

# Analysis of Centralized Public Procurement in the European Union, the United States of America and Romania

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## **Abstract**

*Within this article we made a study on centralized public procurement in countries in the European Union, the USA and Romania. We analyse the disadvantages and advantages of the centralized procurement of products or services and the situations in which the establishment of central procurement agencies and the achievement of centralized procurement are justified.*

*It also outlines the main features and achievements of the most important central procurement agencies in the European Union and of the central procurement agency in the United States of America. The article also contains the stage of implementation of centralized public procurement in Romania.*

**Keywords:** *centralized public procurement, decentralized public procurement, central procurement agency, savings, EU, USA, Romania*

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## **1. General Framework**

Given the considerable volume of resources involved, firms and governments always seek to optimize procurement so as to deliver value for money to business units and taxpayers. In pursuing such a goal often the first important choice is to choose between centralized and decentralized purchasing (Dimitri, Piga and Spagnolo, 2006).

The authors distinguished three types of procurement set-ups:

- full decentralization: public procurement is decentralized if local administrations or divisions are delegated the power to determine when, what and how to purchase;
- full centralization: public procurement is fully centralized if all the important decisions (when, what and how) to buy products / services are in the hands of a central public unit dedicated to acquire products / services to meet the needs of the company or other public offices. In addition, the contract requirements for the products / services purchased are similar throughout local public authorities;
- hybrid models: in between full delegation and full centralization there is a vast range of intermediate public procurement models. On these

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models, local and central authorities share the power on buying decisions (Dimitri, Piga and Spagnolo, 2006).

The best way to determine whether an organization's public procurement should be centralized or decentralized is to analyze its objectives in the context of the fact that every government has various needs. For example, in the US, at the federal level, there was a tendency to decentralize small projects and centralize large projects (Thai, et al. 2009).

The first condition for a successful and effective unified public procurement is that the needs of the beneficiary for a specific subject of public procurement matches in terms of technical characteristics, quality, properties, in addition to quantity. A key goal of a unified public procurement will not be met if one or more beneficiaries would not get what they really need, (Lukic, Belic, and Vlaovic, 2015).

Centralization takes place when all of the powers, duties, authority and rights relating to public procurement are vested in a central public procurement officer and decentralization takes place when procurement personnel from other areas can negotiate directly with suppliers or choose unilaterally on supply sources (Thai et al., 2009).

In the past, centralized public procurement in the countries of the European Union has been organized guided by the principle of monopoly model. In this model, the central office of the Public Procurement buys goods or services, followed by state and local administration was obliged to buy necessary goods or services from the central office, which is frequently a warehouse function. This model is now to a large extent abandoned in favor of a decentralized model, more flexible. A different approach to centralized procurement is to use dedicated agencies that are created for the procurement of specialized services or goods and are able to offer better quality, prices, and delivery times (Lukic, Belic and Vlaovic, 2015).

By centralizing public procurement, the following advantages are gained:

- increased procurement efficiency through savings and high cost control. By aggregating demand, economies of scale can be achieved because by producing a large volume of identical or similar products, the specialization of production and of human resources arises;
- favouring the standardization of purchased products (fax machines, computers, laptops, printers, projectors, communications servers, stationery, fuel, cars, buses, ambulances). Public procurement is greatly simplified by limiting the variety of models, which makes the procurement process risks to be more diminished;
- increasing the negotiating power of contracting authorities by aggregating demand;
- simplifying the monitoring of provider's / contractor's performance;
- favouring e-procurement (Dimitri, Piga and Spagnolo, 2006).

According to Thai et al. (2009), when functioning correctly, procurement centralization generates the following benefits:

- achieving volume discounts because of the joined procurements;
- saving managers' time. Therefore, they can concentrate on more important responsibilities;
- resulting in more efficient inventory control as a result of central agency knowledge of material usage, stock levels, prices and lead times;
- minimizing duplication of public procurements at a local / regional level by central coordination;
- maximizing efficiency and preventing haphazard public procurement practices because procurement officers with professional expertise and training are much more efficient than user managers who are less qualified and have a secondary responsibility for procurement;
- getting better services and prices offered by contractors because their shipping and invoicing costs are reduced;
- lowering transaction costs because of consolidation of orders;
- facilitating the control of public procurement (Thai et al. 2009).

Also, Thai et al. (2009) identified the following disadvantages of procurement centralization:

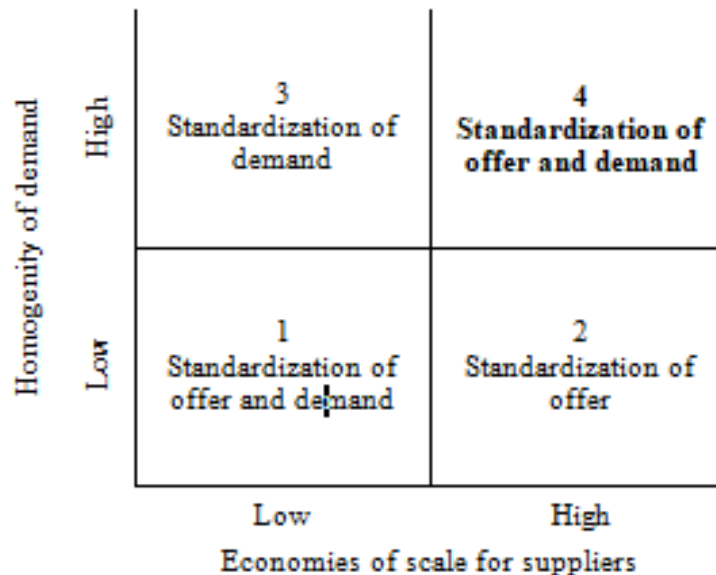
- insufficient engagement of the central public procurement agency in the planning process;
- increased processing time of orders;
- reduced sensitivity to the some unique priorities of various user departments;
- possible difficult procurement because the central agency has its own priorities (Thai et al. 2009).

The authors Lukic, Belic and Vlaovic, (2015), consider that the public procurement of big quantities of similarly goods or services makes possible realization of economies of scale and fulfilment of all the requirements of the beneficiaries for lower price than would be the case of public procurement from a big number of tenderers. In this manner the tenderers are given the possibility of achieving the effect of "economies of scale."

According to Pranjic and Turuk (2013), if it is a standardised products or services which by properties, description, technical characteristics and purpose do not differ and are the same or, in some cases, nearly the same for all beneficiaries, and if there is more bidders that can offer such goods or services in the whole area where the beneficiaries are then the success of centralised procurement is very probably.

In order to determine cases where it is justified to implement the centralised public procurement, Lukic, Belic and Vlaovic, (2015) analysed the relationship of demand and supply that may occur in the market. According to the authors, the unification of public procurement for more beneficiaries is justified when large homogeneity on the demand matches severe (high) economies of scale

on the supply part (Figure 1, Quadrant 4). In a situation of nonstandardized demand (Quadrant 2), even if there is significant possibility for obtaining economies of scale, then there is no justification for the centralised public procurement. There is no justification for the centralised public procurement, if there is no economy of scale (Quadrant 3), even if the beneficiaries want to get identical products. Where there is a low or no homogeneity in demand or no possibility for the realization of economies of scale, then there is no justification for the centralised public procurement (Quadrant 1) and beneficiaries should carry out themselves procurement procedures (Lukic, Belic and Vlaovic, 2015).



**Figure 1. Centralization of public procurement: the relationship between the homogeneity of demand and the economies of scale for suppliers**

*Source: Lukic, Belic and Vlaovic, (2015)*

By centralizing the advantages mentioned above as a result of the studies of the researchers invoked and adding others resulting from public procurement practice, we have regrouped the advantages of making the procurement in a centralized manner as follows:

- making economies of scale from public funds as a result of the increase in the quantities purchased;
- increasing the cost reduction, effectiveness and efficiency of the procurement process as a result of the standardization of award procedures;
- solving possible constraints related to the lack of specialized knowledge and inappropriate resources (human, financial, IT) in case of some smaller contracting authorities;

- increasing human resources expertise in the implementation of procurement procedures;
- standardization of the products provided by the contracting authorities and, implicitly, of the related services;
- better coordination of procurement;
- reduction of storage costs due to the fact that the beneficiary agencies can strictly order the necessary quantities for doing business, knowing that they can conclude additional supply contracts at any time with the support of the central procurement agency;
- reducing the possibility of conflicts of interest by reducing the number of persons involved in the award procedures;
- increasing the negotiation power of central procurement agencies, which may result in lower prices or better delivery conditions;
- reducing bureaucracy and the number of documents being drawn up, reducing administrative costs, by replacing several procedures with a single centralized procedure;
- increasing the quality of procurement procedures documentation;
- reducing the risks associated with the procurement procedures (requests for clarifications, appeals, delays, cancellation of award procedures etc.);
- reducing corruption, bribery;
- reducing the risk of favouring a particular producer;
- streamlining the cost of production of winning tenderers.

We have also identified the following negative effects of public procurement centralization:

- the limitation of access to procurement by small and medium-sized companies (this type of enterprises are well aware of the characteristics of each individual client, better adapting to their needs, which large economic operators cannot do);
- increasing the possibility of anti-competitive agreements;
- diminishing the degree of training of the human resources of the beneficiaries, corroborated with their lack of experience;
- increasing the awarding period for large or complex procurement and increasing the likelihood of challenging procedures.

Evidence of centralization can be found in Asia and South America. Since 1949 Korea has had a centralized procurement agency (PPS) which today accounts for 30 percent of Korean public procurement. In 2003 the government of China enacted the first national regulation on government procurement, called Government Procurement Law (GPL), which applies to the purchase of goods, services and construction projects by state bodies, public institutions and social organizations at all government levels. Mexico (with Compranet, 1996), Brazil (with Comprasnet, 1997), Chile (with ChileCompra, 2003), and other governments in Latin America have recently developed centralized (e-)procurement systems (Dimitri, Piga and Spagnolo, 2006).

With regard to decentralized public procurement, the main reasons for using it are: to provide a much faster response to beneficiaries' needs, to remove bureaucratic obstacles which occur during program implementation, in order to improve interdepartmental coordination, and empower purchasers to decide what to buy without the impediments of a central procurement organization, that is, on the whole, to improve the flexibility of the process. On the other hand, a major disadvantage of the decentralization of procurement processes is the promotion of corruption and bribery (Thai et al. 2009).

## 2. Centralized public procurement in the European Union

There is no doubt that in recent years many countries have increased their degree of centralization. For example, after an initial period of skepticism, where centralized procurement was seen as a factor of monopsonization and decreased competition, the new EU Directive 2004/18 explicitly recognizes the possibility of central procurement bodies. And indeed, centralization of public procurement appears as a clear trend in Europe, as well as in the United States, Southern America and Asia. Examples of central procurement agencies established in Europe are Office of Government Commerce - OGC (United Kingdom), Union des Groupements D'achats Publics - UGAP (France), Concessionaria Servizi Informativi Pubblici - CONSIP (Italy), SKI (Denmark), Swedish Agency for Public Management - Satskontoret (Sweden) and Bundesbeschaffung - BBG (Austria) (Dimitri, Piga and Spagnolo, 2006).

According to Lukic, Belic and Vlaovic, (2015), great savings can be made for certain categories of products (cars, office supplies, IT equipment, furniture). The potential savings in united procurement of EU countries are presented in Table 1.

**Table 1. Potential savings in united public procurement of EU countries**

No.	Procurement category	Potential savings (%)
1	Office supplies	14 - 22
2	Furniture	10 - 15
3	PC/Server	10 - 20
4	IT equipment	7 - 10
5	Automobiles	10 - 15

*Source:* Lukic, Belic and Vlaovic, (2015)

The main central procurement agencies in the European Union are presented in Table 2 and are analyzed below.

**The Office of Government Commerce (OGC)** is an agency **that was set up by the UK government** in 2000 with the aim of gaining more value for the public funds spent, with its budget being of over 13 billion pounds. Under the subordination of the UK Treasury, this organization provides public and other agencies with access to more than 500,000 products and services and full

professional support for the purchase of telecommunication, power supply, internet, intranet, data transfer and publicity services (Dimitri, Piga and Spagnolo, 2006).

**Table 2. Main central procurement agencies in the European Union**

No.	Name of the central procurement agency	Country
1	Office of Government Commerce	UK
2	Union des Groupements D'achats Publics	France
3	Concessionaria Servizi Informativi Pubblici	Italy
4	SKI	Denmark
5	Bundesbeschaffung GmbH	Austria

*Source and adaptation from: Dimitri, Piga and Spagnolo, (2006)*

**Union des Groupements D'achats Publics (UGAP)** is a **French public agency** set up in 1968. The status of central procurement agency was granted to this agency by means of a decree issued in 2006. In 2017, at the headquarters of this agency a total of 1,283 employees were employed and a total of 596 collaborators worked in the 25 territorial agencies grouped in 8 directorates. Having business relationships with approximately 22,000 customers, the agency purchased products/services of more than 3.2 billion euro in 2017, launching 890,000 orders each year. It should be noted that the value of the purchased products / services has steadily increased from 1.9 billion euro in 2013 to 3.2 billion euro in 2017. This agency is responsible for arranging, maintaining and managing government buildings, for providing and operating government vehicle fleets and information systems and provides assistance and support to other authorities in areas such as education, health and social welfare. The Agency supports and stimulates sustainable development (44% of the orders launched including at least one sustainable development criterion), small and medium-sized enterprises and local companies (80% suppliers / providers are companies that create more than 1 million jobs in France) and innovation (in 2017, the agency made innovative procurement of EUR 100 million, the target for 2020 being of EUR 200 million). The UGAP's Board of Directors consists of 1/3 representatives of the state, 1/3 representatives of local authorities and 1/3 representatives of employees (UGAP, 2018).

**Concessionaria Servizi Informativi Pubblici (CONSIP)** is a joint stock company set up in 1997, which is 100% owned by the Italian Ministry of Economy and Finance. Its mission is to use public resources in the most efficient and transparent way. In 2017, the company had a number of approx. 400 employees and made purchases of 4.3 billion euro. The agency's motto is challenging and impacting: "We are buying value for Italy" (Consip, 2018).

**S.K.I.** is a **Danish** company set up in 1994, which is 55% owned by the Danish state and 45% by the Danish municipal authorities. The role for which SKI has been established is to help the public sector achieve savings while making

public purchases. By centralizing purchases, SKI achieves significant savings and better contractual terms for each public organization, without involving national, regional or local authorities in long and complicated tender award processes. Annually, the Danish public sector spends about DKK 300 billion (Danish crowns) for the purchase of products and services provided by private companies (SKI, 2018).

The federal government of **Austria** set up in 2001 the federal procurement agency **B.B.G. (Bundesbeschaffung GmbH - Federal Procurement Agency)** to provide to Austrian federal agencies centralized procurement services which can provide them contracts with negotiated terms, by which they can obtain low prices, reduce procurement costs and reduce legal risks. BBG is a non-profit organization, the Austrian federal institutions being obliged to order products / services using only contracts concluded with BBG, unless they get lower prices and better contract terms. Other public organizations such as universities, communities, states, state organizations, or health organizations can benefit from BBG contracts in exchange for a modest commission (usually 1.5%). Delivery and payment are made directly between the supplier and the respective public institution. The central objective of BBG is to reduce the costs of public procurement through standardization and aggregation of needs. In 2017 BBG has made purchases of 1.43 billion euro and made savings of 18%, worth 310 million euro (BBG, 2018).

### **3. Centralized public procurement in the United States of America**

In the **United States**, at federal level, even though procurement regulations apply to all federal agencies, **General Services Administration (GSA)** is the central procurement agency for federal civilian agencies (Thai et al, 2009).

General Services Administration (GSA) is an independent government agency in the U.S. set up on July 1, 1949 by President Harry S. Truman to help manage and support the core business of US federal agencies (GSA - Background & History, 2018).

GSA provides communications products and systems for government agencies, transport facilities, and office spaces/buildings for federal employees, and develops government procurement policies destined to minimize costs. GSA has approx. 12,000 employees and **makes annual purchases of USD 55 billion** from both its own budget and from the budget of other federal agencies, **with annual savings of approximately USD 6.1 billion**. GSA manages buildings and cars worth approx. USD 500 billion (approximately 8,700 federal buildings and a car fleet of approximately 215,000 vehicles) (GSA – Administrator, 2018).

Other responsibilities of G.S.A. includes: procurement and management of the stockpile of strategic and critical materials, production and supply of materials and facilities necessary for national defence, representation of government agencies in proceedings before federal and state regulatory bodies and the operation of Presidential libraries (Dimitri, Piga and Spagnolo, 2006).



GSA consists of:

- two large services: the Federal Acquisition Service (FAS), which is the procurement service and the Public Building Service (PBS), which manages buildings;
- 12 other smaller services (GSA – Organization, 2018).

The Federal Acquisition Service (FAS) provides services for the purchase of products and services for most government agencies through a series of pre-negotiated contracts.

However, FAS buys not only regular cars but also energy-efficient cars and hybrid cars, supporting innovation and promoting environmentally-friendly purchases.

For example, in 2009, FAS has purchased 8,700 new hybrid cars (efficient in terms of fuel), the price of a hybrid car ranging between USD 23,000 and USD 47,000 (GCA, 2018). Through such purchases, the US government has supported, stimulated and encouraged the purchase of innovative products that protect the environment.

FAS acquires more than 50,000 vehicles annually, making substantial savings to the federal budget (G.S.A., Overview 2018).

According to GSA, Vehicle Buying (2018), the main advantages of purchasing cars through GSA are:

- purchase of vehicles with discounts greater than 21% compared to the sales price through the network of authorized dealers;
- providing technical assistance services;
- providing professional contracting services;
- providing a wide range of vehicles;
- on-line ordering of vehicles.

GSA manages the exploitation of the second non-tactical federal fleet of the US government. The fleet is composed of approx. 215,000 vehicles. They serve not less than 76 government agencies. GSA buys and leases to the 76 government agencies a wide range of motor vehicles: buses, trucks, minibuses, cars, ambulances, vans and dumpers, including hybrid cars or alternative fuel cars.

For this fleet, GSA also ensures preventive maintenance, namely performs service inspections, fuel supply (petrol and diesel), replaces tires, accumulators and performs unplanned current repairs.

For governmental drivers who have been involved in various traffic accidents within the GSA there is AMC (Accident Management Center) the purpose of which is to facilitate rapid damage repair with minimal costs for all government agencies. Through experienced specialists, AMC provides assistance to drivers to carry out accidents reporting formalities, to draft the documents required to repair the damaged vehicles and to resolve any claims from third parties.

In 1984 GSA has introduced the shopping card system known as the GMA SmartPay system. Drivers of government agencies served can use a card for the

purchase of tires, automotive accumulators, fuels (petrol and diesel), washing services, service inspections, and small current repairs, usually up to USD 100, without the need for agency approval. It is mandatory for all purchases made with this card to be related to the service vehicle, unauthorized and illegal purchases being a federal offense. It should be noted that this card is accepted in more than 200,000 fuel stations across the U.S. regardless of the brand under which they operate.

Also, GSA sells 35,000 to 40,000 used cars each year by organizing classic auctions, via the internet or by calling private auction houses.

In order to be replaced with new ones, used vehicles must meet minimum rolling and / or seniority standards. These are presented in Table 3.

**Table 3. Minimum rolling and / or seniority standards practiced by GSA necessary to be met for replacing used cars with new ones**

No.	Vehicle type	Minimum rolling standard (miles)	Minimum rolling standard (km)	Correlation between minimum rolling standard and minimum seniority standard (and/or)	Minimum seniority standard (years)
1	light diesel trucks	150,000	241,401	or	8
2	light gasoline trucks	65,000	104,607	or	7
3	medium diesel trucks	150,000	241,401	or	10
4	medium gasoline trucks	100,000	160,934	or	10
5	cars	75,000	120,700	-	without seniority limit
6		without mileage limit		and	5
7		24,000	38,624	and	4
8		36,000	57,936	and	3

Source: G.S.A., Overview (2018)

#### **4. Centralized public procurement in Romania**

*In Romania, it was only in 2018 that the first steps were taken regarding the establishment of a centralized procurement unit / institution.*

According to the data of the National Agency for Public Procurement (ANAP), there are approximately 15,000 contracting authorities in Romania. Often, although they purchase the same products / services, the differences between purchase prices are very high.

It should be noted that the National Strategy for Public Procurement (containing a set of actions to be applied between 2015 and 2016) foresaw the establishment of both a centralized procurement unit for central public administration as well as of centralized procurement units at regional level.

The Central Procurement Unit is a contracting authority that carries out purchases for other Beneficiary Contracting Authorities but also a number of ancillary procurement activities such as consultancy, advice and assistance for the drafting and structuring of complex procurement procedures and for the administration of these procedures.

By the Government Emergency Ordinance no. 46 / 31.05.2018 the establishment, operation and organization of the *National Office for Centralized Procurement (ONAC)* was regulated. The aforementioned normative act provides that ONAC is designated as a centralized procurement unit, which is subordinated to the Ministry of Public Finance.

ONAC concludes framework agreements, namely manages dynamic procurement systems that exclusively target products and services to be purchased in a centralized system. Also, ONAC acts on behalf of and for the beneficiaries (users), exercises their rights and fulfills their obligations, ensuring that the rights and interests of the beneficiaries are represented in court.

Within 60 days from the date of entry into force of the mentioned normative act, the Government has issued, by Government Decision, methodological norms for the application of the ordinance approving:

- the list of products and services purchased in a centralized system,
- the situations, conditions and products / services purchased in a centralized system in connection with which ONAC may award public procurement framework agreements;
- the rights, obligations and responsibilities of ONAC and of users in the public procurement process;
- any other measures necessary for the operationalization and proper deployment of ONAC activity.

According to these methodological norms, ONAC is a public institution financed entirely from the state budget and can conclude protocols of collaboration and cooperation with other institutions both in the country and abroad. Principles underlying the activities of ONAC are:

- organizing the award procedures in compliance with the legal provisions, the practices in the field in terms of economic efficiency;
- independence;
- transparency.

ONAC will inform beneficiaries about the initiation of a centralized procurement procedure at least 30 days in advance, and they will have to request exclusion or inclusion in the procedure within 15 days. ONAC may request the participation in the evaluation committees of the award procedure of some representatives of the beneficiaries.

After completing the award procedure, ONAC will make available to beneficiaries the framework agreements that have been concluded. Amendment or termination of the framework agreements will be carried out through ONAC, on behalf of the beneficiaries and for them. Beneficiaries (users) are required to inform ONAC on the way contracts subsequent to the framework agreements are implemented.

The types of products to be purchased by ONAC in centralized systems are: medicines and pharmaceuticals, IT products, cars, furniture, office equipment and motor fuels.

It is worth noting that ONAC is not yet functional. In this context, the making of public purchases by existing contracting authorities is carried out in a decentralized way and in much smaller quantities, thus leading to inefficient spending of public funds.

According to a recent study by the Romanian Institute for Public Policy, central procurement could generate annual savings to the state budget of more than 1.8 billion euro, representing about 10% of the value of public procurement made annually in our country.

#### **4. Conclusions**

In the current economic context, where governments are under increasing pressure from the public to make the most efficient use of budget funds, that is to say, "more with less", in which budgetary constraints and / or economic crises occur, aggregation of demand and the centralized public procurement by central procurement agencies is a solution to effectively meet the growing needs of governments and society in general.

The centralization of procurement is justified when the beneficiaries have similar needs in terms of product characteristics and quality, time and place of delivery or when there is a high degree of homogeneity of demand and economies of scale may be achieved by suppliers or providers.

The study presents both the advantages and disadvantages of centralized public procurement.

The study has shown that the states with well-functioning market economies have set up central procurement agencies a long time ago: the United States of America (1949), France (1968), Denmark (1994), Italy (1997), the United Kingdom (2000), Austria (2001), thus succeeding in obtaining important budget savings by centralizing public procurement. Suggestive in this regard is the example of the central procurement agency of the United States, General Services Administration (GSA).

Unfortunately, in the case of Romania, the study finds that only in 2018 the first steps were taken regarding the establishment of a centralized procurement unit, namely ONAC.

The study has shown that public procurement in Romania is decentralized, thus leading to inefficient spending of public funds. The centralized procurement through ONAC could generate annual savings to the state budget of more than 1.8 billion euro, representing about 10% of the value of public procurement made annually in our country.

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