

A Policy Review of Rural and Township Economies in Local Economic Development in KwaZulu-Natal, South Africa

Londeka Thandokuhle Mimi Nxumalo
Moses Kotane Research Institute, KwaZulu-Natal, Durban, South Africa
Londeka.nxumalo@moseskotane.com

Abstract: The South African government has shifted socioeconomic policy paradigms from focusing solely on attracting Foreign Direct Investment to Small and Medium Enterprises' development since they promise to provide a base for the emergence of dynamic and efficient large-scale firms and, consequently, a more flexible and competitive domestic economy. The newly adopted KwaZulu-Natal Township and Rural Economies Revitalization Strategy (2022) is an application of the popular acclaim that Small and Medium Enterprises are engines of economic development. Therefore, there is a need for policies and strategies geared towards promoting local economic development that corresponds with the socioeconomic climate of host communities. The main objective of this paper was to explore the role of rural and township enterprises in implementing Local Economic Development in KwaZulu-Natal. The study utilised a systematic research approach in which data was gathered from journal articles, conference papers, reports, and all the relevant research material was managed. Findings indicate that Small and Medium Enterprises are a characteristic of successful economies. Despite the theoretical shift in economic policies, poverty, inequality, and unemployment plague South Africa. Rural and township areas are still behind urban areas in terms of structural capacity, technology, and economic development. This study highlights the need for the provincial government to revise policies specific to the host area because issues faced by rural economies are peculiar to township economies.

Keywords: *Rural economies, Township economies, Local Economic Development, Small and Medium Enterprises.*

1. Introduction

There is a range of legacy issues dating back to the apartheid regime that continue to undermine economic efficiency and job creation in South Africa. Rural and township areas were demarcated by the apartheid government as Bantustans for Black inhabitants who were marginalised from economic and structural developments (Webb et al., 2010). Other countries and most explicitly, the United States of America's president, Donald Trump, still view South Africa as having one of the most fragmented socio-economic structures globally because the apartheid regime polarised it into black and white (race) and privileged and oppressed (socioeconomic status) for a long time. The Edelman Trust Institute (2023) ranked South Africa, Argentina, Colombia, the USA, Spain, and Sweden as the most politically polarised countries in the world. In 2025, the Edelman Trust Institute's findings still show a legacy of polarisation in which 71% of South Africans expressed that business and government serve narrow interests by enriching the wealthy against exploiting people. An atypical practice that has been accepted as a norm is rural and township residents travelling long distances to urban areas for household needs, services, and employment because of the rural and township's disadvantageous spatial positioning, which boosts the urban area's LED.

In response to past spatial injustices, the democratic government implemented a motion of corrective measures such as developing basic infrastructure (water and sanitation to all township residents, road infrastructure, etc.) and access to these services. However, townships are still trapped in the cycle of spatial imbalance in the democratic era, and increased rural-urban migration aggravates their position due to the abolition of influx control legislation and climate change (Mthiyane et al., 2022). Despite these social injustices inherited from the apartheid era, rural and township areas are characterised by a periphery complex comprising formal, widespread, unregulated, and informal economies where the township economy is viewed as the survivalist regime for Black communities in Lower Developing Countries (LDCs). The phenomenon has the constitutional wit to redress past social injustices, and its custodians collaborate with the national government in achieving policies nominally centred on redistribution and redress.

However, the initiative must take a holistic approach that considers factors slowing down rural and township economies, such as businesses with limited expansion capacity and businesses that struggle to survive in their markets despite support measures from the government and private sectors (Trade and Industrial Policy

Strategies, 2021). The KwaZulu-Natal (KZN) cabinet has attempted to develop the KwaZulu-Natal Rural and Township Economies Revitalisation Strategy (RTERS) in 2022 that encompasses rural, township, and informal economies (KZN Provincial Government, 2022). The strategy focuses broadly on the economic challenges experienced by enterprises and entrepreneurs in the rural and township areas (KZN Provincial Government, 2022). The policy directive is to assist communities with the financial support most households require to survive and accelerate economic growth. One noteworthy plan is supporting small businesses, starting with the Small Businesses Act 102 of 1996. The purpose of the Act is “to provide for the establishment of the National Small Business Council and the Ntsika Enterprise Promotion Agency and to provide guidelines for organs of state. To promote small business in the Republic; and to provide for matters incidental to that” (RSA, 1996: 2).

However, the policy has not met the objectives set out in its mandate. As a result, this study sought to determine why the goals have not been met. What challenges are rural and township economies facing? How does the policy address polarisation? How do rural and township economies impact LED, job creation, and poverty alleviation in the host communities? Finally, explore the inclusion of rural and township economies in LED.

Research studies on the theme of LED and the inclusion of rural and township economies have centred on *Exploring the Local Economic Development initiatives for unemployed rural women in Mandeni Municipality* (Dhlodhlo, 2010); *Determining LED in the Rural Areas of Romania: Exploring the Role of Exogenous Factors* (Pavel and Moldovan, 2019); *Investigating the inclusion of township economies in LED case study: Polokwane Local Municipality* (Tshivhase, 2020); *Exploring local economic development to promote inclusive sustainable development in marginalised areas* (Nkosi, 2022), and *The nature and operations of African migrant informal enterprises in the Mandeni Local Municipality, Kwa-Zulu Natal, South Africa* (Gumede & Moyo, 2023); and *Temporary youth employment as a Local Economic Development (LED) mechanism in the Thuthukani Township, South Africa* (Hlatshwayo et al., 2025). There is a gap in research evaluating the inclusion of both rural and township economies' contribution to LED. Van Praag (2003) suggested that it was highly relevant to investigate the inclusion of the township economy in LED. This paper contributes to that standard of analysis in KZN, one of the socioeconomically unequal provinces in South Africa. To accomplish this goal, the research utilised a desktop exploration with secondary data sources, specifically the National Policy and KZN Provincial Government policies and reports, relevant strategic documents, and published and unpublished research studies assessing rural economies, township economies, challenges encountered by SMEs, and their effect on LED.

2. Literature Review

Historical overview of South Africa during the apartheid regime

The apartheid system introduced policies and laws that led to the economic demise of South Africa. The country underwent financial sanctions, limited government funding, and economic development policies were only favourable to white suburban areas (Moshood, 2024). Scholars argue that apartheid policies promoted economic dependence on the coloniser countries and economic sufficiency in South Africa, which pushed Foreign Direct Investment (FDI) from investing in the country (Kajiita & Kang'ethe, 2024; Phetha, 2025; Lin and Liao, 2025). Despite investors pulling out of the country, the apartheid government directed state funds to the military defence (Moshood, 2024). Instead of revitalising rural and township economies that were neglected during the colonial and apartheid eras. As a result, South Africa suffers the aftermath of the prehistoric socioeconomic injustices of colonialism and apartheid eras, which are not limited to poor economic planning and policy implementation, inequality, unemployment, poverty, climate change (disaster management), among other challenges. Due to weak economic performance and long-term impediments, the creation of decent jobs has not kept up with the increase in labour supply in recent decades. Consequently, a large segment of the population remains marginalised in the labour market (Verick, 2010). The post-apartheid policy on economic development made a theoretical shift towards pro-economic growth by participating in global trade and tackling socio-economic challenges facing South Africans through the opening of job opportunities in the formal sectors, improving local economies by adopting policies such as the National Framework for Local Economic Development (2006-2011), Reconstruction and Development Programme (RDP), Growth, Employment and Redistribution (GEAR) in response to the universal United Nations Sustainable Development Goals (SDGs).

Sustainable Development Goals- Goal 12 (Responsible Production and Consumption).

SDGs are 17 policy guidelines that global leaders and institutions adopt to influence public policy and governance (Zarghami, 2025). The requirement is that global-level processes be translated into organisational-level impacts through business engagements related to SMEs (de Villiers et al., 2021). SDG 12 explicitly addresses organisations and acts as guidelines for companies implementing sustainability practices (Sobir, n.d.). The consensus is that companies can achieve the 17 goals, including innovation, responsiveness, and provision of specific skills and resources (Di Vaio et al., 2020). This view is consistent with the new paradigm shift from focusing solely on FDI to capacitating SMEs to lead LED in South Africa. Drawn from the United Nations Department of Economic and Social Affairs report, “no matter how large or small, and regardless of their industry, all companies can contribute to the SDGs” (Sobir, n.d.:2). Pizzi et al. (2022) argued that SMEs struggle with their role in achieving the SDGs framework because of the barriers to entry. Furthermore, SMEs in urban areas can achieve the SDGs goals because of their spatial positioning and access to the knowledge economy. Whereas SMEs in township and rural areas are spatially disadvantaged with limited access to markets and knowledge. Smith et al. (2022) refer to this as the paradoxical nature of SMEs. They explain that SMEs have limited economic, social, and environmental impact as singular entities, but have the potential to influence society when combined. Mio et al. (2020) note that literature on the role of businesses as sustainable development organisations emphasises large urban enterprises over rural and township SMEs, which constitute most organisations worldwide. According to Smith et al. (2022), this creates a gap in the literature that limits a comprehensive, in-depth understanding of SDGs’ liabilities and opportunities. Therefore, there is a need to review the role of rural and township economies in implementing the SDG goals through LED policies and initiatives.

National Framework for LED

The current National Framework for LED in South Africa (2018–2028) is undergoing the policy analysis and implementation stage. The preceding National Framework for LED in South Africa (2013–2018) is still policy-relevant, promoting pro-poor and pro-market approaches to LED in South Africa and is accepted as the guiding principle for LED policy (Bronen, 2021). According to Chomane & Biljohn (2023), this dualistic approach creates a conducive environment for businesses to expand and implement LED through poverty relief and job creation initiatives. The framework supports the notion of rural and township economies being engines of economic development by incorporating elements of pro-poor and pro-market in areas of sustainable community projects and partnerships. It is said that this would improve market confidence, exploit comparative advantage, promote enterprise support and business development, and improve good governance (Patterson et al, 2008). The National framework promotes LED as a function of local government and not an approach. The idea is to create a favourable climate for economic development among the government, public sector institutions, businesses, and host communities (Ndabeni & Rogerson, 2017). However, Chomane and Biljohn (2023) pointed out that balancing LED as a function among different actors requires knowledge and skills to advance LED, since there are differing goals for development and how to achieve them. Thus, implementing the National Framework for LED within local governance and communities is subject to individual or community objectives. The gap in the national policy directive calls for a comprehensive review of the policy implementation among different actors from different socioeconomic backgrounds and roles at the provincial level. This will help synthesise our understanding of the role of rural and township economies in implementing LED.

Provincial Policy Response: Township and Rural Economies Revitalisation Strategy

Government adopted and implemented the KwaZulu-Natal Small, Medium and Micro Enterprises and Cooperatives Development Strategies, the BBBEE Act 46 of 2013 (Act 53 of 2003), the KZN Informal Economy Policy of 2010, and the KZN BBBEE Strategy to bridge the gap of economic imbalances and underdevelopment in KZN and respond to the universal SDGs. Despite all these strategies and policies, unemployment, poverty, and inequality in township and rural areas are still rife. Therefore, the KZN provincial government adopted the KZN Township and Rural Economies Revitalisation Strategy (TRERS) to “radically transform the province’s township and rural economies into diversified, inclusive and sustainable wealth-generating economic systems, promoting SMEs and actively contributing to the province’s economy” (KZN Provincial Government, 2022: 21). The strategy is developed under economic principles, which view rural and township economies as engines of economic growth and having the ability to revitalise host areas’ LED through job creation and infrastructural development. However, the strategy is still in its infancy. The township areas’ spatial landscape is closer to the

knowledge economy and metropolitan areas. In contrast, rural areas are at the outskirts, far from economic and technological activity. This view is supported by Westlund & Borsekova (2023: 717), who pointed out that “rural areas are outside the positive economic influence and knowledge economy, mainly negative in both developed and developing countries: rationalisation or closure of existing industry and agriculture, depopulation and brain drain.” The distinguishing feature is the lack of continuous economic, social, and cultural relationships between vibrant urban centres and remote rural zones (National Planning Commission, 2013). Rural areas are constantly playing catch-up to areas closer to urban areas (core), and their economies are often at the subsistence and household level.

Rural economies as the informal economy in South Africa

The rural economy is defined as all economic activities, mainly agricultural, occurring in rural areas. As an approach, it is recognised as a new rural economy mobilised to achieve the Millennium Development Goals (MDGs) through sustainable development. The concept of sustainable development is interlinked with LED, but on a broader note, is designed to contribute to Gross Domestic Product (GDP) and attract FDI, which has fallen short because of South Africa’s corruption status. For example, China is predominantly agricultural, and the rural construction has always been an integral part of China’s socioeconomic development policy (Guochao et al., 2023). In KZN, sustainable rural development has not always been an economic policy priority due to its informality, geospatial position (far from homogeneous activity), and small-scale and household growth. This is what Webb et al. (2010) referred to as the apartheid regime’s polarisation laws to prioritise white areas at the expense of marginalising Black people in rural areas. The newly adopted shift from a top-down policy approach to a bottom-up community-driven strategy was an attempt to redress social injustices of the past and re-attract FDI (Gargano, 2021). However, it is worth noting that rural areas were entirely self-sufficient before government intervention, specifically in agricultural production. The government’s plans to integrate rural economies into economic policy are to formalise and regularise them.

Township economies as a survivalist regime in South Africa

The apartheid regime grouped small-scale businesses, such as hair salons, cooking at taxi ranks, car washes, and housekeeping in their local areas where Black people worked for survival. The township is typically used to describe neighbourhoods deliberately designed under colonialism and then apartheid to function as segregated dormitories supplying labour to economic centres in urban areas (Phosho & Gumbo, 2025). Scheba and Turok (2020) explained that township economies include economic activities within townships, which include producing, distributing, exchanging, and consuming goods and services. In the policy context, townships refer to settlements developed through the democratic government’s housing subsidy scheme (Reconstruction and Development Programme (RDP) and Breaking New Ground (BNG)) (RSA, 2021). The large-scale RDP/BNG programme typically resulted in rows of small, free-standing houses on the urban periphery, just as far from economic opportunities as their apartheid predecessors (RSA, 2021). The historical political systems in South Africa promoted an anti-entrepreneurial culture due to the state’s dependency on, or control of, the public, which decreased interest in private enterprise amongst the oppressed, who were mainly Black South Africans.

The inclusion of rural and township economies in Local Economic Development

The integration of rural and township economies into economic policies was driven by the widely recognised notion of SMEs being engines of economic growth; however, their capability rests on their participation in Public Private Partnerships (PPPs). In earlier studies, Fairfoot (2013) advised that SMEs must adopt reform strategies to collaborate with PPPs on best practices to build the economy of rural and township areas. Maloka (2013) suggested that SMEs observe environmental management, work on extension strategies, and collaborate with municipalities to create encouraging conditions for investment. The Organisation for Economic Co-operation and Development (OECD) (2018) supported this by stating that PPPs, large-scale enterprises, support smaller businesses through advisory services and help to grow the economy by subcontracting to and tendering from local companies. The South African government mandates developers of trading areas to incorporate micro-enterprises into their spatial planning frameworks. For example, the National Framework for LED (2018-2028) explicitly stipulates that municipalities have a key role in creating a conducive environment for investment by providing infrastructure and quality services rather than developing programmes and attempting to create jobs directly (RSA, 2023). Mabuza (2017) argued that many PPP models for developed and developing countries do not endorse the role of SMEs as potential suppliers of PPP goods

and services, and they do not embed SMEs into the PPP project structure. He pointed out that the concept of PPPs is centred on the private sector's role as the supplier of public infrastructure. Still, little has been said about using PPPs to develop SMEs and create jobs for the unemployed (Mabuza, 2017). The role of rural and township economies as an engine of growth in LED depends on PPPs and policy environments. However, if SMEs are not mentioned in the policy as suppliers, then the goal of the engine of growth would not materialise

The role of rural and township economies in implementing Local Economic Development

According to the TRERS (2022), rural and township economies implement LED as hubs for community development, employment, and entrepreneurship. Tshivhase (2020) clarified that township economies provide employment opportunities for a wide range of individuals, from the illiterate to the highly skilled, encompassing different age groups and backgrounds. Rural economies' value chains are characterised by communism, where economic activities are domestic and benefits are shared among households, often agrarian and informal. The "new normal", post-COVID, emphasises LED and technological advancement, where local communities must adjust to changes and integrate policy trends into their strategic planning and decision-making (Makhaye and Subban, 2024). Noteworthy is that the rural and township economies were operating as survivalist regimes or an alternative to the labour market saturation before the paradigm shift in policy and governance. In 2024, an estimated 13.4 million people were employed by the MSME sector in South Africa, including those in rural and township areas. This sector, which includes micro, small, and medium enterprises, accounts for 80% of the workforce and has a turnover of over R5 trillion (Solomons, 2024). SMMs contribute significantly to local economies. Therefore, governments need to support and formalise them to attract investment.

3. Methodology

This study used a systematic research method called secondary data analysis. This method involves reviewing previously collected data on a research topic. The secondary data approach was used to explore the inclusion of rural and township economies in LED. This approach was deemed appropriate since scholars and government publications previously explored LED. This study aimed to elucidate new data sets on the policy implications of marrying rural and township economies under an LED portfolio from various national and international sources, both accredited and non-accredited, obtained from search engines such as Google Scholar, Scopus, and Research Gate, which are credible, accessible, and reliable. This included online commentaries, newsletters, dissertations, and policies from the KZN Provincial Government, explicitly focusing on the *KwaZulu-Natal Township and Rural Economies Revitalisation Strategy (TRERS)*.

Data Analysis

The study used relational content analysis, which begins like conceptual analysis, where a concept is chosen for examination; however, the analysis explores the relationships between concepts. Preiser et al. (2021) explain that individual concepts are viewed as having no inherent meaning, and instead, the meaning is a product of the relationships among ideas. Data analysis involved determining the types of relationships to examine and the level of analysis: word, word sense, phrase, sentence, and themes. The study investigates the relationship between rural economies, township economies, and LED. Secondly, I coded for the existence of meanings by reducing the texts to codes for patterns. The results suggest that empirical data sets on LED share themes of SME growth, community development, and job creation. Once the words were coded, the texts were analysed to determine the relationship's Strength, Sign, and Direction.

4. Results and Discussion

The inclusion of rural and township economies in Local Economic Development.

One of this study's objectives was to investigate the inclusion of rural and township economies in LED. Using relational content analysis, I learnt that the context of this objective has a double meaning: to examine the policy transformation of mainstreaming rural and township economies in LED, and to analyse rural and township economies' role in implementing LED. Using the relational content analysis, the former (examines the policy transformation of mainstreaming rural and township economies in LED) implies the latter (the study of the role of rural and township economies in implementing LED).

The first context of the question can be answered through policy responses. The RTERS stipulates “the implementation plan and arrangement for the rural and township economies revitalisation strategy as a system, processes, and mechanisms that will be used to plan and manage activities. This shall enable effective coordination with others to fulfil the mandate of the *KwaZulu-Natal Rural and Township Economies Revitalisation Strategy*. The strategy maps out how to bring the strategic framework to life by breaking it into identifiable action steps on a set timeline and how to effectively manage it as it gets put into place” (KZN Provincial Government, 2022:65). Considering this policy clause, the KZN provincial government has a vision to revitalise, redress historic injustices and modernise rural and township economies, particularly to diversify SMEs portfolios as suppliers of development infrastructure (KZN Provincial Government, 2022). However, modernising rural and township SMEs (salons, barbershops, repair shops, subsistence farming, shisanyama, etc.) means regulating the economies. This entails applying for finance loans, forming PPPs, becoming innovative, legally registering, and complying with South African Revenue Services (SARS) requirements as a minimum to compete with large-scale businesses successfully. Modernising or formalising SMEs minimises the illegal market and informal businesses; however, it strips societies of their traditional practices and societal norms of community development. In a case study investigating the Struggle for Political Space between Chiefs and Councillors in Malawi, Chinsinga (2006) acknowledged that modernization was a good idea since it brought democracy, constituent policies, and redistribution of resources from the chiefdoms to societies. However, the author admits that the newly adopted system created income gaps and economic independence, where families started businesses for individual and household gain instead of distributing resources and knowledge transfer as a community. In line with Chinsinga’s perspective, the formalisation of rural and township economies may not revitalise them but instead achieve urban-like economies that compete to move away from host areas for a better standard of living rather than re-energising their host areas.

Answering the first phase of the objective: examines the policy transformation of mainstreaming rural and township economies in LED. The policy transformation is still in its infancy and a plan; theoretically, township economies can be transformed from survivalist regimes to the largest employer in township areas and attract tourism, depending on the sector and income. However, rural economies are predominantly traditional practices with poor infrastructural development that require deep revitalisation, revamp, and regeneration; as a result, adaptation will take years. The second context of the objective was the role of rural and township economies in implementing LED. I discovered that effectively implementing LED involves enhancing a local area’s economic capacity to improve its financial prospects and quality of life. According to Chomane and Biljohn (2023), it entails collaboration among public, business, and non-governmental organisations (NGOs) to improve economic growth and foster job creation. The success of a community relies on its ability to adjust to the dynamic local, national, and international market economies. The ability of communities to improve the quality of life, create new economic opportunities, and fight poverty depends on their understanding of LED processes and innovation to strategically compete in the new market economy.

Considering this, the role of rural and township economies in LED can be viewed as a spectrum, ranging from full integration and belonging to various degrees of participation and adaptation. But instead, it is measured based on PPPs, the host community's adaptiveness, unemployment, poverty reduction, and community cooperation to promote economic advancement and reduce inequality gaps. The literature review on township and rural economies in South Africa revealed a theme of survivalist regimes. According to Utete and Zhou (2024), these economic activities create short-term, unstable jobs, low-quality and low-income jobs, and serve as fallback options when the labour market saturates. This makes it difficult to assess the social impact of rural and township economies in LED. Therefore, these economies may not function as "engines of growth" as proclaimed by the SDGs but can establish sustainable communities in the host areas. After changing the perspective, I came across many policies and research on the agility of these economies to enhance LED in their host areas. The white paper on Small Business and the National Small Business Act of 1996 stipulates that these SMEs can:

a) **Address high unemployment** in South Africa due to having a high labour absorptive ability. Prakasa et al. (2022) explain that SMMEs provide the higher labour-absorptive capacity of small business sector than that of other size classes; the average capital cost of a job created in the SMME sector is lower than in the big business sector; they allow for more competitive markets; they can adapt more rapidly than larger organisations to changing preferences and trends; they often make use of local resources; there is provision of opportunities to

aspiring entrepreneurs especially those who are unemployed, under-employed or retrenched; workers at the smaller end of the scale often require limited or no skills or training; and subcontracting by large enterprises to SMMEs lends fertility to production processes. However, Small Enterprise Development Agency (SEDA) (2016) pointed out that most enterprises from remote areas rarely survive beyond their nascent phases, lasting an average of less than 3.5 years. Mxunyelwa & Vallabh (2025) confirmed that the survival rate for SMEs, including rural and township ones, is 3.5 years. Therefore, job creation is short-term and unstable, depending on the businesses' success and ability to survive during the nascent phases. Furthermore, policies nominally centred on redress must be transparent about the quality and periods of employment within the SME sector.

b) **Promote local competition** by creating markets that grow by identifying new places as they respond to demand changes and international competitiveness because of their flexibility (Small Business and National Small Business Act, 1996). Matekenya & Moyo (2022) argued that SMEs cannot develop without innovation. They said that innovation should not be measured from the technological aspect but also from the integration of cultural, management, and technological innovation, including technology import, innovation, imitation, and independent cooperation. In developing and underdeveloped economies like KwaZulu-Natal's township and rural areas, SMEs are more vulnerable to globalisation and rapid technological change because of their limited resources, limiting their access to funding sources and their possibilities for recruiting talented human resources.

c) **Redress inequalities** created during the apartheid era in terms of patterns of economic ownership and limited career opportunities for Black employees.

d) **Contribute to Black economic empowerment** by having SMEs initiated, owned, and controlled by those who were excluded in the past (Small Business and National Small Business Act, 1996). Building on the evidence presented, the National Development Plan (NDP) and TRERS policies mainstream rural and township economies in LED because policymakers recognise them as a mechanism to redress the social, political, and economic injustices created by the apartheid regime. SMEs in rural and township areas can redress social injustices if given the same effort, access, opportunities, and financial aid conditions as successful, white-led businesses.

e) **Play a vital role in people's efforts to meet their needs without social support systems.** This clause represents the aspect of LED, which is often overlooked in SME research and analysis. According to the Small Business and National Small Business Act (1996), these economies can create better jobs and opportunities, attract investment, and foster sustainable communities with the necessary support. This study asserts that scholars would arrive at a straightforward answer if they studied rural and township economies in LED through the lens of community development's impact on local economies. This way, scholars would produce accurate statistical output. The contribution of rural and township economies in LED is limited to economic production since there is limited evidence in KZN, and the province has not created adaptive communities in local, national, and international markets.

Review policies that guide the intervention of rural and township economies in Local Economic Development.

The NDP is South Africa's blueprint of social policy, an overarching policy framework that extends the UNDGs or Millennium Development Goals (MDGs) to address poverty in developing and underdeveloped countries. In South Africa, the MDGs, as envisioned in the NDP, propose a virtuous cycle of alleviating poverty while creating a virtuous cycle of expanding opportunities, socially including poor communities and uplifting living standards (National Planning Commission, 2013). The government's policy responses from the NDP introduced the National Integrated Small Enterprise Development (NISED) (2023), the National Small Enterprise Amendment Act: South African SMMEs (2023), KZN SMME and Cooperatives Development Strategies, the BBBEE Act 46 of 2013 (Act 53 of 2003), KZN Informal Economy Policy of 2010, KZN BBBEE Strategy, the National Business Act of 1996, to create an enabling environment for SMMEs and established several institutions to provide financial and non-financial support to entrepreneurs. The policy mandates are summarised in the table below.

Table 1: Review of policy mandates on rural and township economies in implementing Local Economic Development

Regulatory policy (taxation, labour laws, health and safety regulations, consumer protection, municipal bylaws, access to finance, digital transformation).		
Recommendations based on review	Policy Gaps	Policy recommendations
To reduce restrictive business regulations on SMMEs in the first 5 years of operation.	Implementation recommendations need to be made on how to achieve this.	Further evidence is required on the best way to do this holistically.
There is a lack of employment incentives through staff stipends in SME regulation policies. These incentives will allow SMEs to hire skilled and qualified staff for any scale of jobs.	This policy recommendation has not been studied or implemented. However, a minimum wage allows for SMME exemption, and there is no evidence of another.	Evidence is required to understand whether these exemptions would have the desired effect.
To standardise the regulatory process across types of enterprises with diverse socioeconomic backgrounds.	This has not been implemented.	The paper found that studying SMEs from the lens of “potential” rather than “engine of growth” would encourage policy environments that stimulate the economies’ socioeconomic abilities rather than developing policies that drive survivalist regimes.
Regulate independent policy reform at the municipality level where LED coordination occurs.	This has not been implemented.	Explore the feasibility of policy reforms at the municipal level for SMMEs and LED.
The TRERS should improve its implementation guidelines and requirements, prioritising previously disadvantaged groups. Furthermore, the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) should investigate why current allocations and guidelines have not reached their target groups.	Regulatory policies highlight these groups. However, policies, such as RTERS, do not currently ensure these groups are provided for.	Quantitative data is required regarding these groups to ensure they can be reached, and a mechanism for achieving this can be provided.
Enabling infrastructure and encouraging LED		
Review	Policy gaps	Evidence
LED should be a conditionality for the growth and expansion of SMEs, i.e., SMEs need to source resources from their host area (rural and township) as a prerequisite for financial and non-financial assistance.	The socio-economic policy on including rural and township economies in LED has not married the two concepts with LED in practice. This has only been done theoretically with no implementation plan to redress and revitalise the economies in the ideology that governs them. Instead, they are being transformed into urban economies.	TRERS was developed in 2022 by the KZN Provincial Government, and the policy is at the strategic planning stage.

Under implementation policies, the KZN provincial government can assist SMMEs by developing shared operating premises according to industry and enterprises' needs.	The National Informal Business Upliftment Strategy (NIBUS) contains a provision for a Shared Economic Infrastructure Facility (SEIF) that will cover the funding of a common Infrastructure that is new or upgraded, maintained, and shared by an agreed-upon number of informal businesses, SMMEs, and cooperatives (Department of Small Business Development DSBD, 2023). This policy needs to be implemented in conjunction with SMMEs' policies.	NIBUS policy
KZN Provincial government can stimulate communism in LED by offering incentives for businesses with high employment, skills training, and development rates in host areas.	These recommendations have not been implemented. Further, this requires communism by each member of society, and the government cannot regulate people's buying and spending preferences.	Evidence is required on how private companies can prepare SMME owners for the risks associated with entrepreneurship and incentive schemes to support small businesses.
Socially inclusive strategies are needed to realise the potential for vulnerable groups (youth, women, informal households) to work and entrepreneurship in the township and rural micro-enterprise economies.	Policies explicitly mainstream gender, age, race, and status disparities in SME development and LED. However, policy, practice, and implementation need to emulate the policy directives.	None
Rural areas predominantly engage in the agricultural economy. The KZN Provincial government must encourage other economic activities from the knowledge economy in rural areas to ensure that the rural areas are not left behind.	Sustainable rural development policies must diversify rural economies' portfolios like urban areas. It is unclear if current provisions are adequate.	Rural Development Framework Policy, National Rural Development Strategy, The Rural Economy Transformation Model, and TRERS.
Private sector access to market and competition issues		
Recommendations	Policy Gaps	Evidence
To address market challenges faced by township enterprises, specifically, competition from foreign-owned businesses.	Township economies should be recognised as a distinct type of SMME, and their needs should be responded to specifically. These enterprises are limited by foreign-owned firms that have a comparative advantage in international and domestic markets.	NIBUS recognises the unfair comparative and competitive advantage by prioritising the informal sector and vulnerable groups, but it is not clear that the measures contained therein are adequate for support.
The provincial government should adopt strategies to ensure SMME suppliers are not hampered by the bargaining and competitive power of foreign-owned businesses or co-operatives.	Regulations for Alternate Dispute Resolutions, currently being considered by the KZN EDTEA, may assist in this regard. A proposal for a Small Enterprise Tribunal is also considered.	KZN EDTEA

Expand access to foreign markets for SME-based sectors, and opportunities exist for each sector; mechanisms to link SMMEs to opportunities.	Current policy does not consider this in detail despite identifying key targeted sectors.	Evidence is required on the dynamics of varying SMMEs in different sectors and the existing opportunities.
KZN Provincial policy environment		
Recommendation	Policy Gaps	Evidence
Comparative studies on SMME in Gauteng, Western Cape, and KwaZulu-Natal to monitor KZN's progress	A policy that addresses the constraints faced by and the needs of SMMEs in different geographical areas in South Africa and elsewhere.	
Evidence of unsuccessful PPPs and review of co-operatives.	There needs to be a reassessment of the current policy on co-operatives.	
Evidence on competitive and comparative behaviour by SMMEs across sectors and different types of SMMEs	A policy that encourages the gathering of sector-specific competition data that can be used to inform small business complaints to competition authorities where there is an infringement of competition laws, and design appropriate support where there is no contravention of competition law	
Revise the blanket approach to SMEs in rural and township areas for the adoption of a differentiated approach for rural and township SMEs to help better support measures tailored to individual SMME type and location needs.	Differentiated policy that is responsive to the varying constraints and needs of SMMEs.	
A standalone entity should monitor interventions implemented by municipal government and LED offices to support evidence of interventions that work and do not.	The policy provides for a systematic review of support measures and the building of an evidence base so that interventions can be adapted and responsive to constraints and SMME needs.	

Rural and township enterprises play a role in implementing Local Economic Development

I analysed SMEs from an "engine of growth" perspective, and the results related to the country's GDP and economic products were found in international donors' and governments' strategic documents and policy frameworks. As a result, the research scope was modified to emphasise SME "potential" and cited works by African scholars such as Mabuza (2017), Tshivhase (2020), Chomane & Biljohn (2023), Makhaye & Subban (2024), Westlund & Borsekova (2023), along with relevant case studies aligning with the study's aim of proposing socially inclusive strategies for previously marginalised communities in KZN. The findings indicate that the assessment of SME impact on LED varies from economy to economy and is, therefore, dependent on the area in which it operates.

The case of Uganda

SMEs generated domestic and export earnings, contributing 60% of GDP in low-income countries and 70% in middle-income countries. To reduce overpopulation pressure in the sector, SMEs went into PPPs with foreign partners, and the SME Division (SMED) of the Uganda Investment Authority supported and facilitated the development of MSMEs (Okumu & Buyinza, 2019). Conversely, Turyakira et al. (2023) examined the integration

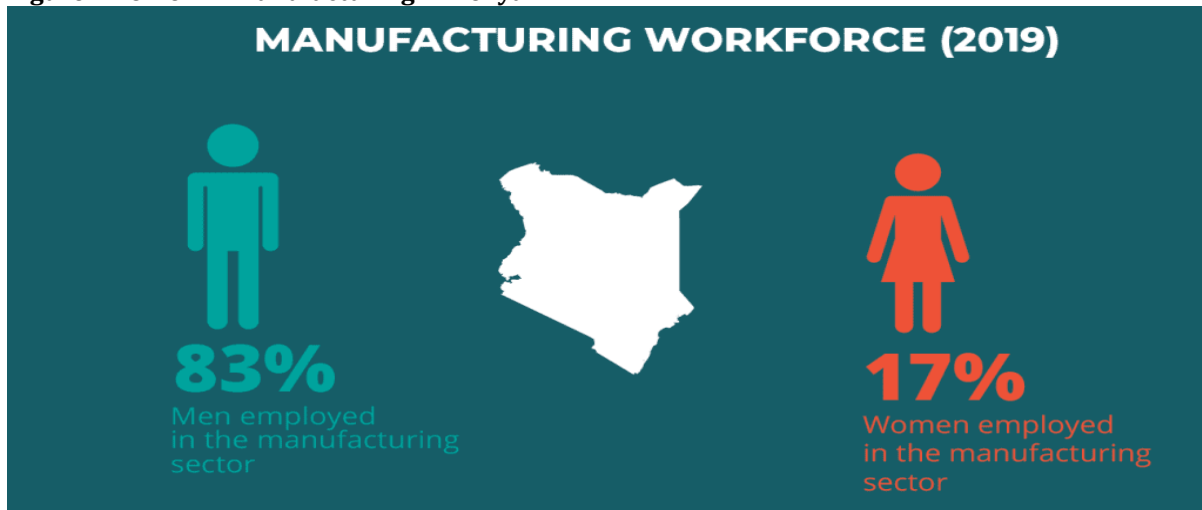
of SMEs in corporate governance in Uganda and found that most rural and township economies could not implement corporate governance because they lacked the technical knowledge about know-how and know-what to implement it. This is likely because most SMEs in Uganda are family businesses, which are not inclined to follow professional management, hence employing managers with limited education. The limited awareness is caused by SMEs not knowing they must implement corporate governance.

The case of Kenya

There was a proliferation of SMEs in rural and township areas as an alternative to the labour market saturation. Mulae (2022) reported that Micro, Small, and Medium Enterprises (MSMEs) comprise 98% of the country's business entities, registered and non-registered. The sector is highly informal, with only 20% of the 7.4 million MSMEs operating as licensed entities. The informal enterprises employ over 7 million people from Kenya's remote areas, including people with disabilities, women, and youth. Considering this, I evaluated the impact of SMEs using the "potential" assessment, which, as already stated, assesses SMEs as a concept to bring economic growth rather than the economic ideology of being an "engine of growth". Using this tool of assessment, I found that MSMEs provide opportunities for the socioeconomic transformation of local communities and the country's economy by absorbing low-skill and economically marginalised vulnerable groups such as youth, women, people with disabilities, and the uneducated and poor. Mulae (2022) argued that SMEs simultaneously grow with LED because the Kenyan government implemented the MSE fund in 2022, commonly called the hustler's fund, which provides financial support to small businesses. The fund focuses on promoting infrastructure development to improve working conditions, and on formalising companies to inform the government about necessary interventions. Moreover, the Kenyan government offers capacity-building through training and coaching and market access through trade fairs and exhibitions (Ahoyi, 2024). Neshamba (2006) made a point, in his assessment of 25 Kenyan entrepreneurs, that the previous work experience of the owner/manager contributed to business success and growth. He also identified knowledge of the market, access to capital, networking, assistance from family members, understanding the customer's needs, and putting in long hours at work as impacting success. Pratt (2012) validated these conclusions by stating that success in Kenya hinges on access to capital, prior business experience, family support, and possession of business skills. Kenya's system of SME integration in LED is successful due to the factors mentioned and the national government's policies, such as providing accessible credit facilities in collaboration with major banks.

Unlike Uganda's family-owned businesses, the Kenyan SMEs' policy environment reveals a patriarchal system. Mulae (2022) explained that gender mainstreaming was lacking in the MSME sector; males owned 71% of the 7.4 million MSEs, individually or jointly, while women owned 53% of the total MSEs, separately or collaboratively. Mugenyi et al. (2020) explored gender inequality within the manufacturing sector. Their study findings indicated that men had a predominant presence in the industry at 83%, with women comprising only 17% (see figure below).

Figure : Women in Manufacturing in Kenya



Source: Mugenyi et al. (2020).

The gender disparity in the sector could be explained by women's disinterest in the industry and the societal norm and philosophy that women do not work "male jobs." Wawire et al. (2022) put forward that women in Kenya and elsewhere in Africa are restricted to unpaid work within the home. Yet, African governments understand that human capital formation is boosted by engaging in market activities. Mugenyi et al. (2020) indicated that many women surveyed faced obstacles when accessing MSME loans and financial support. In addition, the women were exposed to instances of sexual exploitation in exchange for credit facilities and compliance clearances to access and enter the manufacturing sector as business owners (Mugenyi et al., 2020). This validates Mulae's discovery that women-headed businesses generate less income than businesses owned by men in the country.

The Case of South Africa

There is a mismatch between the perceived role of SMEs in LED and their role in implementing LED. The impact of SMEs is measured on their absorptive capacity, i.e., SMEs are promoted as an alternative for labour market saturation and not always as a viable sector for long-term economic growth. For example, the Small Business and National Small Business Act, 1996, recognises SMEs as a solution for high unemployment because of their high labour absorptive capacity (RSA, 1996). The national government markets SMEs as engines of economic growth by generating income, employment, alleviating poverty, and inequality. At the grassroots, the expectation is that entrepreneurship brings economic prosperity and development as envisioned by the Preferential Procurement Policy Framework (PPPFA 2000) and the Black Economic Empowerment (BEE) Act and subsequent Broad-Based Black Economic Empowerment Act (BBBEE 2004). These policies introduced the "tenderpreneur", which is a colloquial term used to describe the advancement of black entrepreneurs "who entered the private business sector on a legitimate basis under the framework of state policies to enable the advancement of 'black designated groups' in commerce and industry" (Piper and Charman, 2018: 1). Considering this, there are approximately 3 million medium, small and micro-entrepreneurs in South Africa, employing around 13.4 million people (Solomons, 2024). Despite the significant growth in SMEs, "the official unemployment rate was 31.9%, which decreased from the third quarter's rate of 32.1%. The expanded unemployment rate remained at 41.9%" (Statistics South Africa, 2025). In addition, research indicates that South Africa has one of the highest failure rates for SMMEs in the African continent, with a failure rate of 60% to 80% during the 3.5 nascent years (Leboea, 2017; Rens et al., 2021; Mhlongo & Daya, 2023). The failure rate is not only the lack of skills, education and training, and know-how as reported by Buthelezi, Nxumalo and Ngema (2024), but also contextual and intersectional factors, such as barriers to entry, regulations, high labour expenses, a lack of funding support, access to viable markets, political instability and institutional corruption, lack of infrastructural development, challenging local economic circumstances, high municipal costs, poor service delivery, social ills, post-COVID, short-term government procurement contracts, climate change and increased competition (Matekenya & Moyo, 2022).

The case of KwaZulu-Natal

KZN is the country's second-largest province by population and economic output. It is home to one metropolitan municipality, eThekweni, the province's economic hub, alongside Richardsbay Bay. Other district municipalities are Amajuba, Harry Gwala, iLembe, King Cetshwayo, Ugu, uMgungundlovu, uMkhanyakude, uMzinyathi, uThukela, and Zululand, which are predominantly rural (Zhou & Gumbo, 2021). Jili, Masuku & Selepe (2017) examined the role of SMMEs in the Umlalazi local municipality, a rural area in KZN. 55% of the respondents reported that their business reduced unemployment since they have permanent employees. In contrast, 45% of respondents reported working alone or with family because of the business size. Ndlovu (2021) explained that the limited data on the impact of SMEs in LED was due to a lack of coordination between LED offices and government departments, the private sector, and NGOs, and that projects took place in isolation. He revealed that in Umzinyathi, a rural area in KZN, had agro-processing activities and agriParks, clothing and textile, and paper manufacturers producing paper for Unilever and other large businesses in metropolitan areas. Youth manufacture cleaning detergents to supply Spar and other retail shops across the province. Ndlovu (2021) revealed that KZNEDTEA funded 40 of the SMEs that participated in his study, but the projects took place in isolation.

Challenges encountered by small and medium enterprises in rural and township areas

This section captures the most prevailing themes across the swath of literature on the challenges SMEs face in rural and township areas. Most of the issues stem from policies focused on redressing social injustices of the

past, such as the PPPFA (2000) policy in South Africa, which has received both positive and negative opinions. The positive is government is forming partnerships with SMEs for procurement services, creating employment and reducing poverty, while the negative has been associated with corruption and incomplete service delivery (Piper & Charman, 2018). Sirdar et al. (2024) acknowledge that PPPs are not always a viable solution for SME failure but argue that SMEs run by owners and family members are subject to failure if they are not skilled and trained in business management or accounting. This is supported by Phinney et al. (2022), who report that SMEs that outsourced accountants, network contacts, and consultants developed and adapted to the economic climate. In the case of Singapore, Teng (2011) studied the culture of SME failure and found that the causes were internal and external pressures. The 178 SMEs reported the four most important factors: employment, training, and retention of high-quality staff; having a prevalence of good products and services; excellent relationships with customers; and the availability of top managers with good leadership qualities (Teng, 2011). Unlike Singapore, Tanzanian SMEs had the internal capacity to run and expand a business because of the communal living practices taught in rural villages for sustenance. However, external pressures such as government regulations, licenses, permits, high taxes, and corruption at a municipal level threatened SMEs' role in implementing LED (Tonya & Kagata, 2024). Similarly, Mugenyi et al. (2020) revealed that the biggest challenges facing SMEs in Kenya were cumbersome laws and regulations, lack of access to credit, and inadequate access to skills training and technology. Conversely, in KZN, business owners lacked operations skills and other functional business areas among youth and adults (Buthelezi et al., 2024).

The enterprises' role in LED depends on the sector; for instance, SMEs in tourism and hospitality attract tourists and investment, who purchase goods and services and participate in the host area's culture and diversity. Additionally, SMEs in construction and government procurement services compete for short-term employment, which extends longer periods but not long-term, employing a technically skilled workforce on a project basis. Linda et al. (2024: 146) reported "adverse outcomes of the nation's regulatory structure, the lack of technical expertise among SME owners, lack of access to markets, insufficient finance support, and information asymmetry." In line with the findings, the rural and township economies face internal (lack of skills and training, finance and technology, and access to the knowledge economy) and external (government regulations and policy, competition, climate change, inflation, crime and corruption, and socioeconomic factors) challenges. To measure the role of these economies in LED, there must be a nexus between the private and public sectors to assist SMEs in expanding operations and profit rather than growing the numerical value of SMEs. The expansion of SMEs calls for a shift in policy to explicitly incorporate LED as a prerequisite for building wealth, and for SMEs to follow communist principles by sourcing resources from their local areas and sharing benefits within those areas.

5. Conclusion and Recommendations

There is a link between economic prosperity and performance; however, there is a lack of a measurement tool for evaluating the success of LED implementation in rural and township economies. Tshivhase (2020) has argued that there is a lack of agreement on measuring SME business success or performance and the critical success factors contributing to this performance. It was noted in the literature that the amount of research on township economies has increased in recent years, including their historical development, daily struggles of residents, social dynamics, civic protests, urban governance, and infrastructure challenges (Linda et al., 2024). There is also a sizeable literature on South Africa's informal and rural economies. However, there is limited literature supporting the idea that township and rural economies are engines of growth, which supports SMEs' economic potential to alleviate poverty and create employment. Therefore, analytical frameworks to understand the trajectories of rural and township economies are rudimentary. Building on the evidence presented, this paper helps better understand the inclusion of rural and township economies in LED. Even though SMEs contribute immensely to developing a country's economy, they face significant challenges. If these challenges can be tackled with the relevant needs to meet them, rural and township economies will surely drive up the economy. As discussed above, SMEs contribute a significant proportion to the GDP of their host economy and merely implement LED; the KZN provincial government should create a conducive environment for rural and township enterprises to implement LED. When harnessed, these economies contribute to employment, reducing poverty, crime, and abuse, improving mental health, and promoting local adaptive communities.

Evidence presented in the analysis showed that several SMEs struggle and often collapse. This study recommends that the government or private lenders issuing loans to SMEs ensure that businesses have an excellent standing long-term by monitoring and evaluating the businesses' operations to prevent a business collapse quickly. This will also help to achieve accurate statistical reports on the impact of SMEs on job creation and poverty alleviation, instead of measuring the success of rural and township economies in terms of their contribution to GDP. Furthermore, the inclusion of rural and township economies in LED is determined by the standard and quality of living in host communities, structural and physical infrastructure, quality of jobs and stability, and adaptive, self-sustainable communities.

Recommendations

Policy review:

- The KZN government needs to revise or develop new policies specific to the economy's host area and avoid blanket approaches because issues faced by rural economies are peculiar to township economies.

Ideological paradigm:

- Rural and township local economic development policies should be rooted in communist and socialist paradigms rather than macroeconomics or modernisation to ensure equal opportunities, benefits, and LED.

- The training programme should be flexible in content and delivery based on entrepreneurs' needs and community feedback. For instance, adding an emotional intelligence module will aid entrepreneurs in themselves more professionally, enabling them to negotiate deals with larger businesses and last longer than 3.5 years.

Government Support:

- To reduce SMEs' challenges, government support agencies should help new and existing rural and township enterprises reduce external barriers, mainly licensing, permits, and taxes.

- KZN provincial government should introduce employment incentives based on qualification and skill grading and exemption legislation, making it easier for SMEs to hire skilled and qualified staff for any scale of jobs.

- Transport, communication facilities, and reliable power should be provided in rural and township areas.

- The Department of Education and Higher Education should introduce technology as a mandatory pass requirement in the school curricula and adult education programmes to capacitate communities in technology.

- Tax incentives should be implemented to favour new business entries during the first 3.5 years of early failure.

- Inflation targeting and interest rate reviews should consider new SMEs.

Private Sector:

- Private companies should assist SMEs in enhancing their competitive and comparative advantage by mentoring, granting access to markets, and buying co-operatives.

- Private companies should consider adopting enterprises through hands-on mentorship programs with annual incentives to motivate profit margins.

Interventions for socially inclusive (women, people with disabilities, and youth) township and rural economies:

- Overcoming educational and language barriers in training

KZN provincial government must revive TVET colleges as entrepreneurship and technical training colleges. The collaboration between government and TVET colleges will foster practical and hands-on learning in basic accounting, taxation, acceleration programmes, and sales recording to make it accessible to women, youth, and persons with disabilities with different levels of education.

The programme should incorporate the local language into explanations and use bilingual teachers who provide culturally relevant examples, making the training more relatable and effective.

South Africa's 11 official languages and the trade countries' languages should be a prerequisite for completing courses to help entrepreneurs communicate in several languages.

- A holistic approach to addressing Social and Economic Realities

Women:

Women-headed households face toxic stress, poverty, and family responsibilities; therefore, education and training should include modules on self-confidence, personal development, and security training against predatory men.

Persons with disabilities:

- Facilities for small businesses need to be equipped to accommodate physically disabled entrepreneurs. Training should also include psychological wellness to ensure entrepreneurs are confident as individuals and in business.

- There needs to be more socially inclusive government support centres for entrepreneurs, including persons with disabilities, which are managed and operated by people with physical disabilities.

Youth:

- Opportunities for township youth are many, but accessibility is an issue. Therefore, properly implementing policy directives from the Youth Enterprise Development Strategy (2013-2023) and South Africa's National Youth Policy (NYP) 2020–2030 would help youth programmes achieve the universally accepted SDGs and MDGs.

- The oversight of National Youth Development Agencies (NYDA) should not only be a function of the municipal LED office, but also the private and public sector's since the agencies have firsthand knowledge of the challenges faced by youth-owned SMEs and the complexities of youth unemployment.

The Ripple Effect

- The training programme should emphasise the spirit of Ubuntu, encouraging participants to reinvest their skills and resources, such as sewing, woodworking, and gardening, into their communities.

- The South African SMMES and Co-Operatives Funding Policy (2023) should incorporate a “pay it forward” clause for government-funded enterprises to reinvest a percentage of profits into host community development projects, namely education and training, skills development, training workshops, and infrastructural development.

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