

The interrelationship between LED and municipal SCM: A critical analysis

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Introduction and background

- ▶ Necessary to view LED in context of environment in which it takes place
- ▶ Should follow an integrated approach to LED
- ▶ Necessary to provide overview of concept economic development and principles underlying it

Economic development principles: the basis for a LED approach

- ▶ Economic development refers to improvement of the living conditions or standard of living of the population as a whole in less-developed countries (LDC's)
- ▶ Also referred to as development economics
- ▶ Initially economic development was simply a term for economic growth in LDC's
- ▶ Lately a distinction is made between economic development and economic growth.

Perspective on LED with specific reference to S.A.

- ▶ LED is necessary to build the economic capacity of a local (municipal) area that will eventually improve its economic future and prospects as well as the quality of life for all within the entire community
- ▶ LED "...is essentially a process in which local governments and/or community based groups manage their existing resources and enter into partnership arrangements with the private sector, or with each-other, to create new jobs and stimulate economic activity in an economic area"
- ▶ Principal goal: to stimulate local employment opportunities in sectors that improve the community, using existing human, natural, and institutional resources"

Perspective on LED with specific reference to S.A. (Cont.)

- ▶ The economic, social and physical resources of a community will guide the approach towards and design of the local economic development strategy as well as the implementation thereof
- ▶ LED strategy should be an integral part of the broader strategic or integrated development planning (IDP) process and the service delivery and budget implementation planning (SDBIP) process
- ▶ Also be linked to the medium term revenue and expenditure framework (MTREF) and the annual approved budget

Perspective on LED with specific reference to S.A. (Cont.)

- ▶ LED strategic management process consist of:
 - *Stage 1: Organising the effort*
 - *Stage 2: Local economy assessment*
 - *Stage 3: Strategy formulation*
 - *Stage 4: Strategy implementation and monitoring*
 - *Stage 5: Strategy evaluation and review*
- ▶ Strategy formulation process entails the following:
 - *Step 1: Vision and mission formulation*
 - *Step 2: Goals identification*
 - *Step 3: Objectives setting*
 - *Step 4: Programme development*
 - *Step 5: Projects and action plans*

Perspective on LED with specific reference to S.A. (Cont.)

- ▶ Prominent aspects of LED that can form a critical point of departure for an analysis of the interrelationship between LED and municipal SCM:
 - Encouragement of local business growth and the establishment of new private enterprises
 - Focus on the public procurement and supply chain management policies of municipalities and ‘buy local’ campaigns
 - Advice and assistance to local businesses and private enterprises
 - Investment in hard strategic and soft infrastructure as well as in sites and premises for business
 - Promoting so-called “inward” investment – attract businesses from elsewhere
 - integrate or give preference to low income or “hard-to-employ” workers

Perspective on LED with specific reference to S.A. (Cont.)

▶ Seven broad categories of funding:

1. *Funding from a municipality's own revenue (budget)*
2. *Utilisation of a municipality's equitable share of the revenue collected nationally*
3. *Municipal Infrastructure Grant (MIG)*
4. *Neighbourhood Development Partnership Grant (NDPG) and urban development incentives from the National Treasury*
5. *Sector support from amongst others the Department of Trade and Industry (dti)*
6. *Funding from development finance institutions (such as DBSA)*
7. *Donor funding*

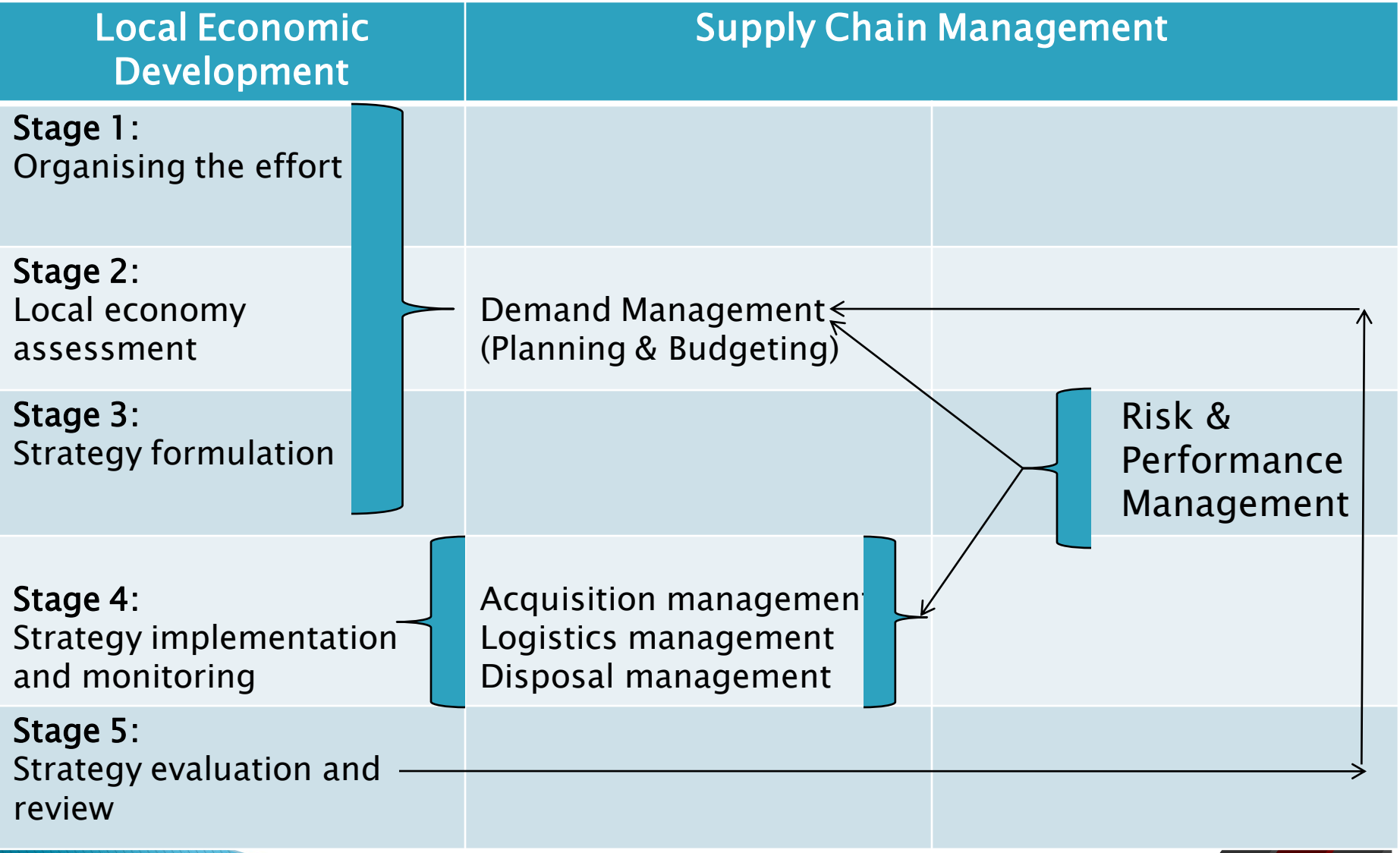
The requirements of the municipal SCM framework in South Africa

- ▶ Municipality's supply chain management policy should indicate specific elements thereof, namely:
 - *Demand management;*
 - *Acquisition management;*
 - *Logistics management; and*
 - *Disposal management.*
- ▶ As well as the generic elements or components, namely:
 - *Risk management; and*
 - *Performance management.*
- ▶ Preferential Procurement Policy Framework Act 5 of 2000 and the Preferential Procurement Regulations
- ▶ Preferential point system to be applied during the bidding process – 80:20 or 90:10

The requirements of the municipal SCM framework in South Africa

- ▶ 20 or 10 points for preferences includes:
 - *The promotion of South African owned enterprises;*
 - *The promotion of export orientated production to create jobs;*
 - *The promotion of SMME's;*
 - *The creation of new jobs or the intensification of labour absorption;*
 - *The promotion of enterprises located in a specific municipal area;*
 - *The promotion of enterprises located in rural areas;*
 - *The empowerment of the work force by standardising the level of skill and knowledge of workers;*
 - *The development of human resources, including assistance in tertiary and other advanced training programmes*
 - *The upliftment of communities through, but not limited to, housing, transport, schools, infrastructure donations, and charity organisations.*

Interrelationship between LED and SCM



Challenges for the interrelationship between LED and SCM

- ▶ Demand management process: very little is sometimes been done to ensure that the needs and requirements for LED are considered in an integrated manner
- ▶ Focus of LED function is sometimes to a large extent on job creation through all sorts of small and sometimes insignificant projects in which they are directly involved
- ▶ When bids are evaluated and adjudicated attention be given to 'local products and services' as well as businesses through the awarding of preference points and by using an updated database of approved, prospective suppliers
- ▶ Contracts that are awarded are not always properly monitored for implementation during the logistics management process

Challenges for the interrelationship between LED and SCM *(Cont.)*

- ▶ LED practitioners/senior managers contracted in terms of performance agreements or contracts to ensure that they take responsibility for the quality of service provided by suppliers or for the execution of infrastructure projects that falls within their domain
- ▶ Lack of understanding amongst municipal officials about the relevance that the disposal management process could have for LED
- ▶ Challenges are already an indication of the risks that are involved in the LED and the SCM processes
- ▶ Will have a negative effect on the performance of the LED and SCM functions

CONCLUSION

- ▶ SCM can have a positive effect on LED if both is applied in an integrated and coordinated manner
- ▶ LED depends to a large extent on a municipality's SCM system and the manner in which it is introduced based on the SCM policy
- ▶ If the SCM processes of a municipality do not take the development of local businesses and SMME's into account, it will not be possible to give effect to the primary definition of economic development

Thank you.

Ke a leboga.

Dankie.