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## **SUPERVISION AND LOCAL ECONOMIC DEVELOPMENT: THE INDIRECT ROLE OF OVERSIGHT IN MUNICIPAL GROWTH INITIATIVES**

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### **ABSTRACT:**

This article evaluates the indirect influence of supervision on local economic development (LED) by examining how municipal oversight mechanisms shape growth-oriented initiatives. Municipalities are tasked with creating enabling environments for LED through infrastructure development, investment promotion, and support for small businesses. However, weak governance, corruption, and poor oversight often undermine such initiatives. This study employs a qualitative document analysis of municipal audit reports, Integrated Development Plans (IDPs), and scholarly literature published between 2020 and 2025. The findings suggest that supervision indirectly shapes LED outcomes by ensuring accountability in resource use, promoting transparency in project implementation, and reinforcing policy alignment with development priorities. Municipalities with stronger oversight practices are more likely to sustain LED initiatives, attract investor confidence, and deliver inclusive growth. Conversely, weak supervision is linked to project failures, misallocation of resources, and diminished citizen trust. The study applies Principal-Agent Theory and Developmental State Theory to explain the indirect pathways through which supervision influences municipal growth

outcomes. The article concludes that supervision must be reframed as both a governance and developmental tool. Recommendations include strengthening municipal oversight structures, capacitating LED units with monitoring tools, and integrating supervisory feedback into LED planning. The findings contribute to scholarship by linking oversight functions to broader developmental outcomes, positioning supervision as a strategic enabler of local economic growth.

**KEYWORDS:** Governance, Local Economic Development, Municipal Growth, Oversight, Supervision.

## **INTRODUCTION AND BACKGROUND**

Local Economic Development (LED) has taken on increasing importance in the strategic mandate of municipalities, particularly in developing countries where local governments are positioned as catalysts for inclusive growth. In South Africa, LED is a core component of the developmental local government model, intended to stimulate economic activity, create employment and enhance the material conditions of local communities. Municipalities are expected to facilitate economic opportunities through interventions such as infrastructure development, investment promotion, support for small enterprises and skills development programmes (Rogerson, 2021). These initiatives are meant to align with national developmental priorities and the constitutional obligation of municipalities to promote social and economic advancement. While LED frameworks outline ambitious pathways for local transformation, many municipalities continue to struggle with effective implementation. Recent assessments of municipal performance in South Africa demonstrate persistent challenges related to administrative instability, weak financial governance and limited institutional capacity. The Auditor-General has consistently reported that shortcomings in financial controls, project management and consequence management undermine service delivery and impede municipalities' ability to execute developmental programmes (Auditor-General South Africa [AGSA], 2023). These systemic governance issues often extend into LED units, where project delays, misaligned strategies and inconsistent coordination dilute the intended economic impacts.

Scholarly research supports the view that LED outcomes are heavily influenced by the broader organisational environment within which municipalities operate. Ndevu and Muller (2022) emphasise that administrative oversight, accountability structures and performance monitoring mechanisms shape the degree to which policy intentions translate into tangible

development results. In this sense, supervision is not merely an internal administrative function but a determinant of institutional effectiveness. When supervisory processes are weak or fragmented, municipalities struggle to ensure that LED projects are adequately planned, resourced, monitored and aligned with policy priorities. Supervision is often treated procedurally, primarily as a compliance requirement intended to satisfy reporting obligations. However, emerging literature positions supervision as a developmental instrument that can indirectly shape LED performance by strengthening organisational learning, supporting decision-making and reinforcing accountability (Turok, 2022). Effective supervision enhances the quality of planning, coordinates interdepartmental efforts and ensures that risks are managed proactively. In contrast, inadequate supervisory practices contribute to project failures, financial wastage and missed development opportunities. For LED initiatives, where project success depends on long-term coherence and careful stakeholder management, the indirect influence of supervision becomes particularly significant.

This study is grounded in the understanding that municipal supervision, though rarely highlighted in LED scholarship, plays an important enabling role. Supervisory processes determine whether LED strategies are implemented consistently, whether resources are used responsibly and whether developmental projects remain aligned with local growth objectives. By shaping organisational behaviour and reinforcing accountability, supervision can strengthen institutional capacity and foster a more conducive environment for economic development interventions. Against this backdrop, the study seeks to examine how municipal supervision indirectly influences LED initiatives. It explores the relationship between supervisory practices, oversight mechanisms and the performance of growth-oriented municipal projects. The first objective is to assess the extent to which supervisory mechanisms contribute to effective planning, monitoring and implementation of LED programmes. The second objective is to identify key enablers and barriers that condition the influence of supervision on LED outcomes, including organisational culture, capacity constraints and political-administrative dynamics. The third objective is to propose strategies for enhancing supervisory functions so that they contribute meaningfully to developmental governance.

The central research question guiding the study is: *How does municipal supervision indirectly influence LED initiatives?* Addressing this question provides an opportunity to bridge a conceptual gap in LED discourse and contributes to broader debates on municipal

governance, institutional performance and developmental state building. In doing so, the study acknowledges that LED success is not solely a product of technical planning or economic strategy but also of the internal governance systems that sustain municipal functionality.

## **LITERATURE REVIEW**

Local Economic Development (LED) has become a critical component of sub-national growth strategies across both developing and developed regions, forming part of a broader global shift toward decentralised development governance. This shift recognises the potential of local governments to act as engines of inclusive economic transformation when appropriate institutional, supervisory and accountability arrangements are in place. Recent scholarship highlights that governance structures, particularly supervisory and oversight mechanisms, shape the trajectory, sustainability and legitimacy of LED interventions (Khambule, 2020; Rogerson & Nel, 2022). While LED has been extensively studied in relation to local planning, entrepreneurship support, spatial development and urban competitiveness, its intersection with municipal supervision remains understudied. This review synthesises South African, African and global empirical evidence to demonstrate how supervision functions as an indirect yet pivotal determinant of LED outcomes.

### **Conceptualising Local Economic Development in Contemporary Governance**

LED is broadly understood as a participatory and strategically coordinated process aimed at stimulating local economic activity, reducing poverty and enhancing competitiveness (Pike et al., 2019). In developing contexts, LED increasingly encompasses infrastructure development, enterprise support, skills development, investment facilitation and place-based innovation. A consistent theme in global LED scholarship is the primacy of effective governance in enabling localities to implement coherent and sustainable development interventions (Rodríguez-Pose & Storper, 2020). Governance does not refer merely to technical capacity but also the quality of institutional oversight, leadership and accountability structures that ensure LED projects are aligned with development priorities and protected from mismanagement. In South Africa, LED is rooted in the developmental local government mandate articulated in the White Paper on Local Government and subsequent policy frameworks. Scholars note that LED in the country has evolved from early pro-poor interventions to more complex strategies combining enterprise development, spatial re-industrialisation and public-private partnerships (Rogerson & Nel, 2022). However, despite

this evolution, implementation has often been uneven because of weak governance capacity, political interference, misaligned institutional arrangements and persistent skills deficits within municipalities (Moyo, 2023; Ndevu & Muller, 2022). These institutional constraints create a need to assess how internal supervisory and organisational oversight practices influence LED processes.

### **Governance, Oversight and Supervision in Local Development**

Governance and oversight play a central role in shaping the performance and sustainability of LED initiatives. The global literature consistently shows that development outcomes improve when institutions invest in transparent decision-making, monitoring systems, risk management and accountability frameworks (OECD, 2021). Supervision, as a component of governance, involves directing, reviewing and supporting administrative processes to ensure that organisational activities remain aligned with policy intentions. Scholars argue that supervisory systems contribute to organisational learning, alignment and responsiveness—factors that are essential for complex LED environments where projects require coordination across multiple departments and stakeholders (Turok, 2022). Within African local governance, oversight challenges remain widespread due to institutional instability, political interference and limited financial management capacity. A study by Ayee (2020) highlights that decentralisation has often transferred responsibilities to local governments without corresponding technical and supervisory support, resulting in weak implementation of LED strategies. Similarly, in Kenya and Ghana, research shows that inadequate monitoring and supervisory structures lead to project duplication, resource wastage and inconsistent reporting (Asante & Helbrecht, 2021). These findings mirror South African patterns where LED units struggle under conditions of poor coordination, fragmented supervision and limited managerial accountability (Ndebele & Jackson, 2021). Supervision, therefore, is conceptualised not only as a monitoring function but also as a mechanism that influences the strategic coherence, procedural integrity and developmental orientation of municipal operations. Strong supervisory arrangements enhance the maturity of planning systems, ensure that LED strategies are evidence-based and promote a culture of performance and accountability (Mullins et al., 2021). International research further demonstrates that robust oversight builds investor confidence by reducing corruption risks, policy uncertainty and administrative delays—factors that are critical for attracting private sector investment in local economies (OECD, 2021).

### **The South African LED Context: Governance Strengths and Persistent Weaknesses**

South Africa's LED landscape reflects both important advances and enduring institutional shortcomings. On one hand, national policies encourage participatory decision-making, integrated development planning (IDP), and partnerships with businesses and civil society. On the other hand, a body of evidence highlights chronic governance failures that undermine LED execution. The Auditor-General South Africa (AGSA, 2023) reports continued non-compliance with financial regulations, inadequate project monitoring, irregular expenditure and poor contract management. These systemic weaknesses have direct implications for LED by restricting municipalities' ability to deliver infrastructure, manage partnerships or maintain investor confidence. Empirical studies reinforce these governance concerns. Moyo (2023), examining multiple LED projects across South African municipalities, found that weak supervision contributes to poor implementation, cost escalations and project abandonment. Similarly, Ndevu and Muller (2022) argue that without effective oversight, municipalities lack the institutional discipline to follow through on LED planning commitments. This results in fragmented development interventions, misallocation of resources and limited economic impact. Scholars also observe that the LED function is often isolated within municipalities, operating without adequate senior management supervision or integration into broader organisational processes (Khambule, 2020; Rogers & Sitas, 2021). This organisational siloing reduces accountability for LED outcomes and weakens the senior managerial oversight needed for strategic coordination. Studies from the South African Local Government Association (SALGA, 2022) further show that LED units often lack skilled professionals and supervisory support, contributing to ineffective project management and poor performance tracking.

### **Comparative Insights from the African Context**

Across Africa, decentralisation reforms have sought to strengthen local governance and promote local development, but their effectiveness varies significantly. In Uganda, Mozambique and Tanzania, research indicates that local governments struggle with oversight due to limited financial autonomy, political patronage and inadequate administrative capacity (Kiggundu & Twaha, 2020). Weak supervision allows mismanagement, delays and corruption to persist in LED-related programmes. Studies in Nigeria and Ghana show similar patterns. Asante and Helbrecht (2021) found that weak oversight results in inconsistent LED implementation, poor monitoring and a disconnect between planning and execution. Local authorities often lack the tools and managerial practices required for effective supervision,

leading to dependency on national government interventions and donor agencies. In Kenya, Mboga (2021) highlights that devolution has decentralised development responsibilities, but without strengthening supervisory institutions, many counties struggle to deliver projects efficiently. Despite these weaknesses, there are emerging examples of good practice. Rwanda's performance contracts (Imihigo) provide a structured supervisory framework that has improved local government accountability by linking monitoring, evaluation and performance incentives (Mutabazi & Chemouni, 2022). Similarly, Ethiopia's institutional reforms have emphasised capacity development, oversight and administrative professionalism to support local development (World Bank, 2020). These experiences suggest that strengthening supervision, coupled with improved capacity and political support, can significantly enhance LED outcomes.

### **Global Evidence: Oversight as a Pillar of LED Success**

Internationally, the relationship between supervision and LED has been widely documented. In Europe, strong oversight systems, integrated with planning, budgeting and performance management, have supported effective regional development policies and local growth (Pike et al., 2019). Countries such as Germany and Norway demonstrate that transparent governance and institutionalised supervisory practices foster long-term investment, innovation and local competitiveness. In Latin America, decentralisation reforms in Brazil and Colombia underscore the importance of administrative oversight in reducing corruption and improving service delivery (Grin et al., 2020). Where oversight has been institutionalised, municipalities have been able to implement LED programmes more effectively, promote citizen participation and sustain partnerships with private and civil society actors. The OECD (2021) concludes that oversight mechanisms are essential for managing the complexity of LED, particularly in environments characterised by multiple stakeholders and overlapping responsibilities. Effective oversight supports coherence across institutional arrangements, reduces operational uncertainty and ensures that developmental interventions align with national and regional economic strategies.

### **Intersections Between Supervision and LED: Emerging Theoretical Insights**

Although LED and municipal supervision are often treated as distinct scholarly fields, emerging literature reveals strong theoretical linkages. Three themes stand out:



### ***Organisational Governance Theory***

Organisational governance theory emphasises the importance of oversight, accountability and managerial controls in promoting institutional effectiveness. In the LED context, this theory helps explain how supervision shapes project planning, quality control and risk management. As Mullins et al. (2021) note, developmental initiatives are more successful when internal governance systems ensure that actions align with strategic goals.

### ***Public Management Theory***

New Public Management (NPM) and post-NPM models highlight the value of performance monitoring, professional management and transparent reporting. These principles align directly with LED processes that require coordination across departments, engagement with businesses and performance-oriented planning. Turok (2022) argues that municipalities need strong supervisory cultures to ensure policy consistency and long-term developmental commitment.

### ***Developmental Local Government Theory***

The developmental local government model foregrounds participatory planning, governance accountability and coordinated development action. Supervision is foundational in ensuring that municipalities fulfil this mandate by maintaining administrative discipline and facilitating organisational learning (Rogerson & Nel, 2022).

### **Gaps in the Literature**

While existing studies provide valuable insights into LED and municipal governance, several gaps persist:

- Limited integration of LED and supervision scholarship-Most LED research focuses on planning and project outcomes, while governance research focuses on administrative systems, rarely linking the two.
- Insufficient empirical analysis of supervisory practices-There is limited research on how day-to-day supervision influences LED performance.
- Overemphasis on formal structures rather than practical supervisory behaviours-Few studies explore how leadership practices, organisational culture and informal oversight shape LED execution.



- Scarce comparative work across Global South contexts-More research is needed to understand how supervision manifests in similar institutional environments across Africa, Asia and Latin America.

This study addresses these gaps by conceptualising supervision as an indirect yet essential determinant of LED performance.

## **THEORETICAL FRAMEWORK**

This study is anchored in two complementary theoretical lenses that help explain the mechanisms through which municipal supervision indirectly shapes Local Economic Development (LED) outcomes. Principal-Agent Theory and Developmental State Theory provide distinct yet mutually reinforcing insights into the governance dynamics, organisational behaviours and developmental mandates that influence municipal performance. Together, these frameworks clarify why supervision functions not merely as an administrative activity but as a core determinant of developmental effectiveness.

### **Principal-Agent Theory**

Principal-Agent Theory (PAT) offers a governance-oriented explanation of the supervisory relationships that exist within municipalities. The theory posits that principals delegate authority to agents who execute tasks on their behalf, creating the potential for divergent interests, information asymmetries and opportunistic behaviour (Eisenhardt, 1989; expanded in contemporary public-sector research such as Schillemans & Busuioc, 2020). In the context of local government, citizens act as principals while municipal officials and administrators serve as agents charged with implementing policies, managing budgets and delivering development projects. Recent scholarship emphasises that agency problems are particularly prevalent in public-sector settings characterised by complex structures, low transparency and multiple layers of accountability (Almquist et al., 2021). In South African municipalities, these risks are amplified by widespread institutional instability, weak internal controls and inconsistent monitoring processes (Auditor-General South Africa [AGSA], 2023). Without adequate supervision, agents may deviate from developmental priorities, misuse resources, or pursue personal or political incentives at the expense of community needs. Supervision is a key mechanism for managing these agency challenges. Through ongoing oversight, performance monitoring, reporting and corrective interventions, supervision helps align agent behaviour with the goals of the principals and the broader public mandate. Recent research shows that robust supervisory systems reduce corruption risks, strengthen organisational

discipline, and improve project delivery in local government settings (Schillemans & Panagiotopoulos, 2021). In LED environments, where projects involve procurement, stakeholder coordination and significant financial outlays, supervision enhances accountability and reduces inefficiencies that often derail growth-oriented initiatives. PAT therefore provides a clear rationale for examining how supervisory practices influence the planning, implementation and sustainability of LED programmes.

### **Developmental State Theory**

Developmental State Theory (DST) provides a macro-level perspective on how state institutions drive economic restructuring, innovation and inclusive development through strategic intervention and coordinated governance. While originally applied to national governments, contemporary scholarship has increasingly recognised its relevance at sub-national and municipal levels, particularly in decentralised governance systems (Edigheji, 2021). The theory emphasises three pillars: a capable bureaucracy, coherent oversight institutions and a developmental vision that guides resource allocation and policy decisions. In South Africa, the developmental local government model is explicitly aligned with DST principles. Municipalities are expected not only to provide basic services but also to act as developmental actors that facilitate investment, stimulate local industry and advance inclusive economic capabilities. However, the effectiveness of this mandate depends largely on institutional capacity and governance quality. Empirical research shows that LED success is strongly correlated with municipalities' ability to coordinate cross-sectoral activities, enforce accountability and manage long-term development planning (Rogerson & Nel, 2022; Turok, 2022). DST reinforces the importance of supervision by highlighting that developmental states, and by extension developmental municipalities, require disciplined governance systems to translate developmental visions into tangible outcomes. Strong oversight ensures that development projects are prioritised appropriately, budgets are managed responsibly, and institutional actors remain committed to long-term growth objectives. Without such supervisory structures, municipalities struggle to overcome political patronage, administrative weaknesses and fragmented planning, factors that research has shown to be common sources of failure in South African LED projects (Moyo, 2023).

### **Integrating the Two Frameworks**

Together, PAT and DST provide a comprehensive theoretical basis for analysing supervision as an indirect but significant driver of LED performance. PAT explains the micro-level

dynamics of monitoring, accountability and behaviour alignment within municipal bureaucracies, while DST situates supervision within broader developmental governance structures that support long-term economic transformation. The integration of these lenses allows the study to examine how supervisory practices influence not only the conduct of municipal officials but also the institutional capability and strategic direction necessary for LED success. Supervision therefore emerges not as a narrow administrative tool but as a multidimensional governance function that shapes municipal developmental performance. It mediates agency relationships, strengthens institutional capacity, and reinforces the developmental commitments required for sustainable local economic growth.

## **METHODOLOGY**

This study adopts a qualitative document analysis design to investigate how municipal supervision indirectly influences Local Economic Development (LED) initiatives. Document analysis is an established qualitative method used to interpret and synthesise information contained in public records, institutional documents and scholarly texts (Bowen, 2009; enhanced in recent applications such as O’Leary, 2021). Because this study relies exclusively on publicly available secondary data, it does not involve human participants and therefore does not require ethical clearance. The approach is particularly suitable for municipal governance research, where oversight processes and LED interventions are extensively documented in formal reports, policy frameworks and audit records.

### **Research Design**

Qualitative document analysis allows for a systematic review of textual materials to identify patterns, themes and relationships relevant to the research question. Recent methodological scholarship emphasises that document analysis is effective for examining governance processes because public-sector documents contain rich evidence on institutional performance, administrative behaviour and policy implementation trends (Triana & Martin, 2022). This design is therefore aligned with the study’s aim of assessing how supervisory practices manifest within municipal structures and how they shape LED performance.

### **Data Sources**

The study draws from three primary categories of secondary data:

- **Auditor-General South Africa (AGSA) Reports (2019–2023):**

These reports are authoritative sources of information on municipal financial management, internal controls, project oversight and compliance. They provide longitudinal insight into

supervisory weaknesses, irregular expenditure, and governance trends affecting LED implementation. AGSA reports have been widely used in empirical studies of local government performance due to their reliability and comprehensive scope (Ndevu & Muller, 2022).

- **Integrated Development Plans (IDPs) and Municipal Annual Reports:**

IDPs and annual reports outline municipalities' LED strategies, governance structures, developmental priorities and performance indicators. They also document supervisory arrangements, risk management mechanisms and progress on growth-oriented projects. As recent research shows, IDPs serve as critical instruments for analysing organisational alignment and strategic implementation in local government (Sibanda & Fourie, 2021).

- **Recent Academic Literature (2020–2025):**

Peer-reviewed literature was included to contextualise municipal supervision within broader theoretical and empirical debates on governance, oversight and LED. The selection of recent studies ensures alignment with contemporary research trends and enhances the analytical depth of the study. Literature was sourced from reputable journals in public administration, development studies and urban governance.

### **Sampling Strategy**

A purposive sampling approach was used to select municipalities that represent variation in LED performance and governance quality. Purposive sampling enables researchers to focus on information-rich cases that provide deeper insights into a phenomenon of interest (Palinkas et al., 2015). Municipalities were selected to reflect:

- Historically high-performing municipalities with strong audit outcomes.
- Moderate performers experiencing intermittent governance challenges.
- Poorly performing municipalities with repeated supervisory failures.

This variation supports comparative analysis and enhances the credibility of findings by showing how supervisory practices influence LED outcomes across different institutional contexts.

### **Data Analysis**

The study employed inductive thematic coding using established techniques for qualitative content interpretation. Thematic analysis enables researchers to identify patterns and interpret

how meaning is constructed across documents (Braun & Clarke, 2021). The coding process followed three stages:

- **Initial Reading and Open Coding:**

All documents were read repeatedly to gain familiarity and identify preliminary categories related to supervision, oversight failures, institutional weaknesses, and LED implementation.

- **Focused Coding and Theme Development:**

Codes were refined through comparison across data sources to consolidate recurring issues such as internal control deficiencies, project delays, managerial oversight gaps and misalignment between planning and implementation.

- **Interpretation and Synthesis:**

Themes were interpreted in relation to the theoretical frameworks, Principal–Agent Theory and Developmental State Theory, to examine how supervisory mechanisms shape municipal developmental behaviour. Cross-case comparisons were conducted to understand contextual differences in supervisory effectiveness.

Recent methodological studies affirm that thematic analysis is particularly appropriate for examining governance patterns because it allows for nuanced interpretation of complex institutional dynamics (Nowell et al., 2019).

### **Ensuring Trustworthiness**

Although the study relies on secondary data, key strategies were employed to enhance trustworthiness. Credibility was achieved through triangulation of multiple document sources, allowing verification of recurring themes across audit findings, IDPs and scholarly literature. Dependability was supported by maintaining a clear audit trail documenting data selection, coding decisions and analytic steps. Confirmability was enhanced by using publicly available, independently verifiable documents that minimise researcher bias.

## **RESULTS**

This document analysis examined Auditor-General reports, Integrated Development Plans (IDPs) and municipal annual reports, and recent empirical literature to identify how supervisory arrangements within municipalities relate to Local Economic Development (LED) performance. Thematic coding produced four interrelated result clusters: (1) supervision quality and LED project success, (2) supervision and financial integrity (including procurement), (3) supervision as a determinant of investor confidence and project

sustainability, and (4) persistent constraints on effective supervision. Findings are synthesised below with supporting evidence.

### **Supervision quality and LED project success**

A clear pattern emerged: municipalities with stronger, institutionalised supervisory arrangements demonstrated measurably better LED project implementation than those where supervision was weak or ad hoc. Indicators of “strong supervision” included functioning oversight committees (council and audit committees), active internal audit units, periodic performance reporting against LED targets in IDPs, and visible follow-up on audit findings. AGSA consolidated reports for local government show that municipalities with better audit outcomes, which typically have stronger internal controls and active oversight structures, are more likely to realise infrastructure and LED deliverables on schedule (Auditor-General South Africa [AGSA], 2023; AGSA MFMA interactive reports). AGSA’s analyses link credible financial and performance reporting, and the oversight roles of councils and their committees, to improved delivery of infrastructure and service targets (AGSA, 2023). The documents analysed in this study corroborate that LED projects in municipalities with “cleaner” audit histories experienced fewer stoppages, lower cost overruns and higher completion rates. Case comparisons across sampled municipalities reinforced this association. Where oversight committees met regularly, tracked remedial actions and escalated unresolved issues to council, LED projects showed better adherence to timelines and procurement prescriptions. Conversely, municipalities that lacked regular oversight meeting records and did not evidence systematic follow-up on audit actions had higher incidences of stalled LED projects and contract disputes. This pattern aligns with sector analyses that link institutional oversight to implementation capacity in local government (LGSETA, 2023; Ndevu & Muller, 2022).

### **Supervision and financial integrity (procurement, irregular expenditure)**

The analysis found a strong relationship between supervisory practices and the integrity of financial processes that underpin LED, especially supply-chain management (SCM) and the management of LED funds. AGSA reports repeatedly highlight irregular expenditure, non-compliance with SCM prescripts and poor contract management as root causes of failed municipal projects (AGSA, 2023). The municipalities in the study that institutionalised pre-award scrutiny, post-award monitoring and independent internal audit checks had significantly lower levels of irregular expenditure linked to LED projects. Thematic coding

revealed recurrent supervisory failure modes associated with financial waste: weak bid evaluation oversight, limited verification of contractor capacity before award, poor contract performance monitoring, and delayed consequence management for officials implicated in irregularities. These failings were explicitly cited in multiple AGSA municipal audit statements and confirmed in municipal annual reports examined here. Research on municipal oversight in South Africa emphasises that inadequate supervisory attention to SCM amplifies both fiscal leakage and reputational risk for LED initiatives (SALGA, 2023; Moyo, 2023). Internal audit and audit committee activity emerged as pivotal. Documents that recorded timely internal audit reports, accompanied by audit committee oversight and documented management responses, showed a stronger correction of procurement deficiencies and lower recurrence of the same irregularities. By contrast, where audit committee recommendations were not evidenced or where internal audit capacity was thin, SCM problems persisted across financial years. This supports broader empirical work that identifies internal control and oversight as the most proximate managerial levers for containing municipal procurement corruption (OECD, 2021; LGSETA, 2023).

### **Supervision, institutionalised feedback and investor confidence**

One of the more consistent findings was that supervisory systems which institutionalise feedback loops into LED planning materially affect investor confidence and project sustainability. Municipalities that translated oversight findings into revised IDP targets, transparent reporting dashboards and publicised corrective plans tended to maintain or regain investor interest. The SALGA “Ease of Doing Business” situational analyses indicate that administrative predictability, transparent procurement, and visible oversight processes are important determinants of local investor perceptions (SALGA, 2023). Where oversight produced explicit, time-bound corrective measures and evidence of follow-through, private sector partners were more likely to proceed with planned investments or public-private partnerships. The document sample provided several examples where oversight-driven remedial action restored partner confidence. In these cases, municipal councils or oversight committees had required revised project implementation timetables, instituted additional performance bonds, or required independent technical verification prior to release of subsequent tranches of funding. Such supervisory interventions reduced perceived delivery risk and were explicitly referenced in municipal investor-engagement records and partnership memoranda. These patterns echo international evidence that robust oversight reduces uncertainty and thus supports investment flows at sub-national levels (OECD, 2021;



Mutabazi & Chemouni, 2022). However, the analysis also revealed that the mere presence of oversight structures does not automatically translate into investor confidence. The credibility of oversight depended on demonstrable follow-through: auditors' findings, public disclosure of corrective plans, and verifiable execution of remedial actions. Where oversight processes were symbolic, meeting minutes produced but no action taken, investor confidence remained low and projects stagnated.

### **Persistent constraints on effective supervision**

Although the link between supervision and LED performance was clear, several entrenched constraints limited supervisory effectiveness across the sampled municipalities. Four interrelated constraints dominated the coding:

#### ***Political interference and weak consequence management***

Political interference, in procurement, senior appointments, and consequence management, repeatedly undermined supervisory actions. AGSA reports and parliamentary oversight reviews document instances where political patronage impeded corrective action or where sanctions against officials were delayed or absent (AGSA, 2023; Parliamentary oversight research, 2022). The documents analysed show that where political actors influenced SCM decisions or blocked disciplinary action, audit findings re-emerged in subsequent cycles and LED projects suffered. Recent studies likewise demonstrate that weak consequence management reduces the deterrent effect of oversight and perpetuates mismanagement (Shava, 2025; Moyo, 2023).

#### ***Limited supervisory capacity and skills shortages***

Many municipalities suffer from shortages in technical, legal and financial skills within audit committees, internal audit units and senior management. IDPs and municipal performance reports frequently acknowledge capacity gaps that restrict the effective interpretation and remediation of audit findings. Where oversight bodies lacked technical expertise (for example, in engineering or project management), their recommendations were generic and less actionable. The LGSETA research highlights the need for targeted capacity development to make supervisory structures operationally useful rather than merely formal (LGSETA, 2023).

### ***Fragmentation between oversight and developmental planning***

A recurring theme was the weak integration of oversight results into strategic LED planning. While AGSA and internal audit reports produced corrective recommendations, these did not consistently feed back into IDP revisions or budget reallocations. Thematic coding showed that oversight was often treated as a compliance exercise separate from developmental strategy, limiting its ability to pre-empt project risks or to reorient programmes based on audit insights. This siloing undermines the developmental logic that oversight should actively shape project design and resource allocation (Ndevu & Muller, 2022; Rogerson & Nel, 2022).

### ***Information asymmetry and poor transparency***

Many municipal reports did not disclose granular, project-level supervisory evidence, for instance, detailed procurement timelines, contract performance reviews, or corrective-action logs. This information opacity hindered external scrutiny and limited stakeholders' ability to hold officials accountable. The absence of open, easily accessible performance dashboards was associated with persistent investor wariness and weaker civil society oversight, reinforcing a vicious cycle of low transparency and weak accountability (SALGA, 2023; OECD, 2021).

## **5. Emergent practices that improve supervisory influence on LED**

Despite these constraints, the analysis identified several promising supervisory practices that correlated with improved LED outcomes:

- Routine, documented oversight cycles: Municipalities that embedded quarterly oversight reviews, linked to IDP milestones and published action trackers, showed stronger project continuity.
- Technical augmentation of oversight bodies: Where audit committees and oversight teams had access to external technical advisors (engineers, procurement specialists), the specificity and impact of recommendations increased.
- Integration of audit recommendations into budgets and IDPs: Explicit budgetary reallocations and IDP amendments in response to audit findings improved resource alignment and reduced project abandonment.
- Transparent public reporting: Regular, public progress updates and accessible performance dashboards strengthened political and market confidence, enabling sustained partnerships.

These practices are consistent with international guidance on territorial development and oversight which recommends integrated monitoring, capacity strengthening and transparent reporting to lower project risk and attract investment (OECD, 2021; Mutabazi & Chemouni, 2022).

### **Summary of results**

In summary, the document analysis shows that supervision matters for LED in measurable ways. Municipalities with institutionalised, action-oriented oversight demonstrate higher rates of LED project completion, better financial integrity in procurement and greater success in sustaining investor partnerships. The relative strength of supervisory practices, not merely their existence, determines whether oversight translates into developmental outcomes. Persistent obstacles such as political interference, capacity deficits, siloed planning and limited transparency continue to blunt supervisory impact. The results suggest that strengthening oversight systems, through capacity development, consequence management, integration with planning instruments and public reporting, could substantially improve LED outcomes at municipal level.

## **DISCUSSION**

The findings of this study demonstrate that municipal supervision plays a more profound role in influencing Local Economic Development (LED) outcomes than traditionally acknowledged. While supervision is often treated as a procedural or administrative requirement, the results show that it shapes the institutional climate within which development initiatives are planned, coordinated and implemented. This section discusses the results in relation to the study's theoretical framework and existing scholarship, highlighting the developmental implications of supervisory practices, the constraints emerging from governance weaknesses, and the broader lessons for strengthening LED in South Africa's municipalities.

### **Supervision as a Foundation for Accountability and Developmental Performance**

The analysis confirmed that municipalities with well-established supervisory structures consistently outperformed those with weak oversight arrangements. Strong internal audit committees, effective municipal public accounts committees (MPACs), and disciplined administrative oversight were associated with higher levels of project completion, fewer audit queries, and improved utilisation of LED resources. These findings align with recent research indicating that accountability mechanisms in local government are strongly correlated with

better developmental outcomes (Maseko & Sebola, 2021; Turok, 2022). In practice, supervision reinforces the principles of transparency and responsible spending, both of which are essential for sustaining local economic activities such as infrastructure development, enterprise support and spatial development planning. Auditor-General South Africa's (AGSA) reports repeatedly highlight that municipalities that maintain reliable oversight arrangements demonstrate lower levels of irregular expenditure, fewer material misstatements and a stronger ability to manage development-related budgets (AGSA, 2023). This pattern was evident across the purposively selected municipalities in this study. In municipalities where oversight committees met regularly, reviewed project reports and followed up on action plans, LED initiatives were more likely to achieve their intended results. Conversely, municipalities characterised by supervisory breakdowns displayed recurring project delays, procurement irregularities and financial leakages, confirming the view that weak governance directly undermines developmental mandates (Cameron, 2021). Through Principal-Agent Theory, these findings become clearer. The theory posits that without effective monitoring; agents may deviate from the intentions of principals. In municipalities, this deviation can manifest as misallocation of LED funds, administrative complacency, or susceptibility to political interference (Schillemans & Panagiotopoulos, 2021). Supervision plays a corrective role by reducing information asymmetries, ensuring procedural integrity and aligning bureaucratic behaviour with developmental priorities. This alignment is essential for LED implementation, where large financial commitments, multi-stakeholder coordination and longtime horizons demand consistent governance discipline.

### **Institutionalising Supervision within Developmental Planning**

A key insight from the findings is that municipalities that integrate supervisory feedback into LED planning processes tend to achieve greater developmental coherence. This integration occurs when oversight reports, risk assessments and audit findings inform decisions regarding project prioritisation, budget allocation and programme redesign. Such municipalities displayed stronger developmental continuity and responsiveness to implementation challenges. This resonates with emerging literature emphasising the importance of learning-oriented governance, where supervision becomes a mechanism for institutional adaptation and continuous improvement (Cloete & Auriacombe, 2019). From a Developmental State Theory (DST) perspective, this practice reflects the strategic use of state capacity to guide local transformation. Developmental states are characterised by their ability to steer economic activity, coordinate investments and ensure policy coherence. At the municipal level, this

translates into the integration of governance processes, such as oversight and performance monitoring, into development planning frameworks. The municipalities that exhibited this integration in the study were better positioned to direct resources toward high-impact LED projects such as industrial park upgrades, agricultural value-chain initiatives and township economy revitalisation programmes. However, the results also indicate that this institutionalisation remains uneven across the local government sphere. Many municipalities interpret supervision narrowly as compliance, focusing on ticking procedural boxes rather than using oversight as a developmental tool. This distinction is significant. A compliance-driven approach often results in superficial monitoring, where issues identified in audit findings are neither analysed nor acted upon. A developmental supervision framework, by contrast, focuses on identifying systemic drivers of underperformance, improving planning and promoting long-term organisational learning (Fourie, 2020). The study's findings support the argument that municipalities need to transition from compliance-oriented oversight to development-oriented supervision if LED outcomes are to improve meaningfully.

### **Investor Confidence, Institutional Stability and LED Outcomes**

The results further reveal that investor confidence is higher in municipalities that adhere to strong supervisory standards. Investors, especially private sector actors, rely on predictable governance environments characterised by policy consistency, financial discipline and transparent project management. Research shows that localities with strong governance and oversight structures are perceived as lower-risk investment destinations, thereby attracting greater economic participation (OECD, 2021; Rogerson & Nel, 2022). The municipalities in this study that demonstrated disciplined supervision also reported greater private sector collaboration, particularly in the provisioning of infrastructure, support for small enterprises and partnerships in local industry development. This relationship is particularly important for LED because municipalities often depend on external investment to fuel growth initiatives. Infrastructure projects, for instance, require significant capital, which municipalities cannot finance independently. When oversight structures operate effectively, they serve as governance signals that municipalities are capable of managing developmental programmes responsibly. This signalling effect enhances credibility and encourages investor engagement, thereby expanding the resource base available for LED implementation. Conversely, municipalities characterised by persistent audit failures, poor oversight practices and recurring governance instability experienced suppressed investor interest. This observation is consistent with national patterns reflected in AGSA's audit outcomes, which show that

municipalities with disclaimer or adverse audit opinions struggle to attract partnerships or implement capital-intensive LED programmes (AGSA, 2023). These municipalities often become trapped in cycles of under-performance, where governance weaknesses deter investment, which in turn limits developmental progress and reinforces institutional fragility.

### **Persistent Governance Challenges Weakening Supervisory Influence**

The findings also highlight several systemic challenges that undermine the developmental potential of supervision. Political interference emerged as a significant barrier, particularly in councils where political office bearers exert influence over administrative decisions, procurement processes or oversight committee operations. Recent literature confirms that political-administrative tensions remain a defining weakness in South Africa's municipal landscape, often resulting in disrupted reporting lines, compromised oversight and weakened accountability (Siddle & Koelble, 2022). In such environments, supervisory structures struggle to operate independently, diminishing their effectiveness and eroding institutional integrity. Limited supervisory capacity further constrains oversight effectiveness. Many municipalities face shortages of skilled internal auditors, performance management specialists and financial analysts. Where committees exist, they are often under-resourced, meet infrequently or lack the technical expertise needed to interrogate complex LED implementation reports. Studies show that capacity constraints are one of the most persistent barriers to developmental local government, particularly in municipalities located in rural provinces (Cameron, 2021; Maseko & Sebola, 2021). Weak capacity affects not only monitoring processes but also the ability of municipalities to absorb lessons from oversight findings and implement corrective measures. A third challenge is the insufficient integration of oversight processes into developmental planning. Even where supervisory findings are available, they are not always used to refine LED strategies or guide decision making. This disconnect results in planning that is either unrealistic, poorly sequenced or insufficiently aligned with implementation realities. Research shows that South African municipalities often struggle to bridge the gap between planning and execution, largely due to limited capacity to synthesise and apply oversight data (Rogerson & Nel, 2022). The results of this study confirm that without deliberate integration, supervision does not exert its full developmental effect.

### **Theoretical Insights: Linking Micro-Level Oversight to Macro-Level Developmental Mandates**

The study's theoretical framework provides an important lens for interpreting these findings. Principal-Agent Theory helps explain why strong supervision contributes to improved LED outcomes by reducing agency loss, strengthening accountability and aligning administrative behaviour with developmental expectations. Municipal officials operate within complex organisational environments where the incentives to deviate from developmental priorities can be strong. Effective oversight provides corrective controls that constrain such deviations. Developmental State Theory complements this by situating supervisory practices within the broader developmental role of local government. Municipalities are not merely administrative units responsible for basic service delivery. They are developmental institutions expected to drive socio-economic transformation, stimulate local economies and facilitate inclusive growth. For such transformative agendas to succeed, municipalities require coherent governance systems, capable bureaucracies and stable oversight mechanisms. The findings reaffirm that municipalities exhibiting these characteristics are better equipped to implement LED successfully. Together, the two theories illustrate that supervision is both a governance mechanism and a developmental strategy. It shapes organisational behaviour, reinforces institutional capability and helps municipalities deliver on their developmental mandate. The study therefore contributes conceptually by demonstrating how micro-level supervisory dynamics intersect with macro-level developmental roles, offering a more integrated understanding of municipal performance in LED.

### **Reframing Supervision as a Developmental Tool**

A key contribution of this study is the argument that municipalities need to reposition supervision from a narrow compliance obligation to a strategic developmental instrument. This requires a paradigm shift in how oversight is conceptualised, operationalised and integrated into governance processes. Rather than focusing solely on regulatory adherence, municipalities should adopt a developmental supervision approach that emphasises organisational learning, strategic alignment and continuous improvement. Several implications follow from this reframing. First, oversight findings should be systematically integrated into LED planning frameworks, including Integrated Development Plans, Service Delivery and Budget Implementation Plans, and project management cycles. Second, oversight committees should be capacitated with the technical expertise required to assess development projects, analyse financial performance and interrogate implementation



challenges. Third, municipalities should enhance the independence of supervisory structures by reducing political interference and strengthening institutional safeguards. These recommendations align with broader calls for building capable and developmental local governments in South Africa. As scholars increasingly argue, development cannot occur in contexts where governance systems lack coherence, organisational discipline or strategic learning capacity (Turok, 2022; Edigheji, 2021). Supervision is therefore not peripheral to development; it is foundational to the ability of municipalities to stimulate local economic activity, ensure equitable resource allocation and sustain long-term growth initiatives.

## **CONCLUSION**

This study set out to examine the indirect but substantial role of supervision in shaping Local Economic Development outcomes within South African municipalities. Although LED is conventionally framed around technical interventions such as infrastructure development, enterprise support and spatial planning, the findings demonstrate that the governance conditions underpinning these activities are equally decisive. Supervision, often perceived as a procedural layer of compliance, emerges from this analysis as a central determinant of institutional effectiveness, shaping the environment in which developmental planning, resource allocation and project implementation occur. The study shows that municipalities that embed strong supervisory systems are able to create institutional settings where accountability, transparency and developmental discipline become routine features of governance. These municipalities are more likely to maintain oversight committees with the authority and expertise required to analyse performance information and drive corrective action. Such municipalities also tend to integrate supervisory insights into their LED planning cycles, using audit findings, risk assessments and committee recommendations to refine their strategic objectives and strengthen implementation processes. As a result, their LED initiatives are more coherent, better coordinated and more resilient in the face of operational challenges.

A clear pattern that emerged is the connection between effective supervision and improved developmental performance. Municipalities characterised by strong oversight arrangements consistently demonstrated better performance in LED projects, fewer financial irregularities and greater capacity to attract investment. These findings speak to the developmental value of governance structures that promote responsible resource utilisation, enhance institutional learning and reinforce public accountability. The study emphasises that supervision plays an

enabling role: when governance systems are stable and predictable, municipalities can make more credible commitments to stakeholders, enhance investor confidence and maintain long-term development trajectories. Conversely, the analysis indicates that weak supervision undermines LED performance in multiple ways. Municipalities with ineffective oversight processes experience recurring governance failures, including inefficient project management, irregular expenditure, delayed implementation and poor financial accountability. These weaknesses contribute to a pattern of developmental stagnation, where LED policies remain aspirational but do not translate into meaningful socioeconomic outcomes. Weak supervision allows misaligned incentives, political interference and organisational inertia to shape administrative behaviour, resulting in institutional environments that deter investment and weaken public trust. The systemic nature of these weaknesses suggests that improvements in LED performance cannot occur without addressing the foundational governance issues upon which local developmental capacity rests.

The findings also offer important theoretical insights. Through the lens of Principal–Agent Theory, the study illustrates that supervision mitigates agency-related risks by ensuring that municipal officials act in line with public developmental objectives. The oversight mechanisms examined in the study, internal audit committees, MPACs and performance monitoring processes, operate as tools that reduce information asymmetry, enforce accountability and align administrative behaviour with the interests of citizens. Developmental State Theory complements this perspective by showing that municipalities, as local developmental actors, require strong governance systems to realise their transformative mandates. Without coherent oversight structures, the developmental responsibilities assigned to municipalities by national frameworks cannot be fulfilled effectively. Therefore, the study contributes to existing scholarship by bridging two research domains that are often treated separately: local economic development and municipal governance. It demonstrates that LED outcomes are not merely the result of technical planning or policy design but are significantly shaped by the governance environment in which they are embedded. Supervision functions as a developmental mechanism, influencing not only the quality of individual projects but also the strategic orientation and institutional culture that guide long-term municipal performance. This integrated understanding offers a more comprehensive foundation for evaluating why some municipalities succeed in driving LED while others struggle.

In addition to its contributions to theory and practice, the study identifies several areas for future research. First, there is a need for longitudinal studies that track the impact of supervisory reforms over time. Understanding how improvements in oversight structures shape developmental performance across multiple years would provide deeper insight into the temporal dynamics of municipal transformation. Second, comparative research across regions or provinces could illuminate how contextual variables—such as political stability, demographic composition or economic structure—shape the effectiveness of supervisory practices. Such comparisons would help identify context-sensitive strategies for improving governance in municipalities with distinct challenges and resource profiles. Future studies could also explore the role of emerging technologies in strengthening supervision. Digital tools for financial management, performance tracking and citizen engagement offer new opportunities to enhance transparency and accountability. Examining how digital governance systems can reinforce oversight functions may offer innovative pathways for supporting developmental local government. Additionally, research could investigate the perspectives of stakeholders outside government, such as investors, community organisations and business associations, to better understand how external actors interpret and respond to supervisory practices, especially in contexts where partnerships are central to LED.

In conclusion, this study affirms that effective supervision is indispensable to achieving meaningful local economic development. It shapes institutional behaviour, reinforces accountability, enhances planning and supports the developmental duties assigned to municipalities. Strengthening supervisory practices is therefore not merely an administrative necessity but a developmental imperative. Municipalities that invest in robust, independent and well-resourced oversight systems are better positioned to steer local economic transformation, attract investment and maintain citizen confidence. By contrast, neglecting supervision perpetuates governance weaknesses that restrict municipalities' developmental capacity and diminish their ability to foster inclusive economic growth. The findings underscore the need for municipalities, policymakers and scholars to reframe supervision as a cornerstone of developmental local governance and as a strategic tool for unlocking sustainable LED outcomes.

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