also as an integral part of the broader overall process of reforming and computerising public accounting. Described as a tool for the ordering and payment of purchases involving modest amounts (*de faible enjeu*), it is indicated as expressing the "change in approach to control over expenditure and purchasing in both the public and the private sectors."<sup>24</sup>

### **PURCHASE CARDS AS A "TECHNOLOGICAL LEVER" FOR THE MODERNISATION OF PUBLIC BODIES**

The introduction both in the United Kingdom and in France of special cards for public sector procurement bears witness to the more general fact that electronic payment systems (EPS) are to be regarded as among the technological applications enabling government to free resources and reduce the cost of services substantially. International experience demonstrates that the introduction of EPS on a large scale constitutes a key factor in modernising the economy and accelerating development.

The spread of EPS throughout the public sector not only helps to achieve a marked decrease in elements of "friction" and "non-transparency" in the working of the economy as a whole but also enables government to acquire a far more prompt and penetrating understanding

of its own mechanisms and to slash its transaction costs at the same time. To the extent that the spread of EPS constitutes a mechanism generating confidence and hence a driving force of integration, standardisation, and distribution of risk in the economy as a whole,<sup>25</sup> the application of EPS in government activities also proves a great help in restoring a more adequate level of faith in the public sector, its capacity to meet deadlines, and its response to the world of enterprise.

A Global Insight report<sup>26</sup> pinpoints a direct correlation between the spread of EPS and the growth of GDP. It points out that the cost of maintaining systems of cash rather than electronic payment is equal to 5 percent of GDP and that a paper-based system costs between twice and three times as much as an electronic system at the international level. The average cost to US firms in 2003 for the payment of a purchasing order through traditional channels was equal to \$91 as against \$21 for an electronic transaction via credit card, which would mean a saving of 76 percent.

The adoption of alternative forms of payment constitutes the natural completion of the modernisation of government procurement procedures launched in Italy in the first half of the 1990s with the introduction of the *mandato informatico* or e-order and continued over the last few years with the introduction and large-scale application of electronic catalogues, marketplaces and online auctions. At the same time, it is a key element that can be harnessed today in Italy as well, so as to stimulate innovations in the government sector in terms of decentralisation, individual responsibility in the management of activities, and a drive for efficiency.

Electronic payments are already widely used in both the private and the public sector in other countries. Italian government is still lagging behind in this respect. While the *mandato informatico* system has simplified one phase of the payment procedure, the other phases are still handled in most government departments by means of lengthy and complex procedures that involve huge amounts of resources and offer the suppliers of goods and services no certainty of being paid within a set period of time. While the use of credit cards is still essentially limited and restricted to expenses for travel and entertainment, suppliers complain of delays in payments and the complexity of the bureaucratic procedures involved.

The purchase cards widely adopted in the private sector and by government in some other countries can be regarded as a “technological lever” for the modernisation of government itself, capable of introducing radical innovations into procurement processes with savings in terms of time and costs and with an increase both in the transparency of transactions and in efficiency, thus obtaining considerable repercussions throughout the economic system.

### **SOME CRITICAL FEATURES OF TRADITIONAL PAYMENT SYSTEMS**

International estimates<sup>27</sup> suggest that in both the public and the private sector, 90% of the payments for operating expenses relate to assistance services, minor maintenance, office supplies, computers, software and travel and entertainment expenses for personnel. These are purchases involving small amounts but generating a considerable administrative workload with high transaction costs when traditional means of payment are used.

The procedures of purchasing and payment in the public sector, including orders involving small amounts, are characterised in Italy by great complexity and are subject to constraints in terms of processes, organisation and equipment. The process for the procurement of goods and services can involve a large number of offices and organisational units. The issuing of orders and payment orders entails the moving of documentation between different units and also between different offices in the same unit as well as the duplication of some control procedures. The division of responsibilities over contiguous phases of the process, the involvement of different offices in the procurement process, and the limited delegation of powers constitute the major organisational constraints. Finally, despite the positive implementation of the SIOPE, the potential of computerisation has yet to be fully harnessed, the use of digital signatures is still in the initial phase, and documentation is still predominantly in the traditional format. Due to the inadequate provision of equipment and data-sharing systems, the various parties involved in payment procedures, both inside and outside the public bodies concerned, can be required to provide the same information any number of times.

Within the complex mixture of formal and substantial control procedures characterising the process as a whole, the possibility emerges

of achieving an equal or higher degree of control by means of fewer resources or rethinking the entire process so as to generate added value for the organisation. In cases where the process is managed through traditional machinery or IT resources are employed in ways that are not completely rational, the information generated during the different phases is not stored in databases and therefore not available for use in real-time monitoring or assessing the efficiency of purchasing procedures.

Given the massive use of resources, the generation of added value for the government body involved is limited. A study carried out by Lynkeus on some offices in the Ministry of the Economy estimated that processing a transaction carried out on the basis of a CONSIP agreement would take 546 minutes in the case of cash payment and 865 minutes in the case of an online mandate, with respective costs of €32 and €362.<sup>28</sup>

The constraints described above mean that payment times for suppliers are unpredictable and in any case much longer on average than the 30 days stipulated in legislative decree no. 231/2002. An average of approximately 95 days has been estimated<sup>29</sup> in the case of payment via bank order, albeit with a very high degree of variability. In the case of payment through the *mandato informatico* system, the average time from placement of the order to dispatch of the documentation to the Ufficio Centrale di Bilancio (UCB) of the Ministry of the Economy and Finance is approximately 89 days in the first instance, with a very high degree of variability related to the time necessary to complete the administrative procedures.<sup>30</sup> As a result, payment takes much longer than the 95 days required for the cash process. As pointed out, the digital transmission of data affects only a residual part of the process as a whole and dispenses with the need for no more than a minimal part of the paper-based documentation.

In the present system, suppliers improperly perform the role of financing government bodies, with consequences that are often harmful.<sup>31</sup> Payment times are taken into consideration when formulating bids and estimates and are thus reflected in the price of the goods and services involved in proportion to the supplier's estimate of the delay in payment on the basis of past experience. As a result, government bodies are in the position of paying their suppliers implicit interest defined *ex ante* and related neither to the supplier's actual financial commitment nor to their own credit requirements.

The general delay in payment times has different effects on firms of different sizes. Small and medium-sized firms, which can only obtain credit with greater difficulty and on less favourable terms than their larger competitors, are thus at a disadvantage. This generates a distortion of competition in favour of larger firms as well as insufficient recourse to local enterprises, especially in the case of smaller government bodies, for which local suppliers are potentially in a position to offer certain types of goods and services at better prices and on more flexible conditions of supply, not least because of the possibility of using goods already in stock.

A further effect of the unpredictable nature of payment times is the above-mentioned failure of accounting procedures to highlight invoices already received but still not settled. As noted, this phenomenon constitutes a structural factor contributing to the permanent submerged debt of the public sector.

The problems of costs and submerged debit in Italy could be solved, at least in part, through the introduction of procedures making it possible to use wholly electronic systems of payment to handle transactions involving smaller amounts, which account for less than 10 percent of total expenditure for purchases of goods and services but more than 70% of the total number of transactions.

## **THE CAPA PROCUREMENT CARD**

### **Government purchase cards**

The CAPA (*Carta di Acquisto per la Pubblica Amministrazione*) is a payment card designed to apply the purchase card formula in the public sector. Successfully tried and tested over a long period in the private sector, purchase cards are used by firms for the purchasing of recurrent goods and services. The system is already used or coming into use in various European countries (the United Kingdom, Germany, France, the Netherlands, Sweden, Norway, Ireland, Switzerland, Belgium and Spain).

It is a way of decentralising the functions of purchasing goods and services solely for business purposes, whereby specific employees can be assigned purchase cards with specific limitations on use so that they can make purchases directly from suppliers, preferably on the basis of framework agreements.

The simplification of purchasing procedures associated with use of the CAPA produces very substantial savings in terms of transaction and processing costs, especially in connection with recurrent and ad hoc purchases for smaller amounts. These savings are bound to increase with the growth of e-procurement.

The CAPA performs all the functions of a company card, with limitations as regards spending (individual or within a specific budgetary unit) and use for types of commodity that are in line with the requirements of operative decentralisation requested by the PA. Furthermore, it gives automatic data reporting with the periodic transmission of financial statements to a number of addressees (also in digital form); broader verification and greater control over the course of operations and the activities carried out for the purchasing of goods and services; prevention of fraud and protection of both personal and institutional data; interoperability with procedures of e-procurement.

In a process of procurement via purchase card, cardholders make purchases from suppliers via telephone, fax, e-mail, electronic commerce or in person. Each transaction is checked in seconds against specific predefined cardholder spending parameters to ensure that the cardholder is authorised to undertake the transaction. This empowers the staff responsible for procurement and eliminates the need for requisitions, purchase orders and approval processes. Likewise, the need for purchasing departments to draw cheques or submit electronic fund transfers (EFTs) in line with authorised orders for each purchase is eliminated as the card transaction is a full financial transaction ensuring prompt payment to the supplier.

The acquiring bank pays the supplier within the period agreed on (generally about four days).

At the end of the month (or the end of the set period), the government body receives from the issuing bank a number of financial statements containing a consolidated itemised summary of all the transactions carried out with the card. The electronic data stored by the issuing bank can serve as the basis for different types of statement according to the parameters selected. Management Information System (MIS) reports are provided electronically or in paper format where required providing breakdown by e.g. cost centre, supplier, or individual cardholders. Spending data can be fed directly into Enterprise Resource Planning (ERP) and accounting systems, thus eliminating the need for

data key entering and reducing human error and costs. This provides transparency as regards government procurement and facilitates the reformulation of purchasing strategies with respect to suppliers.

Subsequent to the simplified reconciliation process supporting pre-populated electronic expense management, the government entity submits one single payment to the issuing bank within each billing cycle (in accordance with contractually established deadlines but presumably with a period of grace of 60-90 days as from receipt of the account). Suppliers receive payment in the meantime from the banks involved.

### **Experience in the use of purchase cards at the international level**

International experience provides convergent indications as regards the methodological approach adopted in order to simplify purchasing and payment procedures. The countries that have introduced a government sector purchase card have adopted a *New Public Management* approach, imitating methods and systems already successfully tried out in the private sector. It should also be noted that private partners can be usefully involved to handle some segments of the procedures more efficiently.

In the United States the General Services Administration (GSA) introduced the Purchase Card in the late 1980s. At the end of 2004 there were approximately 310,000 cards outstanding with total spending in 2004 of over \$17 billion. It has been obligatory since January 1999 for all payments to take place via electronic fund transfer, which includes the government purchase card. The card was made the preferred method to purchase and to pay for micro-purchases, the ceiling for which is set at \$2,500.

This de facto mandatory approach is one of the key factors involved in the success of the project. Others were strong support from the upper echelons of the Administration for the heads of the federal agencies introducing the cards, a focus within the Administration on the objective of savings, organisational change implemented to give officials responsibility for direct purchases, and a training program showing cardholders how to make effective use of the card.

The *Government Procurement Card* (GPC) was introduced in the United Kingdom in 1997 as a tool for the purchasing and payment of goods and services of minor value with a view to improving efficiency and reducing procurement costs. The figures up to the end of 2005

indicate a total of 70,078 cards, approximately 8.7 million transactions to date (over 240,000 a month), and total expenditure to date of £1.7 billion (a monthly level of expenditure of £47.4 million in December 2005).<sup>32</sup>

In France the *carte d'achat* was introduced in October 2004, and 496 cards were being used by December 2005, with a total expenditure of €1.362.000.<sup>33</sup> The focus of the program was also to promote the dematerialisation of invoices where the use of a purchasing card is very effective, reducing the cost of each invoice by 75 per cent<sup>34</sup>

### **The possibility of outsourcing introduction of the CAPA**

As in the other countries that have introduced government purchase cards, the launch of the CAPA in Italy could be handled through specialised foreign suppliers. Payments for articles of recurrent use could be made through cards analogous in nature to the purchase cards issued by all the major credit-card networks for the private sector. This would make it possible to obtain an effective product already in use on the market at a competitive price and to enjoy flexibility in the choice of technology. The know-how and economies of scale of specialised corporations could thus be harnessed to keep procurement and payment systems up to date with the technological state of the art over time. All this would be achieved without incurring the burden of investments or diverting resources for the creation, management and updating of a system to simplify internal administrative procedures. Recourse to specialised financial intermediaries would also make it possible over time to enhance the purchase cards with additional functions (identification, digital signature, etc.) offered by the use of microchips.

## **IMPACT ON GOVERNMENT DEPARTMENTS AND SUPPLIERS**

### **The present purchasing and payment procedures**

As is known, the procurement system assigns powers to different offices in relation to the article in question as well as a specific procedure for articles covered by CONSIP agreements. Generally speaking, every order involves the following procedure: purchase request and approval, verification of financial resources and availability, registration of order, delivery of article, and addition to inventory (or recording in an appropriate register in the case of everyday consumer goods). The

Requisitioner is generally responsible for following the progress of the request.

Under the terms of D.P.R. 384/2001, the Consignee can handle purchases of a modest amount through customary suppliers (no comparison of estimates) up to a standard limit of €20,000, which is raised to €40,000 in the case of goods and services connected with urgent and unforeseeable requirements of a public nature.

The present payment procedures identify four different mechanisms, three of which are classified as ordinary accounting and one as special accounting.

The first is the direct order (order of payment on bank or post-office current account). This is not subject to entry in yearly or six-monthly financial accounting and reporting but to prior control by the Central Budget Office (*Ufficio Centrale di Bilancio* - UCB) or provincial bookkeeping office.

While the computerized form of the direct order (e-order) marks a major initial step toward the simplification and acceleration of payment procedures, this can involve a delay in some cases. Moreover, the preventive nature of the control to which it is subjected can give rise to forms of improper empowerment for the offices involved.

The second form of payment is the payment order (a paper-based administrative means of payment rather like an ordinary check).

The third is payment in cash with funds withdrawn from the treasury.

The fourth and last is the special accounting order of payment, whereby funds are transferred (via credit order) to a single account of the treasury responsible for all the items of expenditure. Limited solely by the total amount of funds credited and subjected exclusively to retrospective control, this form of payment ensures the broadest decision-making autonomy currently permitted in the sphere of Italian government.

#### **Marked streamlining of administrative stages and savings to be obtained through introduction of the CAPA within the current regulatory framework**

The study carried out by Lynkeus in 2002<sup>35</sup> showed that the estimated savings on time to be obtained through introduction of the CAPA can range from 30% to 60%. To be more precise, the average

total time is cut from about 1,000 minutes (including the procedure for the crediting of funds) to under 330 (by nearly 70%) in the case of payment in cash and from over 800 minutes to less than 550 (by about 50%) in the case of payment via e-order.

The savings in terms of resource costs range from 11% to 63%, the difference being due to the fact that higher levels of decentralization (in cases where the cardholder is an official of lower professional rank) involve lower resource costs. It is also clear that the potential savings indicated in terms of resource costs can only take concrete monetary form in the medium term. Even in the short term, however, introduction of the CAPA already leads to a more efficient and rational use of existing resources in terms of working time and task allocation.

The drastic reduction of payment times also derives from the aggregation of e-orders. Unlike the present situation, where it is necessary to issue an e-order for every purchase order, the CAPA makes it possible to issue just one e-order at the end of the month for the statement as a whole, as long as the transactions all regard a single item of expenditure, or as many e-orders as there are items of expenditure involved in the transactions charged to the card. While there is a marked reduction in the time required to complete the administrative procedures for payment in either case, the effect is unquestionably greater when the cardholder is responsible for purchases regarding just one item of expenditure, which constitutes a further argument in favor of decentralization.

There is also a marked decrease in the frequent reiteration of the procedure for the crediting of funds that is required today (for the payment in cash of articles obtained through direct purchasing) every time the funds available at the treasury for the corresponding item of expenditure run out. According to the Lynkeus study, each new crediting procedure involves on average 400 minutes of effective work.

The control procedures prove far more penetrating in real terms and certainly less expensive. The transition from prior control of form to retrospective control of substance ultimately leads to a sharp decrease in transaction times.

Finally, the authorization procedures become shorter and simpler the higher the level of decentralization of the procedures involved.

Use of the CAPA does involve one additional procedure with respect to those existing today, namely the checking of statements, and further checks could become necessary in the event of new forms of decision-making decentralization being implemented or revision of the monthly and yearly ceilings set for the different cards.

### **Improved Control Capacity**

Introduction of the CAPA makes it possible to bolster the essentially procedural control over public spending with three forms of substantial control and thus counter any cases of improper empowerment.

### **Prior Control**

The first form of control is preventive in nature and consists (a) in the empowerment of the person assigned the card (a form of control based also on individual incentive mechanisms) and (b) in the setting of expenditure limits (monthly and yearly ceilings both for the card and for the item of expenditure, limits on time and articles, maximum amounts per transaction).

In actual fact, the spending limit of each individual card can be linked dynamically to the budget assigned to the office within the framework of a set ceiling of expenditure. For example, if the monitoring of public expenditure registered undue acceleration in spending, the cards could be temporarily and selectively blocked for a period of days or weeks.

### **Concurrent control**

The second form of control is concurrent with the act of purchasing and consists in authorization to proceed subsequent to verification of the cardholder's identity and compliance with the limits of expenditure and range of articles.

It is important to note that the risk of fraud associated with the use of the card is minimized. Post and pre purchase controls and transparencies achieved through MIS provide better overall control over spend than traditional procurement methods. The UK Ministry of Defense quotes that the "Military Fraud Police have audited the programme to death" and found no evidence of fraud".

The fact that the data required for monitoring are provided within 48 hours means that the purchases made are almost immediately visible.

**Ex post facto control**

The last form is ex post facto control, where the advanced financial accounting and reporting generated (available also in digital form and hence susceptible of a broad range of processing) makes it possible to monitor consumption by commodity category, assess requirements accurately, and thus formulate more precise budgets for the renewal of orders.

The possibility of ex post facto controls, which prove highly pervasive and economical in the sphere of CAPA use, can have a powerful ex ante effect on incentives to reduce waste. This holds not only as regards the high levels of consumption of some goods but also for excessive purchases of goods that are then not consumed but left in storage. The traceability made possible by use of the card also makes it possible to identify the parties responsible for ordering any goods left in storage for an excessive length of time.

**Countering improper empowerment**

For all their rigor and exactitude, the present regulations leave ample leeway for discretionary powers not only in the choice of forms of payment but also as regards timing within the framework of each form. The room for discretionary powers left within the framework of current regulations as regards the actual length of time suppliers have to wait for payment leads to an ungoverned form of improper empowerment with ultimately negative effects.

In other words, the strict system of control today in force means that those responsible for each organizational stage have the actual power to hold up the payment procedures, which is a potential source of less than transparent relations between officials and suppliers.

The adoption of systems ensuring that suppliers know precisely how long they must wait for payment would instead eliminate any element of ambiguity.

**Real knowledge of expenditure**

The availability of wholly digital data on the dynamics of spending makes it possible to construct aggregate databases for government consumption that can be queried at negligible cost with respect to the present procedures and provide a greater quantity of information.

The configuration parameters are in fact inherently structured so as to provide an analytical breakdown of procurement categories and quantities with respect to unit of expenditure, department, commodity segment, ceiling, period of time, maximum amount set for each transaction, etc. The CAPA thus simplifies the process of acquiring real knowledge about expenditure and makes it possible to act in real time on the control levers so as to carry out analyses of comparative dynamics (e.g. by checking the level of purchasing prices).

This possibility of in-depth knowledge of the market and the government system will inevitably generate improved and more precise spending capacity and hence greater bargaining power with respect to suppliers leading to significant cuts in purchase prices. This may be accompanied by a strengthening of the role played by CONSIP and the local purchasing centers.

### **EFFECTS ON COSTS**

Introduction of the CAPA involves a range of direct and indirect effects on the costs borne by government for procurement procedures but also on the costs of suppliers.

The simplification of procedures leads to a substantial decrease in purchasing and payment times with a cut in both processing costs and the associated transaction costs. The guaranteed and much shorter payment times made possible by the CAPA can also lead to a decrease in purchasing costs further accentuated both by greater competition among suppliers through the involvement of small and medium enterprises (SME) and by the decrease in administrative costs for suppliers. Finally, the increased knowledge of real spending can lead to optimization of stock management and thus an improvement in terms of public liquidity.

The prices currently set by suppliers are already designed to compensate for the uncertainty and delay in government payment times. The guarantee of quick payment established through introduction of the CAPA will necessarily make it possible to obtain an immediate reduction in the suppliers' selling prices.

#### **Lower processing costs**

Comparable findings have been obtained at the international level as regards the scale of the savings offered by the introduction of a

purchasing card. The Deloitte & Touche study carried out in the UK for the National eProcurement Project in 2003 estimates that the GPC would bring the average cost per transaction down to €26, a saving of about €60 with respect to the traditional procedure. According to Visa International data for 2003, the use of a P-Card brought the average processing cost of a procurement order in the USA down from \$91 with the traditional procedure to \$21, with an average saving per transaction of \$69 (about 79%). A first analysis carried out in 2002 at the Ministry of the Economy and Finance in Italy indicates an average saving of 36% in terms of resource costs, with a range of variability from 12% to 63%. The scale of the savings also varies in direct proportion to the level of decentralization (the lower the rank of the cardholder, the higher the saving obtainable). The average saving in terms of time is instead 39%, with a range of variability from 29% to 60%. The scale of the savings on time also varies in direct proportion to the level of decentralization, albeit to a lesser degree than savings in terms of resource costs.

#### **Shorter and guaranteed payment times**

The simplification of procedures leads to a substantial reduction of purchasing and payment times, creating the conditions for a reduction of unit purchasing costs.

As mentioned above, government suppliers have to cope not only with the problem of delays in payments but also with the equally important problem of variability in payment times.<sup>36</sup> This obviously exposes the suppliers to an element of risk. The cost associated with this risk is to some degree transferred to government in the form of higher unit costs.

The introduction of the CAPA with quicker, guaranteed payment (settlement within 4 days – as agreed upon with the issuing bank – from the date on which the record of expenditure confirming the transaction is transmitted into the card acceptance circuit) can prompt suppliers to offer a reduction of selling prices, which could be accentuated as a result of increased competition among suppliers due to the involvement of SME fostered by use of the card. The reduction can be roughly estimated as between 5% and 10% depending on the specific sector involved and the bargaining power of the government bodies concerned, which is unquestionably strengthened by greater knowledge of the amounts purchased and trends in expenditure.

There may also be a marked reduction in the administrative costs borne by suppliers.

### **Transfer of the financial burden of delayed payment to specialized intermediaries**

Through introduction of the CAPA, the relationship between the government body and the supplier, with the latter in a weaker position, is replaced by a relationship on a much more equal footing between the government body and the issuing bank, which in turn generates explicit competition on costs among financial intermediaries.

In the CAPA system, the supplier costs of delayed payments are completely eliminated as payment is guaranteed by the acquiring bank and settled promptly within the agreed timeframe, generally four days. The Purchasing card is shifting the government's credit liability from its numerous suppliers to one creditor, namely the card issuer. A specialized financial intermediary (the bank issuing the card) can therefore take over from the supplier in the task of financing the government body when required. This should guarantee greater overall efficiency, as the consequences of any delay in payments no longer affect the supplier but the government body. The costs of a delay in payments on the part of the government body become certain, explicit and transparent, which certainly introduces a strong incentive to improve the internal efficiency of administrative procedures.

It should also be borne in mind that, as things now stand, the more efficient government bodies indirectly suffer the negative consequences deriving from the presence of other less efficient bodies inasmuch as firms formulating tenders refer to the average time of payment in setting their prices. In this respect, use of the CAPA thus constitutes a tool serving to make the individual government bodies accountable and rewarding the more efficient ones.

### **Greater competition and lower invoicing costs for suppliers through "dematerialization"**

The present uncertainty about payment times also has the effect of reducing competition between suppliers and thus generating a probable increase in cost. The smaller suppliers are certainly more exposed than others to the risks inherent in a delay in payments. On the one hand, they have access to banking credit on less favorable conditions; on the other, they have to bear the same costs – in absolute terms – in order to enforce

their rights, the impact of which thus prove proportionally higher. Any delay in payment on the part of a government body places the supplier (especially in the case of a small firm) in an extremely vulnerable position. The costs of legal action may be too high with respect to the amount involved. Moreover, the fear of losing access to future contracts can in any case deter suppliers from filing a protest. (This becomes all the more important in the light of the EU directive, article 95 – formerly 100a – of the EC Treaty, which indicates a series of measures available to suppliers in order to obtain prompt payment.)

The guarantee of quick and certain payment thus opens up the market of public contracts also to SME and firms operating on a smaller scale, which are at present unable to compete on an equal footing because of the less favorable conditions of access to credit (banking and otherwise) available to small and medium enterprises by comparison with large firms.

The CAPA could also allow, through VAT evidence, to accept the statements delivered by the bank issuing the card in place of traditional invoices, thus making possible to achieve significant advantages in terms of administration - and hence of cost - associated with registering purchases, especially those of low unit value, also and above all for suppliers. In relation to the different market conditions this could again lead to a reduction in unit prices.

### **Reduction of stocks and improved management of public liquidity**

As regards the management of government stocks, it appears reasonable to assume that their level depends (as it does for private companies) primarily on the three factors listed below.

*Transaction costs* – The more onerous and complex the procurement procedure, the more economical it is to concentrate purchases in a few transactions involving large amounts. High transaction costs thus lead to inefficiency in storage management.

*Length of the purchasing procedure* – The longer the procurement procedure and the more uncertain its duration, the higher the optimal level of stocks. In point of fact, if the procurement procedure is long and/or subject to unforeseeable circumstances that make its duration uncertain, the possibility of stocks running out exposes the body in question to correspondingly greater risk. It therefore proves best in such cases to maintain a high “precautionary” level of stocks.

*Financial charges (and storage costs)* – The higher the cost of financing for the government body and the higher the material cost of stock management, the lower the optimal level of stocks, other things being equal.

There are good grounds for assuming that use of the CAPA can reduce at least on average the level of stocks regarded as optimal by government bodies and permit a “just-in-time management” approach. This in turn would have an immediate positive impact on financial charges equal to the decrease in average storage time for the rate of interest paid by the government body on its debt. It is also possible to assume that use of the CAPA can not only serve to reduce the financial charges and the costs associated with stock management but also help to reduce consumption by reducing waste and misuse. This is essentially connected with the traceability of consumption made possible by the financial accounting and reporting in digital form offered by the CAPA

#### **Costs of the CAPA and possible use of a virtual card**

It is of course necessary to take into account not only the various advantages offered by use of the CAPA but also the costs involved. In particular, the supplier pays a commission (as a percentage of the value of each transaction) to the acquiring bank with which it has signed an agreement enabling it to accept orders made with payment cards. This commission, often referred to as Merchant Service Fee or Merchant Service Charge (MSC), varies depending on the size and type of the merchant and is negotiated on an individual basis with the acquiring bank. Typically, the MSC will be somewhere between 2 percent and 3 percent and covers the acquirer’s processing costs and the interchange fee paid to the Issuing bank for every POS transaction.

In the case of a Purchasing card on the Visa or MasterCard circuit, for example, in accordance with the rules now in force, the issuing bank – when this is not the same as the bank operating as acquirer – receives an interchange fee of in-between 1.25% and 1.65% for every transaction depending on the circuit, the way the transaction was processed and the level of data provided in the transaction

The MSC is an additional cost for the supplier and needs to be weighed up against the incremental business obtained through the CAPA and cost savings achieved through improved processes and speedier, guaranteed payments. While the benefits of fast payment and incremental business are obvious it is more challenging to illustrate the cost savings

for the supplier achieved through improved processes. To better demonstrate that part of the supplier value proposition, research was carried out with UK government suppliers.

The cost savings achieved for a specific Level III supplier in the UK is currently estimated at £5.00 per transaction through elimination of manual processes such as updating sales ledger, chasing payments, processing cheques and producing monthly statements. These efficiency savings alone exceed the MSC costs. A MSC of 2.5% is currently paid to the acquirer equaling £2.95 for the average transaction put on the card (£182). The direct cost savings of £5 equals a net saving of £2.05.

Finally, it is also important to consider that the use of a virtual card can be hypothesized for all the purchases now made through the CONSIP portal or directly in electronic form. This would add substantial benefits through cost savings, improved reconciliation and electronic data integration. Combining the CAPA with the CONSIP e-portal will deliver the most complete purchasing tool managing the full purchasing cycle from ordering goods through to actual payment and reconciliation.

### **TRANSPARENCY, FISCAL EFFICIENCY AND E-INVOICING**

The reporting provided by the banks issuing the CAPA furnishes government with wholly digital data accessible online to ensure the detailed traceability in real time of consumption as structured on the basis of different parameters.

The transparency of fiscal data and clearer understanding of transactions reduce the possibility of tax evasion and fraud and are in line with the policy already pursued by the government with legislative decree 231/2001, a response to the need for greater transparency and control in the private sector, and the previous decree 165/2001, article 8 of which stated the requirement for government bodies to “adopt all the necessary measures to ensure that the expenditure of their personnel is evident, certain, and foreseeable in its evolution”.

As discussed in § 7.4, the transfer of relevance for tax purposes from invoices to the statements issued for each individual CAPA holder would make it possible to combine the card with e-invoicing functions through fiscal accreditation of the statement as an invoice valid for VAT purposes. Already adopted in the United Kingdom, Belgium, Germany, the Netherlands, Ireland, Norway and France, this provision offers a

significant simplification of administrative procedures and hence a reduction both in the administrative workload of entering the purchases (especially those of low unit value) and in bureaucratic requirements currently weighing on the supplier.

This simple legislative measure could easily be added to the provision made for electronic invoicing in DL 20/2/04 and the subsequent circular no. 45 issued by the Tax Department on 19/10/05 to implement EU directive 2001/115 (Tax accreditation requires two Banks, one issuer, one acquirer plus involvement of an account organization such as KPMG in order for the accreditation of VAT as evidence to be shifted from supplier to issuer in line with the Italian tax authorities).

One of the requirements set is use of the digital signature already issued to some 2 million companies in Italy, which would therefore be able to accommodate the fiscal accreditation of CAPA statements.

A further advantage for the Tax Department would stem from the possibility of offering this tool of e-invoicing to the multinationals present in Italy, thus taking into account the procedures already implemented by the same in other markets and contributing to the standardization of use of the purchase card also in the private sphere.

### **DECENTRALIZATION, EMPOWERMENT AND INCREASED RESPONSIBILITY**

The adoption of a procurement card generates savings in direct proportion to the degree of decentralization, in other words, the greater the level of decision-making decentralization, the higher the saving. This consideration could prompt a revision of the present assignment of purchasing powers in the public sector. The architecture of these responsibilities currently derives to a great extent from the need to ensure adequate hierarchical control over actions. The increase in the potential for control offered by the CAPA technology would make it reasonable to initiate a revision of the attribution of individual responsibilities with a view to boosting the overall efficiency of government bodies within a framework of control over action proving at least as stringent as at present.

In particular, the simpler processes of authorization and control make it possible to use the CAPA within the framework of policies of administrative and managerial decentralization.

It is possible to adjust the limits of expenditure for each card very finely (in terms of ceilings on monthly spending and individual purchases as well as types of articles).

It is possible to deactivate the card in real time if there is even the slightest suspicion of misuse.

It is possible to implement retrospective controls of a far greater power than those available at present.

As pointed out above, prior formal control (which generates significant process costs but an insufficient level of control over the actual substance of expenditure) is replaced by a single check on the empowerment of use and the setting of limits.

Moreover, the rigorous retrospective control of substance offered by the CAPA through advanced reporting makes it possible in principle to combine simplification of the initial purchasing procedures (request and authorization) with improved and expanded overall control.

The card involves benefits in terms of the improved use of both economic and human resources. Initial assessment suggests that the immediate advantages of the decision-making decentralization made possible through the CAPA are to be found in a simplification of purchasing and payment procedures with savings on process costs in terms both of resource/cost (about 36 percent) and time (a reduction of 39 percent). The assigning of the card and associated decentralized decision-making power are also conducive to greater individual responsibility, which becomes still more marked when combined with explicit incentives.

It is, however, clear that development in this sense presupposes a precise strategy of change management. The adoption of such an approach must in fact be planned in order for it to be culturally metabolized by the structure and to ensure the acceptance of its strongly innovative implications as regards the internal power structure of the bodies concerned. In particular, it is essential to ensure that the definition of the processes is compatible with current legislation so as to prevent legal constraints from obstructing the envisaged innovations or reducing their impact. Specific training schemes make it possible to manage the change optimally at the organizational level through the application of a universal protocol standardizing organizational behavior both inside the body concerned and externally in relations with suppliers. Sensitivity in

communication and providing such units as submit requests with information and support on the operative mechanisms and rationale of the CAPA can help to transmit specific guidelines in adequate form to all the parties involved on the new management mechanisms of the payment process deriving from the new tool.

Within the framework of central government, powers of expenditure are currently restricted to officials of level 1 above the threshold of €150,000 and decentralized below it to level 2 officials. One possibility would therefore be to issue all the treasurer's offices of the various bodies with a CAPA and thus obtain a considerable reduction in the use of cash and the associated costs of management, processing and reporting for recurrent expenditure involving small amounts.

Combining the demand of one or more offices in the same portfolio managed by a single person makes it possible to combine orders (e.g. for stationery) for a number of units. The individual CAPA numbers and codes can be registered with suitable suppliers for the combined orders of the offices concerned. This holds in general for all categories of expenditure and makes it possible to cut red tape and avoid the waste of time that could be put to better use. The time and resources of a purchasing department can in fact be invested in the negotiation of new framework agreements and approval of monthly statements rather than the authorization of every single low-value transaction.

Savings on process costs can in any case be obtained quickly by assigning the cards initially to people acting as consignees. Consignees are in a position to communicate directly with suppliers and reach agreements on specific points such as requisites, timing and delivery so as to ensure the effectiveness of order processing and resolve any uncertainty as to the goods or services requested.

## **POSSIBLE SCENARIOS INTRODUCING CAPA IN ITALY**

### **Trends in Public Finance**

According to the latest figures contained in the DPEF 2007-11,<sup>37</sup> the Italian public administration system's consolidated accounts for 2006 present a total income of €661.426 billion and total expenditure of €720.765 billion, equal respectively to 45.1% and 49.1% of GDP, which will itself amount to €1,467 billion. Accumulated debt will be €1,580

billion, equal to 107.7% of GDP. Net borrowing would be €9.339 billion or 4% of GDP.

Within the framework of the European Union's Stability and Growth Pact, the recommendation adopted by ECOFIN (the Council of European Ministers for Economic Affairs and Finance) on 12 July 2005 set a maximum limit of 4.3% on Italy's nominal deficit for the year 2005, on condition that this would be accompanied by "necessary measures of permanent adjustment, excluding one-off provisions, to ensure an accumulated adjustment equal to 1.6% over the two-year period 2006/2007 with respect to 2005, with half of the adjustment concentrated in 2006".

As a reading of DPEF 2007-2011 shows, while confirming the goal of bringing the deficit/GDP ratio back to below 3% in 2007, the Prodi administration has chosen to concentrate the adjustment of public accounts almost entirely in 2007.

The steps needed in 2007 to correct the present deficit trend should amount to a total of nearly €20 billion, 1.3% of GDP, with action of a structural character on expenditure aimed at all of the four sectors that play a crucial role in the growth of public spending (public employment, public and supplementary pension systems, health, and decentralised government bodies).

Further resources amounting to approximately 1% of GDP (about €15 billion) will be required to implement development policies designed to improve competitiveness by strengthening the markets, reducing the tax wedge, increasing the efficiency of public expenditure, and taking action of a redistributive character. The total resources required in this connection are indicated as equivalent to 2.3% of GDP or €35 billion.

As requested by the EU, recourse to one-off provisions should be very limited, amounting to no more than 0.1% of GDP (about €1.5 billion). As regards net borrowing in 2007, for which a figure equivalent to 4.1% of GDP is forecast on current trends, the DPEF sets a programmatic target of 2.8%, which would reduce the deficit by an amount equal to 1.3% of GDP with respect to the tendential value and bring it below the threshold of 3%.

The set figure for net borrowing is calculated on a primary surplus of 2.1% (+1.3% of GDP with respect to the tendential value) and

expenditure on interest of 4.8% (stable with respect to the tendential value).

For the following period, the DPEF maintains the objective of further adjustments of a structural nature equal to 0.5% of GDP for every year, as requested in the ECOFIN recommendations. The government does, however, intend “to assess more precisely the pathway of recovery in relation to the temporal profile of the structural effects of the measures that will be effectively implemented”.

On the basis of these initial indications, it was subsequently announced that budget manoeuvre introduced with the Finance Act for 2007 will in all probability be in the region of €30 billion (5 billion less than the figure envisaged in the DPEF) because the performance of the Italian economy in 2006 and hence the tax revenues proved better than expected.

The Finance Act will of course have to specify what proportion of the resources required is to come from increased revenues and to what extent (and in what form) the reduction in expenditure is to contribute.

With regard to the latter point, attention should be drawn to the difficulty encountered in achieving significant cuts in current government expenditure and the impossibility of pursuing simplistic radical solutions such as slashing funds for South Italy or the bodies of regional, provincial and municipal government.

A recent study taking into consideration the dynamics of income and expenditure for the different geographical areas over the last ten years<sup>38</sup> paints a very different picture from the stereotyped view of the South as characterized by tax evasion and uncontrolled public spending.

Overall revenues rose twice as much as expenditure in Italy over the period 1996-2001 (36.32% as against 18.26%) and growth was higher in the South (36.97%) than in the Centre-North (36.13%). While this situation was less pronounced in the period 2001-2003, income still rose more than spending (7.99% as against 6.36%) both in the Centre-North (7.77% as against 6.38%) and above all in the South (8.74% as against 6.33%).

Regional revenues increased at the national level over the period as a whole by nearly 460% due to the government’s decision to transfer powers of taxation to the regional authorities. The difference between the two areas of the country is very marked in this respect, with the growth

of over 500% in the Centre-North and just below 330% in the South. This is largely accounted for by the imbalance between the two areas as regards the IRAP tax base.

Significance also attaches to the trend in per capita taxation per employed person, with the increase in the South (30.23%) proving clearly superior to the Centre-North (20.68%).

As regards the dynamics of public expenditure, growth in the Centre-North was just over 18% between 1996 and 2001 and 6% between 2001 and 2003 as against respective figures of just over 20% and 6% for the South.

With respect to GDP, the weight of expenditure is obviously greater in the South than the Centre-North. Overall government expenditure in the South was nearly 64% in 2003 as against approximately 52% in the rest of the country (with a national average of 54.6%). While the trend in the South is one of constant reduction (68.22% in 1996), the decrease in the Centre-North is lower (approximately 53.76% in 1996) and was interrupted in 2001.

Per capita expenditure in the South was no more than 81.67% of the national average in 2003 as against much higher levels in the Centre-North (110.18% in 2003).

As regards spending at the different levels of government, it is only in the sector of central administration that growth is higher in the South (+20.6% with respect to 1996 as against 14.1% in the Centre-North). This increase is, however, offset by the trends at the local level (respectively 42.1% and 60.7%) and the regional (49.4% and 75.7%).

Taking effective action in a situation of this nature is not therefore an operation to be regarded simplistically as a question of massive cuts in public expenditure but one requiring reforms of a structural character capable of ensuring a far more efficient use of financial resources. As the findings presented below will show, the CAPA project pursues precisely this objective, demonstrating its capacity to constitute an excellent example of a “no-cost reform” capable of generating substantial savings for the government sector.

### **Transaction and expenditure analysis**

As already noted, experience at the international level identifies a common denominator in the link between orders involving low value amounts and a very high number of transactions.

The situation in the USA shows a set of about 250 different public bodies using the Card for procurement carried out by their officials. This is also due to the fact that public officials are required by law to use the Purchase Card for every transaction of less than \$2,500 (the threshold of what are termed “micro-purchases”).<sup>39</sup>

The overall volume of public procurement generated by the 310,000 Purchase Cards issued at the federal level amounted in 2004 to \$17.1 billion, involving approximately 26.5 million transactions with an average value of \$645.

This figure of \$17.1 billion for purchases carried out by card in 2004 corresponds to 5.21 percent of the \$327.9 billion registered for Federal Government intermediate goods and services purchased in the same year, which in turn accounts for 13.4 percent of total US public spending (\$2,452 billion), equal to almost 21 percent of GDP (\$11,743 billion). The purchases made via Purchase Card account for 0.7 percent of US public expenditure.

In the United Kingdom – where the program was launched ten years later and where the GPC is not de facto mandatory as in the US, but based on a best practice approach – the £405 million of procurement carried out via GPC in 2004 accounts for only 0.09 percent of total public spending for the same year (£475.7 billion), a total of nearly 2.9 million transactions with an average value of approximately £141.

An initial element of evaluation in Italy – albeit of solely indicative value until more up-to-date surveys on a larger scale become available – can be drawn from a study carried out in 2003 at the Prime Minister’s Office (Presidenza del Consiglio dei Ministri - PCM) by SSB-Roland Berger.<sup>40</sup> This revealed that out of a total of approximately €77 million of procurement handled by the PCM Resources Department, about 90 percent of payment orders were for purchases worth less than €20,000, corresponding altogether to around 50 percent of the total value. To be more precise, a breakdown of the number of payment orders by value in 2003 shows that 18,300 orders, 80 percent of the total, were for sums of under €5,000, 1,550 (about 7 percent) for sums between €5,000 and

€10,000, 1,050 (less than 5 percent) for sums between €10,000 and €20,000, and only about 1,300 (nearly 6 percent) for sums between €20,000 and €30,000. The remaining 600 for sums above this threshold accounted for just 2.6 percent of the total.

Assuming, on this basis, the conservative hypothesis that payment orders for sums between €5,000 and €10,000 had an average value of €6,500 and that those between €10,000 and €20,000 had an average value of €13,500, we can infer that the global value of the 18,300 payment orders below €5,000 shall correspond approximately to €12.45 million, with an average value for single transaction of €680.

If we apply these findings to the situation in Italy, a mature CAPA program with levels of use comparable to those of the Purchase Card in the United States could therefore have an impact on 0.7 percent of public spending, i.e. almost €5.45 billion out of a total €720.8 billion (in 2006). If reference were instead made to the situation in the UK, 0.09 percent of public spending would mean procurement worth €649 million.

#### **Average administrative cost by transaction type / potential costs savings and possible associated savings through the introduction of CAPA**

As mentioned above, the survey carried out by Lynkeus in 2002<sup>41</sup> calculated the time required for purchasing and payment procedures at the MEF, a ministry that can reasonably be assumed to be among the most efficient as regards payment procedures.

The times registered range from 546 minutes for a purchase through CONSIP agreement paid in cash (rising to 918 minutes if there are no funds available and it is necessary to wait for a fresh allocation) to 865 minutes for a purchase through CONSIP agreement with payment by electronic order. The process costs vary from €232 in the first case (€445 if a fresh allocation of funds is required) to €362 in the second, where payment is made via electronic order.

It is possible to develop some estimates on the basis of these figures as regards the costs involved today in the public procurement transactions for which, with reference to experiences in the USA and the UK, payment can be handled externally through the introduction of a CAPA.

On the basis of the above considerations, it is possible to formulate various scenarios related to the two levels of CAPA-mediated purchases

hypothesized with reference both to the situations in the USA and the UK and to the average very high value of about €300 assumed as the current administrative cost for purchasing operations at a ministry like the MEF.

### **Two hypothetical scenarios of possible CAPA penetration**

One initial scenario comprises the following elements.

Expenditure of €5.045 billion handled via CAPA (in line with the US parameters but here with the further conservative adjustment of placing the threshold for micro-purchases at €5,000, more than twice as high as the US limit of \$2,500) would mean a volume of about 7 million transactions (i.e. around 147,000 payment orders for every €100 million of expenditure). With average administrative costs per “traditional” transaction of €300, this would mean a total cost of almost €2.22 billion.

With reference to these figures, it is possible to present two hypothesis as regards the result of introducing the CAPA, one based on the savings associated with the US Purchase Card (equal to 70 percent of the cost of traditional procedures) and the other on a more conservative estimate (related to the findings of the survey carried out by Lynkeus at the MEF in 2002) of average administrative savings of 36%, to be obtained within the existing legislative framework and taking advantage of the provisions now in place for the T&E credit card of public-sector executives and officials.

With reference to the former case, a saving of 70 percent on the costs assumed here (€2.22 billion on 7.4 million transactions involving amounts below €5,000) would be equivalent to the by no means negligible sum of almost €1.56 billion. An average saving of 36 percent would still be equal to nearly €801 million.

In the second scenario, which takes the level of use of the British Government Procurement Card as its term of reference, the possible savings for the Italian public sector in terms of administrative costs would amount at best to approximately €200 million and in any case to nearly €103 million on the hypothesis of an average saving on costs of only 36 percent available with no substantial change to existing legislation.

**Other factors conducive to saving**

The elements of saving indicated above are in any case certainly not such as to generate any real recovery of liquidity in the short run, as what they involve in concrete terms is the redeployment of personnel currently engaged in the performance of administrative tasks that would be markedly streamlined through introduction of the CAPA. These structural but long-term savings would, however, be accompanied by others deriving from a probable reduction in the unit prices of the goods purchased.

In a situation where suppliers were guaranteed payment not only within a certain term but indeed almost immediately, they would no longer feel the need – as they do in the present conditions of unpredictability – to apply an implicit markup on the prices set for government. As a result of the different and more accessible conditions of entrance to the market of public procurement, there would also be a marked increase in the number of potential suppliers, especially smaller firms, with obvious benefits in terms of increased supply-side competition.

On the assumption that the average markup applied by suppliers on prices to compensate for the financial burden involved in the unpredictability and length of payment times<sup>42</sup> is at least 7 percent, the structural savings on administrative costs indicated above can be combined with at least a further €353 million of permanent savings obtainable on the prices negotiated with suppliers in a situation where the procurement of government bodies is handled through the channels typical of a purchase card, and hence with the certainty that the CAPA issuing bank will effect payment within four days of the date on which the holder signs for acceptance of the consignment in question.

Another factor of saving is connected with the “working capital management”, a well-known element of efficiency that has played and continues to play a primary role in the competitive processes of many sectors of private firms.

The marked decentralization and streamlining of public procurement procedures obtained through introduction of the CAPA will in fact make it possible to concentrate purchasing in a small number of large-scale transactions and hence to avoid building up large stocks of materials, which may indeed prove surplus to requirements, with the associated costs in terms both of management and of financial charges borne by the

public sector. These are the results to be obtained when the level of purchasing is suitably flexible and decentralized and the financial and management costs of handling stocks are borne by the competition between suppliers and distributors for the different levels of government.

If the average cost of financing and managing supplies of material for government is conservatively estimated as corresponding to 6 percent of all purchases and hence about €303 million (on the basis of the analogy with the overall value of the transactions carried out with the Government Procurement Card in the US), it is thus also possible to estimate the advantages deriving from a just-in-time approach at the level of working capital management. The lower average storage time of supplies and the decrease in the associated interest payments borne by government to finance its debt lead in actual fact to a further factor of structural saving estimated as equal to about 10 percent and hence nearly another €30 million.

“X-efficiency” is a term used by economists to describe the effectiveness with which a given set of inputs are used to produce outputs. In this case, the “X-efficiency” deriving from more widespread purchasing responsibility, greater transparency and far more effective reporting of the purchases carried out by the large number of CAPA holders can be estimated as equal to at least a further 3 percent or €151 million. The more precise and prompt reporting made possible by use of the CAPA will in fact make it possible to highlight each purchase made together with the debt incurred and its duration (and hence cost in terms of interest). This will cast light in terms of precise links with the conduct of each cardholder on at least the part of the powerful growth factor of the submerged public debt that is connected with the €0.045 billion of micro-purchases.

It does indeed appear that this is the simplest way to ensure that all purchases are finally carried out solely within the limits of the budget and that whenever particular circumstances make it necessary to carry out procurement operations that are not financially covered – albeit falling within the margins of flexibility allowed to CAPA holders – this is clearly and transparently evident.

Further savings could be obtained through negotiation with suppliers operating within the framework of CONSIP agreements. CONSIP could in fact conduct negotiations to obtain quantity discounts on the basis of precise details of the purchases actually made of certain goods rather

than being limited to estimates of the expected overall consumption of the various government bodies.

The immediate digital recording of every transaction carried out via CAPA would make it possible to obtain precise figures for procurement in real time also at a centralized level, and thus bring quantity discounts into effect.

On a conservative estimate, this would involve an average discount of 5 percent on at least 30 percent of purchases. Application of these percentages to a volume of expenditure equal to €5.045 billion would thus give additional savings of €76 million.

Another common form of cost reduction in proportion to the volumes involved is the issuing rebate, a percentage granted by the issuing bank on the amount due in settlement of the yearly account for transactions made via purchase card. The issuing rebate would be related to the interchange fee, and assuming it to be approximately 1.4 percent, an issuing rebate of up to 0.3 percent, could imply a saving of further €15 million

It should be borne in mind that the overall total of savings indicated must be regarded as “gross”. The savings have not in fact been calculated net of the overall costs of CAPA management, which will in any case, however, not be borne by the public sector as purchaser but by its suppliers. The latter will subsequently endeavor to transfer them to government, even if they are relieved at the same time of various administrative costs. Suppliers will in fact no longer need to take the now customary steps to demand payment from government bodies and invoicing will constitute one of the new services offered by the issuing bank in the form of the statements produced for all cardholders as well as their superiors and the relevant administrative offices, with copies for the suppliers.

### **LEGISLATIVE FRAME OF REFERENCE**

The use of forms of payment alternative to those traditionally employed in the public sector was introduced in Italy by law 549/1995,<sup>43</sup> which provides for the use of credit cards by public executives and officials for expenses falling within their powers, also outside Italy, “in cases where it is not possible or economical to apply the normal procedures”.

**TABLE 1**  
**Summary scheme of the analogy with the US**

<i>Reduction of procurement costs deriving from CAPA, calculated on an expenditure of €5.045 billion, i.e. 0.7% of the Italian public expenditure (Million of €)</i>		
70% reduction of administrative costs (international average)	1,557	
36% reduction of administrative costs (Lynkeus estimate, within the current regulatory framework)		801
Savings on purchase prices (7% mark-up by suppliers)	353	353
Savings on Working Capital Management	30	30
X-efficiency (3%)	151	151
Supplier Rebates	76	76
Issuing Rebates	15	15
<b>Total</b>	<b>2,183</b>	<b>1,427</b>

Source: Lynkeus.

**TABLE 2**  
**Summary scheme of the analogy with the UK**

<i>Reduction of procurement costs deriving from CAPA, calculated on an expenditure of €649 million, i.e. 0.09% of the Italian public expenditure (Million of €)</i>		
70% reduction of administrative costs (international average)	200	
36% reduction of administrative costs (Lynkeus estimate, within the current regulatory framework)		103
Savings on purchase prices (7% mark-up by suppliers)	45	45
Savings on Working Capital Management	4	4
X-efficiency (3%)	19	19
Supplier Rebates	10	10
Issuing Rebates	2	2
<b>Total</b>	<b>281</b>	<b>184</b>

Source: Lynkeus

While law 549/1995 recognises the credit card as one of the systems of payment, it thus restricts its use exclusively to cases where application of the normal procedures is impossible or not economical. Rigorous interpretation of the actual wording (“*qualora non sia possibile o conveniente ricorrere alle ordinarie procedure*”) would tend to rule out use of the credit card for the payment of any running expenses. Given that transaction costs for the procurement of items involving small amounts are far higher than the prices of the goods and services involved, as established by studies carried out in Italy and other countries, it can, however, be deduced that the use of a payment card would in fact prove more economical in such cases. Moreover, the fact that failure to pay within 30 days entails the payment of interest to suppliers, as established by DPR no. 384/2001, makes it still more economical for public sector bodies to use cards rather than traditional procedures.

While again asserting that the use of credit cards is allowed only in cases where the application of the normal procedures is impossible or not economical, DM 701/96 then specified the types of expenditure concerned, which are essentially T&E (travel and entertainment) expenses together with “directly purchased goods, work and services” in general.

The inclusion of this generic category (“*beni, servizi e lavori in economia*”) supports the hypothesis that a payment card could be introduced in Italy with no change to the existing legislative framework. The possibilities of use in this sphere are expanded by DPR no. 384/2001, which raised the maximum amount allowed for directly purchased goods, work and services to €130,000. This ceiling set by Italian law would make it possible not only to introduce a payment card with functions and facilities similar to those adopted in other European countries but also to expand its range of use still further.

While susceptible of a more restrictive reading, the cited legislation does in any case leave room for broader interpretations. A circular issued by the Ministry of the Economy and Finance<sup>44</sup> provides for gradual use of the credit card also to pay for the routine expenses of government bodies, with explicit reference to “*beni, servizi e lavori in economia*”. It then extends to all other public bodies, as specified by D.Lgs. 165/2001 (art. 1, sec. 2), the faculty of adopting these payment procedures and adapting them to their own administrative and accounting systems. In

line with this interpretation, the specifications of the recent CONSIP call for tenders to operate the financial service of payment via credit card for government departments<sup>45</sup> specifically includes within the range of possible operations not only T&E and advance payments but also all the other types of expenditure envisaged under current legislation, including explicit reference to those provided for by DM 701/96. It should, however, be noted that a subsequent section of the circular regarding T&E expenses again specifies that use of the credit card should be restricted solely to such expenses incurred in Italy or outside the country.<sup>46</sup>

In short, while the wording suggests that the card is only to be used in exceptional circumstances and not as a normal means of payment, the existing legislative framework can be regarded as leaving room for the introduction of the purchase card in Italy as a means of procurement and payment for items involving small amounts.

Two further significant aspects of the legislative framework regard persons empowered to hold the card and accounting systems. As regards the former, DM 701/96 identifies potential cardholders precisely as those working in offices of direct collaboration, judges and state attorneys, and executives and officials of government bodies. The chief executive is responsible for authorising issue and setting limits on use as well as the suspension or curtailment of rights. It is thus possible to develop a system of operative and management decentralisation geared to the requirements of each organisational structure.

The card-using powers enjoyed by executives and officials already offer the possibility of greater decentralisation in purchasing with respect to the present configuration. The hypothesis of use up to a set ceiling of €5,000 on routine expenditure also for personnel other than executives and officials – e.g. by permitting all government departments to assign cards to holders – would, however, entail a legislative amendment authorising use for all state employees.

DM 701/96 provides for the person responsible for the administrative and financial management of the cards to be supplied with credit orders on relevant budget allocations to be handled through mechanisms of special accounting. Payment orders for suppliers are issued within the set credit limits. If the purchase card system is to become fully operative, it may be advisable to introduce a legislative amendment allowing its use also through mechanisms of ordinary accounting with suitable

adjustments to the procedures involved so as to take the particular features of this means of payment into account and take full advantage of the benefits it offers.

To complete this overview of the legislative framework, attention should be drawn to MEF Circular no. 30 of 1/7/2004, which seeks to avoid delays in the payment of commercial transactions by urging the directors of public bodies to adopt computerised procedures for all the stages from ordering to payment. It should also be recalled that the above-mentioned D.lgs. 52/2004 and associated circular no. 45 of 19 October 2005 implementing EU directive no. 115 of 2001 make it possible to issue electronic invoices.

An initial hypothesis for the introduction of the CAPA in Italy could envisage a large-scale pilot scheme comparable in extent to the trials undertaken for the French *carte d'achat*, based on empowering use of the credit cards of public officials for direct purchases through the provisions of existing legislation and including the aspects connected with decentralisation and the “dematerialisation” of invoices.<sup>47</sup>

This would also make it possible to boost the circulation of the T&E card itself, which would in any case be a significant factor of modernisation if applied on a large scale in the government sphere.

Broader recourse to the provisions governing credit cards so as to permit direct procurement through the CAPA would also have helped to prevent the use of payment cards by government officials from being regarded exclusively as an exceptional measure, as is clearly reflected in both legislative and practical terms (negligible use) by the attitude hitherto adopted to cards of the T&E type.

It should also be borne in mind that the call for tenders of May 2005 to operate the financial service of payment via credit card for government bodies provides also for the parallel issuing of individual credit cards with a ceiling of expenditure generally set at €2,500. These individual cards can be used “also for personal expenses” and involve debiting “the current account of the cardholder, an employee of the public body indicated in the supply order” transmitted by the body itself to the issuing bank.

The employee will make the purchases directly via card from firms accepting this form of payment and can use it also for expenditure regarding “goods and services governed by special regulations”. He or

she will submit the “order of expenditure (regarding travel and/or other expenses authorised by the body) to the relevant offices and request the reimbursement of expenses”. The issuing bank – it is specified – will be “extraneous to the relationship between the cardholder and the government body with respect to the order of expenditure and the reimbursement of expenditure carried out with the credit card of the holder in the performance of his or her duties and/or tasks and/or activities as an employee of the body”.

The wording appears to be designed to allow a margin of operative promptness and flexibility for officials willing to undertake responsibility formally pending reimbursement.

A similar approach would require employees to be “credit-scored” under individual liability arrangements and therefore, unsuccessful employees would not qualify for a card. Consequently, a parallel process would need to be devised and maintained for these employees. Furthermore, within an Individual Liability programme, losses are typically subtracted from the programme rebate (the amount recognised from the issuing bank, as reduction of the debit due by the Public Administration, in proportion to the levels of card usage that have been achieved) at the year-end and thus the actual paid rebate is likely to be higher on a corporate liability programme.

While cardholders would be responsible in this scenario for all aspects of the credit and payment relationship between themselves and the issuing bank, as stipulated precisely in the specifications of the call for tenders to operate the credit card service, a corporate liability system would offer evident advantages for government.

A corporate liability programme would in fact involve no credit scoring, thus allowing the body itself full powers to determine who is issued with a card. Potential rebate would not be compromised by credit losses, as it might under individual liability arrangements. Furthermore, if the use of the card were to be made mandatory for micro-purchases with a view to gathering more data and obtaining better rebates, it would be considerably easier to do this under a corporate liability system. Finally, it should be remembered that losses on a corporate liability programme may be reclaimable via corporate liability waiver insurance, while the “conditions of use” of the international payment-card networks do not permit the T&E Card for personal expenses.

### **LEGISLATIVE AMENDMENTS FOR LARGE-SCALE INTRODUCTION OF THE CAPA**

As pointed out above, a number of legislative amendments will need to be introduced in order to take full advantage of the opportunities offered by purchase cards, including in particular use in all Italian government departments, the possibility of decentralisation in the procurement of goods and services, and the dematerialisation of invoices:

- revision of the limit on use of the card solely for directly purchased goods and services
- the possibility of adopting ad hoc parameters in setting limits on the use of cards at the time of issue, with precise checks on each individual transaction during the authorisation phase and then in the phase of reporting
- revision of bookkeeping provisions so as to make wholly explicit the possibility of using the card in conditions not only of special accounting but also of ordinary accounting, or in such a way that a post-office current account can be charged directly
- the possibility of extending the set of possible cardholders to include not only executives and officials but also employees

A broadening of the range of expenditure permitted under the terms of the ministerial decree governing the credit card already in force for T&E functions could be easily obtained by using the card to pay for the direct purchases of work and goods and services handled through traditional procedures under the terms of DpR 384 of 2001, with the use of CONSIP agreements and in future to the electronic market.

The technical and bookkeeping tools required to expand the area of use of the card are already identified in art. 7 of DM701/1996, and are based on the creation of special accounts registered to the chief executive or specifically delegated official responsible for the administrative financial management of the credit cards. This solution of financial management appears particularly appropriate for expenditure to purchase goods and services and for work carried out by the organs of central government.

In this connection, it is necessary to follow the procedure laid down by art. 10 of DpR 367/1994 and reiterated in art.7 of DM 701/1996,

whereby the Ministry of the Economy and Finance can authorise the creation of special accounts by decree.

In the case of local authorities, it is necessary to distinguish between those with special accounting and the others.

For the former, including military bodies and prefectures, the use of a credit card presents no particular problem and the payment of the accounts sent by the bank issuing the card can be effected on a monthly basis with a single order of payment drawn on the special accounting funds.

In the case of special accounting funds paid into specific post-office current accounts, as happens for the accounting of military bodies or can happen in general for expenditure involving modest amounts, in accordance with art. 15 of DpR 367/1994, the monthly statement can be debited directly to the post-office current account.

It may not be advisable to set up special accounting for local bodies currently without it, given the procedure involved (decree issued by the Ministry of the Economy and Finance) and the fact that the financial resources allocated for the purchase of goods and services are generally negligible in quantitative terms.

In such offices, these types of expenditure are generally handled through entry under the specific item of "office operating expenses", through which sums are credited to the individual officials responsible. The simplest solution therefore appears to be to assign the official in question with a CAPA for an amount equal to the funding of the said item. The official could then, on a monthly basis, issue a special order of payment to settle the statement of account received from the issuing bank.

## CONCLUSIONS

The operative scenario outlined above takes into account the predominant character of the expenditure to be handled by means of the CAPA, i.e. recurrent outlay of modest amounts currently handled through cash payments, especially by the cash departments of the organs of central government.

There is, however, nothing to prevent the monthly statements being settled by means of electronic payment orders, as already happens with travel expenses.

Use of the CAPA usefully complements the electronic payment order by making it possible to reduce the orders of expenditure to those needed to settle the monthly statements, thereby simplifying the administrative and control procedures.

This effect of reducing the orders of expenditure to be issued as a result of combining the payments due on the statements of account also holds, of course, for the bookkeeping of the officials responsible for the special accounting.

Introduction of the CAPA can also help to accelerate the implementation of the SIOPE system of online control, immediately lightening the administrative burden of processing a very large number of micro-purchases while ensuring registration of the same specific functional coding at the same time.

Lynkeus estimates that about 7 million transactions for amounts of less than €5,000 could be outsourced through payment cards (about 147,000 for every €100 million of expenditure) if the level of penetration achieved for the CAPA in Italy were comparable to the level achieved in the USA for federal expenditure.

The French ministry of finance has indicated that an administrative cost per transaction equal to 5 percent of the average value would be acceptable. In Italy, with an average cost of €300, this would mean setting a ceiling of €6,000 for micro-purchases. With the proposal put forward here for purchases of under €5,000, it is possible to achieve overall savings of between one and two billion euros a year. Public finances should also benefit through much prompter payment of VAT on the part of suppliers given the certainty that they will be receive payment through the banks issuing the CAPA.

The government could negotiate an advantageous period of grace and interest rates in line with the best competitive conditions for any further delay in settling the accounts of payment cards. As pointed out above, the faster and more precise reporting connected with use of the CAPA will make it possible to pinpoint each purchase made together with details of the debt incurred and its duration (and hence cost in terms of interest), thus helping to avoid perpetuating the submerged public debt

deriving from delay in entering purchases into the accounts. With the CAPA, purchases for amounts below the suggested ceiling of €5,000 would finally all be carried out within the terms of the budget. If particular circumstances did make it necessary to effect purchases falling within the margins of flexibility granted to the cardholder but without financial coverage, this would be pinpointed with total transparency.

The introduction of the CAPA would also make it possible to introduce a major reform “at zero cost”, taking advantage of a technological and operational innovation capable of playing a crucial part in cutting the transaction costs of administrative functions within a context of public-private partnership.

As we know, there is also what the OECD has described as the hidden threat of e-government, namely the problem of avoiding massive government failures in the use of IT, as often occurs when “budgets are exceeded, deadlines are over-run and often the quality of the new system is far below the standard agreed when the project was undertaken”.

This is why it appears plausible to argue that while centralised applications of ICT usually give rise, even in the most successful cases, to slow and comparatively modest improvements in efficiency and transparency, nearly always oriented exclusively toward “internal” uses of automation, accelerated bottom-up change could instead be generated by issuing a potentially growing number of officials responsible for the purchases of their operative units with a procurement card and gradually defining the parameters required in order to interact both with suppliers and with the necessary administrative checks.

Administrative bodies proving incapable of implementing access for their officials would be clearly identified and subject to specific inspections to gauge their efficiency.

Attention should be drawn in this connection to the OECD recommendation that “every IT system should be seen as a tool and means to other ends – notably a change in business processes” and that “in the public sector the role of IT must be reflected in the way organisations are managed”. A rationalisation project designed to act accordingly should therefore seek primarily to rally forces capable of supporting its action and to erode the inevitable corporative resistance to innovation.

In this perspective, the rationalisation project could, through use of the CAPA, find its greatest allies precisely among government officials if a sufficient number of the same were given a clearer understanding of how the procurement card system operates and the opportunity of everyday involvement in its implementation

In other words, this project could aim at the gradual introduction of automatic forms of interaction between the government system and its officials capable of gradually forcing the resistance of entrenched interests to change tack, not least in the absence of complicated and cumbersome top-down regulation.

If this approach is to be adopted, it must be borne in mind that the power of corporative interests rests heavily on control over bookkeeping information and the preservation of ample margins of administrative discretion. If administrative information, authenticated and authorised from the outset in the procurement card, becomes the operative prerequisite for the personal autonomy of the individual official, this eliminates the bureaucratic conditions that today engender situations of insufficient transparency and insufficiently prompt information.

As a result of this process, the action of reform would no longer be driven solely from above by isolated political power but receive everyday support from the broad-based power of officials endowed with the responsibility and capacity for making the most effective choices in terms of the tools required for the performance of their duties within a precise context of set limits and prompt, penetrating, effective and inescapable control.

## NOTES

1. This paper draws partially on an unpublished study carried out by Lynkeus in the autumn of 2005 on behalf of Citigroup: *Ragioni e opportunità per introdurre anche in Italia una Carta per gli Acquisti della Pubblica Amministrazione (CAPA)*, and on E. Morley-Fletcher and A. De Marco, "L'innovazione nei sistemi di pagamento come leva per una razionalizzazione delle procedure di acquisto: le Purchase Card," in L. Fiorentino (Ed.), *Lo Stato compratore: L'acquisto di beni e servizi nelle pubbliche Amministrazioni*, ASTRID-II Mulino (2006, forthcoming).

2. *Documento di programmazione economico-finanziaria relativo alla manovra di finanza pubblica per gli anni 2006-2009*, 16 July 2005.
3. This is the thesis explicitly maintained, for example, by an observer such as Luigi Cappugi, who points out that “expenditure has been permanently in excess of income for too many years now: today (...) by about 7 billion a month (...). The [next] DPEF should set a target for cutting this requirement before extraordinary operations to ensure coverage (...). The task is to eliminate this requirement over a period of five years without increasing taxes. This is the real turning point for Italy’s public finances as a whole.” L. Cappugi, ‘Ridurre fabbisogno e debito: ecco le priorità per il DPEF 2006’, *Il Riformista*, 28 April 2006.

Mario Draghi, Governor of the Bank of Italy, has also pointed out the need for “structural action regarding the primary items of expenditure at all levels of government”. To this end, “it is necessary to curb primary current expenditure” and obtain a “reduction of government running costs”. He also points out that an indispensable requisite for “lasting action on public finances” is a “marked change in the regulations governing expenditure. Otherwise, as experience has shown, even strong corrective action produces ephemeral results.” *Considerazioni finali*, Banca d’Italia, Assemblea generale ordinaria dei partecipanti, 31 May 2006.

4. A. Alesina, M. Maré, R. Perotti, ‘Le procedure di bilancio in Italia. Analisi e proposte’, in F. Gavazzi, A. Penati, G. Tabelloni (eds.), *La costituzione fiscale*, Il Mulino, Bologna, 1998. See also G. Vegas, ‘I documenti di bilancio’, in D. Da Empoli, P. De Ioanna, G. Vegas, *Il Bilancio dello Stato*, Il Sole 24 Ore, Milan, 2005: “the discrepancy between accrual and cash budgeting, between entries in the balance sheet and Treasury disbursements, has ultimately undermined the credibility of this accounting document” (p. 38).
5. L. Verzhichelli, *La politica di bilancio*, Il Mulino, Bologna, 1999.
6. J.R. Blöndal, ‘Accrual Accounting and Budgeting: Key Issues and Recent Developments’, *OECD Journal on Budgeting*, No. 1, 2003.
7. B. H. Potter and J. Diamone, *Guidelines for Public Expenditure management*, International Monetary Fund, Washington 1999.
8. Senato della Repubblica, V Commissione Programmazione Economica e Bilancio, *Indagine conoscitiva sul processo di riforma*

*delle norme di contabilità nazionale*, Audizione dell'Istituto di Studi e Analisi Economica (ISAE), 2 April 2003.

9. P. De Ioanna, 'La copertura finanziaria delle leggi di spesa', in D. Da Empoli, P. De Ioanna, G. Vegas, *Il Bilancio dello Stato*, cit. p. 256. See also M. Marciano, 'Monitoraggio della spesa pubblica e valutazione delle politiche', in *ASTRID – Rassegna*, no. 30, 29 May 2006.
10. D.lgs. 279/97.
11. Comitato Tecnico Scientifico per il coordinamento in materia di valutazione e controllo strategico nelle amministrazioni dello Stato, *Processi di programmazione strategica e controlli interni nei ministeri. Stato e prospettive - Rapporto di legislatura*, March 2006.
12. G. Ladu, 'Il sistema dei controlli', in *Contabilità di Stato e degli enti pubblici*, Giappichelli, Turin, 1999, p. 265.
13. L. 246/2002.
14. L. Cappugi, 'Radiografia di un paese che non è in grado di sapere quanti soldi spende', in *Il Riformista*, 28 September 2005.
15. F. Reviglio, Budgetary Transparency for Public Expenditure Control, IMF Working Paper 01/8, International Monetary Fund, Washington 2001.
16. Senato della Repubblica, Indagine conoscitiva sul processo di riforma delle norme di contabilità nazionale, cit.
17. Decreti contenenti la codificazione, le modalità e i tempi per l'attuazione del SIOPE per le regioni, gli enti locali e le università, in attuazione dell'articolo 28, comma 5, della legge n. 289 del 2002 (legge finanziaria 2003) e dell'articolo 1, comma 79, legge 30 dicembre 2004, n. 31 (Legge finanziaria 2005), GU, 10 March 2005.
18. D. P. Giarda, A. Petretto, G. Pisauro, S. Lorenzini, C. Vignocchi, Elementi per una politica di governo della spesa pubblica, report drawn up for the conference 'Oltre il Declino', organised by the Fondazione Rodolfo De Benedetti, Rome, 3 February 2005.
19. Ibid.
20. Ibid.

21. NAO, *Improving Efficiency of the Procurement of Routine Items*, Report by the Comptroller and Auditor General, 20 June 1997.
22. H.M. Treasury – Cabinet Office, *Efficiency in Civil Government Procurement*, July 1998; Peter Gershon, *Review of Civil Procurement in Central Government*, Report presented to the UK Government in April 1999; Sir Malcolm Bates, *Modern Government, Modern Procurement*, Report presented to the UK Government in Summer 1999; NAO, *Modernising Procurement*, Report by the Comptroller and Auditor General, 20 October 1999.
23. OGC, *E-Procurement for the Government in the 21st Century: Turning Strategy Into Action*, November 2000; Lynkeus, *E-Government, E-Procurement e Government Procurement Card*, study sponsored by Visa International, September 2001.
24. Ministère de l'Économie, des Finances et de l'Industrie, Direction Générale de la Comptabilité Publique, *La carte d'achat dans les collectivités locales et les établissements public locaux*, MINEFI-IPress, Paris 2005.
25. C. Tresoldi (ed.), *L'economia dei sistemi di pagamento*, Il Mulino, Bologna, 2005.
26. Global Insight, Inc., *The Impact of Electronic Payment on Economic Growth*, 2004.
27. Commonwealth Business Council and VISA, *Payment Solutions for Modernising Economies*, September 2004; see also Ministère de l'Économie, des Finances et de l'Industrie, Direction Générale de la Comptabilité Publique, *La carte d'achat...*, cit.
28. Rising to 918 minutes and a cost of €445 in the event of the treasury having exhausted its funds and having to wait until fresh sums are credited to its account (Lynkeus, *Analisi normativa, organizzativa e sperimentazione dell'introduzione di una Carta d'Acquisto per la PA*, Rome, 2002).
29. The study was carried out by Lynkeus in the spring of 2002 on a sample of invoices at the Ministry of the Economy and Finance (Lynkeus, *Analisi normativa, organizzativa e sperimentazione dell'introduzione di una Carta d'Acquisto per la PA*, cit.). The results obtained are illustrated in greater detail in section 1.5.1 below.

30. The successive phases are as follows. The documentation is subjected to formal and substantial control by the UCB, with the possibility of repetition in the office with specific responsibility for purchasing. The registered payment order is then sent online to the Ispettorato Generale per la Finanza delle Pubbliche Amministrazioni (IGEPA) at the Ragioneria Generale dello Stato (RGS). The IGEPA ascertains whether funds are available for the items of expenditure involved. Payment is authorised by the Treasury. The Treasury notifies the supplier that a payment order has been made.
31. A study carried out by the European Commission suggests that the insolvency of one firm in four is due to delay in payments. Payment times in Italy range from a minimum of 79 days in Trentino Alto Adige to a maximum of 542 days in Abruzzo, with an average of about 300 days. These figures are compared with the European averages, which range from about 32 days in the Scandinavian countries to 78 days in southern Europe (Servizio Studi del Senato, *Legge finanziaria 2005. Schede di lettura*, Rome, 2004).
32. Government Procurement Card, *Annual Report 2005: Achieving Efficiency Savings in the UK Public Sector*, Ticon UK, 2006.
33. Ministère de l'Économie, des Finances et de l'Industrie, *La carte d'achat en sphère publique*, Direction Générale de la Comptabilité Publique, 2006.
34. APECA, *Evaluer les gains réalisés avec la Carte d'Achat*, Fiche Pratique N° 3, Paris, 2006.
35. Assessment of the differences in time and cost between the different forms of purchasing and payment was based on consideration of two concrete cases, namely payment in cash for procurement governed by agreement and payment by e-order governed by CONSIP agreement. The selected offices where the interviews and on-site inspections were conducted were situated at the Ministry of the Economy and Finance (MEF) headquarters in Rome and its local branches in Bologna and Palermo. The processing costs were estimated in relation to the time required for each individual activity on the basis of the overall resource costs. The overall resource costs thus obtained were calculated on the basis of the time taken in relation to the different professional ranks of the parties involved.

36. Empirical evidence showed, in 2001, that while MEF payments were made on average within 3-4 months in 2001, payments by other government bodies subject to binding constraints on liquidity (especially local healthcare centers, hospitals and IRRCS) often took 12 months or more.
37. Empirical evidence showed, in 2001, that while MEF payments were made on average within 3-4 months in 2001, payments by other government bodies subject to binding constraints on liquidity (especially local healthcare centers, hospitals and IRRCS) often took 12 months or more.
38. G. Macciotta, *Semplificazione istituzionale e risorse finanziarie*, ASTRID, Rome, September 2006 ([http://www.astrid-online.it/--le-trasf/Studi--ric/Macciotta\\_le\\_risorse2\\_06\\_09\\_06.pdf](http://www.astrid-online.it/--le-trasf/Studi--ric/Macciotta_le_risorse2_06_09_06.pdf))
39. In accordance with the Code of Federal Regulation, all payments are to take place through electronic fund transfer (EFT) as from January 1999. The Federal Acquisition Regulation specifies that the term *electronic fund transfer* “includes a Governmentwide commercial purchase card transaction” and that the *Governmentwide commercial purchase card* “shall be the preferred method to purchase and to pay for micro-purchases”, the threshold for which is set at \$2,500 except for *contingency operations* or in strategic sectors, where the ceiling can be up to \$25,000.
40. Roland Berger Strategy Consultants, *Studio su sistemi di pagamento innovativi per la Presidenza del Consiglio dei Ministri*, 2003.
41. Lynkeus, *Analisi normativa, organizzativa e sperimentazione dell'introduzione di una Carta di Acquisto per la P.A.*, 2002.
42. Amounting on average to 300 days in the period 2000-2003, according to the authoritative survey by D.P. Giarda, A. Petretto and G. Pisauro in *Elementi per una politica di governo della spesa pubblica*, a paper prepared for the conference “Oltre il Declino” organized by the Fondazione Rodolfo De Benedetti, Rome, 3 February 2005. The terms of a recent tender announced by the Lombardy Region give explicit assurance that payment for the contract will be made within a period of 18 months!

An average of 7 percent can be regarded as a very conservative estimate in relation to the 300 days reported in the survey, in that it

would correspond, with no further markup, to a supplier's interest rate of nearly 8.5 percent a year.

43. Art. 1, sec. 47.
44. *Vademecum per la revisione amministrativo-contabile negli enti e organismi pubblici*, Circolare del Ministero dell'Economia e Finanze, 1 July 2004, no. 30.
45. Technical specifications of the CONSIP call for tenders to operate the financial service of payment via credit card for government departments.
46. Provision was already made for this limitation in note no. 8029084 of 19 May 1998 of the former Ministero del Tesoro, Bilancio e Programmazione Economica – Provveditorato Generale dello Stato.
47. Ministère de l'Économie, des Finances et de l'Industrie, Direction Générale de la Comptabilité Publique, *Marché relatif à l'Expérimentation sur un panel représentatif d'entités publiques d'un ou plusieurs système(s) de carte d'achat*, 2002.