INTERNATIONAL CENTER FOR PUBLIC POLICY

International Center for Public Policy
Working Paper 14-17
January 2014

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# *The Political Economy of Local Infrastructure Planning*

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## Abstract

Developing countries face considerable challenges in the design and operation of local infrastructure planning systems in decentralized or decentralizing countries. Many of these are well documented, but the complex political economy environment in which planning evolves has received insufficient attention. The forces driving decentralization and other public sector reforms shape how planning emerges, functions and performs. Local planning involves a range of differentially empowered and variously motivated actors at multiple levels and in diverse ways. The dynamics among them can support or undermine authentic local planning, with potentially significant implications for results. This paper reviews the evolution of local infrastructure planning with a focus on least developed countries, outlining the key expected and observed relationships among decentralization, planning systems and infrastructure development. The main goal is to create greater awareness of political economy issues that could inform the design and management of more effective and pragmatic local infrastructure planning systems.

## I. Introduction

Developing countries often have complex, multi-level infrastructure planning systems that not uncommonly underperform relative to needs and expectations.[1] These systems have undergone numerous transformations as development thinking and practice have evolved. Many countries, however, continue to face great challenges in making local infrastructure planning and delivery more effective. Political economy forces are a critical factor in how local infrastructure planning systems have developed and perform.

Planning, both in general with respect to infrastructure, covers a vast landscape. It can involve multiple levels of government and administration, from central to grassroots, and relationships among levels can be complex and poorly defined in law and/or in practice. Sub-tiers within levels may play a role in infrastructure. At each level, there is an array of interested and/or influential actors—elected bodies, government bureaucrats, and diverse nongovernmental entities ranging from business to civil society groups. In aid dependent countries, international agencies can play a major role, and particularly in large urban areas, private sector firms may be engaged as infrastructure service delivery partners. Each actor faces incentives that may support or undermine infrastructure delivery.

Infrastructure itself is diverse because of variations in its inherent characteristics, such as the extent to which it is “public” in nature, the scale at which it must be provided, and the types of skills required to deliver it, among others. Land and natural resources, often subject to complex legal frameworks and contested control and use, are involved in creating and operating infrastructure, adding further complexity. The various levels, actors and characteristics of infrastructure shape the political economy environment in which it must be delivered.

Some challenges of infrastructure planning have been at least partly created or exacerbated by the pursuit of the very reforms intended to improve public sector performance in developing countries. Decentralization, which has been an influential trend for more than two decades, typically augments existing local infrastructure responsibilities and introduces important new actors, processes, funding sources and accountability channels into development planning. Existing actors, however, do not simply disappear, and political economy dynamics set in motion by decentralization can affect how local planning and the overall intergovernmental reforms in general perform.

Beyond decentralization, reforms in service delivery and financing mechanisms pursued through sectoral line ministries, finance ministries and community driven development initiatives can further affect the development planning landscape. Such reforms may be undertaken in response to perceived threats from or independently of decentralization.

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[1] There is diverse literature on infrastructure in developing countries, including the effects of infrastructure on development (e.g. Straub 2012), infrastructure policy (e.g. Estache 2004), outcomes (e.g. Briceno-Garmendia et. al. 2004), finance (e.g. Kehew, Matsukawa and Petersen 2005, Estache 2010, Helm 2010), and private participation. (e.g. Harris 2003), The literature on infrastructure planning is primarily technical and sector specific. Work on the political economy of local infrastructure planning in developing countries is limited, but the general political economy of decentralization literature discussed below is relevant.

Whichever the case, gaps and redundancies in service responsibilities and conflicts over power and resources can easily arise as the multiple—typically uncoordinated—reform processes unfold. These in turn can have consequential effects on the delivery of infrastructure and citizen confidence in and satisfaction with government.

Other evolving dynamics can significantly affect local infrastructure planning. The demand for more and better infrastructure increases with greater economic development, higher citizen awareness/expectations and the influence of external trends and global agreements (e.g. the Millennium Development Goals). The 2008 global financial crisis affected resource availability for infrastructure and placed subnational governments in many countries under pressure to replace funds they could no longer get from national budgets.[2] Spatial factors may also evolve in consequential ways. Commercial and residential developments in legally separate jurisdictions, for example, may grow physically closer over time, making administratively independent jurisdictions more interdependent and potentially complicating infrastructure planning.

Finally, local political dynamics can be very important. These are related to interactions among different types of subnational institutions (e.g. cooperation or lack thereof among neighboring jurisdictions in providing network infrastructure) and relationships between local governments and their constituents (e.g. the degree of political competition, the extent of elite capture and patronage, and the nature of citizen interactions with locally elected officials). These dynamics can affect the success of decentralized planning systems in using securable resources for the right infrastructure in the right places.

Given the vast scope of local infrastructure planning systems, approaches and influences, this paper is selective in coverage. A broad overview of the political economy landscape of infrastructure planning is provided in the first few sections, but the core of the paper focuses on the development of planning systems under decentralization, particularly in least developed countries. The next section briefly summarizes the evolution of thinking about development planning with a focus on the role of decentralization reforms that have emerged under varying political economy conditions. Section III provides a brief overview of infrastructure planning related roles played by key actors, and Section IV reviews how a range of public sector reforms beyond decentralization—with their own political economy dynamics—affect local infrastructure planning. Section V summarizes a country case that illustrates common challenges to local infrastructure planning and their political economy underpinnings. Sections VI and VII provide a more detailed treatment of local infrastructure planning with a focus on least developed countries, respectively outlining relationships between decentralization and planning systems and considering the role of planning systems in infrastructure development. Finally, the last section provides some concluding comments.

[2] See United Cities and Local Governments (2010).

## II. The Basic Structure and Changing Context of Planning Systems

Public sector development planning systems for infrastructure and beyond have historically been structured in diverse ways.[3] In the post-World War II era of industrialized country support for developing countries, planning systems were based on a development model predicated on a large government role in the economy, and infrastructure planning was built around macroeconomic development needs. Such planning was centralized and technocratic, although interactions among government levels allowed modest local input. Traditional urban spatial and land use planning was often conducted separately, sometimes through dedicated subnational systems and sometimes through central agencies. This general approach persisted in the era of rolling back the state that began in the 1980s, although there was more emphasis on public-private partnerships to deliver roads, water and other major infrastructure.

*Planning systems*

Local planning—in the sense that it focused on local infrastructure and involved local actors—was, of course, occurring even in the era of heavy centralization. National governments set up ministries, subnational administrations, and various bodies at one or more levels to play some role in planning. Local infrastructure could be provided for in national, sectoral or subnational plans, and various mechanisms bridged certain aspects of one or more types of plan and involved different combinations of actors (Figure 1).

A range of planning relationships existed, but in relatively centralized systems there was usually some type of hierarchical orientation, such that any one actor needed approval from a higher level. A wide variety of mechanisms, some in the national budget and some off budget, were used to finance infrastructure. The planning process could be top-down (lower levels awaited plans or instructions for preparing local plans from the center), bottom up (central plans and budgets for local services were not prepared until requests from lower levels had been passed up and reviewed), or something in between. The locus on accountability and control of resources, however, was dominantly upward.

In some countries with local government traditions, semi-autonomous local planning could exist in parallel with the main planning system. Local governments might produce—sometimes independently from the national multi-level planning system—urban or rural development plans, which commonly focused on infrastructure. These typically had dedicated but insufficient funding sources—transfers or project funding mechanisms—attached to them. Separate legal status and more independence in infrastructure planning and finance were more likely in metropolitan and larger urban areas, although still typically be subject to a national legal, administrative and financial

[3] See, for example, Agarwala (1983), Conyers and Hills (1984), Healey (1997), Sundaram (1997), Rodwin and Sanyal (2000), Sanyal (2005), Hall and Tewdwr-Jones (2010) and Healey (2012) for overviews from various perspectives on development planning and urban and regional planning.

framework.[4] These bodies may or may not have elected councils, and there may or may not have been interjurisdictional planning or coordination in metropolitan areas.

**Figure 1: Relationships in Multi-Level Planning**

| | National Planning | Sectoral Planning | Regional Planning | Local Planning |
|---|---|---|---|---|
| **National Level** | *National Plans* | Inter-sectoral Plans | Inter-regional Plans | *(May be local inputs to national level planning)* |
| **Sectoral Level** | Inter-sectoral Plans | *Sectoral Plans* | Regional Sectoral Plans | (Sub-regional, Multi-sectoral, Area-based Plans, among others) |
| **Regional Level** | Inter-regional Plans | Regional Sectoral Plans | *Regional Plans* | |
| **Local Level** | *(May be national directives for local level planning)* | (Sub-regional, Multi-sectoral, Area-based Plans, among others) | | *Local (Municipal, Village, etc.) Plans* |

*The emergence of decentralization*

As institutional and governance concerns became prominent and global political and economic conditions evolved, a wave of public sector restructuring, democratization and civic engagement reforms took center stage. This included a growing decentralization trend.[5] As decentralization became more common in developing countries, an appropriate role of subnational governments in infrastructure had to be considered. The approach has varied considerably across countries due to differences in political and economic factors driving reform, variations in the relative priority of decentralization and diversity in the institutional structures and systems operating when decentralization was initiated.[6]

With respect to initial goals, it is well established that countries decentralize for various essentially political reasons.[7] In some cases, transition from a military/authoritarian regime to a more democratic society, as in Argentina and Brazil, included moves to decentralize. At the same time, some weakly democratic countries, such as Cambodia, decentralized modestly to reinforce the power of a dominant ruling party. A number of

[4] Smoke (forthcoming) reviews the literature on intergovernmental frameworks and provides some comparative information on a number of developing countries.

[5] There is much literature on this trend. A few general synthetic sources include: Litvack, Ahmad and Bird (1998), World Bank (2000), Bardhan and Mookerjee (2006), Cheema and Rondinelli (2007), Connerly, Eaton and Smoke (2010), and Martinez-Vazquez and Vaillancourt (2011).

[6] See, for example, Atinc, Ndegwa, Taliercio, MacAntony and Mailei (2004) and Beard, Miraftab and Silver (2008).

[7] A range of literature on this topic is reviewed in Connerley, Eaton and Smoke (2010) and Eaton, Kaiser and Smoke (2011).

post-conflict, post-crisis or fragile nations, such as South Africa and Uganda, pursued decentralization to build political credibility and national identity. In some crisis cases, such as Ethiopia and Indonesia, the main objective was to offset perceived subnational pressures for state disintegration. The forces driving reform create incentives for system design and implementation, including planning, in varying ways and at different paces.

Whatever the dominant political motive(s) for decentralization, complete restructuring of subnational institutions is uncommon. Existing jurisdictions rarely disappear, although political forces may allow asymmetric empowerment (deconcentration versus devolution). Even with genuinely transformative reform ambitions, the challenges of what happens to standing systems and processes can be daunting. Agencies that lose power from a stronger subnational government role in infrastructure, for example, are likely to resist scaling back or eliminating deconcentrated planning systems. Thus, the original (more centralized) planning systems may continue to operate to various degrees in ways that are inconsistent with their role under decentralization. Moreover, sectoral ministries may adopt dedicated planning and financing mechanisms for specific services, sometimes in direct response to decentralization, further complicating coherent planning.

The implications of decentralization for city planning have also varied considerably. In general, urban jurisdictions, at least larger metropolitan areas, are granted more freedom and resources, and there have been efforts to promote urban development by improving local infrastructure planning in broader context.[8] Steps to increase discretion and access to finance (e.g. through municipal development banks and facilitation of access to credit markets) are often accompanied by accountability and fiscal responsibility reforms. Urban local authorities, however, remain subject to varying degrees of oversight and control by national agencies, some of which can be onerous and counteract the forces that decentralization is supposed to unleash.

In addition to formal public sector planning systems, there has also been a strong trend to develop community-based planning for small-scale infrastructure in many developing countries. Initially these were mostly created as parallel systems that bypassed local governments, often where decentralization had not yet been adopted or was weak or where crisis situations created a need to get resources to impacted communities quickly. In some countries these community mechanisms have been more integrated with local government systems as decentralization reforms evolved, but in other cases they continue to function as separate systems that plan local infrastructure independently.[9]

A core practical challenge for infrastructure planning in developing countries has been that institutional reforms have encountered and generated political and bureaucratic incentives that allow formal adoption of new systems but hindered their implementation and fail to motivate adequate modification of existing structures. In addition, planning reforms have tended to be technical, commonly placing more emphasis on creating

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[8] New and more integrated approaches to thinking about urban infrastructure planning as part of broad-based, multi-actor city development strategies are discussed in World Bank (2009) and Frank (2011).

[9] A synthetic review of the evolution of community driven development and various operational models is provided in Binswanger-Mkhize, de Regt and Spector (2009).

formal systems than on developing the means, incentives and capacity for the political connection to constituents that is considered essential for successful decentralization.

## III. Overview of Actors, Institutions and Planning Roles under Decentralization

A wide range of central actors has a role in designing and implementing the legal and/or constitutional parameters of decentralization[10] that are relevant for infrastructure. National legislatures can face incentives to promote or inhibit decentralization, and how this plays out can depend on the degree of political competition. Various government agencies may have different opinions regarding how far decentralization should go and what their roles should be relative to local actors. In some cases, central agencies may face incentives to overtly or covertly obstruct decentralization of major functions, including infrastructure planning, when this undermines their powers and control over the often-substantial resources at stake. These agencies may also directly compete for control of infrastructure provision, and they may pursue policies that are consequentially inconsistent with the formal intergovernmental framework.

A first step in understanding these bureaucratic incentives is to determine which actors are involved in the process and what role(s) they play, formally and informally. Whether local planning systems are independent or integrated, they invariably face national guidelines and/or oversight. Most countries have an agency dedicated to developing and supporting local government/administration, such as a Ministry of Local Government, Home Affairs or Interior. Other agencies manage overall national processes, such as a Ministry of Finance, Planning, or Public Service. Given the overarching nature of their functions, they usually have some control over agencies at all levels (except local governments in federal systems), and they have tendencies towards standardization and control. The framework and oversight are sometimes managed by the planning ministry and sometimes by the local government ministry. In cases where more than one system exists, deconcentrated planning may be managed under the former and local government (devolved) planning under the latter.

Sectoral ministries also have important responsibilities for infrastructure—roads, water, etc. Separate sectoral bodies that cross multiple jurisdictions, such as a roads or water authority, may also be created. In some countries, portions of the infrastructure portfolios may be coordinated under national agencies with specific mandates, such as a Ministry of Regional, Rural or Urban Development, or regional development bodies. Sectoral and territorial agencies are typically oriented towards service delivery, so they are more concerned about technical inputs and outcomes than about building local institutions and governance, There are, of course, cases in which central ministries promote decentralization and local capacity building.

Although the loss of central agency power and inter-agency competition to play prominent roles provide strong incentives for overtly or covertly obstructive behavior or

[10] Much of the relevant literature is synthesized in Connerley, Eaton and Smoke (2010) and Eaton, Kaiser and Smoke (2011).

careful institutional positioning, less obvious dynamics can also be at work. Especially in least developed countries with weak institutions, informal mechanisms for raising and allocating resources may dominate formal systems. These mechanisms are clientelistic or patrimonial in nature, and it is difficult for reformers to change long-established rules of behavior.[11] This is particularly prevalent in certain environments, e.g. if transparency is limited, if informal rules are derivative of or validated by traditional norms or cultural allegiances, or if low civil service salaries create incentives for staff to extract resources by whatever means feasible. Even where it is possible to pursue reform under such circumstances, it is likely to take a long time.

*Subnational politics and institutional arrangements*

Beyond the behavior of the central government, local institutions and relationships matter. The most obvious concern is the extent to which elected councils represent their constituents versus get captured by local elites or higher-level politics. Bureaucratic dynamics can also matter, for example where decentralization involved assignment of former central employees to new local governments. In such cases, these employees may continue to look to national ministries for direction on infrastructure planning rather than to locally elected councils to which they now formally report. National standards and some upward accountability justifiably remain important even in decentralized systems, but downward and horizontal accountability must also be developed and respected for decentralized planning to create appropriate incentives and realize its intended benefits.[12]

Some types of devolved or delegated infrastructure services may be more efficiently delivered across multiple local jurisdictions, so provisions for interjurisdictional cooperation, such as special districts for specific services or metropolitan planning commissions that include several contiguous autonomous jurisdictions, can be important. Such mechanisms may be mandatory (imposed by the central government) or voluntary (formed at the discretion of the jurisdictions involved). In either case, political dynamics and embedded incentives affect how the mechanism will operate and perform. For example, the imposition of a special district may be resisted, and where cooperation is voluntary there are often issues with how the agreement will be governed by the multiple jurisdictions (with separately elected councils and separately appointed staff) involved, and this will have consequences for how it performs in delivering infrastructure.

A few examples can help to illustrate the diversity and importance of metropolitan governance arrangements (Table 1).[13] One model is unified metropolitan administration, as is practiced in Cape Town, a metropolitan municipality composed of several formerly distinct local governments. Cape Town prepares, as per national requirements, an Integrated Development Plan that is partly financed with resources from the central

[11] See, for example, discussions of public financial management reform in Malawi (Rakner et. al. 2004) and public sector revenue reform in Uganda (Fjeldstad 2006).
[12] Much of the synthetic literature on this topic is reviewed in Eaton, Kaiser and Smoke (2011), and Yilmaz, Beris and Serrano-Berthet (2010) provide a thorough overview of subnational accountability.
[13] See, for example, Slack (2007), Slack and Chattopadhyay (2009) and Slack (2010).

government and partly with city resources.[14] The Cape Town Partnership (CTP), an independent non-profit organization linked to the city's development planning has been influential in pushing infrastructure development to promote private investment. The CTP Board of Directors includes private and public sector. Some critics charge that the CTP and the city in general focus on the central business district and do not sufficiently take into account other parts of the city, but the integrated political structure and administration of the city and the broad involvement of key stakeholders seems to lead to a more effective planning process than occurs in many other metropolitan areas.

In the Philippines, the central government created the Metropolitan Manila Development Authority (MMDA) to coordinate metropolitan planning and service delivery among the 16 cities and one municipality located in the greater Manila metropolitan region. The MMDA is not considered very effective—there is a metropolitan plan, but each city tends to focus on its own needs. Part of the problem is that MMDA is widely seen as a national agency with roots in the authoritarian Marcos era. Another major problem is the financial dependence of MMDA on the center. Resources are limited and institutional arrangements create few incentives or accountability mechanisms to induce individual city mayors to work beyond their own constituencies for the larger metropolitan good.[15]

**Table 1: Metropolitan Planning**

| Model | Planning Coordination | Example |
|---|---|---|
| Single Multi-purpose, Area-wide Jurisdiction | Jurisdiction has extensive authority; also works with other entities/levels | Cape Town Metropolitan Municipality |
| Several Multi-purpose Jurisdictions of one or more type in metropolitan areas | • May or may not be formal/strong<br>• May be voluntary or mandatory<br>• May be locally or centrally driven<br>• May have considerable fiscal resources or depend on the center<br>• May or may not be incentives to work together | Metropolitan Manila Development Authority (16 cities and one municipality); centrally created/financed |
| Single Multi-purpose Jurisdiction and one or more Special Purpose Jurisdictions in metropolitan area | | Nairobi (City Council & service authorities); Ministry of Nairobi Metropolitan Development extends beyond City Council |
| Multi-purpose Government Jurisdictions and Special Development Jurisdictions in metropolitan area | | Cairo (5 governorates and 8 "New Cities"); separate governance structures and limited cooperation |

Nairobi has long been government by an elected city council that plans for the territory under its jurisdiction. Over the years, a number of special service authorities have also been set up. In 2008 the central government created the Ministry of Nairobi Metropolitan Development (see below), which was intended to coordinate across all local authorities (including the city council) in the greater metropolitan area.

A very different situation prevails in the greater Cairo region, which incorporates five contiguous governorates (intermediate tier of Egyptian administration) and eight new cities.[16] Governorates are part of a highly centralized system and have limited authority

[14] See Darch and Emezi (2012) for more details on Cape Town.
[15] See Nasehi and Rangwala (2011) for more detail on Manila.
[16] See Algoso and Magee (2011) for more detail on Cairo.

unless the governor is politically powerful. New cities were created to attract people from the Nile Delta to Cairo and have no formal relationship with local administration. They are overseen by the Ministry of Housing, Utilities and Urban Development (MHUUD). Governorates have limited authority and face fragmented planning and budgeting behavior of central agencies. Prior to the 2011 revolution, governors and new city managers in the Cairo region began an effort to create a strategic plan for greater Cairo with support from the MHUUD and donors. What will happen in the evolving environment remains to be seen, but the lack of a comprehensive plan for the Cairo region and poor incentives for coordination among component entities and creates great challenges for infrastructure planning and invites political maneuvering.

These cases illustrate great variation in how metropolitan planning is managed. The degree of institutional fragmentation, the role of higher level mandates in specific political environments, the incentives for politicians in separate jurisdictions to work together (whether from national policies or organic political forces), the existence and nature of alternative institutions or mechanisms for managing area-wide functions, and the role of multi-stakeholder partnerships of interested parties, among others, are all important factors. These arise from specific political economy incentives and can create further dynamics that can support or undermine coordinated infrastructure planning.

*External actors*

The role of international development agencies can obviously be important in the developing world, particularly in aid dependent countries. On the one hand, these agencies play a vital role. At the same time, they may behave in competitive and uncoordinated ways that reinforce problematic incentives and behaviors of government institutions. One agency, for example, may support devolved infrastructure planning through a Ministry of Planning or Ministry of Local Government, while others promote more centralized infrastructure planning through individual sectoral ministries (see below). Such inconsistencies must ultimately be recognized and dealt with if a coherent and effective infrastructure planning system is to be developed and institutionalized.

## IV. Broader Public Sector and Governance Reforms and Their Impact on Local Planning

As already suggested, other major public sector reforms, such as public financial management, civil service, service delivery and community driven development, are also highly relevant for decentralization. The way these reforms are designed and unfold can have a major impact on the performance of local infrastructure planning.[17] The basic problem stems from the competitive relationships among national agencies involved in public sector operations that have incentives to protect their own divergent interests, as outlined in various ways above. These agencies are often poorly coordinated, and they are thus relatively free to pursue reforms that are inconsistent with each other. The situation is exacerbated by the power imbalances among them, and it is reinforced by

[17] These issues are discussed and more examples are provided in Smoke (2010) and Eaton, Kaiser and Smoke (2011).

international development agencies that too often competitively approach the programming of their support for public sector and governance reforms.

Friction is common, for example, between the Ministry of Local Government (MoLG) or its equivalent and the Ministry of Finance (MoF). The former commonly (if not always) seeks to expand the role of local governments and enhance its own relationship to them, while the latter is often reluctant to relinquish fiscal powers to local governments or oversight of them to MoLG. In some cases, conflicts stem from MoLG reforms that fail to meet sound PFM principles that the MoF has a legitimate interest in enforcing for all public entities. It is, however, often a result of MoF desire to excessively control local government fiscal behavior. Since the MoLG or equivalent is typically weaker than the MoF (because of stronger political connections and the power inherent in wielding legal control over the national budget), the latter often has the upper hand.

The consequences of such a situation can be considerable. If MoF wishes, for example, to adopt PFM reforms that limit local government access to autonomously programmable development resources, then local infrastructure planning can be greatly weakened. Similar dynamics may emerge with other broad-based central agencies, such as a Ministry of Planning that is developing an unnecessarily centralized planning system or a Ministry of Public Service that decides to adopt reforms that unduly constrain the ability of local governments to make sufficiently autonomous staffing decisions.

Other major players in decentralization and in infrastructure specifically are sectoral ministries, such as a Ministry of Roads and Transport or a Ministry of Water. The dual impact of their common reluctance to relinquish control over resources and their focus on service delivery with less concern for local governance and institution building is often considerable. Sectoral ministries may exert a powerful centralizing tendency either through heavy management of resources officially devolved to local governments or through continued planning and delivery of services after their legal devolution. Formal Sector Wide Approaches (SWAps) promoted by donors often reinforce the incentives of sectoral ministries to pursue centralizing reforms for service delivery, commonly in conjunction with national poverty reduction or Millennium Development Goal strategies.

The centralist tendencies of sectoral agencies and their reform programs coincide conveniently with those of finance and planning agencies, overpowering relatively weak local government ministries and nascent local governments. Thus, a centralizing MoF PFM reform that reduces local government fiscal autonomy and simultaneous adoption of centralizing SWAps in key sectors can effectively neutralize local government infrastructure planning processes or reduce them to the limited role of providing an optional input to resource programming decisions effectively controlled by higher levels.

In some cases, however, there can be clashes among the various central actors that impact local infrastructure planning. Sectoral ministries, for example, may pursue SWAps that create sector specific systems and procedures for managing services—mechanisms for channeling resources, special districts distinct from local governments, etc.—that are at odds with decentralization reforms and formal intergovernmental PFM, development planning or civil service systems promoted by other cross-cutting ministries. Even though relevant overarching ministries should be able to discipline such behavior by virtue of their legal powers, they may be unable to do so if sectoral ministers have strong political connections or international development partners, which provide considerable sectoral resources in aid dependent countries, prefer particular modalities. The result can be a system of local infrastructure planning and finance with muddled incentives.

Community driven development (CDD)—the umbrella for Social Investment Funds and other community-based mechanisms discussed below—is another common element of the governance reform agenda, and it is heavily promoted and supported by donors. CDD is qualitatively different than other activities discussed here because it is not primarily a component of public sector reform. Although a centrally based government or quasi-government agency is normally the national administrator of CDD planning and financing mechanisms, the resources typically target nongovernmental or community based organizations with diverse decision-making and accountability mechanisms rather than popularly elected local governments. CDD is relevant for local infrastructure planning precisely because it finances small-scale local investments, many of which are or could be the responsibility of local governments.

In countries where local governments are weak and CDD proponents are more concerned about community empowerment than public sector reform, CDD—and its dedicated planning and financing mechanisms—may undermine development of nascent local government systems. Citizens may come to view local infrastructure as the role of CDD mechanisms rather than elected local governments. In addition, CDD bodies, unlike local governments, do not have access to regularized revenue sources.

Together these realities raise concern about the effect of CDD on local accountability, the linkages between CDD and public investment (particularly for network infrastructure), and the source of funds required to operate and maintain CDD-financed infrastructure. All of these could be dealt with by appropriate design features, which might evolve as local governments become stronger. In many countries, however, CDD continues to use independent planning and financing systems long after the need for a separate identity has passed, and this may have nontrivial consequences for local infrastructure planning.

This brief treatment of how various public sector and governance reform efforts may affect local infrastructure planning cannot do justice to the range of issues involved or the complexity of the political economy landscape that surround them. The overarching point, however, is clear. Local infrastructure planning cannot be effectively reformed independently of other public sector and governance reform initiatives that could either support or undermine it. The existing and potential relationships among these various reforms need to be documented, and the incentives of various actors to cooperate or obstruct improved local development planning needs to be understood.

## V. An Illustrative Cautionary Case

The evolution of development planning in Kenya illustrates the challenges created by political economy forces in the type of complex intergovernmental and multi-actor environment outlined above.[18] The county has produced medium-term national plans and subnational land use plans since the colonial era, although they evolved in purpose and form as international conventions and local conditions changed. At the subnational level, there is a bifurcated system of planning and budgeting that reflects a dichotomy between the deconcentrated and hierarchical provincial-district system and the semi-autonomous elected local authority system. The former was strengthened and the latter weakened after independence.[19] The post-colonial favoring of deconcentration was officially justified as means to build national unity in the ethnically diverse nation with competing visions of the role of central government, but critics saw an effort by the dominant tribal group and its political party to build a unitary state that was under their control.

National development planning conducted under the authority of the Ministry of Planning and National Development (MPND) reaches down to administrative units at provincial and district level, which are under the Office of the President. Provincial and District Development Plans are prepared under MPND field staff. The subnational process occurs concurrently with the national process, such that it neither flows directly from nor truly influences the national plan. The politically motivated creation of many new districts has diluted infrastructure funds and staff in individual districts and compromised planning.

Although a major share of line ministry resources flows through provincial and district budgets, some ministries maintain separate sectoral planning activities and/or set up dedicated regions/mechanisms (e.g in water and roads) for public services under their jurisdiction. These may support better investments (this has not been well studied), but there is often inadequate coordination with districts and local governments that may also be active in the sector. This can be a problem if these local actors face no incentives to assume the burden of operating and maintaining infrastructure not planned by them.

The linkage of the planning to the annual budgeting process in the deconcentrated system is weak, and involvement of citizens or their elected representatives is limited. Decisions are made by District Development Committees (DDCs) chaired by a presidential appointee. District staff of national ministries dominates DDCs, with only a few members from local governments and NGOs. This system emerged under the District Focus for Rural Development Strategy (DFRD) of 1983, a reform framed as returning “power to the people” in response to a 1982 coup d’etat attempt. Critics saw DFRD as reinforcing ruling party control and further weakening local government performance incentives.

The local government planning system is fully separate. The Ministry of Local Governent (MLG) initiated Local Authority Development Plans (LADPs) in the 1980s to program donor funds for local investments, and they were often poorly linked to physical development plans (mostly prepared by the Ministry of Lands, Housing and Physical

[18] The country case is discussed more fully in Smoke (2003), Smoke (2008) and Smoke and Whimp (2012).
[19] The system is summarized in Cohen and Peterson (1999) and Republic of Kenya (2005).

Planning). As with DDPs, LADPs were poorly linked to local budgets, and popular participation mechanisms were weak. A Local Authority Service Delivery Action Plan (LASDAP) initiated in 2000 to allocate resources from a new transfer fund provided a partial linkage to the local budget and mandated participatory planning. This process has essentially replaced the LADP. As with districts, many new local authorities have been created for political reasons, further compromising infrastructure planning and provision.

In addition to resources provided through the provincial-district and local government systems, the government operates (under MPND, the same ministry responsible for provincial and district planning) a mechanism for planning and financing community driven development at levels below district administration and local governments through the Community Development Trust Fund (CDTF). Substantial small-scale rural infrastructure is provided through CDTF. Coordination with district planning and local government planning is ad hoc and varies greatly across jurisdictions.

Finally, the Kenyan Parliament created a Constituency Development Fund (CDF) in 2003 with the stated purpose of fighting poverty by improving basic services.[20] Rather than try to fix existing systems, the Members of Parliament opted to find another way to channel resources for local service delivery—one that served their political interests. There is now a planning process associated with CDF funds, but its link to other planning processes is ad hoc and generally weak. In recent budgets, an increasing proportion of resources under other programs have also been allocated on a constituency basis.[21]

In larger urban areas, the role of the district planning system is limited, but the process for coordinating infrastructure is also relatively ad hoc. There has, however, been one move to respond to the problems of fragmented urban planning. In 2008 the government created the Ministry of Nairobi Metropolitan Development (MNMD) as part of the process of implementing Vision 2030, Kenya's latest development strategy. The mission of the MNMD is to ensure that the various jurisdictions work together so as "to manage the Nairobi Metropolis by providing sustainable infrastructural services and high quality of life to all its residents, visitors and investors" (http://www.nairobimetro.go.ke/).

Figure 1 summarizes the development planning systems in Kenya. All five of the existing planning/finance channels—sectoral, provincial/district, local government, constituency and community—have some role in local infrastructure provision. While this situation is not necessarily undesirable, a number of consequential problems are evident. First, there is extensive territorial overlap among the jurisdictions covered by these various systems, and this has been exacerbated by the above-noted creation of new districts and local governments. Second, there is considerable lack of clarity about specific infrastructure responsibilities across them. Third, each of the planning systems is financed by different sources. Fourth, each system has its own political economy incentives and dynamics, and these inevitably come into conflict. Finally, given these concerns, the various plans and finance mechanisms are largely uncoordinated, and any

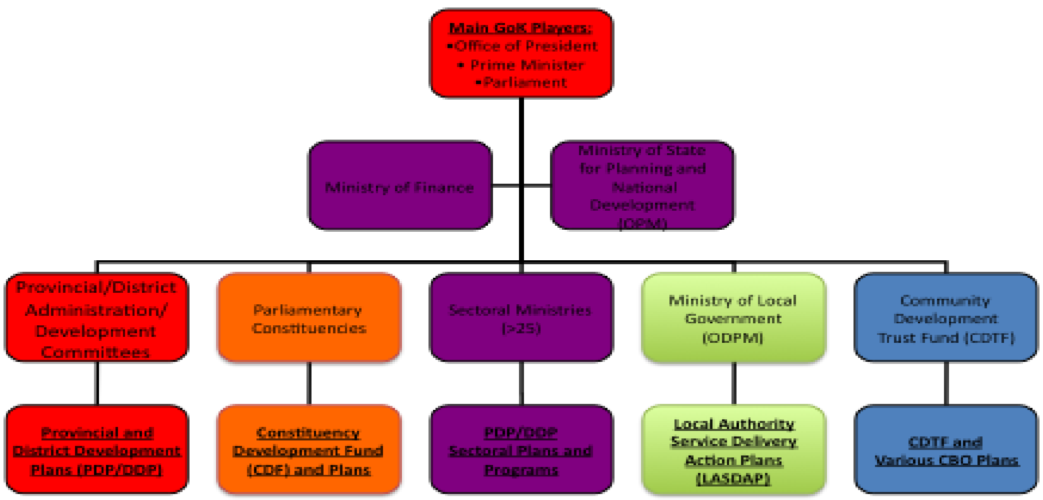
[20] Constituency Development Fund Act, Government of Kenya Law No. 10 of 2003.

[21] For example, a percentage of funding for rural roads earmarked through the Road Maintenance Levy Fund is allocated by constituency.

coordination that occurs is ad hoc rather than systematic. Other public sector reform efforts—public financial management, civil service and sectoral—have largely ignored or constrained all but the deconcentrated system.

Collectively, these structural and procedural issues have major consequences. First, they generate redundancies and gaps in infrastructure provision. Second, accountability is compromised since citizens are unclear about which actor is responsible for specific infrastructure. Third, lack of functional clarity, fragmentation of resources, and muddled accountability create incentives and opportunities for political dynamics and bureaucratic behavior that undermine efficient use of public resources. Although Kenya may be a relatively extreme case, such problems are not uncommon in developing countries.

**Figure 2: The Planning System in Kenya**



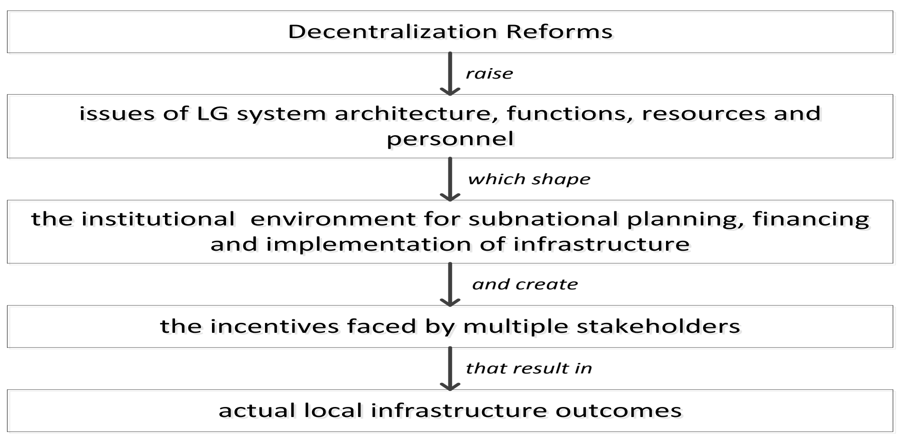

Recent political developments and deterioration of government performance created conditions for a new constitution (2010) that will dramatically alter the intergovernmental system. Mandated reforms consolidate hundreds of districts and local authorities into 47 newly empowered county governments. This should allow the eventual creation of a more integrated infrastructure planning and finance system, although to date there is little clarity on how the fragmented planning systems will be integrated in the new institutional landscape.

Many lessons can be derived from the Kenya case, but the principal point for current purposes is the importance of documenting the larger institutional context in which infrastructure planning is taking place. This context is in great part created by political economy dynamics. Once the various institutions and associated planning systems are created, they are each subject to their own internal political economy influences and the political economy interrelationships that exist and develop among them. Without an understanding of this context and the underlying and evolving political economy dynamics, efforts to improve local infrastructure planning are unlikely to succeed.

## VI. How Decentralization Reforms Shape Subnational Planning

The previous sections have outlined the larger context of local infrastructure planning. This section and the next one focus more specifically on how decentralization reforms shape subnational planning systems and then on how such systems may affect local infrastructure outcomes. The logic of the argument is summarized in Figure 3. The main context of our discussion is that of aid-dependent least developed countries (LDC), where decentralization reforms involve major efforts to get the very basic systems in place and international development partners may play a significant role in supporting such efforts.

**Figure 3: Decentralization Reforms and Local Infrastructure Outcomes**



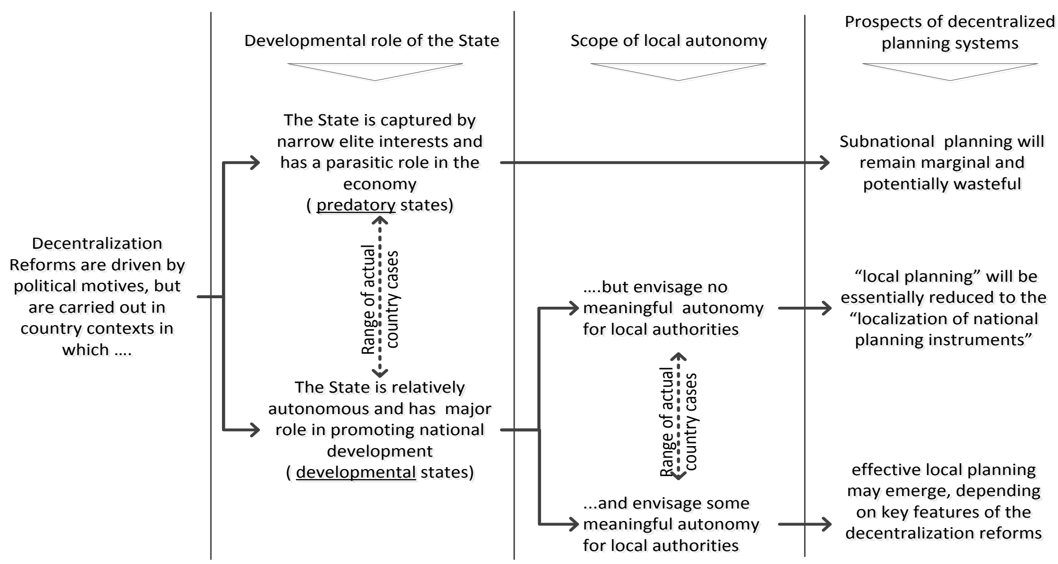

The extent to which decentralization reforms institute an effective subnational development planning system depends on the design of the reforms and ultimately on the political rationale and bureaucratic incentives behind their implementation. We have already stressed the centrality of domestic politics for initiating and sustaining decentralization reforms and the role of bureaucratic incentives in explaining their incomplete and fragile implementation. But it is also important to stress is that this is an inherently contested and dynamic process which continues to open (and close) space for action by domestic reformers and for supportive engagement by their international development partners[22]. Moreover, as argued elsewhere[23], understanding the dynamic nature of the process is only the first step; it must then be followed by an analytical shift that places less emphasis on the contribution decentralization may make to a global democratization and good governance agenda and better understanding decentralization reforms as part of a domestic “developmental state-building” agenda. [24] Such an approach goes beyond recognizing that decentralization is driven by politics and asks the

[22] The case for more strategic and diversified, engagement of external aid in support of decentralization reforms, in a variety of developing countries contexts, is made in Ojendal (2010) Weimer (2009), Romeo (2003), Romeo and ElMensi (2011), Romeo (forthcoming),
[23] Romeo (forthcoming)
[24] The need for a more realistic “good-enough” governance agenda in international development is elaborated in Grindle (2004) and its relation to the developmental state building agenda is highlighted in Fritz and Menochal (2006) and Fritz and Menochal (2007).

critical question of whether it coexists with, or relates to, a developmental state-building project, an understanding of the potential of local development within it, and a related commitment to effective subnational planning. This raises two general observations on the potential for decentralization to develop effective local planning.

First, the weaker the link between the immediate political objectives of reform and a larger project of developmental statebuilding, the less likely that effective subnational development planning will ever emerge. Without a developmental underpinning in the very nature of the state, the formal addition of subnational planning to the national system of public resource management is bound to remain cosmetic, and a genuine transition from a centralized (hierarchical) to a decentralized (multi-level /negotiated) national planning system is likely to be blocked. Second, even where decentralization reforms are linked to developmental statebuilding[25], an effective subnational planning system ultimately depends on a proper understanding of the nature and role of local development within national development efforts and therefore on the scope and degree of autonomy enjoyed by subnational authorities. We return below to common misconceptions regarding local development and local autonomy as key obstacles for genuinely decentralized development planning. Figure 4 summarizes these key relationships between decentralization reforms and effective subnational planning.

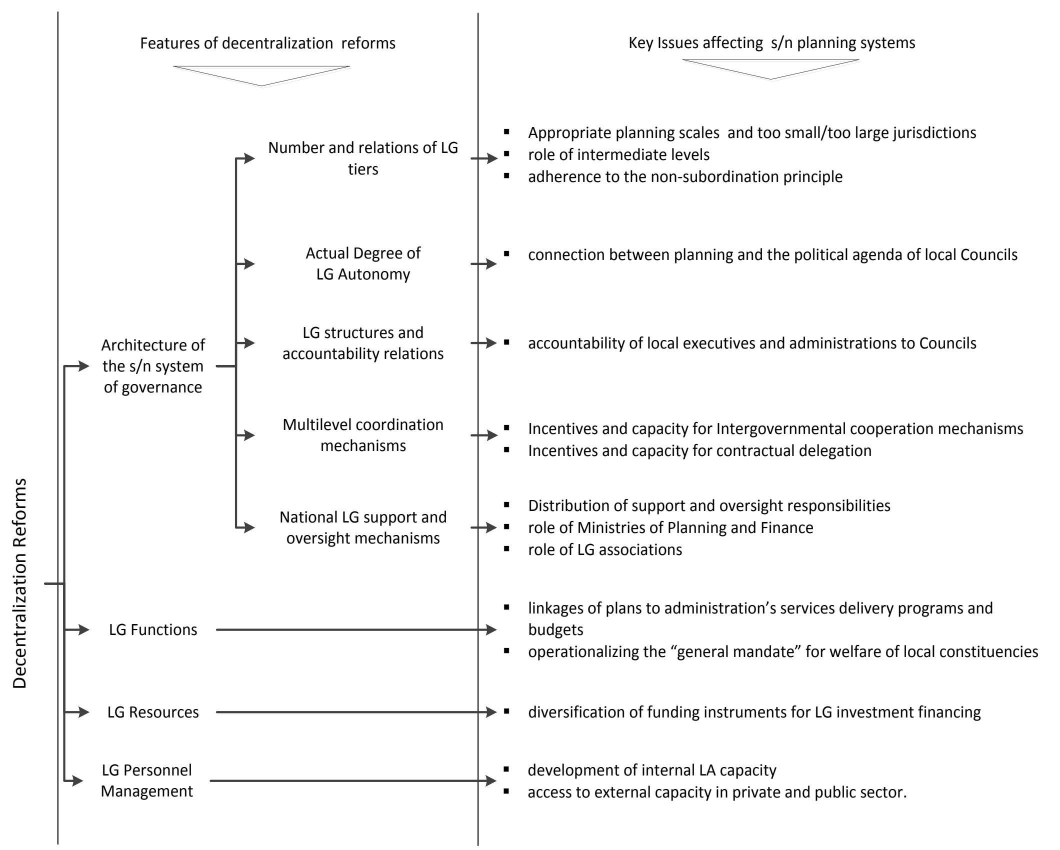
**Figure 4: From Decentralization Reforms to Decentralized Development Planning**




[25] Evans (1995), and Leftwich (1995) contrast the "developmental state" model (whether democratic or authoritarian) with the "predatory" state model. The most general distinction is not the role of the state in the appropriation and intra-elite distribution of rents (as this is common to both models to secure political stability and prevent intra-elite conflicts) but rather the priority given by the developmental state to the *expansion* of the economic base from which rents can then be extracted and its relative or "embedded" autonomy (Evans 1995) from internal and external interests, in fostering such expansion.

Beyond such generalizations, a more detailed assessment of how the design and implementation of politics-driven decentralization reforms affects the practice of decentralized development planning requires looking at four basic dimensions of a national decentralization policy. These include (i) changes in the architecture of the governance and public administration system, (ii) reassignment of functions across the system, (iii) reassignment of fiscal powers and financial resources and associated changes in public finance management, and (iv) changes in human resource management responsibilities among levels. Together these four dimensions provide a framework for assessing the transition from centralized to decentralized development planning and understanding actual arrangements occurring in diverse country contexts. Figure 5 summarizes these dimensions and selected issues they raise for subnational planning.

**Figure 5: Dimensions of Decentralization Reform Subnational Planning Systems**




*Architecture of subnational governance and decentralized development planning*

Decentralization reforms introduce changes in the architecture of the subnational governance and public administration system, including in (i) tiers of local authorities and their mutual relationships, (ii) the degree of autonomy, (iii) internal structures and accountability relations, (iv) mechanisms for joint action, and (v) the national system for support and supervision. Issues with any of these elements impact the performance of subnational planning systems. Definitive analysis must be country specific, but there are typical problems, some of which have been the subject of extensive literature.

The first issue is that of the "right size" of a local authority. Smaller jurisdictions, often established as first-tier units, may lack the functional and fiscal capacity to be viable planning units. On the other hand, larger (provincial/ regional) jurisdictions are inadequate as units of "local" development planning, if "local" is properly understood as leveraging a territorial identity and mobilizing community resources, including social capital. Assigning local planning responsibilities to units whose functions and capacities are severely constrained by their size, or assigning them to large units that lack the comparative advantage to promote territory-specific solutions and to mobilize community resources, may lead to costly inefficiencies (more below).

The multiplication of subnational government tiers can also be problematic. For example, intermediate authorities can be critical for an effective public sector and they are core actors in federal systems. In unitary systems with weak capacity and governance, however, they may receive autonomy prematurely or inappropriately. Stronger regional levels of administration may facilitate coordination of central and local government plans and action, but their political empowerment in emerging systems may complicate cooperation between elected national and local governments as well as constrain or undermine the role of the latter.[26] In many cases, autonomous local government planning and stronger central-local government partnerships could be better supported by deconcentrating the state than by creating intermediate political authorities.[27]

The most critical issue for establishing genuine decentralized planning is the degree of autonomy assigned to emerging local authorities. Whether the goal is to improve national program efficiency or to develop local policies and mobilize resources, it is ultimately the extent of their autonomy, understood as powers of initiative and immunity from higher levels controls (Clark, 1984) that may generate locally "added value" to centralized development efforts. Yet a quarter of a century into the latest wave of decentralization, local autonomy remains highly contested in theory and highly constrained in practice in many LDCs. Politics-driven decentralization reforms may create new subnational political bodies but mostly rearrange administrative and fiscal powers within the central administration rather than support local autonomy in making and implementing local plans, programs and budgets. This reduces subnational planning to a marginally valuable technical exercise with weak or no linkage with the political agenda of local councils.

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[26] This is particularly the case in decentralizing unitary states where the basic principle of "non-subordination" of one local authority to another is systematically violated and lower council decisions (plans and budgets) are subject to approval by higher levels. True local plans are relatively independent and realize synergies and complementarities through negotiation among multiple autonomous entities (local authorities at different levels and national and deconcentrated agencies). If higher level approval is required, local plans remain components of hierarchically organized regional plans, ultimately to be integrated into a single plan and budget, as would occur in any unreformed, centralized planning system.
[27] Yet experience shows that it is easier for the initiators of politics-driven decentralization reforms to create a new provincial/regional council than to deconcentrate the state administration at those levels and direct it to support and cooperate with lower-level local authorities.

The disconnect between the political activity of the local elective councils and the preparation of local development plans, programs and budgets is compounded by the structural problems of weak accountability of local executives and administrations often created by politics-driven decentralization reforms. As already suggested, the prime objective of such reforms is to legitimize national government action at the periphery and/or to consolidate and diffuse the networks of political patronage of the party in power, and not necessarily to share development and service delivery responsibilities with autonomous subnational actors. As a result, the reforms stop short of establishing genuine local authorities with their own executive and administrative structures. To the extent that newly created councils cannot develop and implement their own plans, their role is reduced to approving subnational plans prepared and implemented by centrally-controlled administrative agents, which at best "localize" national policies.

Another concern is that political disincentives and technical complexities make multi-level intergovernmental cooperation difficult. Once a multi-level governance and administration system is set up, formerly hierarchical relations among layers of a centralized administration should be replaced by "negotiated" arrangements between relatively autonomous public entities, as well as between them and community and private sector actors. Yet central-local cooperation remains elusive in decentralizing LDCs. In particular, contractual delegation arrangements[28], which can facilitate gradual and selective decentralization of service responsibilities, have proven difficult to devise. And, contrary to common perceptions, the problem has often been as much or more one of bureaucratic disincentives and weak capacity of central agencies to structure and manage such contracts than lack of capacity of local authorities to implement them.

Finally subnational planning systems are affected by confusion and conflicts about whom in central government should regulate, support and supervise their operation. As noted above, various key national ministries have dissimilar attitudes towards decentralization, and often opposing views on the scope and modalities of subnational planning. The consequences are multiple requirements and confusing guidelines that overwhelm rather than build the limited capacity of local government planning units.

*Functional assignments and decentralized development planning*

The scope and outcomes of subnational planning are obviously affected by what functions are devolved or delegated to local authorities. Lack of clarity makes it difficult for local governments to structure administration around specific responsibilities and link local development plans to the operations and budgets of their departments. As a result, subnational planning ends up being disconnected not only from the local political process, but also from the organization and daily work of the local administration.

Beyond the effects of inadequate functional assignments, the quality of subnational plans and operations are also negatively affected by the inability of local authorities to fully

[28] These differ from either deconcentration or outright devolution arrangements and require contractual agreements by which local authorities make use of meaningful discretion to improve the delivery efficiency of central services for which the "contracting" central agency retains primary responsibility.

espouse and operationalize their own "general mandate" for local development, which is often provided for in decentralization legal frameworks[29]. Where decentralization reforms *neither* reassign specific services delivery functions *nor* support the adoption of a service delivery agenda under a general mandate, subnational planning ends up focusing on stand-alone, small-scale infrastructure projects. These projects are seen as the easiest, least controversial, highest political return, options, as need not be aligned with mandated functions and do not require potentially controversial, political deliberations about which service delivery operations local authorities should engage in by their own initiative.

*Subnational finances and decentralized development planning*

Ultimately, local planning systems are shaped by how local authorities are financed and local finances are managed. All too often politics-driven reforms create subnational authorities but fall short of empowering them with the full range of fiscal and financial instruments needed to perform developmental functions. The situation differs from country to country, and, within countries, between larger urban areas and less endowed rural jurisdictions, but most local authorities in LDCs typically suffer from: limited scope or capacity for own source revenue raising; legal or de facto exclusion from credit financing; lack of specialized national institutions supporting subnational capital spending, and inadequate mechanisms for contractual financing of delegated functions.

The primary source of financing for local development plans, (and only incentive to pursue subnational planning), has often been grants from central government. These have been provided as more or less discretionary resources, either as part of a regular transfer system, or from more ad hoc and externally financed facilities [30]. The bulk of these grants have been spent on *small-scale infrastructure*, either because funds have been earmarked for that purpose by central governments or donors, or because infrastructure spending has been the default option for local authorities for the reasons suggested above.

Thus, in many decentralizing LDCs, subnational planning systems have been largely shaped by various central grant mechanisms. Importantly, where these grants have been introduced as regular transfers for local budgets support, this has facilitated the adoption of statutory procedures for local planning programming and budgeting. By contrast, where grants have come from specific project-financing facilities, this has often been associated with the introduction of ad hoc, rather demanding[31] and less sustainable, planning exercises essentially meant to allocate the resources of the financing facility.

National mechanisms to transfer resources for subnational development spending and the donor-supported facilities (i.e. Local Development Funds–LDFs—and similar programs) that have often piloted or complemented them, have played important roles in the

[29] This point is often missed in the fiscal decentralization literature, where functional assignment is understood as the offloading to local governments of functions formerly provided by higher levels.
[30] Donors-supported facilities of the first type include Local Development Funds (LDF) and similar local budget-supporting mechanisms, while examples of the second type include the Social Funds and numerous other sub-national project-financing facilities
[31] This is particularly true in terms of mechanisms for popular participation in local government decision-making

emergence of sustainable subnational planning systems in LDCs. By providing a minimum of locally programmable resources to emerging local authorities they have helped break the vicious circle of “no capacity-no responsibilities-no resources,” put local authorities on a “learning-by-doing” path of institutional development, and facilitated the local adoption of statutory and participatory development planning processes.[32]

Yet if decentralization reforms remain incomplete and do not proceed to functional reassignments and diversification of financing instruments, the LDF-type regular (and necessarily modest) annual transfers end up being stretched much beyond their original function of creating incentives for local planning and management capacity-building, and they become the primary or only source for local infrastructure financing. We elaborate below on how this affects the type and quality of local infrastructure. Here we simply note that this modality has another effect on local planning: it often involves less rigorous investment appraisal procedures than those used by an independent financing facility.

*Local authority human resources and decentralized development planning*

Effective local development planning requires capabilities that are typically scarce in developing countries. Necessary skills, particularly for strategic and participatory planning, are difficult to embed in bureaucratic routines and are not easy to develop in the first place since they depend more on experience than on specialized training. In other words, effective subnational planning requires not only technical skills that people can be trained in, but also learning how to think strategically through experience. Similarly, participatory planning training will neither make local governments participatory nor turn their constituents into active citizens, which require learning from working together.

Incomplete decentralization reforms often hamper development of subnational planning capacity, as they do not effectively address the need for local planning professionals or develop regulations to allow local authorities to flexibly source planning skills in the professional services market. But even with fuller reforms, complete reliance of local authorities on private consultants would neither be desirable nor feasible because their effective use requires local authority capacity to manage their services and link them to both the political work of local councils and the organization of local administration.

*Returning to the core rationale of sub-national planning: local development*

The above review of how politics-driven, incomplete decentralization impacts local planning systems underscores a basic point. Effective development planning depends on the extent to which decentralization reforms, beyond their potential to foster good *local governance*, support *local development* and its role in a developmental state agenda.

[32] See UNCDF (1996). An early discussion of the role of LDFs as tools for local capacity building and initial steps in support of decentralized planning and financing is in Romeo (1999).

As we argue elsewhere[33] the adjective "local" in "local development" refers not only to the *where*, but also and most importantly to the *who* and *how* of development promotion. Development is local if it is endogenous, open and incremental, that is: if it makes use of locality-specific resources, combines them with national/global resources and brings them to bear on national development as *additional* benefits in a positive sum game.

Understood in this more specific sense, local development could be an integral part of the developmental state agenda and the object of a supportive national policy with a status similar to that of more conventional macro-economic and industrial policies. The principal instrument for its implementation would be a subnational planning system in which local authorities mobilize local resources and negotiate their joint use with state and civil society resources. Unfortunately, generic views of local development (as development that happens locally) continue to prevail, missing comparative advantages of local government and the developmental rationale of decentralization. This is seen in common "*decentralization without autonomy*" reforms, which set up subnational planning systems that "localize" national plans, but fail to generate genuine local plans or mobilize additional resources from civil society and private sector.

## VII. Subnational Planning and Infrastructure Development Outcomes

We now turn to the question of how subnational planning systems set up by politics-driven and incomplete decentralization reforms affect infrastructure outcomes. It is important to note that, no matter what drives decentralization and how far it proceeds, the scope for decentralizing *infrastructure provision* remains limited not just by technical and economic factors, but also and more importantly, by core political economy issues.

*The scope for decentralizing infrastructure*

As noted above, local authorities in many decentralizing LDCs end up spending most of their (limited) discretionary resources on stand-alone small-scale infrastructure projects This is the default option when incomplete reforms and political disincentives for local councilors prevent broader responsibilities for service delivery from being assigned to or claimed by emerging local authorities. The relative surge in local infrastructure spending at the early stages of decentralization is, therefore, more of a necessary corollary (a sort of price to pay) than an intended policy objective. It occurs as larger scale infrastructure remains centralized and no responsibilities for any infrastructure are formally devolved. The "pooling" of smaller infrastructure projects (for water, rural roads, rural electrification) into larger centrally managed programs also continues to be widespread.

Central management of larger scale infrastructure programs that "pool" smaller-scale ones is often justified on technical-economic grounds (network integrity, high capital requirements, economies of scale, interjurisdictional benefits). Powerful political economy realities, however, are often equally or more important. In fact, the management of infrastructure is a notoriously *"'wet' area of government"*, offering great opportunities for illicit generation of funds that are critical to political parties in power (Booth and

[33] For a more extensive discussion of the role of local development as driver of decentralization reforms and the limits of "decentralization without autonomy" processes see Romeo (forthcoming)

Golooba-Mutebi 2009). These funds are used to extend patronage networks and effect the intra-elite distribution of rents, which are essential for managing risks of violent conflicts between elite factions and maintaining political stability, a common need in "limited access" political systems prevailing in less developed countries (North, et al. 2006). The extraction of funds, in turn, requires *"well-oiled machines"* (Booth and Golooba-Mutebi 2009) that may be easier to control as units of central agencies than as multiple local administration departments. Unless the center can extract rents through local authorities while controlling their distribution and containing the risk of "runaway local elites", more decentralization of infrastructure responsibility is unlikely. Within these constraints, the situation differs across countries, depending on whether decentralization also has a *developmental* rationale and if a role is seen for *local* development, as well as on political forces and dynamics that launching reforms unleashes.

If accelerated economic growth is critical to sustain creating and distributing rents, decentralizing regimes may go beyond purely predatory logic to combine a *political* rationale for reform with a *developmental* one. If the potential of *local* development is recognized, there may be a shift of resources to local authorities and more decentralized provision of infrastructure. Reforms may also open space for emerging political actors (within and outside dominant coalitions) to champion local development as an integral part of a developmental state agenda and eventually push for greater local autonomy in managing infrastructure. Thus, political and institutional environments may evolve and redefine roles of the multiple actors involved in local infrastructure, creating mechanisms for their interaction and shaping the political and personal incentives they face.

These environments can be distinguished by how they institutionalize and regulate the main stages of the infrastructure project cycle, namely: (i) planning, (ii) financing and (iii) implementation. Actors whose incentives are shaped by these environments include national politicians from the locality, local councilors, local executives and staff, state agents operating locally, technical service providers, construction firms, community-based contractors, materials and equipment suppliers, laborers, and infrastructure users. We selectively review their positioning and incentives in response to the regulatory and institutional framework for local infrastructure set by decentralization reforms.

*Planning local infrastructure*

Where decentralization reforms are driven by politics and fail to define local authority developmental responsibilities and autonomy, local politicians (councilors) essentially serve as agents of national political forces and are under pressure to pursue the goals of their patrons: legitimizing the party in power and extending its influence at the periphery. They therefore seek to both maximize the transfers they spend (as this is linked to their status with the party), and make the best political use of resources from the perspective of their central patrons. They have little incentive to link infrastructure spending to locally owned policies or service delivery agendas. Local planning exercises then result in a list infrastructure investments that are neither derived from locally owned development strategies nor support independent work programs of local administration departments.

Such lists typically give preference to projects that are not politically controversial and spread benefits in the widest possible way. Rural roads construction in Cambodia is a typical example. Another example from Bangladesh is the fragmentation of limited investable local authority funds into multiple micro-projects under “one community, one project” schemes, primarily conceived as labor-intensive local employment programs. The selected infrastructure projects may or may not respond to real local priorities, and may or may not represent value for money. While there are few systematic ex-post evaluations, most donor accounts and rapid surveys of beneficiaries tend to be positive.[34] Thus, local communities seem to appreciate such projects, and they generally cost less than estimated, even if issues of quality and implementation often arise (see below).

Although these projects are not necessarily wasteful, it is hard to imagine they represent the best use of scarce local resources. Credible ex-ante appraisal is typically missing from subnational planning processes, not only because of local capacity limitations, but also, because local politicians have few incentives to let independent appraisal potentially constrain their political decision-making. Thus, local infrastructure investments are often selected through a subnational planning process that is not informed by technical or financial analysis, and investment decisions are ultimately driven by the urgency to spend immediately available resources on popular projects with widespread benefits.

More generally, subnational planning processes introduced by politics-driven, incomplete, decentralization reforms, do not provide local politicians with incentives to align local capital programming and infrastructure investment decisions with either strategic planning or operational budgeting. As a result they may overlook *larger*, more complex projects that support a local strategic development vision but require greater efforts over a multi-year horizon to build partnerships and mobilize additional resources. They may also overlook *smaller* investments that build the capacity of their own administration to deliver certain services (and perhaps realize contributions from users).

Beyond shaping incentives of local politicians, how subnational planning is framed also determines how deconcentrated agents based in the locality will participate in local planning and contribute to shape infrastructure outcomes. In many LDCs, local authorities remain embryonic, and deconcentrated agents are expected to help them carry out their functions. However, even when overseen by a strong governor (or similar state agent), who should coordinate and clear actions with elected councils, deconcentrated agents remain weakly accountable to these councils and have little incentive to transfer responsibilities to them or build their capacity. Instead they are often keen to recapture decentralized functions and resources for the center. In fact local planning may play an instrumental role in this respect if no distinction is made between multi-stakeholder *jurisdiction-wide* strategic planning[35] and local authority corporate strategic planning.[36]

When this is the case, deconcentrated agencies may heavily influence or formulate plans of emerging local authorities. After the creation of district local authorities in Cambodia,

[34] Abrams (2008) and Romeo and Spyckerelle (2004) assess local infrastructure investments funded by the Commune/Sangkat Fund (CSF) and Commune Infrastructure Development Fund (CIDF) of Cambodia.
[35] Jurisdiction-wide strategic planning aims at developing a shared vision among multiple actors (public, private and community) operating in the locality, providing the basis for negotiations among them and guiding the preparation of each of their planning, programming and budgeting instruments.
[36] For a review of the difference between, community or *jurisdiction-wide* strategic planning facilitated by local governments and the statutory instruments of their *corporate* planning, see Cities Alliance (2006).

for example, these agencies came to see local planning as a way to capture resources of new district authorities to finance investments they could not afford with their own budgets. State-appointed governors, who act as chief executives of local councils, also have incentives to support this view of local planning, which strengthens their role vis-a-vis local councils both as local development managers and policy makers. This scenario is common in countries experiencing the "*decentralization without autonomy*" discussed above. The result is *localized* national plans[37] that local elected councils are pushed to endorse as part of a wider effort to legitimize the central government in the periphery.

The infrastructure investments generated by this type of subnational planning system may be more service delivery oriented and less "free-standing" than those selected by councilors operating as political party agents in the locality, and they do often have a stronger link to sectoral agendas. But the technicians who formulate these projects may not face incentives to seek input from beneficiaries or to conduct proper technical and financial appraisal. The risk of costly technical error is low for "off-the-shelf" projects with standard designs (e.g. education, health care, administrative facilities), but it may rise for projects requiring site-specific assessment and careful management (e.g. irrigation, water supply, flood control). In addition, local agents of technical ministries tend to give less attention to non-engineering aspects of projects, including institutional, social, financial or economic feasibility and risks, which are critical for sustainability.

Subnational planning systems designed to localize national plans may also lead to a sub-optimal use of local authority resources, as pressures to give each sector a share of the programmable funds may reinforce the loss of a strategic territorial perspective. Overall, such planning systems do not take advantage of the potential efficiency gains expected when autonomous local governments formulate their own development strategies and negotiate their financing and implementation users and the local private sector.

*Financing local infrastructure*

Local infrastructure planning is driven by financing, and, as noted above, the structure and outcomes of local planning systems depends on available financing instruments[38]. In many LDCs, where the local authorities' ability to raise own source revenue or access credit are limited, infrastructure spending depends on intergovernmental transfers, often piloted and/or supplemented by externally funded LDF-type facilities. Through formula-based annual block grants, often with access conditions and performance criteria attached, these provide programmable resources that support a local development planning process. There may be a list of allowable or prohibited uses, but generally the transfer criteria are not meant to assess the developmental relevance of the infrastructure investments. This is left to how local councils strike a balance between advancing the interests of their local constituencies and serving the political objectives of their national patrons. This in turn depends on whether local authorities, both individually (through

[37] Genuinely local plans reflect the agenda of a local authority and mobilize the resources of a local polity.
[38]The main instruments include: (i) own source revenue; (ii) discretionary and conditional development transfers, (iii) specialized development finance windows (Municipal Development Funds, Social Funds) (iv) access to the capital market (municipal bonds, bank loans) and (v) direct access to international aid.

strong local leadership) and collectively (through independent national associations) eventually emerge as relatively autonomous political actors on the national scene.

Resources transferred annually through LDF-type facilities are relatively small and may have to go back to the national treasury if unspent during the fiscal year, so they can only finance infrastructure projects that are very small, simple and quick. This reinforces the local political bias towards fragmented use of resources to maximize the number of beneficiary communities. If the fragmentation bias is resisted and attempts are made to invest in a large project that costs more than the annual LDF allocation (e.g. road link or water reservoir), the resulting implementation delay may reduce efficiency of resources allocated to the project by immobilizing capital, increasing costs and delaying benefits.

Political and bureaucratic obstacles also work against the decentralized planning and financing of larger, more strategic infrastructure projects and the leveraging of LDF resources through co-financing arrangements with central agencies. Local politicians may be unable to effectively interact with the central administration or are reluctant to lose control of the project. More commonly, central agents, in the absence of national instructions and guidance, may resist venturing into the new and at least somewhat more complex arrangements necessary for co-providing infrastructure with local authorities.

Other limitations also affect the degree to which LDF resources can be leveraged by mobilizing private and community resources for co-provision of services and related infrastructure (e.g.: pre-school/primary education, water supply, sanitation, transport). This critically depends on the quality of local leaders and the actual (and perceived) degree of their autonomy.[39] The emergence of proactive, development-minded local leaders is often hindered by the politics-driven decentralization reforms discussed above.

In general, where “pay-as-you-go” through LDF-style annual transfers is the only option available to local authorities for infrastructure finance, larger, more efficient investments are rejected in favor of smaller and/or less viable projects. Alternatively, their implementation may be split over several years, increasing costs and delaying benefits.[40]

In principle, the limitations of annual general-purpose block grants could be overcome by establishing dedicated facilities that provide *project-specific* grants or loans for larger and more strategic investments. The main examples include Municipal Development Funds (MDF), many of which have been established with substantial external aid. Social Investment Funds (SIF) and to some extent Community Driven Development (CDD) programs, could be counted among such facilities if they can be used to support local authority investment programs. The design of these facilities has been heavily influenced by donors and has created specific incentives and disincentives for local actors.

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[39] Many factors contribute to the emergence of effective local leaders. A most important one however is whether or not the local electoral system allows voters to express individual preferences.

[40] Unfinished infrastructure projects and long implementation delays that retard benefits and inflate costs can occur for multiple reasons, but they are likely to be more pervasive and problematic where full funding of the investments cannot be secured upfront and the only available funding is from annual (typically modest and often volatile) central transfers. The authors observed the effects of this scenario almost two decades ago in Vietnam, where many unfinished district-level rural infrastructure projects with substantial “sunk costs” that could rarely be “rescued” by additional investments.

Conceived as specialized domestic financial institutions to extend concessional credit to local authorities, MDFs have run into difficulties and the original expectations of their proponents had to be scaled down.[41] Many MDFs could only assist a limited number of creditworthy urban/metropolitan authorities. Smaller urban and rural authorities could not generate revenue streams to service debts for non-revenue generating infrastructure. Many local authorities, hamstrung by national regulations and low internal capacity, have been reluctant or unable to borrow even for revenue-generating infrastructure. The use of intergovernmental transfer intercept mechanisms for MDF loans created a moral hazard and disincentive for proper financial appraisal of investments. Opportunities arose for local politicians to shift resources from future service delivery and operation and maintenance spending to the immediately visible bricks–and–mortar projects they prefer without transparent justification of welfare enhancement or poverty targeting.

By using capital grants SIFs avoid some difficulties of MDFs and can be key vehicles for financing subnational investment. In contrast to MDFs, SIFs were not born to finance *local authority* investment, but to support *national* pro-poor policies through delivering community-level social infrastructure (schools, clinics and water and sanitation). SIFs were also intended to disburse large amounts of external aid rapidly. As the types and quantities of SIF-eligible investments could not be generated quickly enough through existing local authority systems, SIFs introduced parallel planning processes. Initially these simply involved eliciting direct requests from communities informed of SIF resources ("first come first served"), but they were later replaced by participatory planning processes carried out in communities targeted by the SIF.

Given their different nature, SIF-driven and local authority planning systems may generate *different* investment priorities even if they both finance schools, clinics and water systems.[42] This is because the SIF offers local authorities an opportunity to shape the local content of a *national* infrastructure program, not necessarily to finance their own local priorities. The SIF also does not provide local authorities with incentives to assume greater responsibilities or to reflect them in local budgets, as the management of most of the SIF-financed facilities remains under the concerned sectoral ministries.

Political economy analyses of SIF operations in Latin America[43] have shown that the allocation of SIF resources to specific localities is often driven by political/electoral calculations and that the bulk of SIF resources were spent on technically simple infrastructure, often with off-the-shelf designs, which could be quickly delivered. This was justified by the original emergency response mandate of the SIF, but the bias for the quick and simple persisted because of the preferences of both local politicians and international aid agencies. As a consequence, the diversification of SIF investments has been slow and halfhearted, and spending on projects less amenable to standardized designs (e.g. water supply and sanitation) has remained relatively minor in SIF portfolios.

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[41] See, for example, Peterson (2000) and Friere and Petersen (2004).
[42] For an assessment of the different priorities revealed by the community-level micro-planning process introduced by the Social Fund and the municipal planning exercises in Nicaragua, see Romeo (2000).
[43] See Schady (2000) and Penfold-Becerra (2006).

Beyond dedicated mechanisms for budget or project support from treasury or specific central agencies and programs, issuing bonds remains a potentially appropriate option for local authorities. Experience, however, suggests that the development of a sub-sovereign bond market depends on conditions that require relatively advanced levels of national development and local autonomy and must be sustained by a national policy recognizing the role of local development for national growth. These generally include a supporting regulatory environment, a diversified financial sector and an increased capacity for debt support and management by local authorities.[44] Such conditions exist widely only in advanced developing and transition countries,[45] and most bonds in developing countries have been issued by subnational states and major cities.

Attempts however have been made to overcome the capacity limitations of smaller and less endowed jurisdictions, by developing pooled financing mechanisms.[46] In the last decade, international agencies have been active in assisting central and local authorities in developing countries to access domestic and international capital markets for financing infrastructure, particularly in certain sectors, such as water supply and sanitation.

Since issuing bonds requires a rating of local authority creditworthiness, the prospect of such financing for local infrastructure may pressure local politicians to exercise fiscal discipline and improve financial management. Unfortunately, such incentives are diluted where access to bond financing is made possible by credit enhancement mechanisms that are poorly designed and transfer all or most default risk to the national treasury.

*Implementing local infrastructure*

The legal framework regulating local infrastructure procurement also shapes the behavior of actors involved in local planning. A common problem is insufficient national attention to developing *appropriate* local authority procurement systems and capacity. Standard legal provisions and guidelines often largely reproduce the central procurement process. Local authorities, however, require flexibility to realize the benefits of decentralization, and central regulations may invite rule violation, abuse of exceptions and fiduciary risks, which can be great without strong enforcement systems and actions.

Local authorities often encounter difficulties because of legal rigidities or inadequate central guidance on implementing infrastructure projects through community contracting or innovative service delivery programs that use community co-provision and co-production arrangements. In addition, rules intended to minimize the influence of private contractors on local procurement, if not well formulated and explained, may impede efforts to leverage local social capital, strengthen local public-private cooperation and help develop the local construction industry. Standardized and inappropriate procurement rules may create incentives to avoid them. An example is the practice of artificially breaking procurement of larger projects into smaller contracts, or worse, to choose certain

[44] See Platz (2009)
[45] These include India, the Philippines, South Africa, Mexico, Brazil and some other South American countries, Russia and several European transition countries.
[46] Interesting pilot projects have been launched in Tanzania and Uganda under the UNCDF Local Finance Initiative (LFI). The conceptual approach is documented in Bond, Platz, and Magnusson (2012)

projects over potentially better ones because their small size allows avoidance of competitive bidding requirements for contracts above a certain amount.[47]

Beyond the effects of the legal framework for local procurement, the efficient implementation of locally planned infrastructure depends critically on the capacities of the stakeholders. These include the capacity of the local administration to manage the procurement process, the capacity of local engineers and contractors to deliver quality services and works, and the capacity of local communities to oversee implementation.

The capacity to manage infrastructure procurement is generally a function of the size of a jurisdiction and of a country's overall development. It is particularly weak for small rural local authorities in LDCs. Efforts to build capacity may appear disproportionately costly. In some infrastructure programs in aid dependent countries, infrastructure spending is overshadowed by capacity building, forcing consideration of alternative arrangements for interjurisdictional cooperation and delegation of the procurement function.

Different capacity constraints plague the engineering function. Local authorities could use private services, but national policies are often required to support the emergence of an engineering consulting industry that could sustainably serve local infrastructure development needs and make transparent the operation of the market for engineering services to local authorities. In many LDCs, local authorities source engineering services from deconcentrated agencies and accountability issues may arise. Deconcentrated technicians may assume the functions of both client and engineer, reducing transparency and compromising the monitoring role of local councils and user committees.

Similar considerations apply to the local contracting industry, the development of which is constrained by the low volume of work available annually in a single jurisdiction. In this respect, the strong political preference of local authorities for "buying locally" may work against the interests of the most capable local construction firms, which are not helped by an extreme segmenting of the market. Much as in the engineering services industry, the construction industry could be effectively helped by the development of supra-local (regional) markets in which they could compete annually for multiple contracts until their level of capacity launches them onto the national market.

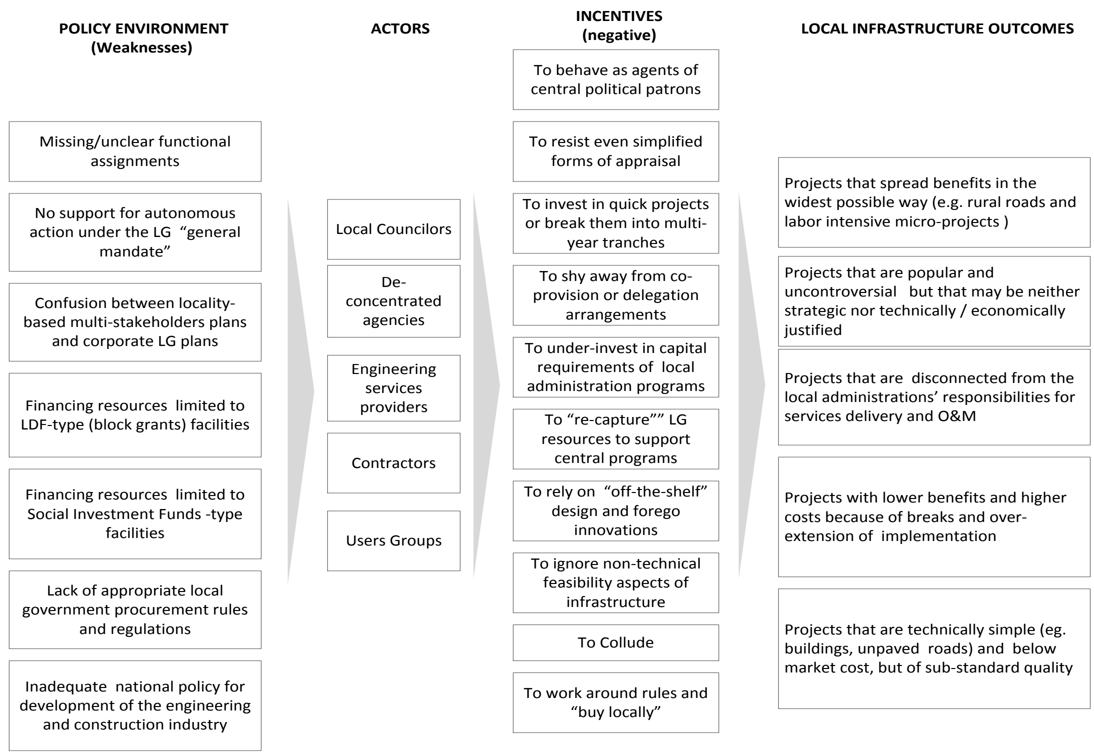
Finally, community oversight may have a positive impact on the quality, timeliness and cost-effectiveness of local infrastructure implementation. This, however, requires the definition of clear rules of engagement of the concerned communities in the construction administration process. When this is not the case the consequences may be either an ineffective and cosmetic role for community monitoring, or, at the other extreme, the possibility for community groups to illicitly extract concessions from contractors (in the forms of materials leakages and/or undocumented extra work) that may eventually be recouped through quality reduction or cost increases paid by the local authority.

Figure 6 summarizes key points from the preceding discussion, highlighting the typs of incentives that weak decentralization policies and institutional environments can create for the range of actors involved in local infrastructure development and outcomes. Some

[47] A recent report on Bangladesh by Abrams (2010) provides a good example.

of these incentives are at least partly inherent to the nature of the particular aspects of the process under consideration, but they can be exacerbated or worsened by the way in which national governments, or in the case of aid dependent countries, international development agencies, structure the local infrastructure development systems they promote and support.

**Figure 6: Policy Weaknesses, Negative Incentives & Local Infrastructure Outcomes**




## VIII. Looking Forward

Developing countries face considerable challenges in the design and operation of local infrastructure planning systems in decentralized or decentralizing systems. Many of these challenges are driven or influenced by diverse political economy dynamics that differ in importance and degree across countries. From the beginning, the political economy motivations underlying decentralization and other public sector reforms shape how the planning system is developed and lay the foundations for how it functions and performs.

In practice, local infrastructure planning may involve a diverse range of actors at multiple levels in various ways. These actors are differentially powerful depending on the context in a particular country, and each typically has incentives to pursue some specific agenda. In many countries, traditional centralist tendencies that are supposed to have been lessened can remain influential during implementation. Even if political economy incentives at higher levels allow genuine subnational government empowerment, complex dynamics internal to local governments and their interactions with other local governments, with higher levels of government and with nongovernmental actors can be consequential. These dynamics can support authentic local infrastructure planning or undermine it, with potentially considerable impact on the results.

This paper has only selectively covered the complex terrain involved, and much of the more detailed treatment focused primarily on the development of decentralized planning systems in least developed countries. More work is clearly needed to better understand the political and bureaucratic dynamics of local infrastructure planning and their impact on infrastructure provision. In specific countries, it is necessary to determine the mix of actors involved and their incentives to support, alter or capture the local planning process. With such knowledge, it should be possible in many countries to redesign local infrastructure planning systems in ways that would help to improve their performance.

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