STRENGTHENING LOCAL GOVERNMENT CAPABILITY FOR INCLUSIVE ECONOMIC GOVERNANCE: AN ANALYSIS OF LOCAL ECONOMIC DEVELOPMENT AND RURAL ENTREPRENEURSHIP IN SOUTH AFRICA

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ABSTRACT

This article examines how local government capability shapes local economic development (LED) and rural entrepreneurship in South Africa's periphery. Despite comprehensive LED frameworks, strategies often prioritise attracting formal, private-sector businesses while neglecting the development of rural entrepreneurs. This oversight undermines rural entrepreneurship's potential to drive job creation, poverty reduction, and inclusive growth. By systematically reviewing peer-reviewed and grey literature, the study identifies institutional constraints affecting LED and rural development. Anchored in Institutional Capacity Theory and Economic Location Theory, the findings reveal significant capability deficits in rural municipalities, limiting their ability to support grassroots entrepreneurship. The paper advocates for recalibrated LED approaches that prioritise institutional strengthening, context sensitivity, and targeted support for rural entrepreneurial ecosystems. Strengthening municipal planning and investing in local capabilities are essential for enabling rural communities to thrive in a globalised economy.

Keywords: Local Government, LED, Rural Areas, Rural Entrepreneurship, South Africa.

1. INTRODUCTION

Local government in South Africa plays a pivotal role in the nation's developmental mandate, particularly in rural areas where historical injustices, structural unemployment, and spatial exclusion converge to perpetuate underdevelopment. Since 1994, local municipalities have been entrusted with implementing Local Economic Development (LED) strategies to promote inclusive economic growth, enhance local capacity, and reduce poverty. These strategies aim to attract private sector investment to underdeveloped localities, creating employment opportunities and stimulating the rural economy. Counter oy this, the National Development Plan (NDP), launched in 2011 by the National Planning Commission (NPC), outlined government intentions to create 1 million jobs in the rural areas from the overall 11 million guaranteed to both urban and rural areas by 2023 (NPC, 2011). The Plan also promises to eliminate poverty at all costs. However, despite these intentions, vast segments of the rural population remain unemployed, economically vulnerable, and dependent on informal or subsistence-based livelihood strategies (Statistics South Africa, 2023). In this reality, rural entrepreneurship has become an indispensable livelihood strategy (Charman and Petersen, 2020), in which poverty can be alleviated (Stutter, Bruton, and Chen, 2019), and inequalities can be reduced, particularly in rural areas where institutions are weak (Chong, Chong, and Diaz, 2019; Bawa, Joseph, Setty, 2007). In short, rural entrepreneurship has the potential for rural entrepreneurs to create value for the community and create more resilient localities. Frenzel (2020) asserts that rural entrepreneurship not only provides wealth and jobs but also contributes to the long-term well-being of rural livelihoods.

However, LED initiatives and economic policy frameworks often underplay or ignore the importance of these endogenous entrepreneurial efforts, focusing instead on attracting external capital and formal business development. This structural disconnect has deep historical roots. Under apartheid, a deliberate system of spatial and economic exclusion confined much of the African population to impoverished "homelands" or Bantustan areas with poor infrastructure, limited natural resources, and few economic opportunities (Mkhwanazi and Jili, 2024). Meanwhile, the commercial agricultural sector, based on cheap black labour, thrived around these communities, creating a dualised rural economy. This rural marginalisation continues, with municipalities in the KwaZulu-Natal, Eastern Cape, Limpopo, and North West provinces still representing the bulk of South Africa's rural poor (Statistics South Africa, 2022). It is also worth noting that entrepreneurship literature has been oriented towards urban entrepreneurship (Pato and Tixeira, 2016).

According to the Department of Cooperative Governance and Traditional Affairs (COGTA) (2025), South Africa has 205 local municipalities, 61 of which are classified as predominantly rural (Category B4), consisting of dispersed settlements with low population density, minimal urban infrastructure, and high dependency on subsistence agriculture and social grants. These rural municipalities fall within 44 district municipalities, which together shoulder the developmental burden in the country's most under-resourced regions. As of 2023, approximately 18.84 million people or 31% of the national population, live in rural areas, many of whom continue to experience chronic poverty, food insecurity, and economic exclusion (Macrotrends, 2023). Compounding this crisis is the often-limited institutional capability of local governments in these areas. Rural municipalities suffer from inadequate financial resources, poor planning capacity, limited human capital, and governance challenges that hinder their ability to effectively implement LED or support grassroots entrepreneurship (Makhaye and Subban, 2024).

Against this backdrop, this study aims to critically examine how the capability of local government institutions shapes economic management in rural areas, with a specific focus on the implementation of LED and the role of rural entrepreneurship as both a survival mechanism and a potential pillar of sustainable development. This paper is structured as follows. It outlines and describes the theoretical framework of the study, explaining how the theories adopted will help in answering the research problem. What follows is a discussion of the reviewed literature. The research approach, methods and data collection, and analysis tools are presented in the third section. Thereafter, the findings are presented in section four. The final section provides three conclusions and policy recommendations.

2. THEORETICAL FRAMEWORK

This analysis employed two interlinked theoretical frameworks to critically analyse the dynamics of local government capacity in managing economic development. The theories include the institutional capacity theory and the economic location theory, and are discussed below.

2.1 Institutional capacity theory

The Institutional Capacity Theory (ICT) was developed by Grindle and Hilderbrand in 1995 and is focused on the capability of government departments and entities to perform and achieve their constitutional mandates. Thus, ICT finds its roots in the field of public administration. The theory argues that for the efficient operation of public institutions, it is essential to have adequate final, human, organisational, and relational resources (Healey, 1998; Pierre and Peter, 2000). As such, the theory is instrumental in the analysis of LED in South Africa, as it underscores the need for municipalities to possess not only the technical know-how and administrative skills, but also a collaborative network, leadership, and legitimacy to coordinate development effects.

In the context of the LED practice in rural areas, the ICT highlights the institution's importance, which impacts LED implementation. It provides a framework for assessing the readiness and capability of

municipalities to design, implement, and evaluate inclusive economic development strategies. Institutional capacity becomes particularly critical in environments characterised by limited financial resources, lack of skilled personnel, and weak intergovernmental linkages, conditions that are common in rural South African municipalities. In particular, ICT offer a comprehensive lens for analysing the challenges and opportunities for local government-led rural economic development in South Africa. The theory provides the rationale for advocating LED strategies that are both context-sensitive and institutionally grounded. It argues that by enhancing the capacity for rural municipalities, these institutions will be better equipped to oversee financial resources, put policies in place that encourage rural entrepreneurship, and develop resilient and inclusive rural economies.

2.2 Economic location theory

Location theory deals with what economic activities exist, where and why such activities exist in a particular location (Dube, Brunelle and Legros, 2016). Thisse (2008) mentions that the 'what' refers to any kind of different type of economic activity, including businesses, housing, factories, offices, or public facilities, and the 'where' refers to a geographical area such as a region, city, jurisdiction, or customs union where such activities exist. He argues that the main purpose of location theory is to explain why particular industries or businesses settle in a particular location. The location theory also explains the distribution of activities in a particular space to identify factors that influence the location of individual activities (Capello, 2011). Theorists from Von Thúnen (1842) to Krugman (1991) have tried to understand what kind of economic activities take place at a particular point in space and why. Thus, the theory has since become an integral part of regional economics and economic geography. LED entails the development of a specific local territory to boost the local economy's ability to grow, compete, and create jobs, particularly by better utilising locally available resources (Trah, 2004). According to Capello (2011), space (i.e., region or locality) can affect the functioning of the economic system, providing economic strengths and weaknesses in terms of production and raw materials.

Rural entrepreneurship is viewed as entrepreneurship emerging in rural areas, which involves the establishment of an enterprise, business or industry by recognising and taking advantage of opportunities, mobilising and utilising local resources to provide goods and services in a rural environment (Tobares, Londoño-Pineda, Cano, and Gómenz-Montoya, 2022). In this case, rurality defines a territorially specific entrepreneurial milieu with pronounced physical, social and economic characteristics such as location, natural resources, landscape, social capital, rural governance, business and social networks, as well as information and communication technologies that have dynamic and complex influences on entrepreneurial activity in rural areas (Stathopolou, Psaltopoulos and Skuras, 2004: 404). This, therefore, suggests that both LED and rural entrepreneurship are processes which are highly influenced by specific territorial or spatial characteristics.

Table 1. Summary of Theoretical Frameworks

Aspect	Institutional Capacity Theory	Economic Location Theory
Core Focus	Examines how governance arrangements and municipal capacity causally determine LED success or failure.	Focuses on how the spatial positioning of rural economies influences their ability to connect with markets and resources.
Key Concepts	Institutional strength, decision-making efficiency, accountability, governance frameworks.	Market access, transportation infrastructure, proximity to resources, economic clustering.
Historical Foundation	Emerged from public administration and governance studies on policy implementation.	Rooted in Alfred Weber's industrial location theory, later expanded to rural contexts.
Analytical Emphasis	Analyses how institutional deficits constrain rural economic development.	Explains how geographic isolation and spatial inequality impact economic viability.
View on Rural	Emphasises the need for governance systems to	Stresses that business location choices in rural areas

Entrepreneurship	adapt to and support rural entrepreneurs.	are shaped by access to markets and infrastructure.
Application to Rural LED	Assesses whether municipalities have the governance capacity to enable rural entrepreneurship.	Identifies spatial barriers and opportunities for integrating rural businesses into larger economies.
Policy Implications	Recommends capacity-building, better resource allocation, and governance reform.	Suggests infrastructure investment, transport connectivity, and regional market integration.
Relevance to Study	Provides a lens to evaluate municipal performance in enabling LED.	Offers an understanding of how spatial factors influence rural economic competitiveness.
Strengths	Highlights actionable institutional reforms.	Offers spatial strategies for economic growth.
Limitations	May overlook deep-seated spatial and historical inequalities.	May not fully address governance and institutional weaknesses.

Source: Author's compilation (2025)

3. LITERATURE REVIEW

3.1 Role of local government in local economic development in South Africa

The complex multidimensional concept of economic development, involving improvements in human well-being, was the sole responsibility of national governments. The decision-making on economic policies was centralised, and the participation of local actors, such as the private sector, communities, and community organisations, was limited regardless of their proximity to developmental challenges. According to Links and Draai (2023), local government is faced with the situation of having to address the poverty situation, inequality, unemployment, provision of basic services, urbanisation and globalisation, and technological advancements. These factors shape the environment in which municipalities function and need to address their economic situation. Upon this realisation, political and economic reforms, as well as the government's renewed interest in decentralisation polices, provided local government with an opportunity to be involved in economic planning, hence, LED.

LED refers to a process in which municipalities mobilise and leverage the resources of the community-based organisation, the community, the private sector and not-for-profit organisations (Rogerson and Rogerson, 2010). This highlighted the tension that municipalities have with local actors. The government has a proactive role in facilitating this relationship, thus playing a key role in the LED process. The relationships and partnerships between municipalities and the business community provide an avenue through which municipalities can directly influence LED (Parliament of South Africa, 2024).

According to Meyer (2014), the overarching role of the local government in development is to provide an enabling environment for all its residents and businesses to prosper through the LED strategic plan, which has a balanced approach between "pro-poor" and "pro-growth". Within this context, the pro-market focuses on strengthening markets and enabling enterprises to function effectively, while the pro-poor approach emphasises community ownership, local resource mobilisation, and endogenous forms of development. It is worth noting that LEDs seem to be leaning more towards pro-market policies, sidelining the pro-poor orientation, which is critical for rural entrepreneurship that is sustainable, micro-scale, and resource. As a result, the informal and emerging enterprises in rural areas are often left out of LED support structures. Worryingly, municipalities are therefore expected to create conditions that are conducive for businesses to thrive, thereby generating job opportunities, alleviating poverty, and improving community livelihoods. However, it is important to emphasise that local government is not directly responsible for creating jobs, but rather for establishing an enabling environment for economic development through the provision of services, infrastructure development, and the imposition of bylaws and regulations. Masango (2024) reinforces this view, noting that municipalities not only create an enabling environment through the provision of public services and infrastructure development, but also exercise discretion in regulating partnerships with the private sector, subject to regulations that enforce planning and environmental rules.

In developing countries such as South Africa, economies are characterised by market failures, imperfections, and inefficiencies, as well as a lack of entrepreneurial culture, which has burdened the government in terms of job creation, poverty alleviation, and economic growth (Koma, 2012). The government's intentions are outlined in the NDP, which states that 1 million jobs are to be created by 2030 (NPC, 2011). This includes eliminating poverty at all costs. Unfortunately, these goals cannot be achieved without the remarkable contribution of rural entrepreneurship (Utete and Zhou, 2024). For this reason, local government and rural representatives have the mandate to suppress the perpetual growth of the social and economic ills that bedevil rural livelihoods. In this context, Section 152, subsection (c) of the Constitution states that local government should promote economic development in localities as one of its objectives. The White Paper on Local Government, 1998, further emphasises the developmental role of municipalities in South Africa, and one of the provisions is to promote local economic development and job creation. Moreover, the Local Government Municipal Systems Act 32 of 2000 further operationalises constitutional objectives by providing a comprehensive legal framework for municipal service delivery. Section 26 requires an Integrated Development Plan (IDP) to include applicable developmental strategies aligned to LED. The constitutional, political, and legislative instructions collectively provide a vision and a mandate for municipalities to support the local economy and reduce poverty. For rural areas, in particular, this mandate is interpreted as a pro-poor, pro-rural approach, supporting sustainable LED in an inseparable form, empowering local enterprises and communities.

3.2 Local economic development programmes in rural areas

South African local government has been entrusted with a developmental mandate. This includes not only the provision of basic services (water, sanitation, infrastructure, waste collection, electrification) but also the facilitation of economic growth and rural entrepreneurship through the implementation of LED strategies. However, research publications indicate that the implementation of LED, particularly in rural municipalities, remains unmet due to persistent weaknesses, economic management challenges, and limited local capacity (Munzhedzi and Phago, 2020; Ngumbela, 2023). This is despite national frameworks such as the Comprehensive Rural Development Programme (CRDP), the Comprehensive Agricultural Support Programme (CASP), and the Agricultural and Agro-processing Master Plan (AAMP), rural municipalities often struggle to achieve the objectives of these programmes and implement LEC interventions effectively. For example, in Qwaqwa, Free State, a study conducted by Ngumbela (2023) revealed that while over 50 per cent of the youth participated in the CRDP-supported agriculture program initiatives, less than 40 per cent indicated that they had a significant improvement in their household incomes. The primary contracts that were indicted included a lack of access to urban markets, poor coordination of support services, and the municipality's inability to link enterprise development with the formal economic infrastructure. These findings underscore the prevailing gap between LED policy frameworks and practical implementation at the local level.

LED funding remains another area of concern. Indeed, economic growth, job creation, and LED initiatives are dependent on municipal finances and become constrained when local government do not function well. Data provided by the National Treasury from 2-22 and 2024 revealed that rural municipalities, particularly those in the B4 category, rely heavily on national government transfer, making up to 73 per cent of the total budget (National Treasury, 2023). Despite these large transfers, these municipalities will allocate less than 1 per cent of their appropriations to LED (National Treasure, 2022). This limited financial commitment restricts the ability of B4 municipalities to support entrepreneurship, manage infrastructure, or create a conducive environment for local investment. Furthermore, poor billing systems, irregular oversight, and political interference have eroded municipal revenue collection, limiting local government financial autonomy (Auditor General South Africa, 2023; Reddy and Kauzya, 2015).

The government has introduced a blended financing facility between DALRRD and the Land Bank, which aims to unlock capital for historically disadvantaged provinces. The absorption of such functions remains low in rural areas due to a lack of planning, institutional coordination, and readiness within municipal authorities. Programmes fail to take root without alignment to municipal IDPs and without capable officials to manage project implementation, monitoring, and stakeholder engagement. Thus, without robust economic governance systems at the municipal level, such initiatives often stall or yield suboptimal results

Moreover, rural entrepreneurship has continued to emerge at the grassroots level. In particular, the Centre for Appropriate Rural Technology (CART), whose implementation began in the Eastern Cape, provided an example of a community-driven, l; low-tech innovation that promotes sustainable agriculture and youth empowerment (CART, 2023). Though the programme has not been formally integrated into the local municipal planning, it does, however, reflect the potential of rural communities to develop economically through consistent support provided through training, mentorships, and viability of procured technologies. In this regard, municipal authorities need to recognise, support and integrate such models into their existing and future LED strategies. Concerning access to technology, a study conducted by Mdluli and Nene (2024) revealed that despite the interviewed entrepreneurial population of Mnquma Local Municipality in the Eastern Cape having low base information technology literacy, targeted training interventions provided the local hospitality entrepreneurs with the opportunity to move from traditional markets and adopt digital markets and make use of online payment platforms. Lekhanya (2018) contends that digitalisation goes beyond expanding products, services, and manufacturing processes. It also provides advantages in other business components, such as marketing, business entrepreneurship, promotional mix, product distribution, supply chain and procurement process, access to international markets, and growth management to gain a competitive edge. This is necessary in a real setting to overcome the prevailing challenges of having to outsource services or not having access to the needed human capital. As such, this will enable new startups and young entrepreneurs to operate more willingly and conveniently in rural environments. Some of the benefits of adopting digital innovation for rural entrepreneurs and businesses include improved productivity and an increase in operational and administrative efficiency, and the increased ability to engage and attract customers outside the geographical boundaries, with the help of digital platforms such as social media and e-commerce websites (Cen, Lin, and Wu, 2022; Abeysinghe and Malik, 2021). Although several barriers and limitations exist in rural enterprises adopting digital innovation, namely a lack of infrastructure, resistance to change, and a lack of required knowledge and skills to update their digital technical skills, the implications for local government are clear. The Statistics of South Africa (2023) underscore that ICT building should be mainstreamed into LED units, and municipalities must play a leading role in advocating the use of or improving digital infrastructure.

However, the main ambitions of rural-based municipalities, as noted in the IDPs and LED strategies, are hindered by the lack of resources to ensure implementation of economic development strategies. Indeed, these municipalities are under-resourced and often struggle to attract the needed human capital with talent and know-how. This shortage of skilled human capital undermines the ability to design, implement, and monitor the catalytic projects. Moreover, the seemingly little authority within the municipal government structures executes these functions, relegating LED to a peripheral function rather than a central role in local government (Ngumbela, 2023). For rural entrepreneurs, this institutional weakness translates into a missed opportunity to get the needed support services, undeveloped infrastructure and minimal access to market linkages. At a border, local economies' results are stagnant economic growth, overreliance on federal funding, a dependency on the private sector, and a missed opportunity to leverage local resources for value action in agriculture, tourism, and rural industries. Unfortunately, as a result, municipalities miss the opportunity to leverage the potential of rural

entrepreneurship to create the needed employment and job opportunities for the rural populace, leaving many community members in a poor situation.

3.3 Rural situation and entrepreneurship in South Africa

The legacy of special inequity, economic marginalisation, and an institutional effect largely needs to be balanced for the existing situation of rural areas in South Africa. This apartheid institution has resulted in rural areas being home to the majority of the rural poor, with Macrotrends (2022) reporting that about 32.15%, which is equivalent to 19.3 million people of the South African population, live in rural areas. Table 1 demonstrates the rural ranking per province in South Africa. The Limpopo, KwaZulu-Natal, and Eastern Cape provinces he the largest share of rural areas.

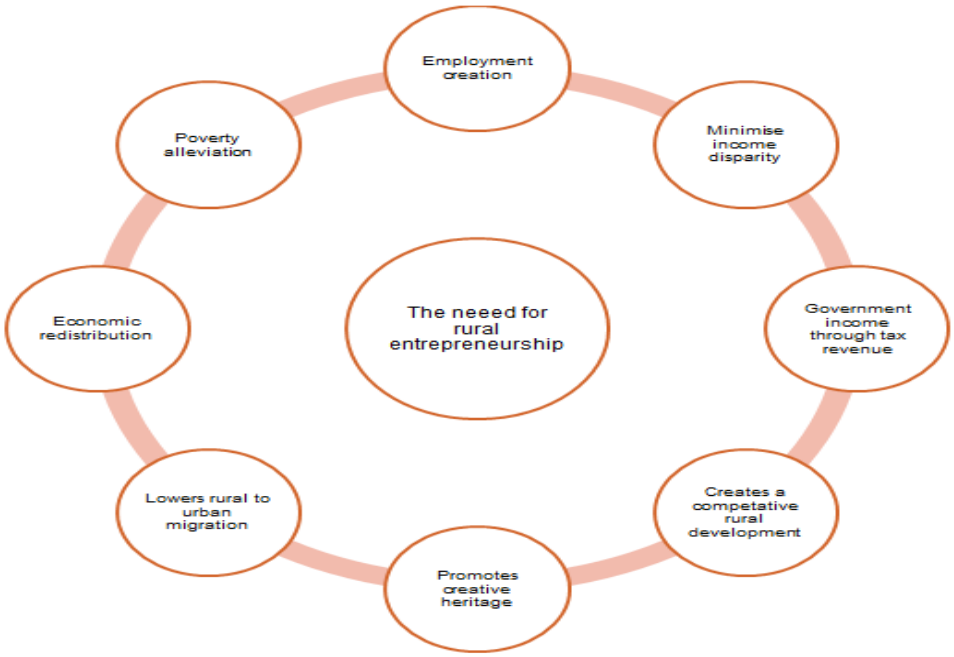
Most of the people living in these areas often rely on mono-industrial economies, such as mining, agriculture, or public employment, making them susceptible to sector-specific shocks (Utete and Zhou, 2024). In addition, access to human resources, a diverse labour pool, large marketplaces for buying and selling, and institutional support mechanisms for small businesses are limited in rural areas (Musara, 2021). Ndlovu and Makoni (2021) posited that rural economies are shaped by outmigration, especially of the youth, who leave their hometowns to seek better human development and economic opportunities in urban areas, thereby undermining the local human capital base. These conditions constrain economic opportunities and perpetuate the cycle of poverty.

Table 2. Rural ranking per province in South Africa

Province	% share of B3 and B4 municipalities	% share of B4 municipalities	Composite average	Rural ranking
Limpopo	92%	64%	78%	1
KwaZulu-Natal	79%	54%	66%	2
Eastern Cape	87%	38%	63%	3
North West	74%	26%	50%	4
Northern Cape	92%	4%	48%	5
Mpumalanga	67%	28%	47%	6
Free State	75%	0%	38%	7
Western Cape	60%	0%	30%	8
Gauteng	8%	0%	4%	9

Source: Mabugu (2018)

In such an environment, rural entrepreneurship has emerged not only as a mechanism through which the rural population can participate in the economy but also as a survival strategy. Alemu (2012) argued that labour endowment, age, education, and community characteristics, as well as access to basic infrastructure, force poor households in rural areas to adopt higher-return livelihood strategies. Ngxongo and Mavhunga (2023) noted that entrepreneurial activities are realigned in real ages. They highlighted that rural entrepreneurs operate in micro-enterprises in retail agriculture, transport, and services, often within hybrid formal-informal boundaries. Consequently, these entrepreneurship strategies that the rural poor engage in are largely in the informal sector, which is defined by the economic activities that are not regulated, often untaxed, and fall outside the formal framework and legal provisions (Chen, 2012). As such, businesses in the rural areas are embedded in local social networks and serve as a critical source of funds to meet community needs. Furthermore, they also provide employment opportunities and generate livelihoods in areas where formal employment is scarce. Figure 1 shows the need and benefits of rural entrepreneurship.



Source: Authors' compilation (2022)

3.4 Different types of rural entrepreneurship

The types of rural entrepreneurship are critical for designing target LED strategies that address the specific needs of different market segments.

3.3.1 Agricultural entrepreneurship

Agricultural entrepreneurship continues to be the most common form of rural entrepreneurial activity in the majority of rural communities. This form of entrepreneurship includes both subsistence and commercial farming, which produce mostly crops, livestock, and horticultural products for hoe and local consumption as well as broader markets. The AAMP underscores the need to support businesses in the agricultural sector in value-adding activities, particularly in agro-processing and packaging, to enhance their profitability and to enable them to continue towards employment creation (DALRRD, 2023).

3.3.2 Tourism and cultural entrepreneurship

In rural South Africa, tourism-based business typically uses natural, cultural, wildlife, historical and other sources to their advantage and to develop tourism products. Zhou (2018) notes that rural tourism can encompass a range of activities often centred around cultural and natural resources. Here, existing and emerging entrepreneurs typically open guesthouses, cultural villages, craft fairs, and eco-tourist projects. One survey finds that tourism is occurring; however, it is that tourism development sometimes experiences poverty, as is the case in the Nandoni area in the Limpopo province, where a dam is used for tourist activities (Manavhela and Spencer, 2012).

3.3.3 Craft and artisan entrepreneurship

Craft and artisan enterprises are based on rural communities' rich cultural heritage, and products include beading, wood carvings, textiles, and ceramics. These businesses are often small and operate in informal marketplaces

3.3.4 Service-based rural entrepreneurship

Service-oriented enterprises are often used to respond to local demands. They include small grocery stores (spaza shops), hair salons, mini-bus operators, and mobile phone repairers. Notably, however, this type of

enterprise has been infiltrated by foreign enterprises, especially the spaza shops, hair salons, and mobile phone repairs

3.3.5 Green and social entrepreneurship

This form of entrepreneurship is relatively new in South Africa. Mottiar, Boluk, and Kline (2018) define social enterprise as the process involving the use and integration of resources to accelerate social change and address social processes. A study conducted by Lang and Fink (2019) indicated a link between social entrepreneurship and rural development, often seen when social enterprises launch a wide range of businesses, not just public service organisations, from non-profit nongovernmental organisations to for-profit companies aimed at addressing pressing social issues. In particular, green and social entrepreneurship seek to combine environmental sustainability with community development goals. People entering this form of entrepreneurship engage in recycling, stabilising renewable energy, and community-based water purification initiatives.

4. METHODOLOGY

The paper adopted a qualitative research approach to explore and evaluate local governments' capacity to manage economic development in rural South Africa. Qualitative research was appropriate for this inquiry, as it allows for a context-rich, interpretive understanding of the institutional dynamics, policy implementation challenges, and socio-economic realities in rural municipalities (Creswell, 2014). A theoretical framework is developed to explain the background of the research findings. Data for this study were collected from secondary sources. These sources included journal articles, conference papers, and official reports that aligned with local government capability, local economic development, and rural entrepreneurship. Moreover, to ensure that the investigation is effective and to ensure that there is a balance between the phenomenon and the research problem within its real-life context, an exploratory and descriptive study design was used.

4.1 Study eligibility and research questions

The study design framework was scrutinised to determine the relevance of the research questions (Table 3). In particular, a systematic literature review is intended to answer the following research question:

- How can local government in South Africa strengthen its institutional capacity to effectively manage local economic development and promote rural entrepreneurship in rural areas?

Table 3. Population concept framework for verifying the research question

Key terms	Inclusion criteria	Exclusion criteria
Rural entrepreneurship	• Rural entrepreneurship • All types • English language • South Africa	• Urban entrepreneurship • Rural entrepreneurship in other countries and regions

Source: Author's compilation (2025)

4.2 Information source and the search strategy for the identification of relevant studies

The study made use of an electronic database search, which provided a comprehensive and relevant keyword search. This included looking or prior studies that have been carried out on the local government capacity, LED, and rural entrepreneurship in South Africa for the past 5 years to retrieve literature which can answer the research question. The literature search was guided by an inclusion and exclusion criterion (Table 3). The databases utilised included Scopus, Web of Science, JSTOR, and Sabinet. Additional records were identified in grey literature, policy briefs, and local government strategy documents. The researcher reviewed the strategy to ensure the appropriate use of indexing terminology. The search included the use of Boolean operations, "OR and "AND" to separate keywords. The researcher further tested the search strategy and details of the truncation utilised; descriptions of the search strategy, as well as the number of articles reviewed. The keywords used can be updated or revised before the actual database search to guarantee and generate the maximum retrieval of suitable articles before the screening or processing (see Table 4).

Table 4. Pilot research results (2020-2025)

Search Engine	Search strategy	No. of citation retrieved
SCOPUS and EMERALD	((“Local government capability” [Title/ Abstract] OR “Municipal Capacity” [Title/ Abstract] OR “Municipal Governance” [Title/ Abstract] OR “Rural Entrepreneurship” [Title/ Abstract] OR “Rural Small and Medium Businesses” [Title/ Abstract] AND “Local Economic Development” [Title/ Abstract] OR “Local Economic Development Challenges” [Title/ Abstract] OR “LED Challenges” [Title/ Abstract] OR “Financial Challenges” [Title/ Abstract] OR “Human Resource Challenges” [Title/ Abstract] OR “Infrastructural Challenges” [Title/ Abstract]))	80

Source: Authors’ Compilation (2025)

Table 5. Data extraction form

Study characteristics
Publication year
Country
Study design
Method of assessing complexities faced by local government and rural entrepreneurs

Source: Authors’ compilation (2025)

4.3 Study eligibility and selection

The researcher followed the PRISMA guidelines, and a procedure for screening articles that are relevant to answering the research problem was carried out. The researcher made use of a pre-established search strategy, and a database search was conducted; thereafter, all articles were exported to EndNote X, and duplicates were removed from the search. The researcher employed a multi-stage process to select the eligible studies, considering the following factors. Title screening: The researcher initially screened articles and their eligible titles, guided by the inclusion and exclusion criteria. Secondly, abstract screening was carried out. Here, the reviewed (TDM) screen is parallel with the abstracts of the eligible titles. Third, full-text screening was carried out after screening the abstract, and it is on this stage that studies that met the inclusion criteria were screened. Notably, the studies that did not meet the inclusion criteria were excluded.

4.4 Data extraction

When full-text screening was performed, the researcher separately extracted data from the entire incorporated articles in duplicate using a standardised form for data extraction. The form was crafted and subjected to pretesting to measure the reliability of the process of data extraction. Data were extracted based on thematic relevance to institutional capacity, LED, and rural entrepreneurship. Thematic synthesis and triangulation were used to identify and cross-validate key themes. Notably, the studies with missing data or information that cannot be retrieved were removed.

4.5 Data analysis and analysis of findings

A systematic review of the literature was conducted for this study. The review focused on local government capability in managing economic development, with a particular focus on local economic development and rural entrepreneurship. The summarised findings that provided details characteristics in the firm of descriptive numerical accounts of the studies, namely publication year, study setting and context, as well as the total number of studies included. A thematic context analysis was utilised to evaluate the emerging themes and to provide a narrative account of the study findings (Table 4).

In line with the PRISMA guidelines illustrated on the PRISMA flow chart below, the procedure for reviewing the relevant articles was carried out. The researcher employed a pre-established search strategy, and TDM conducted a database search. The articles retrieved from the databases were exported to a reference

management software, namely EndNote X9, and duplicates were discarded using the "Find Duplicates" function. A PRISMA flow chart (Figure 2) summarises the screening procedure.

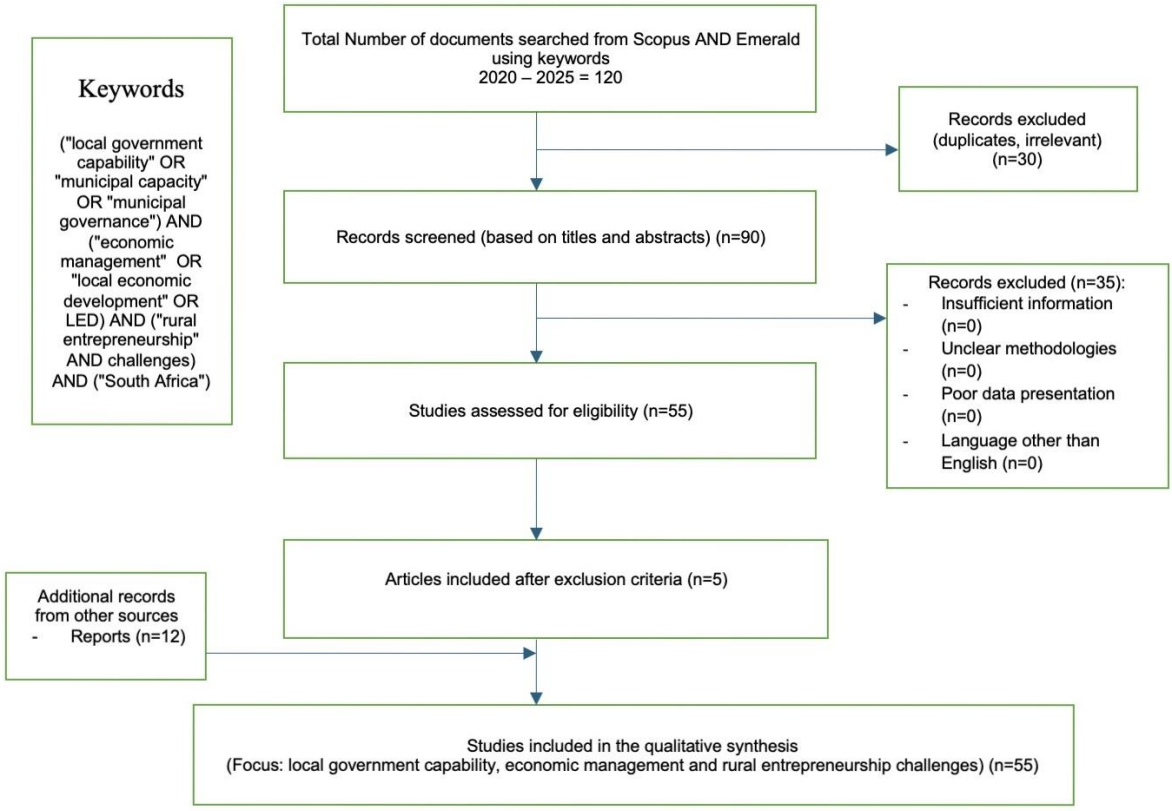


FIGURE 2
PRISMA FLOW CHART

Source: Authors' compilation (2025)

5. FINDINGS AND DISCUSSION

The systematic review of literature yielded 42 studies meeting the inclusion criteria. These studies, drawn from both peer-reviewed publications and grey literature, examined the capacity of local governments to manage economic development in rural South Africa, with specific attention to LED programmes and rural entrepreneurship. Thematic analysis revealed four interlinked themes: (1) institutional capacity constraints in rural municipalities; (2) misalignment between LED frameworks and rural entrepreneurial ecosystems; (3) financial resource limitations and governance challenges; and (4) spatial and locational determinants of rural entrepreneurship.

5.1 Institutional Capacity Constraints in Rural Municipalities

A recurring theme in the reviewed literature is the limited institutional capacity of rural municipalities to act as catalysts for economic transformation. Consistent with Institutional Capacity Theory, studies emphasise that financial, human, organisational, and relational resources are often inadequate in B4-category municipalities (Munzhedzi and Phago, 2020; Ngumbela, 2023). Weak planning capacity, shortages of skilled technical personnel, and insufficient leadership commitment hinder the translation of LED strategies into actionable

projects. The inability to integrate entrepreneurial support into municipal IDPs reflects both structural and agency-related constraints. From the perspective of Institutional Capacity Theory, this indicates that while LED mandates exist, the institutional machinery to translate policy into practice remains fragile. Weak governance structures also erode trust with rural communities, further constraining inclusive entrepreneurial support.

The Skills Development Act (1998) in South Africa gives a platform for government entities such as local municipalities to develop a framework that promotes the capacity building of municipal officials in LED programmes. The Auditor General (AG) found that the annual report for the financial year 2021/22 revealed that local municipal authorities in South Africa spend billions of Rands on outsourcing capacity building. This, as a result, has strained the municipal budgets. Notably, most of the money is spent on improving the capabilities of officials, who, in some cases, fail or fall short of acquiring the necessary competencies and skills due to either the short-term training provided by outsourced consultants or the inapplicability and inadequacy of capacity-building programs that are not relevant to the required needs. However, it is also important to note that local government capacity-building programmes are not uniform and much is dependent on the skills needed at the time (Shava and Doorgapersad, 2023). This is incorrect, as continuous learning and staff retention are essential for effective LED implementation, considering the trends and shocks, including economic shocks such as the COVID-19 pandemic, technological shifts (fourth industrial revolution), and political changes (coalition and policy shifts) that municipalities face. For instance, in the case of the COVID-19 pandemic, municipalities not only had to adopt digital systems in the procurement of personal protective equipment through agile processes, but also, technical employees were better positioned to maintain service delivery. Indeed, rural municipalities are expected to gazette and embrace emerging ICTs and digital technologies in their municipal planning, and in ensuring communication between citizens and municipal officials, which can help in executing the local government mandates in LED. Nevertheless, Ahdulai, Salakpi, and Nassè (2021) caution against the inability of human resource management to adequately staff municipal officials who can render LED programmes to achieve the service delivery targets. Dodo (2017) expresses similar concerns, highlighting that in the absence of technical and agricultural expertise, poor municipal finance management and reporting are likely to emerge, resulting in corruption and other mismanagement issues in the local government. Likewise, coalition governments that have risen from the local fragmentation post-2021 in the South African local government have also added to the complexity of municipal administration (Kariuki, Reddy, and Wissink, 2022). The latter has unfairly rendered municipal councils and the political environment unstable, impacting the effectiveness of LED by distracting mental leaders and creating policy uncertainty. A recent study by the Dulla Omar Institute (2025) on the role of municipal leadership in accelerating transformation and service delivery corroborates this perspective. According to the survey, nearly half of the municipal leadership indicated insufficient experience (47.2 per cent) and poor accountability (50.9 per cent) as the major barriers hindering transformation and service delivery. This underscores the pressing need for professional development and retention of competent municipal staff (political and administrative).

5.2 Skills deficit in implementing LED projects

Publication has shown that South African municipalities are losing competent and talented municipal officials due to emigration, high employee turnover and lack of promotion. Thusi and Chauke (2023) posited that the skilled municipal employees would rather join the private sector, where the reward systems are perceived to be more attractive compared to the public sector. Unfortunately, this loss of skilled manpower has triggered a severe skills shortage, which has resulted in poor service delivery and implementation of LED. The document review further revealed that a skills deficit has led municipalities not to comply with the regulations governing the implementation of LED programmes. Furthermore, despite the Local Government Sector Education and Training Authority's stance on closing the skills gap through training, poor compliance is being reported,

confirming he lack of project management skills to drive LED projects. This deficit, which may be attributed to brain drain, negatively affects the achievement of LED objectives. Notably, however, local authorities, particularly those with an administrative foot in rural areas, often fail to attract competent skills to drive LED, while at the same time, the levels of corruption and nepotism have rendered the human resources of these municipalities an unattractive position.

5.3 Misalignment Between LED Frameworks and Rural Entrepreneurial Ecosystems

National and provincial LED frameworks, such as the Comprehensive Rural Development Programme (CRDP) and Agricultural and Agro-processing Master Plan (AAMP), largely emphasise attracting formal private investment. This market-oriented orientation sidelines rural entrepreneurship, which is often micro-scale, survivalist, and embedded in local resource use (Utete and Zhou, 2024; Mdluli and Nene, 2024). Although these programmes are strategically meant to stimulate growth and come to rural areas, they often prioritise attracting external private sector investment and large-scale projects. This orientation, unfortunately, overlooks the specific needs of rural-based entrepreneurs who operate in localised and resource-constrained environments. In fact, LED is pushed by the narrative of location competitiveness to attract the private sector and to have the sector open its operations in the municipal areas, which in turn will create the needed employment. However, the reality is that in most of the rural areas, service delivery is of high concern (Shongwe and Meyer, 2023), and has led to industries closing their operation or moving to other areas, leaving thousands of people unemployed. Consequently, rural entrepreneurs in agriculture, crafts, tourism, and informal services remain marginalised from value chains. This finding illustrates how a predominantly pro-market approach neglects the pro-poor orientation, which should strengthen community ownership, local resource mobilisation, and endogenous development.

5.4 Financial Resource Limitations and Governance Challenges

Funding for LED implementation remains a serious challenge. The National Treasury data (2023) indicated that rural municipalities (B4 municipalities) consistently have to rely on intergovernmental transfers amounting to 73 per cent of their budgets. Worryingly, less than 1 per cent is allocated to LED. The 2020 Auditor General's report corroborated these findings, indicating that more than 70 per cent of municipal areas are not only striving to maintain the provision of services, but are also failing to consistently allocate their annual budgets sustainably. Poor revenue collection systems, political interference, and irregular expenditure further limit local fiscal autonomy. The literature suggests that without strategic investment in LED units, rural municipalities cannot provide the infrastructure, market access, and support services necessary for entrepreneurial growth. This is consistent with ICT's emphasis on resource sufficiency as a foundational element of institutional effectiveness.

5.5 Spatial and Locational Determinants of Rural Entrepreneurship

Drawing from the Economic Location Theory, rural entrepreneurship is profoundly influenced by spatial characteristics such as proximity to markets, resource endowments, and infrastructure networks. Entrepreneurs in isolated rural settlements face higher transaction costs, limited customer bases, and weaker integration into supply chains. Conversely, enterprises located along major transport corridors or near regional hubs demonstrate greater resilience and growth potential. The literature also highlights that location influences the type of entrepreneurship that emerges, agriculture in resource-rich areas, tourism in scenic landscapes, and service-based enterprises in peri-urban zones. These spatial realities must inform LED planning to ensure that economic development strategies leverage locational advantages while mitigating geographic constraints.

5.6 Integrating Theory and Practice

The application of the Initial Causality Theory and Economic Location Theory was intended to reveal that the management and efficiency of LED in rural areas is hindered by both institutional readiness and the geographical opportunity structures. Notably, however, in the instance where the municipal location provides some advantages, weak institutional capacity consistently prevents rural entrepreneurs from making the best of

these advantages. Conversely, strong institutional support can help mitigate spatial disadvantages by improving connectivity, market access, and local value chains. This dual-theoretical perspective suggests that rural municipalities must adopt a two-pronged approach: strengthening institutional capacity while designing spatially responsive LED interventions

6. RECOMMENDATIONS

6.1 Strengthening institutional capability

Local government institutions require consistent leadership in skills development and capacity building to effectively manage economic development in rural areas. The literature consistently showed that one of the institutional capacity challenges faced in rural-based municipalities is a lack of skills, knowledge, and killed human resources staff turnover, and policy instability, all of which undermine the implementation of LED. To address this, municipalities need to function as learning organisations and institutions and institutionalise professional development, which gives room for further learning and training of municipal officials to improve their competence in LED projects. There is also a need to develop succession and retail plans, liaise and form partnerships with local academic institutions for technical support. This recommendation is pushed by the fact that a capable musical workforce is not only beneficial to policy implementation but can also foster stability in navigating economic and political shocks.

6.2 Aligning LED frameworks with rural realities

Although the strategic objectives of the national and international frameworks on LED are acknowledged, priority is needed on rural entrepreneurship, which mostly thrives in micro-and small enterprises. As such, policy design must shift towards context-sensitive, place-based strategies that will prioritise local ecosystems, value-chain participation, and market access.

6.3 Ensure institutional readiness through advanced technologies

The adoption of advanced technologies is crucial to ensuring institutional readiness. These technologies (i.e., fourth industrial revolution) will help in improving coordination, transparency, and responsiveness in municipal service delivery and LED facilitation. Therefore, policy implementations must be made to procure digital infrastructure, such as rural broadband and promote digital literacy programmes for municipal officials and entrepreneurs. This ICT adoption must be accompanied by government reform that embeds digital tools into planning, monitoring, and reporting systems.

6.4 Building resilience to economic, technological, and political shocks

It is important to acknowledge that rural-based municipalities, unlike those in rural areas, are vulnerable to sudden shocks. Rural municipalities must adopt shock-responsive planning that integrates adaptive mechanisms and intergovernmental coordination, ensuring stability during crises such as pandemics, climate shocks, or political instability. This will enable the municipalities to quickly adjust and respond to crises and support rural entrepreneurs and local economies.

6.5 Promoting rural entrepreneurship ecosystems

Policy interventions should support the creation of rural entrepreneurship ecosystems that provide integrated services, such as shared production facilities, cooperative business models, training hubs, and access to finance. Local governments can facilitate these ecosystems by acting as conveners of partnerships between community-based organisations, private sector actors, and non-governmental organisations. Such ecosystems allow rural entrepreneurs to transition from survivalist activities to growth-oriented ventures, thereby contributing to rural economic competitiveness

6.6 Policy implications and conclusion

This study examines the capacity of local government in managing the local economies of rural areas. The study employed the institutional capacity theory and the economic location theory to answer the research problem. The findings point to the urgent need for capacity-building programmes targeting LED units, fiscal

reforms to increase LED budget allocations, and the localisation of national programmes to fit rural entrepreneurial contexts. Rural municipalities must embed spatial analysis into LED planning, ensuring that strategies align with the locational realities of different communities. Without these measures, the gap between policy intent and economic outcomes will persist, perpetuating cycles of rural poverty and underdevelopment. Moreover, there is a need to recalibrate LED policies from a top-down investment-driven model to a bottom-up, capability-driven model.

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