KEARNEY | VISA

Digitalizing Government Commercial Payments

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Executive summary

— **Public procurement is a key component of national economies**, representing around 6—19 percent of national GDP. While the money spent on public procurement is significant, so too are the potential savings that can be made within public procurement: a 1 percent saving on public spending represents EUR43bn per year in OECD countries.

— Most countries are still using traditional procurement methods (paper-based and largely manual), but **new digital models are on the rise**. e-marketplaces bring a new level of sophistication and automation to the e-procurement platform—making government purchasing contactless, paperless, and cashless. They can also generate cost savings of at least 10 percent and provide opportunities for small-to-medium businesses (SMBs) to scale up their business and increase sales.

— **e-procurement enables fast, convenient, and frictionless payments**, especially for recurring, off-the-shelf purchases. Cards—physical or virtual—enable swift payment at order placement or shipping. They also address a significant challenge facing public sector vendors—particularly SMBs: long payment cycles and late payments that affect their short-term liquidity.

— Cards can deliver value in another important, but frequently underestimated, area of public spend—business travel and entertainment (T&E) expenses incurred by government employees. **T&E cards are convenient and improve the travel experience of public officials**, while providing cost savings and spend transparency to government agencies.

— The digital gap among countries is particularly noticeable when it comes to public purchasing and government commercial payments. Automation and digitalization are not necessarily more advanced in countries with the most resources. Frequently, **those that are committed to reducing corruption and bureaucracy are leading the effort** to digitalize public procurement.

— The **COVID-19 pandemic** elevated the visibility of the public sector as a market-maker for critical items like masks or vaccines. Social distancing and remote work **added momentum to the drive to digitalize public procurement** and government commercial payments.

— **Governments can digitalize public procurement and government commercial payments—whatever their current level of technology adoption, connectivity, or digitalization**. However, it takes leadership and political will to successfully drive the digital procurement transformation and reap the benefits that come with it.

About the study

This study has been commissioned and developed in collaboration between Visa—a global payments organization—and Kearney—a global management consulting firm. Our mutual goal is to engage with government officials and policymakers—inspiring them to collaborate and leverage the opportunities provided by digital payments to enhance public-sector services and maximize value for society and the economy.

The study was conducted between June and September 2022. All insights, recommendations, and conclusions featured in this study are based on data and information sourced both before the COVID-19 pandemic and during the last two years of the pandemic.

Primary research

20+
government officials and leaders of public-private partnerships

10+
Kearney Financial Services experts, with experience at the intersection of payments and public sector

16
Visa subject matter experts across different geographies and functions

Secondary research

80+
data sources referenced in the white paper

20+
research and content pieces by respected international organizations, e.g., the World Bank, the OECD, the European Commission, and the Asian Development Bank

30+
program descriptions and studies published by public sector entities

Global examples

35+
examples of commercial payments programs across geographies, spanning the past ~20 years

4
case studies about extraordinary commercial payments solutions deployed by governments with different starting points

The case studies span several themes:

— e-marketplaces
— procurement cards (P) cards
— Travel and Entertainment (T&E) cards

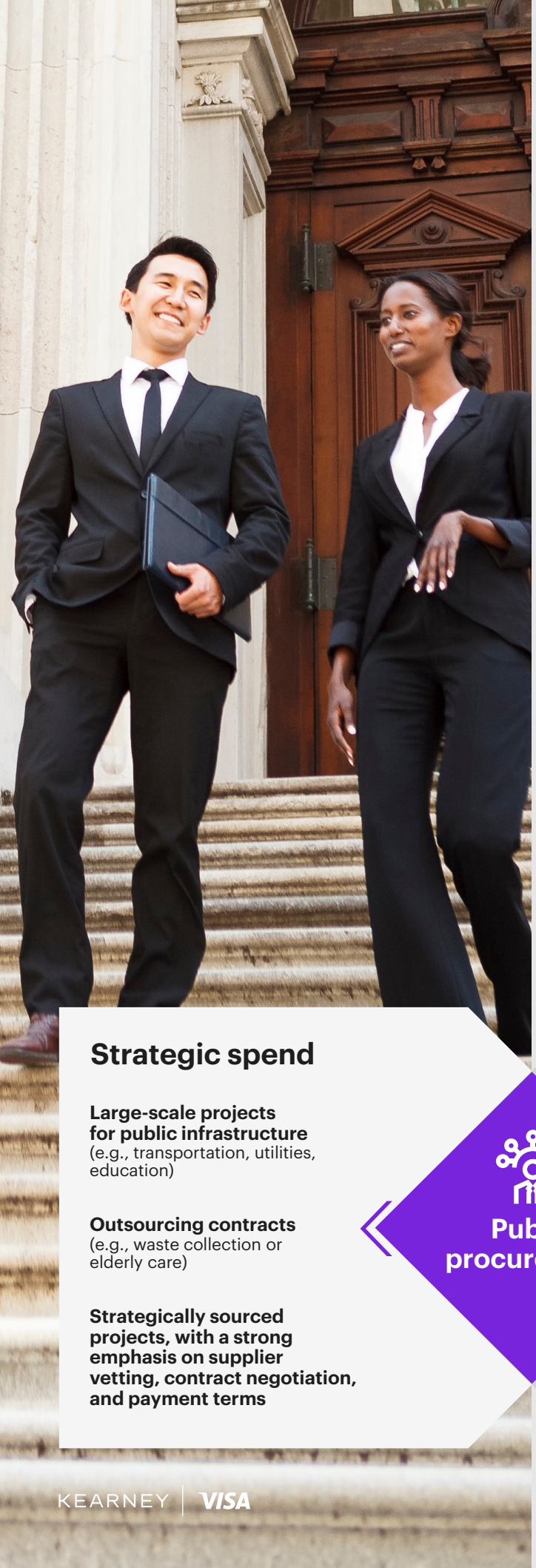
1. Introduction

Governments spend an average of around USD13tn on **purchasing and payment for goods, products, and services** from private companies annually. It spans everything from multi-billion-dollar strategic projects, such as the building of new hospitals and diagnostic centers, to municipal spend on consumables such as pencils and printing paper. It also includes the **expenses incurred by public officials** like diplomats, parole officers, and firefighters in the course of their work—from fleet management and fuel costs to accommodation and daily living expenses.

The sheer scale of public procurement—representing between 6 and 19 percent of national GDP for 80 percent of the countries captured in the World Bank Global Public Procurement Database[1]—and the use of taxpayers' money place public officials under intense scrutiny over the use of these funds. As a result, governments must ensure that the purchasing and payment processes are fair, efficient, and transparent. This means guarding against conflicts of interest and ensuring fair competition and equal treatment of their business partners. They must also optimize public resources by ensuring that they purchase the best goods and services at the lowest possible price, and that they pay vendors on time.

This paper offers in-depth insight into the **opportunity for digitalization to advance and improve government purchasing and commercial payments**. Drawing on a global perspective, this paper explores the different stages of digital maturity and discusses the power of digitalization to address the shared challenges faced both by the public sector (including government procurement and treasury managers) and by private sector companies participating in public tenders. It also highlights examples of successful digitalization and its positive impact on efficiency, accountability, transparency, participation of SMBs, and national economic growth. This paper outlines a range of different approaches to digitizing public purchasing and government commercial payments—from cards for travel and entertainment (T&E) and procurement (P-cards) to procurement e-marketplaces—that can empower governments to advance the digital procurement effort independent of their starting point and technological sophistication.

[1] Global average based on countries for which the World Bank Global Public Procurement Database captures indicator "Percentage(%) of Gross Domestic Product as Public Procurement Expenditure." Kearney calculation.



What are public procurement and government commercial payments?

Public procurement is the purchasing of goods and services by the government sector. It covers everything from pens and paper to major construction projects such as constructing schools, hospitals, and roads. It also involves services provided by third parties, such as social care and health services. Managed by various ministries, departments, municipalities, and public corporations, there are two main types of spend: Strategic and Tail.

Commercial payments are digital payments initiated by the public sector to pay private companies for goods and services either purchased as part of the public procurement process or paid as reimbursement for public officials' travel and entertainment costs. Commercial payments can be handled via a number of different instruments: this paper focuses on the opportunities provided by card payments.

Strategic spend

Large-scale projects for public infrastructure (e.g., transportation, utilities, education)

Outsourcing contracts (e.g., waste collection or elderly care)

Strategically sourced projects, with a strong emphasis on supplier vetting, contract negotiation, and payment terms

Public procurement

Tail spend

Goods and services necessary for ongoing operations (e.g., IT services, office furniture, stationary, market research)

Off-the-shelf products that need to be acquired in a timely manner, and where low price is critical

Travel and Entertainment (T&E) expenses (e.g., airfare, hotels, taxi, restaurants, client entertainment, fleet, and fuel)

2. The importance of public procurement

2.1. Public procurement represents a significant proportion of national GDP

Public procurement is a key component of national economies. It accounts for around 9.4 percent of GDP in the U.S., 12.6 percent in OECD[2] member countries, and 14 percent in the EU. In some countries, public procurement spend can be much higher. In Africa, government expenditure in 2020 as a share of GDP accounted for 26 percent in Kenya, 15.7 percent in the Kingdom of Eswatini, and 13 percent in Senegal, according to the World Bank Global Public Procurement Database.

While the money spent on public procurement is significant, so are the potential improvements in efficiency and savings that can be made. The OECD estimates that a 1 percent saving in public spending could represent USD48.6bn (EUR43bn) per year in OECD countries. According to the European Commission, an efficiency gain of 10 percent could yield significant savings of EUR200bn per year, without cutting the level of service offered to European citizens.

2.2. Governments are the dominant buyers in critical sectors

Public authorities are the principal buyers in many key sectors, including energy, transport, waste management, and social protection. In fact, in several sectors, governments purchase most of the services within that sector: Public sources funded on average around 71 percent of healthcare spending in OECD countries and accounted for 83 percent of total spending on educational institutions.

2.3. Shifting from administrative function to public policy tool

Public procurement is no longer a purely administrative function. Today, it is used by national governments as a policy instrument to achieve strategic goals in areas like innovation, sustainability, and support for SMBs.

The importance of public procurement[3]

12.6%
of GDP spent on public procurement in OECD countries

71%
of healthcare spending attributed to the public sector in OECD countries

83%
of spending on educational institutions tributed to the public sector in OECD countries

9.4%
of GDP spent on public procurement in the U.S.

14%
of GDP spent on public procurement in the E.U.

20-22%
of GDP spent on public procurement in India

[2] The Organization for Economic Co-operation and Development (OECD) is an international organization that works to build better policies for better lives. Together with governments, policymakers, and citizens, the OECD works on establishing evidence-based international standards and finding solutions to a range of social, economic, and environmental challenges. The OECD currently has 38 member countries. (About the OECD - OECD)

[3] OECD, 2021; OECD, 2021; OECD, 2022; Open Contracting Partnership, 2020; European Commission; Indian Ministry of Commerce & Industry, 2021;

Promoting SMB prosperity

As large buyers, national governments have the power to promote representation by SMBs in public tenders. Some explicitly favor SMBs by earmarking a minimum share of total procurement or specific contracts for them, or by requiring winning bidders to sub-contract to SMBs. Other governments apply measures to all tenders—such as simpler procedures, limited contract sizes, and bid eligibility requirements—that SMBs can realistically meet.

For example, the Municipality of Valladolid in **Spain** splits its larger contracts into smaller lots and uses pre-market consultations to better assess the market before publishing a tender. In **Singapore**, over 80 percent of government procurement opportunities are at quotation-level and do not require registration and qualification under the Government Registration Authority (GRA). This makes it easier for nascent SMBs to participate in government procurement. For the remaining higher value non-construction procurement opportunities that may require a GRA registration, the Singapore government has removed the requirements for audited financial statements when companies apply for GRA status with less than USD3.6mn (SGD5mn) turnover, thus making the process more accessible for SMBs.

Public contracts can offer some attractive benefits for SMBs. A study from **Brazil** shows that winning at least one contract in a given quarter boosts the growth of the successful firm by 2.2 percentage points over that quarter, with 93 percent of the firm's new hires coming from either unemployment or the informal sector. What's more, these positive effects last well beyond the end of the contracts. Another study conducted in the manufacturing sector in **South Korea** found that even four years after winning a public sector contract, beneficiary companies' size, output, and profitability grew more than their close contenders in the procurement auction. The effect is greater when firms are small, young, and financially constrained, according to the same study.

Legislation has also been introduced to ensure a stable competitive environment for SMBs by mandating timely payment for SMB contracts, including the UK Late Payment Act and the EU Directive on combating late payments in commercial transactions. In the case of tail spend contracts where payment can be made via card, SMBs can receive funds in just two to three days—much faster than manual invoice processing, which can take between 30—60 days or longer.

Fostering social responsibility

Social responsibility is a significant component of public services. By integrating social responsibility into their procurement criteria and practices, public officials can exert positive influence in areas such as environmental protection, diversity and equality, and employment for disadvantaged groups. Eighty-two percent of local councils in the **U.K.** believe that social value drives higher growth and 42 percent indicate it reduces inequality.

Social responsibility is becoming an integral part of public procurement. The city of **Vienna** has had an ecological and sustainable procurement program since 1998. Products including textiles, detergents, and disinfectants are purchased with a firm focus on conservation of resources, ecological production, energy efficiency, repairability, and avoidance of emissions and hazardous and toxic materials. Meanwhile, the constitution of **Kenya** allows public entities to define categories of preference in the allocation of contracts: this enables the government to protect or advance persons or groups that were previously disadvantaged by unfair competition or discrimination.

Spurring innovation

Public procurement offers a compelling way for authorities to encourage innovation. The **U.K.**'s Department for Business, Energy and Industrial Strategy uses public procurement to drive its innovation agenda in a variety of ways. Its Small Business Research Initiative has led to the commercialization of innovations such as rapid sanitization technology for ambulances to curtail the spread of COVID-19 and de-icing technology to keep the nation's trains moving in winter.

Using public procurement to foster innovation can also produce tangible economic benefits. OECD research on the link between **U.S.** federal procurement and company-sponsored research and development (R&D) reveals that firms that previously obtained a contract award are twice as likely to report R&D expenses compared to firms that were not awarded government contracts.

3. Challenges of public procurement

Public procurement comes with complex challenges—both for the public sector (including government procurement and treasury managers) and for private sector companies participating in public tenders:

3.1. Government-side challenges

TIME-CONSUMING MANUAL PROCESSES AND APPROVALS

Public procurement processes—purchase order creation, invoicing, or check payments—often involve manual steps, creating bureaucracy, inefficiencies, and delays. This is especially painful for smaller and urgent purchases: delays are not only inconvenient, but the administrative costs of processing and approval can offset the compliance and anti-fraud benefits. Manual processes can also reduce purchasing speed and create a strain on suppliers—especially SMBs—that might be relying on timely payment by governments to bridge short-term liquidity needs.

"The OECD estimates that a 1 percent saving in public spending could represent USD48.6bn (EUR43bn) per year in OECD countries."

LACK OF COMPETITION AMONG VENDORS

Complex and rigorous compliance requirements in public procurement can make it challenging to identify and qualify vendors. They can even result in companies being automatically disqualified before the application stage. Lack of competition and a diverse supplier base can be problematic. In almost all EU countries (except Liechtenstein, Sweden, and Iceland), more than 10 percent of the contracts awarded in 2020 went to single bidders, while 51 percent of the contracts in Poland had only one competitor running. When it comes to selecting vendors, speed and a minimal administrative burden are both important, but so is competition. As a result, a number of countries have introduced a requirement for three competitive bids for tail spend categories.

In **Ireland**, for example, goods and services with an estimated value of less than EUR5,000[4] can be purchased on the basis of verbal quotes from one or more competitive suppliers—with recommended best practice to seek a minimum of three quotes confirmed by email.

[4] Exclusive of VAT.

UNDERVALUED PROCUREMENT ROLES

Public procurement is heavily regulated, with a strong focus on the compliance, risk, and legal aspects of the tendering process. As a result, procurement managers play a significant role in the process and are often perceived as a policing function, rather than as a partner of the policymakers or government agencies. Another important role in public procurement is held by government treasurers, who keep track of accounts payable and receipts and often need to process invoices manually—a cumbersome task given the high volume of government purchases.

Automating daily routines and elevating the strategic importance of these two roles in the public administration might enable them to focus on more strategic tasks and make it easier for government agencies to attract fresh talent.

DECENTRALIZED, SILOED GOVERNMENT AGENCIES

The organization of government offices at the national, regional, and local level is usually complex, with varying degrees of autonomy and interoperability. In the world of procurement, higher spend translates into higher savings, as scale typically provides leverage to negotiate lower unit price. But these savings can only be achieved if data is shared transparently, and if common needs among different parts of the public sector are successfully identified and leveraged.

"Simplified and automated payments reduce major friction points, ensure that invoices are paid on time, help improve the cash flows of businesses."

POOR-QUALITY DATA IN PUBLIC CONTRACTS

Quality of procurement data—especially information about bidders, offered and final price, and non-standard contract conditions—is critical for designing procurement strategies and generating savings. Research reveals that the data quality in public contracts is often low in public procurement databases. In 2020, an average of 38 percent of key fields in government databases across Europe were empty. Only eight countries had an average missing data rate[5] of below 30 percent for key variables.

As a rule of thumb, a rate of less than 10 percent missing values is considered acceptable. Immediate access to data can play a significant role in enhancing policy compliance and providing the transparency needed to maintain public trust, making the implementation of enabling technology a priority for government.

VULNERABILITY TO CORRUPTION AND FRAUD

Public procurement can be vulnerable to corruption due to its scale and the financial interests at stake. The complexity of the procurement process and the sheer number of stakeholders involved are further aggravating factors. Corruption can come in multiple forms: biased specifications, confusing tender documentation, non-transparent or non-objective selection procedures, even deception and collusion.

Empirical analysis of the European Parliament suggests that the cost of corruption risk in **EU** public procurement is around EUR5bn per year. Recently, Transparency International **UK** identified 73 contracts worth more than GBP3.7bn—equivalent to 20 percent of COVID-19 contracts between February and November 2020—that raise one or more red flags for possible corruption. While there are several studies providing global estimates of the funds lost to corruption in public procurement, two things are clear: first, corruption and its consequences are inherently difficult to measure; and second, if even a low-single-digit percent of the global procurement budgets would get lost to corruption, it amounts to hundreds of billions of dollars each year—significant enough to pay attention to.

[5] Missing data rate refers to data entries for key contract variables that is unavailable or not captured (e.g., missing).

3.2. Vendor-side issues

SLOW, BUREAUCRATIC PROCUREMENT PROCESSES

Public procurement processes have a reputation for being sluggish and bureaucratic—largely driven by governments' need to demonstrate that they are using public funds wisely and treating vendors equally. As a result, the bidding phase of public tenders requires on average 10 bidding steps and lasts on average around 340 calendar days, with the contract award being the most consuming step, according to the 2020 World Bank Contracting with the Government database[6] of 202 countries globally.

"Procurement cards eliminate the need for petty cash, purchase orders, payment vouchers and checks. They also generate efficiency savings of 55-80% in transaction costs vs. traditional procure-to-pay processes."

LENGTHY STANDARD PAYMENT CYCLES

Payment cycles of well above 30 days are standard for most public procurement contracts, with delays attributed to factors such as matching goods and services with the purchase order, validation of quantities and quality of work, and sign-off on technical specifications.

Since 1 July 2022, to incentivise timely payment by Commonwealth agencies, the Government of **Australia** requires that all invoices are paid within maximum payment terms of 20 calendar days regardless of value – otherwise interest must be paid.

In **Estonia**, the city of Tallinn shortened its own payment cycle from 21—30 calendar days to just 10 calendar days to improve the cashflow of companies during the COVID pandemic.

[6] The Contracting with the Government indicators collect data through a hypothetical scenario. It is assumed that the procuring entity is the agency in charge of procuring construction works for the authority that owns most of the roads.

LATE PAYMENTS

Late payments adversely affect the cashflow and liquidity of firms and can ultimately force the smaller ones to increase their borrowing. The World Bank's Contracting with the Government database shows that on average more than 14 weeks (about 101 calendar days) are necessary for a vendor to receive payment once the invoice has been delivered to the relevant public sector authority.

In **Paraguay**, for example, around 80 percent of public contract invoices were paid late between 2011 and 2017, affecting 92 percent of providers. Many SMBs—particularly those for whom cashflow is a critical factor—benefit from being paid faster—for example, by card—with funds received in as few as two or three days.

POOR COMPLAINT MANAGEMENT AND RESOLUTION MECHANISMS

The existence of a fair and transparent complaints mechanism increases the likelihood that procurement will be carried out in a more impartial and transparent manner. For countries that have a complaint process for public tenders, timely resolution of complaints increases the trust of companies in the fairness and transparency of the system and boosts participation in public tendering.

But the time taken to investigate and respond to complaints differs greatly, ranging from four days in **Chile** to 90 days in **Sweden**, according to the World Bank Public Procurement Database. Worldwide, resolving complaints takes longer when courts are involved, and tends to be more efficient once a dedicated administrative authority is in charge.

PRICE-DRIVEN VENDOR SELECTION

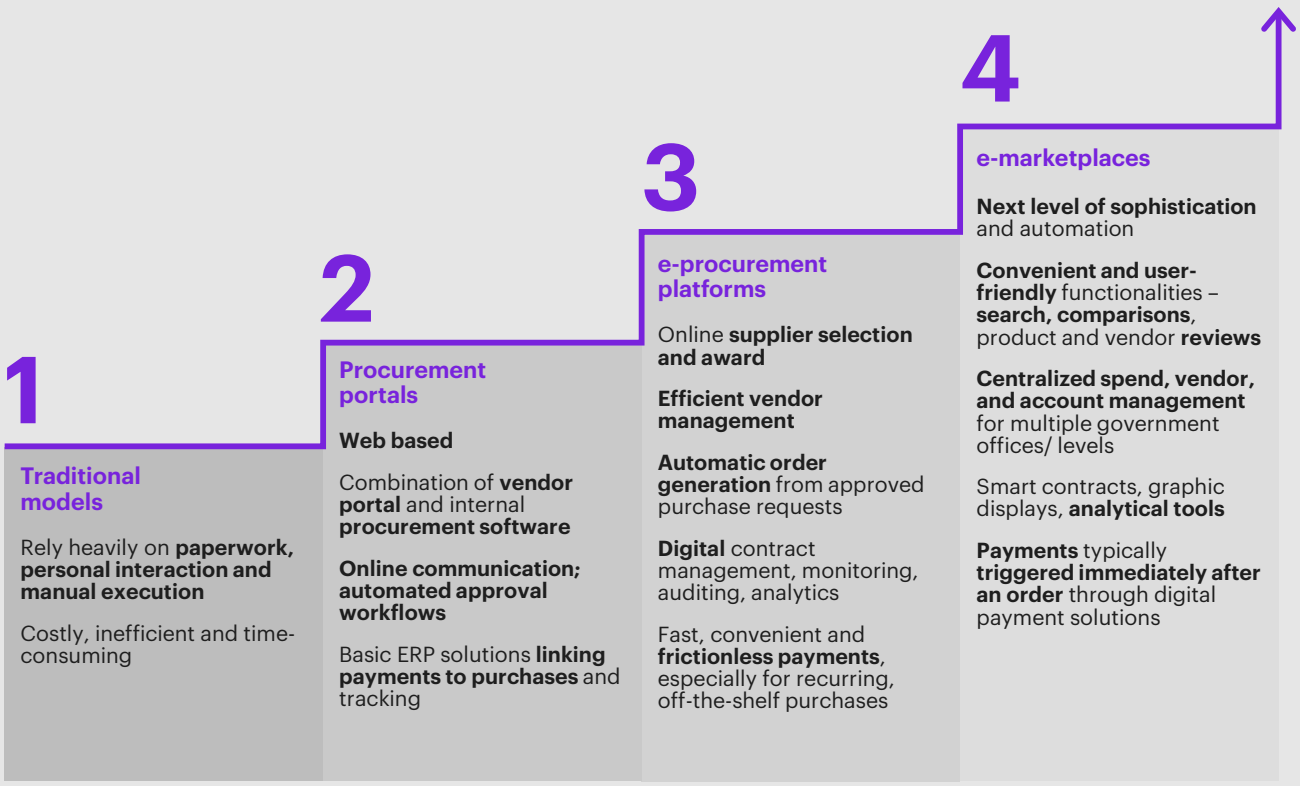
Price is often a key factor in public tenders. This may keep the selection process simpler and more consistent, but it excludes other relevant considerations. Unsurprisingly, a price-led approach can encourage deliberate underpricing, where companies are forced to price projects based on unrealistically low staff levels and tight timeframes and may then find themselves unable to deliver. Larger competitors have an inherent advantage here as economies of scale and "deeper pockets" enable them to offer discounts, while gaining market share and driving smaller companies away from public tenders.

4. Digitalization of public procurement and government commercial payments

The digital gap among countries is particularly noticeable when it comes to public purchasing and payments. Some countries deploy artificial intelligence and blockchain to underpin their procurement processes, while others do not even have a portal to notify bidders of open government contracts. The automation and digitalization of public procurement and government commercial payments is not necessarily more advanced in countries with more resources. Frequently, those countries that are committed to reducing corruption and bureaucracy are leading the effort to digitalize public procurement. Governments that adopt this stance stand to increase trust in the public sector—among citizens and businesses alike.

There are four models of digitalization of public procurement and government commercial payments. Different government agencies and different levels of government may use several of these models at the same time, creating examples of the best fit approach to be replicated as appropriate across the public sector—and to reap significant benefits from this harmonization.

Figure 1
Four models of public procurement and government commercial payments



1

Traditional models

Traditional models rely heavily on paperwork, personal interaction, and manual execution. This approach is not only costly, inefficient, and time-consuming, but also prone to disruption due to adverse impact on vendor cash flow. Specifications and contracts are drawn up mostly on paper, and data is kept in numerous Excel spreadsheets or Word documents, making evaluations complex and prone to error. Vendor or category analyses are cumbersome and time-consuming, hindering effective supplier management and definition of optimal sourcing strategies.

Under the traditional model, government commercial payments are starting to be digitalized. However, different public entities use different payment methods, including cash or checks, for tail spend purchases. Traditional procurement is likely still the dominant model around the world, as 75 percent of public e-procurement platforms do not allow the procuring entity to open bids/proposals electronically and 66 percent do not allow the submission of electronic bids in works contracts, according to the 2020 World Bank Contracting with the Government database[7] of 202 countries globally.

2

Procurement portals

Procurement portals are websites where government entities announce tenders and publish relevant documentation for candidates to download. They bring the purchasing process online and combine a vendor portal with internal procurement software. The vendor portal allows for quick and effective online communication with bidders and vendors, in many cases, not prohibiting email, telephone, or paper-based communication. The purchasing software enables the automation of approval workflows, along with analysis of past tenders and savings. Procurement portals are often created to cater to the specific needs of individual ministries or municipalities.

In this model, government commercial payments are digitalized. Basic enterprise resource planning (ERP) solutions for linking payments to purchases and tracking spend across departments are also starting to be used in the public sector. As a result, payments are no longer separated from the purchasing process and do not require manual invoicing and reconciliation, thus driving greater straight-through processing. Most aspects of commercial payments—from invoicing, payments, disputes, and refunds to accounting and compliance—can be managed in one place by more advanced administrations using this model.

[7] The Contracting with the Government indicators collect data through a hypothetical scenario. It is assumed that the procuring entity is the agency in charge of procuring construction works for the authority that owns most of the roads

3

e-procurement platforms

e-procurement platforms span the entire procure-to-pay process. They bring the vendor selection and award process online, including e-tendering, e-auctioning, and e-catalogs. e-catalogs are based on framework agreements signed with individual vendors, which reduces the friction in onboarding and allows procurement managers to directly compare specifications. Supplier management modules allow more efficient vendor management, while order management enables automatic generation of orders from approved purchase requests.

The process backend is also digitalized, including payments and contract management, as well as any subsequent monitoring, auditing, and analytics. OECD countries are increasingly integrating their e-procurement systems with other government IT systems, such as budgeting interfaces, business and tax registries, social security databases, public financial systems, and ERP.

The e-procurement model puts particular emphasis on fast, convenient, and frictionless payments—especially for recurring off-the-shelf product purchases. In the case of card payments, the card details can be lodged into the system to enable one-click authentication and payment. This functionality may be supported by a secure link sent to the public sector buyer with confirmation of order shipping and electronic invoice.

4

e-marketplaces

e-marketplaces are typically not discussed as a separate model, although they bring a new level of sophistication and automation to the e-procurement platform. They make government purchasing contactless, paperless, and cashless. As a result, they are one of the focus areas of this paper, described in more detail in Chapter 4.1.

e-marketplaces mirror the convenience and user-friendliness of the consumer online shopping experience. They bring together multiple suppliers, buyers, and a wide range of products. e-marketplaces include functionality that enables search, comparison among select criteria, and product or vendor reviews. They allow multiple government offices and levels to centralize spend, vendor, and account management while providing automated approval workflows, graphic displays, and analytical tools to enhance control and visibility on public spend. Smart contracts—blockchain based, self-enforcing, self-verifying, and tamper-proof contracts—increasingly find application in public procurement, generating additional benefits of decentralization, transparency, representation of agreements, self-execution, and verifiability. Payments are typically triggered immediately after an order through digital payment solutions.

4.1. Building future-proof government procurement – e-marketplaces

e-marketplaces represent the most advanced stage of e-procurement development—an "Amazon, Alibaba, or Rakuten for governments" solution that minimizes the bureaucracy involved in purchasing tail spend products and services. In recent years, e-marketplaces have grown in popularity, spurred by the benefits they offer: shorter transaction times and reduced transaction costs, significant savings, increased transparency and visibility, greater access to new suppliers and innovative products, and the ability to reduce corruption.

E-marketplaces allow governments to implement control checks at multiple stages in the procurement process, mitigating the risk of fund misuse. These digital platforms also enable governments to leverage technology to ensure greater compliance—right from vendor onboarding through to implementing spend limits and multi-factor approval.

When designing government e-marketplaces, there are two options depending on the specific needs of the participating public sector entities:

— **Horizontal e-marketplaces** enable governments to buy a wide range of products, rather than focusing on a specific category. They act as a centralized portal via which agencies can acquire recurring off-the-shelf products following the concept of "one-stop shop." Public sector buyers can make purchases directly using a P-card—either physical or virtual—lodged in the platform with the buyer's details.

— In a **vertical e-marketplace**, suppliers offer goods and services that are specific to a particular industry. An example is the healthcare sector, where more specific requirements mean that vendors must be vetted more rigorously to ensure quality. Governments might use a vertical e-marketplace when they want to acquire critical equipment fast, consolidate suppliers, or secure better contractual prices.

e-marketplaces can be built using one of two different approaches. Under the first, future-proof procurement platforms are built on a strong pre-existing digital foundation—such as Korea ON-line E-Procurement System (KONEPS). Under the second, procurement platforms are built from scratch—as with the Government e-Marketplace (GeM) in India. Despite their different stages of digitalization, both countries have achieved impressive gains following the e-marketplace launch.

Case study #1

Government e-marketplace (GeM)

Country

India

Initiative timeline

Launched: 2016

Status: Ongoing

Key information

$ of public procurement transactions processed (gross merchandise value) in 2021/2022: USD13.52bn (INR106,760 Crore)

# of public sector buyers utilizing the solution: 62,000 as of Sept. 2022

# of sellers and service providers utilizing the solution: 5.09mn as of Sept. 2022

Since 2017, India's public procurement budget has been estimated to represent 20—22 percent of its GDP, or, in absolute terms, USD500bn annually. Its vast scale has seen the sector fall victim to issues including complexity, low levels of transparency, and difficult access for SMBs.

To address these challenges, India launched the Government e-Marketplace. Initially conceived as a small marketplace, GeM covered only 150 categories approximately 6 months after its launch in 2016. As of September 2022, there are about 300 service categories and over 10,000 product categories available on GeM. To accelerate the transition to digital procurement, the Ministry of Finance introduced a legislative framework in 2017 that made the procurement of goods and services by ministries and departments of the central government mandatory for goods or services available on GeM. Over time, GeM has proven popular both among sellers and public officials: as of September 2022, more than 5.09mn vendors were registered on the marketplace. This represented over 10mn transactions valued at over USD37.6bn (INR300,000 Crore) from public procurement.

For orders worth up to roughly USD300 (INR25,000), public officials can search for items based on specifications and make a purchase by placing it in a cart—similar to the process used by consumers on popular e-commerce sites. To mitigate potential for corruption and abuse, the platform limits officials' ability to select a specific brand or vendor. They must purchase from available vendors if those meet the required quality, specification, and delivery period. The system presents the best quotation for the provided set of specifications and generates an automatic purchase order.

For orders above USD300 (INR25,000), buyers have to follow procedures such as price comparison, bidding, or reverse auction, where the criterion of the lowest price among available suppliers on GeM has to be followed to ensure price efficiency. The authorities can also follow a tender-based approach—generating an order on the fly, in a fully electronic process.

GeM has generated a variety of benefits. An independent assessment of GeM by the World Bank estimated average savings of 9.75 percent on the median price between February 2019 and January 2020, with maximum savings in the top five categories ranging from 23.5 to 60.5 percent. It has also eliminated numerous layers of manual, sequential verification and decision-making, and mandated standard payment terms of 10 calendar days of acceptance of materials. By charging interest penalty for public sector buyers who delay payments to sellers against GeM contracts, the state minimized payment delinquencies, reducing the pressure on the cash flow of contractors. In fact, when researching this paper, we found evidence that GeM was starting to mimic rating systems in consumer platforms, allowing sellers to rate buyers on the timeliness of their payments. The efficiency of GeM has been so great that some state-owned companies have opted to register even though they are legally not obliged to do so.

On the seller side, GeM has improved accessibility for smaller and remote businesses by eliminating the complexity and paperwork previously associated with onboarding. The system reduced registration time significantly from what previously could take weeks or even months. In 2021, the Ministry of Micro, Small and Medium Enterprises launched a new Udyam Registration Scheme taking consent from businesses for auto-registration on GeM, automatically creating seller profiles and notifications. Already prior to GeM's launch, the Public Procurement Policy mandated a procurement goal of minimum 25 percent of contracts awarded to micro and small enterprises. As of July 2022, more than 57 percent of all orders through the platform are going to micro companies and SMBs, confirming that the low representation among the sector was due to the public procurement ecosystem itself, rather than supply-side issues.

Challenges overcome

- **Bureaucracy**
- **Supplier concentration**
- Undervalued resources
- Siloes
- Data quality
- **Fraud/ Corruption**

Case study #2

Korea ON-line E-Procurement System (KONEPS)

Country

South Korea

Initiative timeline

Launched: 2002

Status: Ongoing

Key information

$ of public procurement transactions processed in 2020: USD81bn (KRW112tn)

# of agencies utilizing the solution: 60,964

# of suppliers offering goods and service: 471,100

The contracting volume of public procurement in South Korea contributes roughly USD105.2bn (KRW116.9tn) annually. Historically, the sector was hampered by fraud and transparency issues caused by excessive paperwork, labor-intensive tasks, and complicated business processes.

To overcome these challenges, the government began experimenting with e-procurement in the 1990s, introducing e-bidding and e-payment processes by 2000. By 2002, the government e-procurement system became known as the Korea ON-line E-Procurement System (KONEPS).

KONEPS now manages over two-thirds of South Korea's government procurement business for central and local government, as well as for public institutions, including bidding, contract signing, and payment. KONEPS has the highest connectivity with external databases, as it is interconnected to over 200 of them. Sixty-five of these are from public entities, while others include interfaces with databases from private sector business associations, credit rating companies, and the payment systems of commercial banks. It can automatically reflect public orders within its tax register and can carry out credit rating checks between public and private stakeholders prior to their interaction.

The e-marketplace generates multiple benefits, including faster processing times, cost efficiencies, and greater inclusion for SMBs. It is estimated to save the public around USD8bn (KRW8.9tn) annually. KONEPS has also tackled fraud and mismanagement of funds within the public sector, deploying multiple solutions designed to restrict opportunities for public officials and merchants to engage in such behavior. For example, all bids are opened online in real-time and the results are accessible to the public, leaving no room for arbitrary decisions. The system also features Bid Rigging Indicator Analysis—an automated system that detects suspicious bid strategies. In terms of payment to vendors, KONEPS is a world-class model, paying its suppliers within four hours of them submitting a request.

Thanks to these achievements, South Korea has consistently achieved a high ranking for public integrity—both within Asia and worldwide. In 2021, the nation ranked number one in Asia and 18th out of 114 assessed states in the world in the Index of Public Integrity published by European Research Center for Anti-corruption and State-Building.

The platform's advanced functionality has been awarded multiple awards and has paved the way for the implementation of similar initiatives worldwide, with nations such as Jordan, Costa Rica, and Vietnam creating their own versions of KONEPS.

Challenges overcome

- **Bureaucracy**
- Supplier concentration
- Undervalued resources
- **Siloes**
- **Data quality**
- **Fraud/ Corruption**

4.2. P-cards: Modernizing government commercial payments for government tail spend

P-cards, or purchasing cards, are charge cards that allow government officials to pay for purchased goods and services, especially recurring off-the-shelf items. They can be used by governments at any stage of digitalization as they can function standalone or be linked to e-procurement portals or government e-marketplaces. P-cards can have the traditional physical form or, more recently, also a virtual form that enables them to be embedded into digitalization projects.

P-cards reduce administrative and transaction costs, enable faster payments to vendors, and improve transparency and tracking of expenses. They eliminate the need for petty cash, purchase orders, payment vouchers, and checks—all of which can be costly and time-consuming when doing business with many vendors or suppliers. According to the National Association of Purchasing Card Professionals (NAPCP), organizations can generate efficiency savings of 55—80 percent of transaction costs when switching from traditional procurement processes to a P-card.

P-cards can be used to buy from any vendor or supplier that accepts card payments. Governments can negotiate favorable terms with card issuers, which may include a rebate based on transaction volume if the interchange structure in the region/country supports this. Public entities can place controls on P-cards, such as total cycle monetary limit per month, maximum limits per transaction, or applying spend controls which block transactions at merchants within defined categories.

Virtual cards provide even greater flexibility to add controls for single use, exact amount, specific date ranges of availability, and immediate access. Governments can monitor transaction activity for policy compliance, strategic sourcing decisions, and overall program performance. P-cards are also a low-cost way to make purchases outside the government's national borders.

Case study #3

Government Procurement Card (GPC)

Country

U.K.

Initiative timeline

Launched: 1997

Status: Ongoing

Key information

Recommended use for all small-value, high-frequency items

# of agencies utilizing the solution: all central government departments, their executive agencies, and non-departmental public bodies

The U.K.'s Government Procurement Card (GPC) was first introduced in 1997. Due to its convenience and potential to reduce costs in the public sector, the government procurement card has been the recommended method for all government orders under USD25,000 (GBP20,000) ever since. During the COVID pandemic, the U.K. government increased the monthly limit from USD128,900 (GBP100,000) to enable public officials to support cash flow for suppliers.

GPCs are provided through an agreement with six card issuers, which then bid separately for the business of each British government agency. Payments can be either physical, virtual, or lodge. Lodge cards are embedded into the system of a supplier—such as a travel management company—allowing bookings to be made without having to provide payment method details each time.

The switch to GPC has generated substantial benefits for the British government:

— Unprecedented transparency on how public funds are being spent. Reports on all transactions over USD600 (GBP500) are published every month on the U.K. government's website, within 15 days of the payment cycle's end.

— Significantly reduced administrative costs. With no paper-based invoices and all expenses processed automatically, savings were estimated at 35 percent of transaction costs, or USD6 (GBP5) per transaction, compared to traditional methods.

On the suppliers' side, GPC has accelerated payments. Automated expense reporting and management means that funds are guaranteed to reach suppliers within the next monthly cycle, with the British government strongly recommending that councils and agencies commit to an even faster payment. In times of economic crisis, P-cards can play a pivotal role by guaranteeing a reliable and timely delivery of funds—alleviating pressure on suppliers' cashflows.

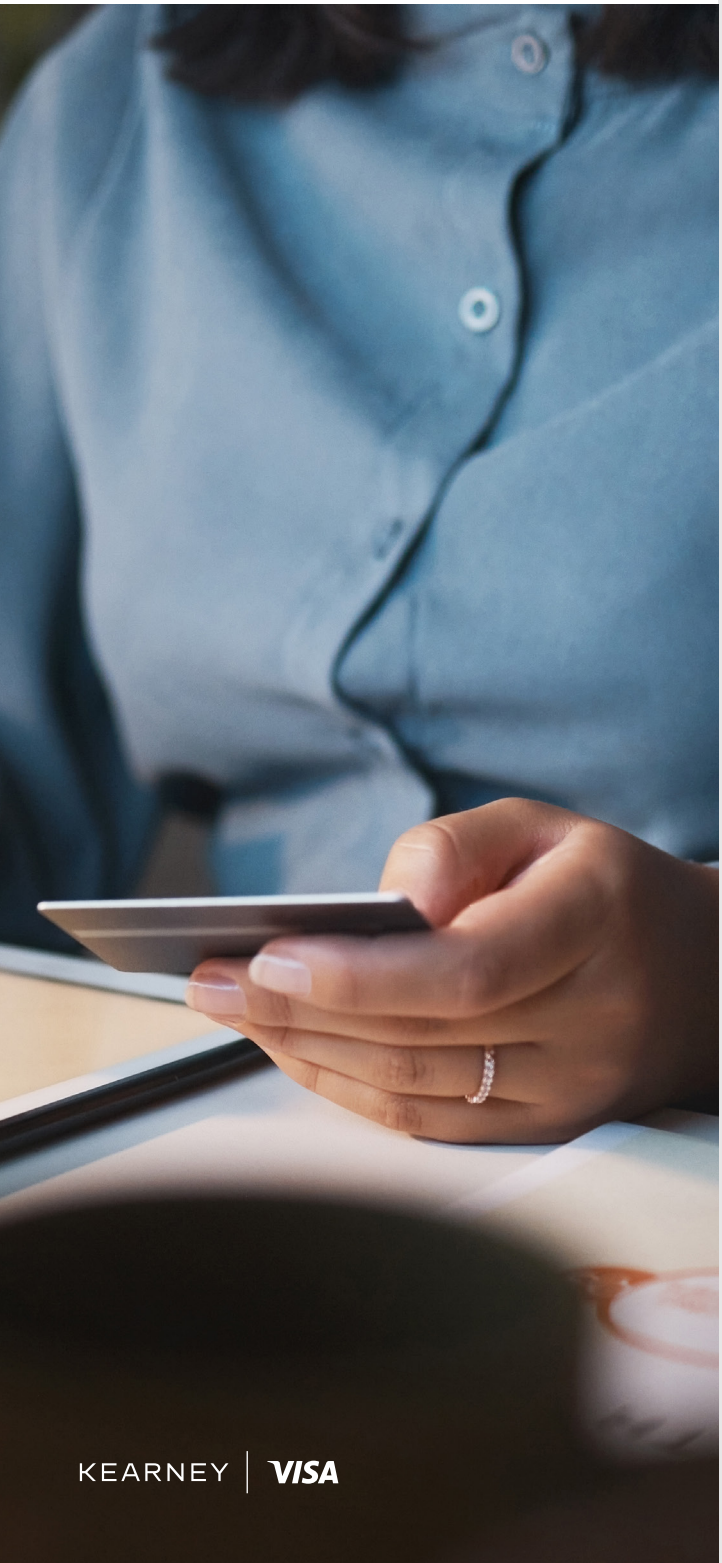
The transparency, reliability, and efficiency of P-cards is used by many countries, including the U.S., the U.K., and France. With the emergence of new data analysis tools like Visa Intellilink Compliance Management Service—which combines spend management with reporting and expense management in a single offering, allowing for visibility into spending and corporate and legal compliance—P-cards enable even greater convenience and control over how funds are allocated and spent, confirming their place as a simple and easy payment method to serve governments.

Challenges overcome

- **Bureaucracy**
- Supplier concentration
- **Undervalued resources**
- Siloes
- Data quality
- **Fraud/ Corruption**

4.3. Digital public procurement and government commercial payments can deliver significant advantages

Digitalizing public purchasing and government commercial payments can deliver a range of attractive benefits for public administration, including cost savings, simplified and faster payments, and enhanced transparency:



Significant savings

Reduce the time it takes to complete the tender processing and purchase-to-pay cycles by up to 70%, with costs savings of up to 12%

Greater transparency and lower corruption

Make tendering less bureaucratic, reduce the potential for bribes, prevent unwarranted direct communication and easily track documents

New business opportunities

Boost SMB participation in the public procurement process, increase competition in the market

Simplified and automated payments

Reduce major friction points, ensure that invoices are paid on time, helping improve the cash flows of businesses

Significant savings

Digital procurement platforms consolidate the purchasing volume and power of multiple government agencies, enabling them to achieve economies of scale and negotiate better prices and terms with vendors. Vendors can also benefit from cost savings through digital procurement. For example, e-bidding enables them to prepare and submit bids online, cutting the transaction costs typically associated with bid preparation. Vendors can also benefit from a potential reduction in transaction charges thanks to electronic receipt of orders, payments, and invoice submissions.

While digital tools have long been used for operational procurement, their adoption has accelerated. For example, robotic process automation in procurement can reduce data processing time by up to 70 percent, free up to 50 percent of the current procurement workforce, and help reduce material costs by up to an average of 20 percent across categories by 2025, according to Kearney research and project experience. These potential gains indicate that procurement's strategic value depends on digital tools, and levels of digitalization.

Greater transparency and lower fraud and corruption

The digitalization of procurement is a key tool in fighting corruption—enhancing transparency and boosting integrity. Public tenders in the EU are open to all companies in the member countries, leaving less room for individual national arrangements and protectionism. Digitalization can make tendering less bureaucratic, reducing the potential for bribes. It can also prevent direct communication between the contracting authority and potential tenderers where this is not warranted. Finally, electronic documentation makes it easier to track and request documents at a later stage: illegal purchases take time and effort to "hide."

The true extent of the funds lost to fraud is difficult to measure but indicative estimates exist. The introduction of the ProZorro e-procurement platform in **Ukraine** is estimated to have saved the country USD2.2bn (UAH60bn) each year—half of which has been attributed to reducing corruption.

New business opportunities

e-procurement can boost SMBs' participation in the public procurement process, helping them grow and reinforce their credentials. When the **U.K.** introduced a digital marketplace for information and communication technology orders in 2014, it attracted almost 5,100 vendors by late 2018, with 92 percent being SMBs. In **Indonesia**, the Toko Daring government e-purchasing platform enables public institutions to buy goods and services of up to USD3,500 (IDR50mn) online and without negotiated procedure. Between the launch in 2020 and May 2022, this resulted in around 50,000 transactions valued at USD5mn (IDR74bn), benefiting almost 300,000 SMBs.

Simplified and automated payments

Simplified payment methods reduce major friction points between the requesting party and the procurement department. The procurement manager is notified and can approve or decline requests in a single click, rather than going through an intermediary in the finance department for orders within the approved budget ranges. Automated payments ensure that invoices are paid on time, preventing liquidity issues for suppliers and helping improve the cash flows of businesses that provide a sizable amount of goods and services to government agencies. For example, the government of **New South Wales** has committed that registered small businesses that supply to in-scope government departments will be paid within five business days of central payment departments receiving a correctly rendered invoice for goods or services up to the value of USD1mn. Payments up to USD7,500 (AUD10,000) can be paid instantly by P-Card.

Many governments are initially hesitant to adopt or expand the use of cards for fear of fraud or misuse by employees. However, as experienced in the **U.S.** government where transaction data is available for audit and agencies are subject to both internal and external audits, credit card fraud, particularly by employees, is relatively low. Publicity around the few instances that were found further deters behavior outside of policy as employees understand the data is available and subject to review. According to industry experts, in the few instances where fraud does occur, often it is the exposure of the card data that leads to further investigation finding payroll fraud, theft of property, or other fraudulent activity that may have otherwise gone undetected.

5. Optimizing the management of government commercial payments for travel and entertainment

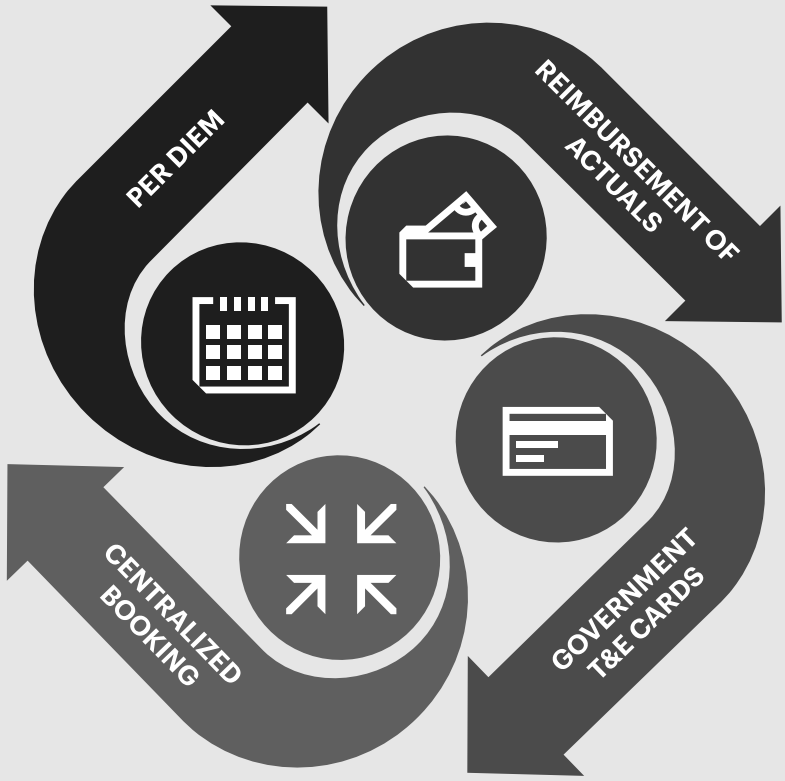
Business travel and entertainment expenses incurred by government employees represent an additional important area of public spending. Governments use different methods for managing and paying for travel and entertainment of their employees—some of which overlap or are used in combination with one another (see Figure 2).

The "*per diem*" model—Latin for "per day"—is a daily allowance designed to compensate employees for extra expenses incurred when on work-related assignments away from their normal place of work. It is used mainly for meals, but sometimes also for accommodation or incidental expenses incurred during the travel. The *per diem* model often needs to be supplemented by the other three methods to cover larger expenses (e.g., airplane tickets) or other one-off incidentals (e.g., travel visa). If *per diem* payments are not high enough to cover the actual costs incurred by government employees, this leaves them out of pocket.

If they are too high, this creates additional costs for the public sector and could be perceived by employees as an indirect, informal bonus or incentivize them to spend less time in the office.

Reimbursement of actual costs paid by government officials with their own funds (e.g., personal cash, checks, or cards) is a common model in the public sector. It can be used either on its own or in combination with *per diem* and has one clear advantage: actual costs are expensed, leaving no uncertainty for government employees. However, reimbursement can take weeks—sometimes creating strain on employees' personal finances, as reported by three in 10 who have had personal cashflow issues due to their employer's slow expense reimbursement. Estimates indicate that 36 percent of employees in the U.K. use their own money to pay for work-related expenses at least once per month.

Figure 2
T&E expense models



T&E cards are widely used by governments in North America, the U.K., and Australia, and are specially designed for government officials to pay travel expenses while on work-related trips. The responsibility for settling the credit card bill can fall either to the employee or the employer. Some corporate cards are billed to the employee and the employee is responsible for paying the issuer directly for any charges. In this case, the employee has to submit an expense report to get reimbursed by the employer. For cards billed to the employer, the government agency pays the bill for any approved charges directly. However, the employee may be financially responsible for any unauthorized or personal expenses that are uncovered during the internal expense process.

Centralized booking is provided by corporate travel management companies that are either directly embedded in governmental applications or accessible through the intranet. Employees can book their own travel through the system, based on a predefined set of rules and central expense management policy. This approach can generate significant time savings when combined with automated expense management tools that control spending on travel-related costs.

Several payment methods can be used. One, booking companies can invoice directly to government agencies; two, government officials can use the T&E card stored in the personal profile of the traveler; or three, booking companies can charge centralized government lodge cards stored in their system. Virtual payment methods—virtual and lodge cards—increase security and reduce fraud, provide easy controls over vendor payments, and improve employee spend visibility.

Because centralized booking and expense management systems are interoperable and digitalized, these systems act as a centralized control room for all expenses. Corporate travel management companies give governments the power to set agency-wide rules and track activity and consumption in real time. In addition, access to designated venues and pre-negotiated rates enables governments to benefit from economies of scale. For users, centralized booking offers a simplified, cost-efficient process by reducing the time spent on booking and reporting accommodation and travel expenses.

5.1. T&E cards: Modernizing government commercial payments for travel and entertainment expenses

The use of T&E cards eliminates the need for cash advances and out-of-pocket expenses and reporting. From the government agencies' perspective, T&E cards provide greater control of business spending by setting payment rules and clear limits on allowances. They also improve government finances. For example, GSA SmartPay Travel Charge Card enables U.S. government departments to save money on travel processing costs and generates revenue through volume of refunds.

For governmental officials, T&E cards have many benefits. They remove the need to pay out-of-pocket expenses with their own funds and improve the overall travel experience. Clear guidelines on how and when to use the card reduce the need to use multiple payment instruments and take away the fear of overspending. T&E cards also eliminate the need for cash advances—and the resulting need to staff and secure cash distribution offices.

In some countries, T&E cards are exclusively used by senior government officials, leaving lower-ranking employees needing to pay for their travel from their own pocket and wait for reimbursement. This puts extra pressure on more junior staff, creating cashflow problems and financial strain. Wider use of T&E cards across all levels of government could help mitigate these problems. Lodge cards can be used to centrally pay for flights, rail, and fees. Using them in combination with virtual cards for hotel costs and virtual cards in a mobile wallet for on-the-go costs can eliminate the need for cash advances or out-of-pocket reimbursement. It can also help limit the number of T&E cards in circulation only to selected employees travelling on government business.

The cards can also be paired with expense management systems, with financial data from the issuer feeding directly into the expense tools. This can reduce the burden on employees and approvers and reduce the risks of personal financial problems if fraudulent payments go through. As T&E cards are usually handled by the finance department of government agencies rather than procurement (as in the case of tail spend management), they require their own well-defined rules and processes.

Case study #4

SmartPay

Country

U.S.

Initiative timeline

Launched: 1998

Status: Ongoing

Key information

$ of travel expenses processed in 2021: USD5.5bn

# of agencies utilizing the solution: 560 federal agencies, through 4.3mn individual accounts

In a bid to tackle inefficiencies in public sector T&E expenses, the U.S. government introduced SmartPay in 1998. It replaced the previous paper-based payment process with a government charge card—the GSA SmartPay Travel Charge Card—which can be used for travel-related expenses such as lodging, meals, and tickets for transportation. When the card is used, the transaction is processed by the cardholder's bank, funds are transferred to the merchant, and the expense is billed to the account holder.

This approach comes with a range of benefits for the government and its employees:

— Significant rebates based on sales volume and reduction in transaction costs. Officials can access centralized, discounted rates and benefit from streamlined transaction processing, while favorable exchange rates reduce the cost of foreign travel.

— A reduction in the risk of misuse. All expenses are collected on a single statement and reviewed monthly, giving authorities improved visibility of potential fraud compared to paper-based methods.

Challenges overcome

- **Bureaucracy**
- Supplier concentration
- Undervalued resources
- Siloes
- **Data quality**
- **Fraud/ Corruption**

6. COVID-19 acted as a catalyst for digitalization

The pandemic highlighted, and in some ways increased, the importance of public procurement as people were directly impacted by its effectiveness. It also elevated the visibility of the public sector's role as a market-maker for critical items like masks or vaccines. At the same time, the disruption caused by the switch to remote working exposed existing weak points in public procurement and uncovered new ones. Challenges in supply chains, market structures, and prices required professional expertise and often rapid reactions—significantly accelerating the need to move the public procurement model toward full digitalization.

The COVID-19 emergency highlighted the importance of modernizing public procurement systems. The lack of a digital procurement system is a bottleneck experienced by countries, according to the World Bank. Countries that had already adopted an e-procurement system were able to largely sustain their procurement operations and adjust them more rapidly to the changing needs and requirements in the pandemic.

COVID also demonstrated the power of digital solutions to increase both speed and transparency for governments. Reforms to Greece's national legislation enabled the city of Kavala to award contracts to suppliers through direct appointments and fast-track procedures—particularly for tenders relating to hygiene supplies and the disinfecting of public spaces. Under the new legislation, the threshold for direct appointments rose from USD21,000 to USD31,500 (EUR20,000 to EUR30,000). While these reforms were introduced with the aim to combat the pandemic more effectively, they are still in use today and have been partly included in Greece's new national public procurement law.

A growing number of governments recognize the power of digital public procurement and government commercial payments. COVID-19 created unparalleled momentum around digitalization, and governments can capitalize on this momentum to take concerted action to maintain that positive impetus going forward.

7. Takeaways

The drive to digitalize public procurement has become a strategic priority for many governments and international organizations as they recognize its power to improve value for money, reduce pressure on public budgets, and boost transparency:

01

Build a more resilient business environment

Public procurement is often burdened by bureaucracy and inefficiencies. Greater digitalization can reduce these issues, enabling governments to open up public procurement to a larger group of companies and stimulate the wider economy in the process. And for SMBs, winning a share of government purchasing supports cash flow and liquidity, as well as reducing the need for the government to step in to correct market inefficiencies through grants or aid. A strong and resilient SMB sector contributes to a strong and resilient economy.

02

Maximize governments' power to implement positive societal change

Digital procurement can have long-lasting positive effects on society, from mitigating corruption and boosting innovation to promoting greater accessibility and inclusion. It is becoming a policy tool in the hands of many governments—embedding social responsibility in the routines of the largest buyer in each country, and facilitating efforts to build a more inclusive, socially responsible, equitable, and prosperous society in the process.

03

Harness technology in public procurement: a journey, not a destination

Technology has entered the world of public procurement and has broadened the opportunities for the future landscape of public procurement. e-marketplaces with automated workflows and immediate digital payments provide a sneak preview into the improvement opportunities for public procurement. The public sector now has a critical opportunity to embrace technology to create enduring value—increasing the flexibility and speed of its processes, providing convenience to employees and suppliers while retaining control, enhancing the transparency of public spend, and improving risk mitigation. But this is just the start of public procurement's technology journey—and governments should keep a close eye on existing and emerging technological innovations in the private sector.

04

Improve productivity and job satisfaction for government officials

The growing digitalization of procurement is removing repetitive administrative tasks from the daily routine of public procurement managers—freeing them up to focus on higher-impact tasks like strategic category planning and supplier development. This shift not only enhances job satisfaction for procurement managers themselves, but it also empowers them to deliver a better service for the public and attract fresh, capable, and motivated talent to these roles.

For governments embarking on a digital procurement transformation, two points are important to keep in mind. Governments have the opportunity to digitalize public procurement and government commercial payments—regardless of their current level of technology adoption, connectivity, or digitalization. Examples confirm that success is not dependent on the starting point. However, the digital transformation journey must be underpinned by strong visible leadership from the top, openness to innovation and changing established practices, and political will to make required changes.

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