E-invoicing in EU public procurement as a tool for cross border trade barriers elimination

Oleksandr TSARUK*

Abstract

Public Procurement of goods and services always was one of the principal element of e-procurements because it effects economic growth, describes governments' public services and national competitiveness, level of human capital growth in a long run. Furthermore, researching EU policy on e-procurements demands to observe legislature essence and technological models of e-procurement solutions because none of which has not been developed as the universal one yet. Basic European agreements on public procurements and trade, combining with the currently used public procurement models, force to develop a commonly used framework for all EU countries. Monitoring of EU e-procurement system as model for implementation at Eastern partnerships countries was also suggested.

Keywords: public procurement, e-procurements, e-invoicing, European Union, Eastern Partnerships

1. Introduction

Electronic invoicing in our days plays an important in most business trends and governmental policy innovations. Under this consideration, economic agents have to understand that selection between electronic invoicing solutions or paper-based ones does not exists anymore because using electronic invoicing is the main global trend in development of public procurements.

In the public sector, e-procurement is a joint term describing a range of different technologies that can be used to automate the internal and external processes related to the sourcing and ordering process of goods and services. The EU e-procurement system is in the evolutionary stage now but despite of different variations in the implantation of e-procurement across the EU states, the trend towards its acceptance find support between national governments as developing strategies to expedite the implementation of e-procurement projects and also to find support in information and communications technology (ICT) sector as one of the beneficiaries. This variety of government implementations usually reflects the

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* Author: Oleksandr Tsaruk, 20V Ivana Dyachenka apt 5, Kyiv, 02088, Ukraine
E-mail: tsaruk@i.ua

diversity of commercially developed technologies and business models.

According to our observations most of the e-procurement research papers are focused on the historical aspects of the issue and the practical methods of its implementation. The basic fields of interest in these studies are related to IT system implementation, its efficiency, measuring possible changes in supply chain organization, outsourcing of services etc. Finding optimal way for utilization of information in technological aspects had become one of the main streams in government e-procurement development. A lot of researchers considered this approach regarding ICT/e-procurement analysis.

2.

We consider historical aspects for better understanding of the essence of governmental procurements and modern trends in e-procurements using e-invoicing. As we know governmental procurement has a very long history. Researches claim that earliest procurement was written on a red clay tablet found in Syria dates from between 2400 and 2800 B.C. The order was for "50 jars of fragrant smooth oil for 600 small weights in grain" (Coe, 1989, p. 87). Next evidence of procurement related to development of the "silk-way" between China and Greek colonies in 800 B.C. Roman Empire also had trade relations with private suppliers, and European sovereigns also had such undertakings.

In 20th century vast public procurements were found at level of development, which have never being seen before, and one of the main reason was a free trade regime between developed countries. Among the agreement which boosted its development was the General Agreement for Tax and Trade (GATT, 1979) which aimed to the reduction and elimination of discriminatory methods and encouraging competitiveness with the purpose to promote free trade, through scheduling and announcing of public procurement. Its rules and procedures guaranteed the competitiveness and eliminate preconception.

Next impetus on deregulating procurements was given by the Commission of UN for International Commercial Law (UNCITRAL) in 1994 when General Assembly of the UN adopted the draft legislature on procurement of goods and services. UNCITRAL suggested the rules for procurement for states to adopt but they were not mandatory. At the same UN provided assistance to all states to adopt it by the national legislatures. And the aim was similar to GATT to development competitiveness, fair business and accountability in the procurement procedure.

The European Commission adopted the Communication "Reaping the benefits of e-Invoicing for Europe" in 2010. It identified a set of actions to support the uptake of e-invoicing by ensuring legal certainty and promoting the development of interoperable e-invoicing solutions based on a common standard, paying particular attention to the needs of small and medium-sized enterprises (SMEs). The Communication also invites EU countries to take action and promote e-invoicing at the national level. These actions aim to make e-invoicing the predominant method of invoicing by 2020.

Directive 2010/45/EU on the common system of value added tax regarding rules on invoicing to set out new VAT rules regarding e-invoicing and removed the obstacles to the uptake of e-invoicing by creating equal treatment between paper and e-invoices, while also ensuring that no additional requirements are imposed on paper invoices.

We consider the development towards EU e-invoicing system as major European Union policy goal in ICT and interrelated industries according to the following facts. Firstly, we would underline the highest level of interest from principal authorities. Jean-Claude Juncker, the President of the new European Commission, recognized building a joined digital single market as one of his ten priorities. The Europital Agenda of European Commission "Directive 2014/55/EU on e-invoicing in puean Commission's "Digital Agenda for Europe", enforced in 2010 and updated in 2012, is one of flagships programmes under Europe 2020 plan, the EU's strategy "to deliver smart sustainable and inclusive growth". The full implementation of the "Digital Agenda" also aims at "reforming the framework conditions for the internet economy" (Juncker, 2015). The EU policy also identifies main actions to "establish a single area for online payments" (Juncker, 2015). The Digital Agenda identifies that there is a tough connection between the Single Euro Payments Area (SEPA) programme and e-invoicing one: SEPA will also provide a launch platform for value added services linked to payments, such as the development of a European e-invoicing framework.

The next step forward a Digblic procurement" was adopted by the European Parliament and the Council of the EU representing EU governments in April 2014. It defined deadline for implementing e-invoicing system by 2018 by all public administrations in the EU. They need to adopt a new e-invoicing standard, which now is under development, and accept e-invoices only in this commonly considered standard.

Regarding to Directive 2014/55/EU this e-invoicing standard now is the subject of a standardization request by the European Commission to the European Committee for Standardization (CEN), which represents the national standards bodies of the EU Member States and cooperates with international organisations such as the International Organization for Standardization (ISO). The Commission's demands to develop e-invoice standard are based on a semantic data model, which have to contain the necessary elements. It also requests syntax development for the new e-standard to be reproduced in a numerous commonly used syntaxes at the technical level. The working group on this standard named as CEN PC 434 started its work and was expected to announce the results by the end of 2015. The Commission also supports these developments under its emerging Connecting Europe Facility programme.

Recently the US Government was also tracking e-invoicing trend. The Federal Government has a small number of well-established electronic invoicing solutions, as was identified by the Office of Management and Budget. For many

agencies, these systems have eliminated inefficient paper-handling processes and reduced late payment penalties. Obtaining the full value of electronic invoicing requires a coordinated approach that will reduce burden and duplication to both agencies and businesses. On July 17, 2015 the Executive office of US President issued the memorandum #M-15-19 for the Federal-wide approach to eliminate the duplication across local governments and reduce the burden on vendors on e-invoicing issue. According to this memorandum all-electronic invoicing system for public procurement must be developed by 2018.

E-invoicing was developed as technology in the nineties of XX century. Before the millennium, very few countries already had legislation permitting E-invoicing. Now it is legally regulated and on the agenda almost everywhere around the world. The maturity of the market varies between continents and the countries on each continent. But after the first analysis of e-invoicing latest developments we find that some Latin American and Scandinavian countries are the leaders. (See Figure 1).

Although it is certainly true that electronic invoicing has significant making disruption. In most countries in coming years, enterprises will continue to receive invoices and bills both in electronic and paper-based forms. Managing the processing of these invoices is therefore of high importance to ensure that all ends of every deal are completed transparently, accurately, and with the incurrence of as little extra costs as possible.

**Figure 1. International E-Billing/E-Invoicing in 2015**
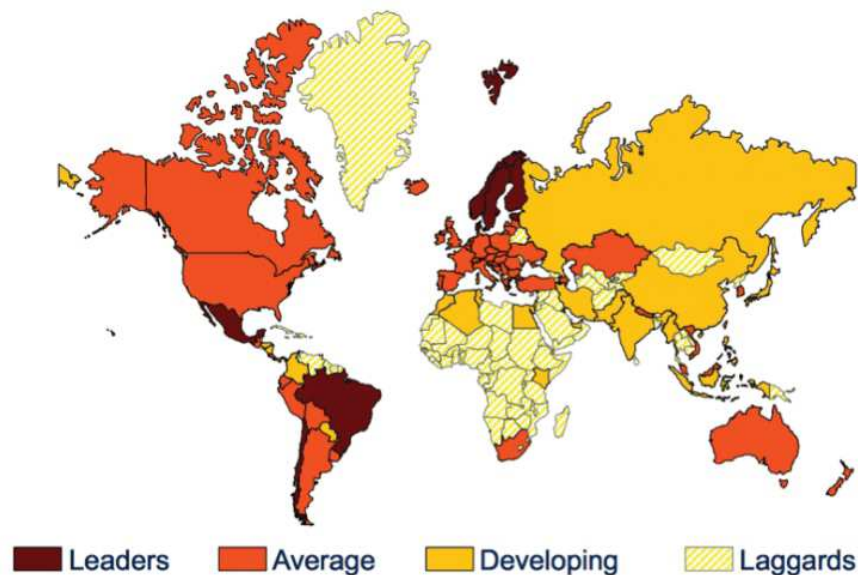
Source: Koch, B. (2015)

E-invoicing is still remains to be an element of the future, especially for the US, the UK, and Europe. Although there is a higher adoption rate in these regions than there is in some parts of the developing world, governments have to truly get on board with e-invoicing and creating standards yet, as they should. By contrast, governments in some of the world's fastest growing economies – Mexico, New Zealand, Norway, Brazil are proactively encouraging the change, with over 50% of all B2B invoices having become electronic.

Recently the Billentis researching team estimated the expected trends for European e-invoicing providers and networks. There are about 25 operators of e-invoicing services in Europe, which are expected to process more than 20 million e-invoices/e-bills per operator in 2015 (Koch, 2015). For the vast majority of the remaining six hundreds operators, the annual e-invoicing volume still lies below 5 million. The volume dropped dramatically in 2014 and will probably decline again by 13-17% per annum in the coming years.

Figure 2. European Trends 2015
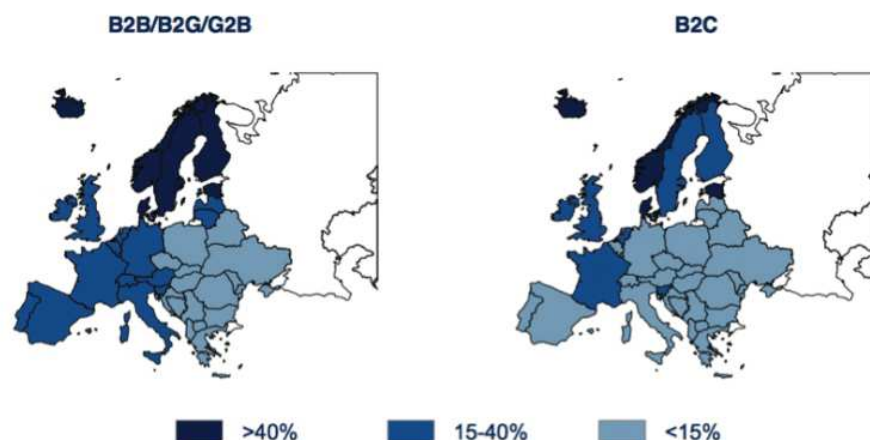
Source: Koch, B. (2015)

Many countries are declaring e-invoicing as compulsory goal for development. But there are diverse meanings of the terms "e-invoicing" and there is a big difference between objectives and certainty. Such goal is very complicated in government sector surroundings. Objectives within of government administration are usually very broad. In addition, there are many federal states with autonomy of local councils.

There are two main stages of implementing the e-invoicing. The first is when suppliers are free to exchange invoices with the public sector in paper or electronic form. The second is when the suppliers are mandated to send the B2G invoices

electronically. Today Denmark is a pioneer in this field because the e-invoicing was mandatory since 2005. Austria, Finland, Italy, Norway, Slovenia and Spain also considered being early adopters, as does the USA.

A few states in Latin America, Asia and Europe mandate businesses to send e-invoice to the tax authorities mainly for reasons of financial oversights. This is mostly appears as reporting invoice related data but sometimes could be combined with actual e-invoicing between suppliers and consumers.

The Directive 2014/24/EU and 2014/55/EU defined 2018 year for Public Administrations (PAs) in EU member states as a deadline to develop a common e-invoicing standard and to progress the ability to process automated processing of electronic invoices. In addition, they have to transform existing procurement processes towards electronic procedures. Because of the obligation, many PAs are now also evaluating strategic options that go beyond the goals of the EU Directives. They are developing policies with the aim to achieve broad-scale market adoption indexes levels for using electronic processes. These directives will force to increase the proportion of electronic invoices and open the way for cross-border interoperability inside EU and also for neighbourhood policy countries.

Researches estimate that the new directive will affect PAs in EU (Koch, 2015). They have to develop their systems and processes until 2018 at latest with the aim to receive and process invoices electronically.

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