

*Review*

# Policy and institutional perspectives on local economic development in Africa: The Ghanaian perspective

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**Local economic development involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development, with the aim of creating employment opportunities, reducing poverty, and redistributing resources and opportunities to the benefit of local residents. Growth and development cannot take place in an institutional and legal vacuum. Local development and growth require an institutional and legal framework that allows development to take place in an orderly manner and in which agents know that the decisions they take and the contracts they make will be protected by law, and enforced. This paper examines the policy and institutional frameworks on local economic development in Ghana. The paper relies on desk research and secondary documents by critically examining and reviewing them. The findings show that over the years several institutions and policies have been put in place to help improve development at the local level. It is therefore important to build the local capacities and strengthen these institutions to be able to exploit local resources and to stimulate economic development at the local level.**

**Key words:** Local economic development, institutions, local government, poverty.

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## INTRODUCTION

Local economic development (LED) as a concept dates back to the 1960s and 1970s (Pretorius and Blaauw, 2005). However, it was not until the late 1990s that an emphasis on enterprise development, improving infrastructure, building local partnerships, and generally promoting an inclusive and dynamic framework became the dominant strategy (World Bank, 2003). Overall, LED can be seen as local people working together to achieve sustainable economic growth that brings economic benefits and improvements in quality of life for all in the local community (Blakely, 1994; Freund and Lootvoet, 2004; Gwen et al., 2006; ILO, 2007; World Bank, 2007; Parry and Syebubakar, 2008).

In this sense, LED is founded on the belief that problems facing communities such as unemployment,

poverty, job loss, environmental degradation and loss of community control can best be addressed by community-led, grass-root, integrated approach. Similarly, the International Labour Organization [ILO] (2006) maintains that, LED strategies empower local societies and generate local dialogue; making local institutions more transparent and accountable and contributing to the development of the local civil society. This means LED strategies make economic activity dependent on the specific economic conditions and comparative advantages of a defined territory, generate sustainable employment in firms more capable to withstand changes in the global economic environment, while contributing to a general improvement in the quality of jobs as a result of the involvement of local stakeholders, and of the rooting of economic

activities in a territory.

Governments of Africa have identified LED as a key priority to enhance development and governance at the local level.

Having realised the importance of LED in rural development and particularly poverty reduction, governments in Africa have put in place policies and institutions to administer and ensure local development. Indeed, Rodriguez-Pose (2007) is of the view that adequate, solid, and efficient institutions are essential for economic development at a local or a regional scale. Just like institutions, policies are important for LED as institutions derive their support and mandate from policies. For this reason, African governments have had in place some policies and institutions to support LED.

For example, the South African constitution and other pieces of legislations such as the Local Government Transition Act of 1993 and its 1996 Amendment, the Urban Development Strategy, Rural Development Framework, White Paper on Local Government and Green Paper on Local Government among others have clearly made a case for LED if the country is to develop. In Kenya, LED has been implemented in seven localities of Assela, Nekemte, Awassa, Sodo, Bahridar, Mekele and Adigrat as a way of improving rural development through the Growth and Transformation Plan and the Regional Development Framework. Ghana has also put in place such measures for LED in rural areas of the country. Among some are policies such as Ghana-Vision 2020, GPRS II & II, GSGDA and institutional frameworks such as NDPC, MLGRD, DAs among others. This paper is structured as follows; the first section discusses the definitional difficulties surrounding LED, followed by LED in Africa and finally the institutional and policy perspective of LED in Ghana.

### **Local economic development: definitional difficulties**

The definitional difficulties surrounding social science concept did not start today neither is it going to end now. Therefore, LED has also fallen into this trap as many authors and authorities in the area of regional and local economic development struggle to come to an agreeable conclusion of the term. One of the main reasons for this definitional difficulty stems from how the concept has been perceived by various authorities. Thus, it has also been variously referred to as self-reliance, local coping, endogenous or bottom-up development, and LED (Taylor and Mackenzie, 1992; Binns, 1995). These different descriptions make the concept to defy rigid definition as to what precisely it involves. In spite of this, attempts have been made to define the concept.

Blakely (1994) for instance defines it as the process in

which local governments or community-based organizations engage to stimulate or maintain business activity and/or employment. This definition by Blakely means that, the principal goal of LED is to stimulate local employment opportunities in sectors that improve the community, using existing human, natural, and institutional resources. A similar definition suggested by Freund and Lootvoet (2004) is that, it is as “an outcome based local initiative which involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development in order to create employment opportunities for local residents, alleviate poverty, and ensure community empowerment”.

Gwen et al. (2006), in a World Bank report on LED, defines LED as a policy approach that is used to build up the economic capacity of a local area to improve its economic future and quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. A complementary definition from the South Africa's Small Enterprise Development Agency (SEDA) is that LED “is an approach towards economic development which encourages local people to work together to achieve sustainable economic growth, bringing economic benefits and improved quality of life for all residents in a local municipal area” (SEDA, 2008). Parray and Syebubakar (2008) conclude it all by arguing that, although there is no clear definition, LED is generally defined as a strategy to promote economic opportunities and growth at the sub-national level by addressing constraints and improving the overall business environment to encourage entrepreneurial behaviour and investments.

Although these definitions cannot be taken as the final statement of what LED is, they do provide a broad insight into the overall orientation of the concept. Despite this, LED and its related concepts such as community economic development, self-help and self-reliance strategies appear to have received considerable attention from scholars in recent years (Abrahams, 2003; Canzanelli, 2001; Davis and Catherine, 2005; Eberts, 2005; Freund and Lootvoet, 2004; Geddes, 2004; Gwen et al, 2006; ILO, 2007; Pieterse, 2006; Simon, 2003; World Bank, 2007). Reese (1993) therefore avers that, “research on LED has grown exponentially”.

### **Evolution of local economic development in developed countries**

Local Economic Development has been practised for a while in wealthy countries such as the United States of America and the United Kingdom. The reasons attributed to the adoption of LED strategies in developed countries

are many and varied; Nel (2001:1004) accredits this move to the so-called development impasse, and the failure of earlier development approaches. More specifically, Geddes (2004) notes that this came as a result of the direct slump in the economic growth of industrialized countries after World War II which placed a lot of pressure on governments, especially local governments, to become more innovative in trying to attract investment.

The Municipal Services Project (2001) relates the evolution of LED to the failure of traditional top-down planning policies and initiatives of government to achieve meaningful national development objectives leading to a shift in policy focus to target disadvantaged and underdeveloped areas. The intention of the policy shift according to the Municipal Services Project was to create favourable conditions such as subsidies and grants, aimed at luring investors to areas that were once deprived of direct investment and subsequent economic growth and development.

According to Geddes (2004), LED in the United Kingdom and the European Union became popular in the 1980s as a reaction to the rising problems of unemployment caused by economic restructuring and a fall in industrial activities. Geddes however, notes that during this period LED took the form of closer interaction and co-operation between local government, community-based groups, and trade unions. The rationale was based on the notion that greater government and social interaction would promote sustainable job creation. This led to the establishment of co-operatives and community businesses, enterprise zones, urban development corporations, and enterprise councils alongside comprehensive training for community members in various disciplines of business and skills development (Geddes, 2004). Later in the 1990s LED initiatives were further entrenched by the establishment of government funds.

The focus of LED in Europe, according to Geddes (2004), is based on three key principles. Firstly, it emphasized the stimulation of community-based enterprises. Secondly, it envisaged government having a particular role of providing resources for these local initiatives. Thirdly, extensive training underpinned most of these community-based initiatives. This approach to LED is comprehensive only that it did not specify the role that each of these players has to play in the process. It is therefore important that in developing a LED strategy, the roles of each partner be specified clearly to avoid confusion and to achieve the intended objective of the initiative. Dewar (1998) concurs that LED emerged in North America and particularly in the USA in the early 1970s as a response to a decline in economic growth, and also as a tool to stimulate it.

These initiatives were especially directed at areas situated outside large cities and intervention programs

initiated by government took the form of loans, grants and tax breaks.

### **Local economic development in Africa**

In Africa, Rodríguez-Pose and Tijnstra (2005) attributed the emergence of LED to similar reasons. In this regard, LED evolved as a result of the continuous problems of slow economic growth and poverty, changes in national and international economic environment, and the inability of central governments to intervene at the local level. Nel (2001) added that this situation was compounded by factors such as the debt crisis, forced structural adjustment, colossal currency devaluation, and other natural and political shocks.

Similarly, the Municipal Services Project (2001) relates the evolution of LED to the failure of traditional top-down planning policies and initiatives of government to achieve meaningful national development objectives leading to a shift in policy focus to target disadvantaged and underdeveloped areas. The intention of the policy shift according to the Municipal Services Project was to create favourable conditions such as subsidies and grants, aimed at luring investors to areas that were once deprived of direct investment and subsequent economic growth and development.

Therefore, true LED cases in Africa are thus hard to come by as most local governments (LGs) do not even involve the local businesses in the process of developing these strategies, and instead initiate much more limited pro-poor initiatives. South Africa is one of the few countries in Sub-Saharan African region that has been officially embarking on LED projects for over a decade. A focus on so called LED strategies was introduced shortly after the end of Apartheid (Rogerson, 2002). Although most of these projects can be considered to be community development or so called pro-poor LED projects, the larger metropolitan areas in South Africa, such as Johannesburg and Durban, have initiated LED interventions similar to those in Western Europe, North America, or parts of Latin America and Asia (Rogerson 1999; Nel and Rogerson, 2005).

In comparison with developed countries, instances of LED in Africa are relatively scarce. The few experiences commonly tend to focus on the social aspect of LED to the disadvantage of its economic side. As Nel and Binns (1999:390) put it, "LED in Africa has become identified with self-reliance, survival and poverty alleviation, rather than participation in the global economy, competitiveness and finding market niches". Therefore, Rodríguez-Pose and Tijnstra (2005) see this approach as essentially about achieving social rather than economic goals. Thus, they address vital problems, but tend to focus on short-

term issues and on corrective action for the mitigation of social problems, leaving many of the economic issues that lie at the heart of underdevelopment virtually untouched (Rodríguez-Pose and Tijmstra, 2005).

### **Local economic development in Ghana**

Since Ghana's independence, successive governments have pursued with varying degrees of success, policies, programs, and projects to accelerate the growth of the Ghanaian economy and raise the living standards of the people. Even, rural and locality development has been seriously undertaken by various governments, but these were not conscious processes to deliberately and strategically foster a LED initiative neither were they named as such. However, these could be described as LED as they recognise and attributed certain roles to local institutions for locality development. For instance, the 1961 Local Government Act recognises the responsibility of local authorities for the provision of basic services and infrastructure. Also, under the National Liberation Council (NLC), regional planning committees were established in 1968 and this was the focus of LED efforts. Again, in 1975, regional business promotion secretariats were created to decentralise the services of Ghanaian Enterprises Development Commission. In 1981 the National Board for Small Scale Industries (NBSSI) was created an act (Act 444 of 1981) as a policy maker, policy advisor, monitor/coordinator, programme implementer and registrar of all small and micro-scale activities in Ghana as a way of promoting LED.

Similarly, there have been some institutions alongside the various polices to help implement LED development policies and programmes. Some include the National Development Planning Commission (NDPC), District Assemblies (DAs), Regional Coordinating Councils (RCCs) and other NGOs both national and international alike. In short, there have been various institutions and policies established over the years through LED to deal with the problem of poverty and thereby reducing poverty at the local level.

### **METHODOLOGY**

The research method for this study was basically desk research methodology. This was done by collecting data from existing resources such as policy documents and critically examining them. A number of documents such as the 1992 constitution of the Republic of Ghana, the Local Government Act, Act 462 (1993), the Ghana Poverty Reduction Strategy I & II, the Ghana Shared Growth and Development Agenda (GSGDA) were

critically examined. Also, institutions such as National Development Planning Commission (NDPC), Ministry of Local Government and Rural Development (MLGRD), District Assemblies (Das) among others were examined as major stakeholders in local development in Ghana. The authors critically subjected these documents to a proper analysis which made it possible for them to come out with recommendations and the way forward for LED in Africa and specifically in Ghana.

### **INSTITUTIONAL AND POLICY FRAMEWORKS ON LOCAL ECONOMIC DEVELOPMENT IN GHANA**

The section touches briefly on such initiatives both institutional and policy frameworks.

#### ***Institutional frameworks for local economic development***

Some institutions in Ghana over the years have played crucial roles in economic development particularly in relation to rural poverty reduction. This section therefore identifies and discusses the main institutions that have had an impact on poverty reduction, either directly or indirectly via their actions and activities. The first and well known of this institution is the National Development Planning Commission (NDPC). The NDPC is a body created by articles 86 and 87 of the 1992 Constitution of the Republic of Ghana and established by Acts 479 and 480 (1994) of Parliament with the mandate to advise the President on development planning policy and strategy.

The NDPC is responsible for providing guidelines to facilitate the preparation of development plans by the Metropolitan, Municipal and District Assemblies (MMDAs) in accordance with Section 1(3, 4), 2 to 11 of the National Development Planning (System) Act 1994 (Act 480). The Guidelines are designed to provide focus and direction on national development priorities, and enhance harmonisation and rationalisation of development programs, projects and activities initiated from the community, district, and national levels respectively. Performing these roles over the years has helped facilitate poverty reduction in Ghana.

Another institution for LED is the District Assembly (DA). In 1988, the governing Provisional National Defence Council (PNDC) put in place an administrative and political structure that was aimed at supporting a greater degree of popular participation in rural development. Power was devolved to DAs to enhance service delivery for poverty alleviation, and since 1992 the government has channelled not less than 7.5% of annual national revenue to these Assemblies for development. The DAs which were created through the decentralisation process

are now the fulcrum of political, administrative and development authority in Ghana. In fact, Helmsing (2003) emphasised that “as decentralisation is increasingly taking place, the question of local economic development is acquiring more significance”.

To reduce rural poverty, the Government of Ghana has noted that deliberate and concerted efforts must be made to eradicate the economic, social, cultural, and political factors that contribute to mass poverty in the country, within the framework of sustainable rural development. Specifically, some of the objectives and functions of the local government program which relate to LED are: devolvement of political and state power in order to promote participatory democracy through local level institutions, and devolvement administration, development planning and implementation to the DAs through the introduction of an effective system of fiscal decentralization which gives the DAs control over a substantial portion of their revenues.

In order to effectively undertake poverty reduction activities, DAs are required to co-ordinate district level sectoral programs/projects directed towards poverty reduction, with support of donors, NGOs and CBOs and private sector enterprises (MLGRD, 1996). The projects, programs and activities of DAs in Ghana have been largely supported by the District Assemblies Common Fund (DACF), NGOs and donor organisations.

The Ministry of Local Government and Rural Development (MLGRD) could also be described as a LED institution. The MLGRD exists to promote the establishment and development of a vibrant and well resourced decentralised system of local government, to ensure good governance and balanced rural based development. It also specialises in promoting local government institutions and in carrying out integrated rural development in collaboration with the local organisations and associations. The functions of the MLGRD include; assisting local government institutions in areas such as promotion of local government institutions, planning and coordination, and international aspect including liaising with local government institutions in other countries. Others are organising rural development programs, policy guidance, follow-up actions; coordination, foreign assistance and evaluation. In the nutshell, the MLGRD is the supervisory institution of local government and other local institutions in Ghana and ensures development at the local level.

Other institutions that are related to LED in Ghana include the GRATIS foundation, Rural Banks, and Traditional Authorities. The GRATIS project was established in 1987 and incorporated in 1999 as a Company Limited by Guarantee with the name GRATIS Foundation. It has the mandate to promote small-scale industrialisation in Ghana through the transfer of appropriate technologies to

small-scale industrialists by means of training, manufacturing and the supply of machines, tools, plants and equipment. GRATIS operates through a network of Intermediate Technology Transfer Units (ITTUs), now referred to as Regional Technology Transfer Centres (RTTCs). The RTTCs exist in the ten regions of Ghana and are responsible for providing hands-on short and long term training for small business entrepreneurs in areas such as metal fabrication and design, textiles, pottery and soaping making among others. The services provided by GRATIS and the RTTCs are made possible through the support of the Government of Ghana, the European Union (EU), the Canadian International Development Agency (CIDA), German International Cooperation (GIZ), and the British Department Fund for International Development (DFID).

Rural banks play a significant role in LED. For rural development to proceed at a smooth pace, credit and funding need to be created for the rural folk. In Ghana, institutional sources of credit are the commercial banks and the Bank of Ghana. Until recently, very few rural people, other than wealthy farmers and businessmen, had access to credit from these sources. To overcome many of these difficulties, the Government of Ghana, through the Bank of Ghana, introduced the idea of rural banking into the country in 1976. According to the Association of Rural Banks (1992), “The aims of Rural Banks are:

1. to stimulate banking habits among rural dwellers;
2. to mobilize resources locked up in the rural areas into the banking systems to facilitate development; and
3. to identify viable industries in their respective catchment [areas] for investment and development.”

It should be noted that rural banking as a tool for rural development has been practiced in countries like Brazil, Argentina, Malaysia, Barbados and other West Indies countries and it is bound to succeed in Ghana as well. So far, rural banks have provided credit facilities to SMEs, farmers and have financed a host of rural development activities in Ghana.

Traditional authorities have been in the forefront of community development all over the country. They are an integral part of the nation’s development process and are very crucial partners in this direction. This is because culture forms the basis of almost all our development policies and since traditional authorities are the custodians of our culture, it behoves on every policy maker to involve them in the formulation of development policies. Traditional authorities mobilise community groups or civil society leaders, encourage volunteerism, promote local participation, public community partnerships, and co-operatives. This helps to improve understanding of the

needs of different partners and strengthen delivery and promote accountability and transparency for local development. Economically, traditional authorities throughout Ghana now have the “Nkosuohene” (chief in charge of development), and recognise the “Nkosuo Stool” whose occupant mobilises resources for local development, financial contributions and fund-raising activities help raise funds for development.

### ***Policy frameworks and local economic development in Ghana***

From a legislative and policy perspective, LED in Ghana finds accord with the legislation, policies and frameworks dealing with socio-economic development and poverty reduction since 1994. These Acts, policies, and frameworks have made provision for government to foster the growth of local economies to address local needs and to formulate strategies to address job creation and community development. Below is a highlight of a few of such pieces of legislation and policies.

The first of these is the Constitution of the Republic of Ghana, 1992. As the supreme law of the country, the Constitution recalls most prominently the developmental and pro-poor responsibilities that the government, especially local government, has in Ghana. Provision has been made in Chapter 20, Article 245 of the Constitution for local government to promote social and economic development. The Constitution goes further to establish the District Assemblies Common Fund (DACF) where parliament shall annually make provision for the allocation of not less than five percent (it has been increased to 7.5%) of the total revenues of Ghana to the DAs for development (Constitution of the Republic of Ghana, 1992). Another important section in the 1992 constitution is the Directive Principles of State Policy. Article 36 (2) (d) states that the state shall undertake even and balanced development of all regions and every part of each region of Ghana and in particular, improving conditions of life in the rural areas and generally redressing any imbalance in development between the rural and urban areas.

The Government of Ghana set “Ghana-Vision 2020” as a development strategy aimed at creating a stable macro-economic environment and implementing a decisive structural transformation to foster strong economic growth and a broad-based improvement of living standards. There are five basic themes of development in the Ghana Vision 2020 document namely; human development, economic growth, rural development, urban development, and an enabling environment (NDPC, 1996). This paper is particularly interested in the rural development component as it is directly linked to LED.

With over two-thirds of the population residing in rural areas, a major development goal of the Ghana Vision 2020 is to reduce disparities between the incomes and standards of living of rural and urban populations (NDPC, 1996). The Ghana Vision 2020 policy document states that, the aim of rural development is to upgrade rural areas socially, economically and environmentally, and to achieve a better balance between rural and urban investment (NDPC, 1996:60). In this way improvements in rural living conditions will be promoted, conditions will also be created in which productive capacity and the ability to meet social needs in rural areas could further increase through the provision of an effective enabling environment.

This will involve the expansion of the rural services and shall include: the provision of economic, and social services in small towns or centres accessible to rural hinterlands; improvements in the physical infrastructure to facilitate access and communications to and between service centres; and the efficient operation of service using the infrastructure. The guidelines for the rural development component of the Ghana Vision 2020 fall under the following headings: institutional structures in support of rural development, district and regional planning capacities, community participation, transformation of the rural economy, private sector initiatives, extension services and technology transfer, and environmental protection (NDPC, 1996:63-64).

The country's key framework for policies and allocating resources during the period 2003 to 2009 was the Ghana Poverty Reduction Strategy I & II (GPRS I & II). The first version of this strategy, referred to here as GPRS I, covered the period 2003-2005. This policy sought to foster private sector-led growth while at the same time investing in human and physical infrastructure. The goal of the GPRS I was to create wealth by transforming the nature of the economy to achieve growth, accelerated poverty reduction, and the protection of the vulnerable, which is excluded within a decentralized, democratic environment (NDPC, 2002). Under the GPRS I, DAs were to become the key level of planning and implementation of development programs.

In 2006 the government of Ghana introduced another poverty reduction strategy called the GPRS II. Ghana Poverty Reduction Strategy II was prepared in response to the changing circumstances in the well-being and poverty situation of Ghanaians. Therefore, while the GPRS I focused on poverty reduction programs and projects, the emphasis of GPRS II is on the implementation of growth-inducing policies and programs which have the potential to support wealth creation and sustainable poverty reduction. Ghana Poverty Reduction Strategy II seeks to make its greatest impact in agricultural and industrial production by removing obstacles to private

sector development, expanding employment opportunities for all sectors of the economy, ensuring that the benefits of growth are widely shared, and encouraging social partners to implement social protection services (NDPC, 2006).

However, GPRS I&II have been hampered by lack of clarity about their role and insufficient knowledge concerning LED. Also lacking are suitable institutions to bring together assemblies, local authorities, the private sector, and other members of the community.

In 2008, the National Democratic Congress won the presidential election and assumed power in 2009. The government subsequently introduced the Ghana Shared Growth and Development Agenda (GSGDA I, 2010-2013) in 2009. The major development thematic areas in this policy document are: Ensuring and sustaining macro-economic stability; enhancing competitiveness in Ghana's private sector; accelerated agriculture modernisation and sustainable natural resource management; oil and gas development; infrastructure, energy and human settlements; human development, productivity and employment; transparent and accountable governance (NDPC, 2010). The details are provided in the GSGDA 2010-2013, which should be used together with NDPC guidelines in the preparation of the District Medium Term Development Plans (DMTDPs) by the DAs. The guidelines also emphasize on ensuring that the Millennium Development Goals (MDGs), New Partnership for Africa Development (NEPAD), and other cross-cutting issues such as gender and environmental sustainability among others are integrated in the DMTDP.

## **SUMMARY, POLICY RECOMMENDATIONS AND CONCLUSION**

The current poverty in Africa arguably can be considered as a sum of the legacy to cumulative effects of successive failures in top down development strategies pursued after independence in the 1960s and of recent developments including globalisation that have marginalized the poor countries' economies and accentuated income disparities, particularly in the rapidly growing cities. This makes it imperative for Africa countries to adopt locally/regionally driven development processes. LED, which places emphasis on exploiting local resources and building local capacity to stimulate economic development and poverty reduction, presents itself as the obvious alternative.

The foregoing review of the policy and institutional environment in Ghana shows that the national environment is opportune for LED strategy in Ghana. The governance and administrative structure in Ghana has given space for local authorities to exercise development

functions within their own jurisdiction and locality. Local authorities are empowered to innovate policies and strategies that will help them reduce poverty and generate employment. Various institutions and policies have played this role over the years and in fact there is no time than now that local authority must be fully strengthened to perform this role.

As an all inclusive process, LED requires continuous sensitization, awareness creation, information-sharing and training for communities and other stakeholder to facilitate effective participation in sustainable partnerships that must be built by the LGs. Even though, a local approach, the central government and the private sector has an important role to play in the process. It is the role of the central government to create an enabling and regulatory environment that supports LED, while private sector institutions should contribute financial resource, technology, marketing and supply linkages to support LED.

Ordinary citizens have to take on new responsibilities to participate in decision making, in execution of partnership programmes and to exercise oversight to government. Training institutions are indispensable for capacity building for all stakeholders in the LED process. There is therefore the need to seize the opportunity presented by the ongoing decentralization and reforms to develop adequate capacity for specialized training of local government personnel in the area of LED. The LGs, which occupy a pivotal position in the LED process, need to overcome their lack of political power, authority, financial resources and technical capacity. Through effective and proper implementation of LED, localities can attain fast local growth that is broad based and inclusive for poverty reduction.

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