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STRENGTHENING LOCAL AUTHORITIES THROUGH LOCAL PROCUREMENT

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Abstract

This study examines options available to local authorities to promote the local economy and create job opportunities by employing local residents, and purchasing locally made products and services, while conducting the procurement process according to proper management procedures and without detracting from the standard of the services and goods acquired.

Public procurement through tenders is discussed in the context of exposing corruption and in economic terms. Usually this discussion is based on two assumptions. The first assumption maintains that a competitive process prevents corruption and bias, and the second assumption

contends that the outcome will be the more efficient as it leads to selection of the most cost-effective bid according to the stipulated conditions in the published invitation to tender.

This study examines whether, in its considerations, the local authority can include additional indirect benefits to the local community by preferring businesses whose public contributions exceed supply of the service or product offered in the tender. In other words, this study examines the possibility that conditions of the tender will prefer local authority residents, businesses, or employees.

Keywords

Local Authorities, Local Economy, Procurement

1. Introduction

This study examines the ability of the local authority to promote the local economy by giving preference to organizations employing local residents and by purchasing services and products from local businesses. The motivation for this study is based on Moore's (2014) argument that when assessing the contribution of any policy, the public value of that policy should also be considered. To do this, the study focuses on mapping and proposals that maximize the positive effect of the local authority on the development of the local economy. This development centers on a relatively small, defined geographical area. According to the World Bank, local economic development is a process in which the public, business owners, and third sector organizations join together to create better conditions for encouraging economic growth and employment (The World Bank, 2015).

According to Loader (2016) local government has a better track record of procuring from SMEs than central government, but small firms and their representatives continue to call for improvements in procurement practices in order to reduce the barriers that are acknowledged to exist and thereby improve opportunities for success.

This study examines the possibility of generating economic growth of the local authority by increasing local authority procurement from local business and/or from businesses that contribute to the area. To ensure that the development and increased income will generate improved quality of life, it is important to take into account that the increased income will not increase the gap which is likely to occur if the main increase in income only reaches a small number of residents. Additionally, it should be realized that the expanding commercial activity will not have a detrimental effect on the environment or on the quality of life of the residents, but instead will actually improve the

accessibility and quality of services while increasing the variety of work places which will ensure income for both employees and small business owners. Furthermore, it is worthwhile that at least some of the new work opportunities are high-paying positions which would attract a more robust sector of the population

The premise of this study claims that the local authority is a highly significant stakeholder not only because it supplies its residents with services, but also because it is a constant consumer of locally-produced goods and services from the geographical region that it serves.

While the principles of public tender apply to all authorities, this study examines the possibility of improving, through its purchasing power, the local economy of a relatively small municipality located in the northern periphery of Israel. According to McCrudden (2004), using public procurement as a means to achieve social objectives is an acceptable option throughout the world. This principle also applies in Israel, as can be seen in the example of preferring to buy Israeli-made products (Israeli Government ,2015). Rickard & Kono (2014) argued that, like government procurement, municipal procurement can also serve as a tool to promote social goals.

The value of municipal procurement is composed of a number of layers and expands as we expand our approach to the different stakeholders affected by municipal procurement. Such a structure is called Multi-layered Added Value and it shows the first layer – the output which represents the purchasing transactions for recipients of services or goods purchased – city residents or municipal employees who are the service providers for the residents. The second layer – the outcome affects a wider circle – social, economic or environmental outcomes that benefit the entire local community. The third layer – the added value is both qualitative (service quality, satisfaction, service accessibility) and quantitative including money and jobs generated that affect the local economy. The added value of local municipal purchasing is significant and can be felt in the community because of its small scale in comparison to how it reflects at national level. However, in a small peripheral city there are difficulties in preferring a local supplier and/or producer which begin with the limited to non-existent supply of businesses due to the absence of a critical mass of potential customers.

Dekel (2014) concluded, in three points, the duties of a public authority as a consumer as follows: the public authority "the obligation to grant equal opportunities to all when entering into a business agreement; the duty to avoid bias or a pretense of favoritism; and the duty to enter into the most economically effective agreement ". When examining the business dealings in Migdal Haemek,

we mainly considered the question of the "most economically effective agreement". In order to examine the question of economic efficacy in its broader sense, we looked at the socio-economic characteristics of the local authority and its residents. By using collected purchasing and employment data, we have tried to answer the question about which area would be a more worthwhile investment for the local authority – business transactions with local businesses or employing local residents in a manner that complies with both the principles of public tender as noted above and also with the unique needs of the local community.

Contrary to the all-embracing directive that government procurement prefer Israeli-made products, there are several parameters can assist in making decisions to give differential preference according to the added value for the field and for the firm, and the additional jobs.

Considering the public procurement system as a means for promoting public interests and values is not unfamiliar to those involved in economics, law, or public policy. When designing public tenders, governments, and even international organizations, include in their considerations concepts such as green procurement and fair employment, and product characteristics are included as prerequisites. Furthermore, in the case of tenders in labor-intensive fields, it is customary to also include consideration of the company's attitude to its employees and its labor force management even though these aspects do not relate directly to the services being acquired through this tender. In Israel, laws authorize the government to specify provisions in purchasing regulations for state-run tenders regarding preference for locally-made products (commonly referred to as purchasing blue and white), green procurement, and the acquisition of products made in national priority areas. National priority areas are determined from time to time according to criteria that combine national, political, and social considerations. The purpose of the preference-conferring provisions is first and foremost to promote work and employment in areas stricken by unemployment. Additionally, the State uses the conferring of preference as a tool for generating demographic change and the development of areas of national importance. The purpose of this study is to expand the use of the public procurement system as a tool for advancing public interests and values as it applies to local government.

1.1 Examination of Employment

An examination of employment and payroll data in Migdal Haemek indicates the need to expand employment opportunities in general, and to promote stable, good quality employment in particular. The municipality can help improve the situation on two fronts. The first aspect is that the

municipality becomes the direct employer of local residents, and the second aspect is purchasing goods and services from local business. The increased purchasing requires the businesses to expand their activities thereby creating additional employment opportunities for local residents.

As previously mentioned, in many cases, the state recognizes the conferring of preference in tenders as a legitimate policy-promoting tool that serves the public interest. Examples of this can be found in government decisions and legislation relating to preference for Israeli-made products and products from the confrontation line area and/or areas of national interest.

2. Criteria to Help Estimate Local Purchasing Results

Local authorities are limited in the assistance they can extend to businesses operating within their jurisdiction. It is therefore important to define the criteria for deciding on which branches of the economy to focus. In this report, we propose three criteria: the added value rate from the total output; the rate of compensation for jobs out of the total output; and labor force characteristics.

2.1 Added Value Rate from Total Output

To understand what the added value is, it is important to note that not all output sold by the company is actually produced by it [the company] since part of the output consists of products purchased from other companies. In other words, we can say that the company's activities increase the value of the product. This addition is the added value.

The interesting point to consider in this study is: what does the company do with the added value? The answer is: the company distributes the added value to households participating in the production process, via the following avenues:

- a. Wages paid to people working in the same company.
- b. Rent paid to property owners of the buildings and land leased by the company for its operations.
- c. Net profit passed on to the company owner(s) (divided into dividends and undistributed profits).

In the context of this study, we refer primarily to small businesses such as shop owners, gardening company owners, house renovators, and so forth, who actually live within the domain of the local authority itself.

- d. Taxes paid to the government and to the local authority. In the context of this study, the only relevant amount is municipal property taxes that are paid to the municipality.
- e. Interest on loans (not relevant to this study because loans are received from banks which are almost never local businesses).

Based on the above, it is clear that the households are the main recipients of the added value. Consequently, we can say that when the added value increases, it accordingly generates a higher income for the households, thereby improving the economic state of the households. From this premise we draw the conclusion that the higher the percentage of a company's added value from its total output, the more important it is to assist the company in its operations.

This conclusion can be explained by looking at the diamond industry in Israel (even though it does not operate in Migdal Haemek). Although the sales turnover of the diamond industry in Israel is very large, the bulk of its outlay is spent on the purchase of raw materials (raw diamonds) from abroad. The diamond industry's added value to the economy, is therefore very small, as is its contribution to the economy. When reviewing export data published by the Central Bureau of Statistics on its website or data issued by the Bank of Israel, one finds that they usually distinguish between export data excluding the diamond industry and export data including the diamond industry.

Data about the average added value in Israel according to economic sectors is published on the Central Bureau of Statistics website (2017). Assuming that the added value rate of the local authority in this study is similar to the national average, we can use this criterion to identify which economic sectors should be the focus of local authority support.

2.2.Rate of Compensation for Jobs out of Total Output

When dealing with local authority economics, the information generated from the added value is likely to be problematic because at least part of the added value goes to recipients outside the local authority. This is especially evident in interest paid to the banks which are outside the local authority jurisdiction, and in company taxes which are paid to the government. It is also possible that some of the companies (mainly the larger ones) are owned by stakeholders living outside the local authority jurisdiction. To overcome this problem, we need to consider another criterion – compensation for jobs out of the total output (the first component in the abovementioned list of income components). The effectiveness of this criterion is based on the assumption that most of the employees in the businesses in Migdal Haemek live there, or at least spend part of their income there. This data could therefore provide a lot of information about the contribution of each sector to the local authority. As in the case of the added value, data about the about the rate of compensation for jobs is also published on the Central Bureau of Statistics website (2017).

As stated, compensation for jobs includes only one of the components of household income, and therefore in this case too the information obtained from the rate of compensation for jobs is

incomplete. Analysis of the various industries and their contribution to the local economy should therefore be conducted using the two criteria presented above, that is both the rate of added value and the rate of compensation for jobs.

3. Labor Force Characteristics

One of the goals of local authority involvement in the local economy is to promote the establishment of socio-economically strong populations. To this end, we must ensure the availability of job that are suitable for people with a professional or academic education. Such jobs generally guarantee higher income for the employees, thereby encouraging the professional advancement of the local population and the intake of additional stronger populations. For these reasons, it is beneficial for the local authority to focus its assistance on industries whose work force is characterized by a high level of professionalism.

In order to determine the level of employee professionalism in each field, we divided professionalism into three levels (non-professional, professional, and expert) and each business was assigned an appropriate professionalism level. We then calculated the average professionalism level for each business in the same field. Note that in contrast to the two previous criteria, the calculation of this criterion is based on local authority data only, and not on national data.

The following table shows the three criteria as reflected in each field. As mentioned above, the first two criteria (added value rate and the rate of compensation for employment) are based on national data taken from the Central Bureau of Statistics. The third criteria (labor force characteristics) is calculated for businesses operating in Migdal Haemek. Column 5 shows the total amount of purchases made by the local authority from the businesses operating in each industry. This number is the sum of all the purchases made from all the suppliers, and not just from the local suppliers. This data was obtained from an analysis of agreements made between the local authority and suppliers during the first ten months of 2014. The purpose of this column is to show the importance of each field with respect to local authority activities.

The last column shows the rate of local purchases. This data shows the percentage of goods and services that the local authority purchased from local businesses in its jurisdiction.

Table 1: *Criteria to Determine Viability of Local Authority Support for Local Businesses*

Sector	Added Value Rate	Rate of Compensation for Jobs	Labor Force Characteristics	Value of Order	Rate of Domestic Orders
1	2	3	4	5	6
Consultants	0.71	0.36	2.97	574,189	0.01
Printing & Publishing	0.71	0.36	1.94	233,446	0.80
Security & Sanitation	0.69	0.62	2.00	261,227	0.63
Building Materials	0.68	0.45	1.80	635,771	0.35
Communication Systems	0.62	0.42	1.95	525,779	0.08
Gardening	0.60	0.52	1.67	415,614	0.05
Maintenance	0.60	0.52	2.13	663,005	0.52
General Procurement	0.58	0.37	1.49	1,146,356	0.17
Kindergarten Equipment	0.55	0.43	1.67	189,390	1.00
Travel	0.51	0.33	1.67	198,211	0.98
Education & Recreation	0.48	0.27	2.26	889,115	0.29
Electricity	0.48	0.41	2.20	148,192	0.39
Vehicles	0.48	0.29	1.96	671,111	0.08
Engineering (Building)	0.47	0.37	3.00	286,563	1.00
Transfers & Transportation	0.44	0.28	1.45	327,202	0.13
Refreshments	0.38	0.28	1.14	426,418	0.20
Sewage Services	0.36	0.12	2.00	19,470	1.00
Construction	0.26	0.16	2.20	465,412	0.07

The table shows that gardening, security and sanitation, and maintenance are the fields that generate the greatest added value for the local economy both in terms of jobs and in terms of overall

added value. Of these three fields, all of which are characterized by not requiring a high level of expertise, gardening accounts for only 5% of the total service purchases made from local businesses. There is, therefore, room to consider ways to prefer local businesses in this field, or if this is not possible, to examine the options for developing this field in the city.

4. Recommendation

This study focuses on mapping and proposals for maximizing the positive influence of the local authority on local economic development, which would focus on a relatively small defined geographic area. According to the World Bank, local economic development is a process in which the public, the business owners, and third sector organizations join forces to create more favorable conditions for economic growth and for encouraging employment (The World Bank 2015). This study examined the possibility of achieving economic growth for the local authority by increasing the authority's purchases from local businesses and/or from businesses that contribute to the region. To ensure that the development and income growth improve the quality of life, it is important to consider that the additional income will not lead to an increase in socio-economic gaps which is likely to occur if the main increase in income reaches only a small proportion of the population. It is also important to consider that expanding employment will not harm the environment and residents' quality of life, and will instead increase the availability and quality of services while also diversifying job opportunities thereby ensuring income for both salaried employees and small business owners. Additionally, it is advisable that at least some of the new jobs are high-paying positions, which would attract stronger population groups.

5. Summary

In this study, we examined the ability of the local authority to promote the local economy and to contribute to creating jobs, while maintaining the rules of proper administration and without violating the standard of purchased services and products.

It is well-known that local authorities purchase a considerable number of products and services from private firms. In small local authorities, this activity plays a large role in the overall economic activity of the Authority. Consequently, the purchase of goods and services from local firms can have a significant impact on the economic situation of the residents. On the other hand, if the main criterion for choosing suppliers is that they are local residents rather than the quality and

price of the products they provide, then the quality of services provided by the Authority may be affected.

Another problem that is typical primarily of small communities (where residents all know each other) is the possibility that the local authority leaders will tend to deal mainly with their own people (family members, political supporters, etc.). This may be detrimental to leadership function and could lead to corruption. The decision to prefer local suppliers should therefore not be automatic. It is important to carefully examine the areas in which preference of local suppliers is worth the damage that may be caused.

This study found that there are two criteria for estimating the contribution of businesses to the local population. The first criterion is the rate of contribution to jobs of the total output of each firm. The size of the contribution is calculated by dividing the wage paid by the firm by its total output. The more wages a firm pays, the greater its contribution to improving the economic situation of the Authority's residents.

The second criteria is the characteristics of the workforce. One of the goals of local authority involvement in the local economy is to enable the existence of socio-economically strong population groups. To this end, it is important to ensure the availability of jobs that are suitable for people with a professional or academic education. Such jobs generally guarantee that the employees will earn a higher income, thus encouraging professional advancement of the local population and the intake of additional stronger populations. For these reasons, it is advisable for the local authority to focus its assistance on industries with a work force characterized by a high level of professionalism. Future studies will need to focus on how the results of this study can be implemented in local authorities.

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