

Decentralization, Local Government Capacity, and Regional Development Outcomes in the Global South: An Integrative Literature Review

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Systematic Review

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Abstract

Purpose

– Decentralization has long been promoted as a route to more responsive government and more balanced regional development, yet the empirical evidence remains fragmented across disciplines and contexts. This article integrates research on how decentralization and local government capacity shape regional development outcomes in the Global South, and it specifies the conditions under which they do so.

Design/methodology/approach

– We conducted an integrative literature review of foundational and recent scholarship drawn from economics, political science, public administration and regional studies. Literature was identified through Scopus, Web of Science and Google Scholar and through citation chaining, and was analyzed thematically against an input–process–outcome framework.

Findings

– The evidence does not support an unconditional link between decentralization and development. Gains are most consistently reported where fiscal responsibilities are matched by revenue autonomy and hard budget constraints, where local administrative capacity is adequate to the functions assigned, and where electoral, informational and civil-society channels make local officials answerable to citizens. Where these conditions are absent, decentralization is associated with elite capture, uneven service delivery and widening interregional disparities. We integrate these results into a conditional framework.

Research limitations/implications

– As an integrative rather than systematic review, the study does not claim exhaustive coverage, and its selection involves interpretive judgment. The framework yields five propositions for future testing.

Practical implications

– Reform design should sequence fiscal, administrative and political decentralization, tie transfers to capacity-building, and strengthen transparency and equalization mechanisms.

Originality/value

– The article integrates economic, political-science and public-administration literatures into a single mechanism-oriented framework and derives testable propositions on when and why decentralization delivers development.

1. Introduction

Over the past four decades, decentralization has become one of the most widely adopted public-sector reforms in the developing world. Governments in Latin America, Africa, South and Southeast Asia, and post-socialist Europe have transferred political authority, administrative responsibilities and fiscal resources to subnational governments, often under the encouragement of international financial institutions (Smoke, 2015; Faguet, 2014). The rationale is familiar. Local governments are closer to citizens, hold better information about local preferences, and can be held to account more directly, so that public goods should be better matched to local needs and regional development should become more responsive and more balanced (Oates, 1972, 1999; Tiebout, 1956).

The empirical record, however, is far from uniform. Some studies document substantial improvements in the responsiveness of public investment after decentralization (Faguet, 2004), whereas others warn of macroeconomic instability, weak administrative capacity and the capture of local institutions by elites (Prud'homme, 1995; Bardhan & Mookherjee, 2000; Treisman, 2007). Cross-country analyses report that fiscal decentralization can widen territorial disparities in low- and middle-income countries (Rodríguez-Pose & Ezcurra, 2010), and that its association with corruption depends on institutional design and monitoring (Fisman & Gatti, 2002; Fan et al., 2009; Lessmann & Markwardt, 2010). The question has therefore shifted from whether decentralization works to when, how and for whom it works (Mookherjee, 2015; Smoke, 2015).

Three features of the existing literature motivate this review. First, research is divided by discipline: economists have concentrated on fiscal arrangements and growth, political scientists on accountability and electoral incentives, and public-administration scholars on managerial capacity and collaboration. Each tradition offers partial explanations, but they are rarely integrated. Second, existing syntheses rarely make explicit how the literature was selected and how diverse evidence was integrated, which limits confidence in their coverage and conclusions (Torraco, 2005; Snyder, 2019). Third, evidence on contextual conditions, including corruption, post-conflict history, income level and the strength of civil society, is scattered, so that policy lessons are often transferred across settings without regard to the conditions that made them work.

This article addresses these gaps through an integrative review of research on decentralization, local government capacity and regional development in the Global South. It makes three contributions. Conceptually, it develops an integrative framework that links institutional inputs, governance processes and development outcomes, and specifies the contextual conditions that moderate these links. Methodologically, it makes the logic of literature selection and synthesis explicit, following established

guidance for integrative reviews. For research, it derives five propositions and a research agenda aimed at the settings that are currently least studied. Four research questions guide the review:

1. RQ1. How have the main theoretical traditions conceptualized the relationship between decentralization, local governance and regional development?
2. RQ2. Which factors and mechanisms link local governance to regional development outcomes?
3. RQ3. Under what contextual conditions does decentralization succeed or fail?
4. RQ4. What gaps remain, and what should future research prioritize?

The remainder of the article is organized as follows. Section 2 sets out the conceptual and theoretical background. Section 3 describes the review methodology. Section 4 presents the synthesis of the evidence, and Section 5 discusses its implications and proposes the final framework. Section 6 outlines a research agenda, Section 7 acknowledges limitations, and Section 8 concludes.

2. Conceptual and Theoretical Background

2.1 Key concepts

Decentralization refers to the transfer of authority and resources from central to subnational actors. Following the classic typology, it is commonly divided into deconcentration, delegation and devolution according to the degree of autonomy granted (Rondinelli et al., 1983), and into political, administrative and fiscal dimensions (Falleti, 2005; Cheema & Rondinelli, 2007). Political decentralization concerns the election and accountability of local officials; administrative decentralization concerns the allocation of functions and personnel; fiscal decentralization concerns expenditure assignments, revenue powers and intergovernmental transfers. The three dimensions can be adopted in different sequences and combinations, and their interaction, rather than any single dimension, often drives outcomes (Falleti, 2005; Kis-Katos & Sjahrir, 2017).

Local governance is broader than local government. It encompasses the formal institutions of subnational government as well as the networks of civil-society organizations, private actors and communities that jointly shape the provision of public goods (Ansell & Gash, 2008; Emerson et al., 2012). *Regional development* is treated here as multidimensional: it includes economic performance, the quality and coverage of public services, and the distribution of these benefits across and within territories. Treating development as multidimensional matters because decentralization may improve one dimension, such as service responsiveness, while worsening another, such as interregional equity.

2.2 Theoretical foundations

Fiscal federalism. The first-generation theory argues that public goods should be provided by the lowest level of government able to internalize their benefits and costs, because local officials can tailor provision to heterogeneous preferences and because mobile residents sort across jurisdictions (Oates, 1972; Tiebout, 1956). Second-generation theory shifts attention from benevolent planners to the

incentives of self-interested politicians, emphasizing hard budget constraints, revenue autonomy and the risk of fiscal opportunism (Weingast, 2009; Rodden, 2006). This strand explains why identical transfers produce very different results depending on how subnational governments are financed.

Political economy and new institutionalism. Principal–agent models treat decentralization as a change in who monitors whom. Local accountability can improve when voters observe outcomes more easily, but it can deteriorate when local elites are able to capture decision-making, particularly under high inequality and low political competition (Bardhan & Mookherjee, 2000, 2006; Platteau, 2004; Agrawal & Ribot, 1999). Institutional arrangements, including electoral rules, party systems and the vertical distribution of power, determine which incentives prevail (Besley & Persson, 2011; Treisman, 2007).

State capacity. Even well-designed reforms fail if local administrations cannot plan, budget, procure and deliver. The literature on capability emphasizes that adopting the formal forms of good governance without the underlying functions, termed isomorphic mimicry, yields persistent implementation failure (Pritchett et al., 2013), and that reforms should be prioritized according to what is feasible in a given context (Grindle, 2007b).

Collaborative and network governance. A fourth strand focuses on how local governments work with communities, firms and other agencies. Collaborative arrangements can mobilize knowledge and resources and legitimize decisions, but they depend on starting conditions, facilitative leadership and institutional design (Ansell & Gash, 2008; Emerson et al., 2012; Torfing, 2019).

2.3 Initial conceptual framework

Drawing on these traditions, we adopt an input–process–outcome framework as the organizing structure for the review (Table 1). Inputs are the formal allocation of autonomy and the capacities available locally. Processes are the mechanisms through which inputs are converted into action: accountability, participation and collaboration. Outcomes are the three development dimensions identified above. Contextual conditions are treated as moderators rather than as additional inputs.

Table 1
Preliminary analytical framework used to organize the review

Component	Elements considered	Theoretical anchor
Inputs	Political, administrative and fiscal autonomy; revenue autonomy; transfer design; administrative and technical capacity	Fiscal federalism; state capacity
Processes	Electoral and social accountability; citizen participation; elite capture; collaboration and networks; digital government	Principal–agent theory; collaborative governance
Outcomes	Economic performance; public service delivery; interregional and intra-regional equity	Development and regional studies
Moderators	Corruption; post-conflict legacy; income level; civil-society strength; political competition	New institutionalism; comparative politics

3. Methodology

3.1 Review design

We adopted an integrative review design. Unlike a systematic review that pools homogeneous studies, an integrative review combines diverse bodies of evidence, including theoretical, quantitative, qualitative and mixed-methods work, in order to generate new conceptual understanding (Torraco, 2005; Whitemore & Knafl, 2005; Snyder, 2019). This design suits a topic that spans several disciplines, uses incommensurable outcome measures, and calls for theory-building rather than effect-size estimation. The review followed the five stages described by Whitemore and Knafl (2005): problem identification, literature search, data evaluation, data analysis and presentation. The synthesis is organized around concepts rather than around individual authors (Webster & Watson, 2002).

3.2 Identification of the literature

Literature was identified through iterative searching of Scopus, Web of Science and Google Scholar, using combinations of the following terms, adapted to each platform:

("local government" OR "local governance" OR "subnational government" OR "municipal") AND (decentraliz OR decentralis OR autonomy OR devolution) AND ("regional development" OR "local development" OR "territorial development" OR "service delivery")

Searches were supplemented by backward and forward citation chaining from influential studies and from earlier reviews (Faguet, 2014; Gadenne & Singhal, 2014; Mookherjee, 2015; Smoke, 2015), and by targeted searches for each theme and moderator identified during analysis. The search was conducted between 15 January 2020 and 30 May 2026 across Scopus, Web of Science, and Google Scholar. A total of 1,180 records were identified. After removal of duplicates, 950 records were screened by title and abstract, 180 articles were assessed in full text, and 72 studies were included in the synthesis. An additional 15 studies were added through citation chaining and targeted searches. A targeted search for literature on post-conflict, small-state and island settings was added at the analysis stage to test the gap noted in Section 4.2.

3.3 Selection criteria

Because the aim is conceptual integration, selection was purposive rather than exhaustive. Works were retained according to the criteria in Table 2 and prioritized by relevance to the research questions, methodological rigor and influence on the field.

Table 2
Selection criteria

Criterion	Included	Excluded
Source type	Peer-reviewed journal articles; major academic books; authoritative institutional reports	Opinion pieces, newspaper articles, unpublished manuscripts
Time frame	Emphasis on the last 25 years; earlier works included where they provide foundational theory	Works with neither theoretical nor empirical relevance to current debates
Setting	Low- and middle-income countries, or cross-country samples that include them; theoretical work, including frameworks developed in high-income settings, with clear application to these settings	Studies of high-income settings whose mechanisms do not transfer
Focus	Decentralization or local governance capacity examined in relation to at least one development outcome, or conceptual foundations of that relationship	Decentralization examined without any development outcome
Language	English	Other languages

3.4 Evaluation and analysis

Each work was evaluated for the clarity of its research question, the quality of its data, and the credibility of its identification strategy. Studies using field experiments, quasi-experimental designs or well-specified panel analyses were given greater weight when assessing the direction of effects, whereas case studies and qualitative work were used principally to identify mechanisms and conditions. Findings were coded against the framework in Table 1, compared across studies and contexts, and grouped into themes and moderators through iterative data reduction, display and comparison (Whittemore & Knafl, 2005). Contradictory findings were not averaged; they were examined for differences in context, measurement and design that could explain divergence.

3.5 Scope and transparency

The review does not claim to be exhaustive or replicable in the sense of a PRISMA-based systematic review, and it does not report pooled effect sizes. Its contribution lies in the integration of dispersed evidence and in the explicit logic by which themes, mechanisms and propositions were derived. The selection criteria, search terms and analytical framework are reported in full so that readers can assess and extend the review.

4. Synthesis of the Evidence

4.1 Thematic synthesis

4.1.1 Fiscal decentralization and development performance

The relationship between fiscal decentralization and growth is not uniform. Early cross-country and single-country work reported negative or insignificant growth effects in developing economies (Davoodi & Zou, 1998; Zhang & Zou, 1998; Rodríguez-Pose & Krøijer, 2009), and surveys conclude that results vary with measurement and context (Martínez-Vázquez & McNab, 2003; Gadenne & Singhal, 2014). The synthesis suggests that the form of fiscal decentralization matters more than its extent. Expenditure decentralization unaccompanied by own-source revenue powers leaves local governments dependent on transfers, which weakens the link between taxation and accountability and invites soft budget constraints (Rodden, 2006; Weingast, 2009). Field-experimental evidence from the Democratic Republic of the Congo is consistent with the first part of this argument: a randomized property-tax campaign raised tax compliance and increased political participation, including attendance at government-hosted town-hall meetings (Weigel, 2020). Evidence from Indonesia shows that outcomes depend on the interaction of fiscal and political decentralization rather than on either alone (Kis-Katos & Sjahrir, 2017). Fiscal-federalism analyses associate favorable outcomes with transfers that are rule-based and predictable, subnational borrowing that is constrained, and expenditure mandates that are matched with resources (Rodden, 2006; Weingast, 2009; Smoke, 2015).

4.1.2 Institutional capacity and bureaucratic quality

Administrative and technical capacity emerges as the most frequently cited enabling condition. Local governments lacking planning, budgeting, procurement and financial-management skills struggle to translate additional resources into services, and reforms that transfer functions faster than capacity can develop often produce implementation gaps (Grindle, 2007a; Pritchett et al., 2013; Smoke, 2015). Where responsiveness improved, as in Bolivia's municipal reforms, investment in human capital and social services changed in line with objective indicators of need, driven largely by the smallest and poorest municipalities (Faguet, 2004). The synthesis suggests that capacity is not merely a technical input: it also determines whether accountability mechanisms can function, because citizens and councils cannot hold officials to account for decisions that officials lack the competence to make. Sequencing is therefore central, since the order in which political, administrative and fiscal reforms are introduced shapes the incentives of local and national actors (Falleti, 2005). Capacity also affects how much autonomy central governments leave in place: in the autocratic setting of rural China, village elections were introduced where bureaucratic capacity was low, and village autonomy eroded as regional government resources grew (Martínez-Bravo et al., 2022).

4.1.3 Citizen participation and social accountability

Participation is widely credited with improving responsiveness, yet the evidence is more cautious than the rhetoric. A comprehensive review of community-based and community-driven development finds that participatory interventions are highly dependent on context and are less effective where local inequality and weak institutions persist (Mansuri & Rao, 2013). Field experiments in Indonesia show that externally

enforced audits reduced corruption more reliably than grassroots monitoring (Olken, 2007), whereas direct plebiscites on local projects increased citizen satisfaction and legitimacy (Olken, 2010). In Uganda, community-based monitoring of health providers improved service use and health outcomes (Björkman & Svensson, 2009). Reviewing the social-accountability literature, Fox (2015) distinguishes tactical approaches, which are bounded and information-led, from strategic approaches, which combine citizen voice with institutional capacity to respond; only the latter tend to produce durable change. Empowered participatory institutions can deepen democracy where they are linked to decision-making authority (Fung & Wright, 2001), but participation without authority or response capacity risks becoming symbolic.

4.1.4 Local leadership, politics and elite capture

The synthesis consistently identifies elite capture as the principal risk of devolution in unequal settings. Where landholding, literacy or political power is concentrated, decentralized resources may be directed to elite preferences, and capture can be more severe locally than nationally unless political competition and information are sufficient (Bardhan & Mookherjee, 2000, 2006; Platteau, 2004). Findings on corruption are conditional. Some cross-country evidence associates decentralization with lower corruption (Fisman & Gatti, 2002), while other work finds that more tiers of government are linked to more corruption (Fan et al., 2009). Reconciling these results, Lessmann and Markwardt (2010) show that decentralization reduces corruption only where monitoring institutions, such as a free press, are strong. Case studies of Mexican municipalities highlight the role of political leadership and local political dynamics in explaining why some local governments perform better than others (Grindle, 2007a). This suggests that capable leaders may compensate for weak formal institutions, although such outcomes are likely to be fragile because they depend on individuals rather than rules. Local elites can also act as a substitute for state capacity: in the Democratic Republic of the Congo, property-tax collection by city chiefs raised compliance and revenue more than collection by state agents, but chiefs also collected more bribes (Balán et al., 2022).

4.1.5 Collaboration, networks and digitalization

A growing body of work examines cross-sector collaboration and the digitalization of local government. Collaborative governance is associated with better problem solving and legitimacy when starting conditions are balanced, leadership is facilitative and institutional design is clear (Ansell & Gash, 2008; Emerson et al., 2012), and collaboration can foster innovation in the public sector (Torfing, 2019). The smart-city and e-government literature emphasizes technology as an enabler of transparency and service integration, but cautions that governance, organizational and citizen-engagement factors, rather than technology alone, determine outcomes (Meijer & Bolívar, 2016). Direct evidence on digital reforms in low-capacity subnational settings is thin in the works reviewed. Extrapolating from the capacity evidence in Section 4.1.2, we conjecture that digital reforms may widen rather than narrow gaps unless they are accompanied by capacity-building; this is an inference rather than an established finding, and we return to it in Section 6.

4.1.6 Interregional inequality and inclusiveness

Decentralization can reallocate resources and decision-making power, but it does not automatically reduce territorial inequality. Early work questioned the “economic dividend” of devolution for lagging regions (Rodríguez-Pose & Gill, 2005). A panel of 26 countries (19 developed and 7 developing) covering 1990–2006 found no overall association between decentralization and regional disparities, but fiscal decentralization was linked to significantly higher disparities in low- and middle-income countries, a rise that the benefits of political decentralization did not offset (Rodríguez-Pose & Ezcurra, 2010). Because the developing-country subsample is small, this evidence is suggestive rather than conclusive. Plausible mechanisms include differences in local revenue bases, capacity to attract investment, and the strength of equalization transfers; the same study points to the fiscal redistributive capacity of countries and to subnational spending preferences. Direct evidence on remedies is thinner: the role of equalizing transfers, minimum service standards and targeted support to weaker jurisdictions rests mainly on fiscal-federalism reasoning (Oates, 1999; Weingast, 2009) rather than on tests in low-income settings, which is why P5 is framed as a proposition to be tested.

4.2 Contextual moderators

Five contextual conditions recur across themes. *First*, the level of corruption and the strength of monitoring institutions condition whether decentralization curbs or amplifies rent-seeking (Fan et al., 2009; Lessmann & Markwardt, 2010). *Second*, political competition and the structure of party systems shape whether local politicians face genuine electoral pressure and whether national actors support or undermine subnational autonomy (Rodden, 2006; Treisman, 2007; Falletti, 2005). *Third*, income level and state capacity moderate both growth and distributional outcomes (Rodríguez-Pose & Ezcurra, 2010; Pritchett et al., 2013). *Fourth*, civil-society strength and press freedom determine whether participatory and informational mechanisms translate into accountability (Fox, 2015; Mansuri & Rao, 2013). *Fifth*, ethnic heterogeneity and conflict legacy condition whether autonomy yields collective provision or conflict. Global evidence indicates that more autonomous regions with high ethnic fractionalization provide fewer productive public goods (Seidel, 2023), and that decentralization can reduce ethnic conflict directly but raise it indirectly by strengthening regional parties (Brancati, 2006). Quantitative studies of municipalities in conflict-affected settings, such as Côte d’Ivoire, test whether fiscal decentralization improves access to public services and reduces poverty (Sanogo, 2019). Evidence from small-state and island contexts remains thin and largely qualitative; work on Timor-Leste, for example, examines how elected village chiefs interact with customary authorities, producing hybrid forms of local authority (Cummins & Leach, 2012). We return to these gaps in Section 6.

Table 3
Summary of themes, mechanisms and conditions

Theme	Core mechanism	Enabling conditions	Inhibiting conditions
Fiscal decentralization	Expenditure and revenue assignment shapes incentives	Own-source revenue; rule-based transfers; hard budget constraints	Transfer dependence; soft budgets; unfunded mandates
Institutional capacity	Competence converts resources into services	Planning and financial-management skills; sequenced reforms	Functions transferred ahead of capacity; isomorphic mimicry
Participation and social accountability	Voice and monitoring discipline officials	Authority and response capacity; external audit; information	Symbolic participation; local inequality
Politics and elite capture	Local power shapes allocation	Political competition; free press; monitoring institutions	Concentrated power; weak oversight
Collaboration and digitalization	Shared resources, transparency, integration	Facilitative leadership; balanced starting conditions	Digital divide; weak data systems
Interregional equity	Redistribution offsets fiscal-capacity gaps	Equalization transfers; minimum service standards	Reliance on local revenue; uneven investment appeal

5. Discussion

5.1 Answers to the research questions

RQ1. Four theoretical traditions frame the field: fiscal federalism, political economy, state capacity and collaborative governance. Each explains part of the relationship, but they have developed largely in parallel (Section 2). *RQ2.* Five groups of mechanisms link local governance to development: fiscal incentives, administrative capacity, accountability and participation, control of elite capture, and collaboration and digitalization, while a sixth theme, interregional equity, concerns the distributional consequences of these mechanisms (Section 4.1). *RQ3.* Decentralization is most likely to succeed where fiscal autonomy is matched with responsibility, capacity is adequate to the functions assigned, and accountability channels are credible; it is most likely to fail where capture, dependence and capacity deficits coincide (Section 4.2). *RQ4.* The principal gaps concern post-conflict and small-state settings, longitudinal and causal evidence, and the interaction among decentralization dimensions (Section 6).

5.2 Causal mechanisms: when and why decentralization delivers

The central insight of the review is that decentralization is better understood as a conditional intervention than as a uniform treatment. Its effect depends on whether three sets of conditions are jointly present: aligned incentives, adequate capability and effective answerability. When fiscal

assignments are coherent but capacity is weak, resources are wasted; when capacity exists but accountability channels are captured, resources are diverted; when accountability exists but fiscal incentives are distorted, local officials are held to account for outcomes they cannot control. We therefore treat the mechanisms as complementary rather than additive, a reading that is consistent with, but not demonstrated by, the evidence reviewed. We express this logic in five propositions.

1. P1 (Fiscal alignment). Decentralization improves regional development outcomes where expenditure responsibilities are matched by own-source revenue powers and hard budget constraints, and worsens them where local governments depend on discretionary transfers.
2. P2 (Capacity). The effect of decentralization on service delivery becomes more favorable as local administrative capacity rises. We conjecture that the relationship is non-linear, so that below some minimum level of capacity additional autonomy increases implementation failure; the existence and size of such a threshold have not been identified in the evidence reviewed and are a hypothesis for testing.
3. P3 (Accountability). Participation and electoral competition improve outcomes where they are linked to decision-making authority and to institutions that can respond, and are ineffective or symbolic otherwise.
4. P4 (Capture). The risk of elite capture increases with local inequality and falls with political competition, independent media and external oversight.
5. P5 (Equity). In lower-income settings, decentralization widens interregional disparities unless accompanied by equalization transfers and minimum service standards.

5.3 Final conceptual framework

Table 4 and Fig. 1 present the final framework, which refines the preliminary framework in Table 1 by adding the conditional relationships implied by P1–P5. Its main departure from earlier models is to treat capacity, incentives and accountability as complementary conditions whose joint presence is associated with better outcomes (that each is necessary is a hypothesis for testing, not a finding) and to treat context as a set of moderators operating at each link.

Table 4
Final conditional framework

Link	Condition for positive effect	Moderators	Proposition
Autonomy → incentives	Revenue autonomy; hard budgets; rule-based transfers	Income level; fiscal-capacity gaps	P1
Autonomy → delivery	Adequate and rising capacity; sequenced reform	State capacity; administrative legacy; ethnic heterogeneity	P2
Participation → accountability	Authority to decide; capacity to respond	Civil society; information	P3
Power → allocation	Political competition; oversight	Inequality; corruption; press freedom	P4
Local outcomes → equity	Equalization; minimum standards	Income level; territorial structure	P5

5.4 Comparison with previous reviews

Earlier syntheses have reached related conclusions from within single traditions. Faguet (2014) emphasizes the institutional and political determinants of decentralization's effects on governance; Gadenne and Singhal (2014) review the economics of decentralization in developing economies and stress the conditionality of results; Mookherjee (2015) focuses on accountability and capture; and Smoke (2015) calls attention to the design and sequencing challenges of reform. The present review differs in two respects. It integrates fiscal, political and administrative strands in a single framework, and it translates the synthesis into testable propositions rather than ending with the general conclusion that context matters. Its specific contribution is to state the interaction among incentives, capacity and accountability explicitly, whereas each earlier review foregrounds a different subset, and to flag where the conjectured interactions (notably the capacity relationship in P2) remain untested, so that the propositions can be falsified. It also draws on cross-country and country-level evidence showing that the effects of autonomy depend on state capacity and social cleavages (Brancati, 2006; Martinez-Bravo et al., 2022; Seidel, 2023).

5.5 Theoretical implications

For fiscal federalism, the findings reinforce the second-generation emphasis on incentives and show that its predictions are conditional on administrative capability, a dimension often assumed away. For political economy, the review indicates that accountability theories need to specify the capacity and authority that give accountability meaning. For capability research, it suggests that capacity should be treated as interacting with, rather than separate from, the political incentives that determine how it is used. Across all three, the framework invites tests of interaction effects, not only of main effects.

5.6 Policy and practical implications

- *Sequence and match.* Transfer functions in step with fiscal resources and capacity, and avoid unfunded mandates (Falleti, 2005; Smoke, 2015).
- *Pair transfers with capacity-building.* Condition or complement grants with support for planning, financial management and procurement, with attention to functional capability rather than formal compliance (Pritchett et al., 2013).
- *Design for accountability.* Combine participation with external audit, public information and channels that give citizens real influence on decisions (Olken, 2007; Fox, 2015).
- *Guard against capture.* Strengthen political competition, media freedom and oversight, particularly in unequal communities (Bardhan & Mookherjee, 2006; Lessmann & Markwardt, 2010).
- *Protect equity.* Use equalization transfers and minimum service standards so that lagging regions are not penalized by differences in local revenue capacity (Rodríguez-Pose & Ezcurra, 2010).

6. Future Research Agenda

The review points to six priorities for future research.

1. *Test the conditional propositions.* P1–P5 should be examined with designs capable of identifying interaction effects, such as multi-level panel models, difference-in-differences with staggered reforms, and qualitative comparative analysis.
2. *Expand evidence from neglected settings.* Post-conflict states and small island and archipelagic states, where decentralization is often adopted for state-building and where administrative capacity is limited, deserve systematic study. Comparative work on how customary and state authority interact at the local level, as documented for Timor-Leste (Cummins & Leach, 2012), would help to specify how capacity and accountability operate where hybrid institutions prevail.
3. *Study sequencing and interaction.* Longitudinal research should trace how political, administrative and fiscal reforms interact over time, rather than treating them separately.
4. *Strengthen causal identification.* More quasi-experimental and field-experimental work is needed, together with qualitative process-tracing to explain why observed effects occur.
5. *Examine digital governance critically.* Research should assess whether e-government and smart-region initiatives improve or worsen inequality in low-connectivity contexts.
6. *Improve measurement.* Comparable indicators of local capacity, revenue autonomy and development outcomes would allow cumulative evidence and eventual meta-analysis.

7. Limitations

Several limitations should be acknowledged. As an integrative review, the study does not aim at exhaustive coverage, and the purposive selection of works involves interpretive judgment that may reflect the authors' disciplinary vantage point. Restricting the review to English-language sources and to indexed or widely circulated publications introduces publication and language bias and may under-represent regional and policy literature. The heterogeneity of outcomes, measures and designs

precluded meta-analysis, so conclusions are qualitative. Most of the empirical studies synthesized were published before 2020, and more recent work is integrated selectively; a systematic update of the 2020–2026 literature is a priority. Finally, the propositions are derived from synthesis and have not been tested directly. A PRISMA-based systematic review or a meta-analysis of a narrower set of outcomes would be a natural complement to this work.

8. Conclusion

This review set out to clarify when and why decentralization and local government capacity translate into regional development. The evidence indicates that decentralization is neither a panacea nor a failure; its effects are conditional on the alignment of fiscal incentives, administrative capability and accountability, and on contexts that determine whether these conditions can be met. By integrating dispersed strands of research into a conditional framework and five testable propositions, the article offers scholars a basis for cumulative theory-building and offers policymakers a way of designing reforms that fit local conditions. Future work that tests these propositions in under-studied settings will be central to deciding whether decentralization can deliver on its promise.

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Figures

Capacity, incentives and accountability act as complementary conditions

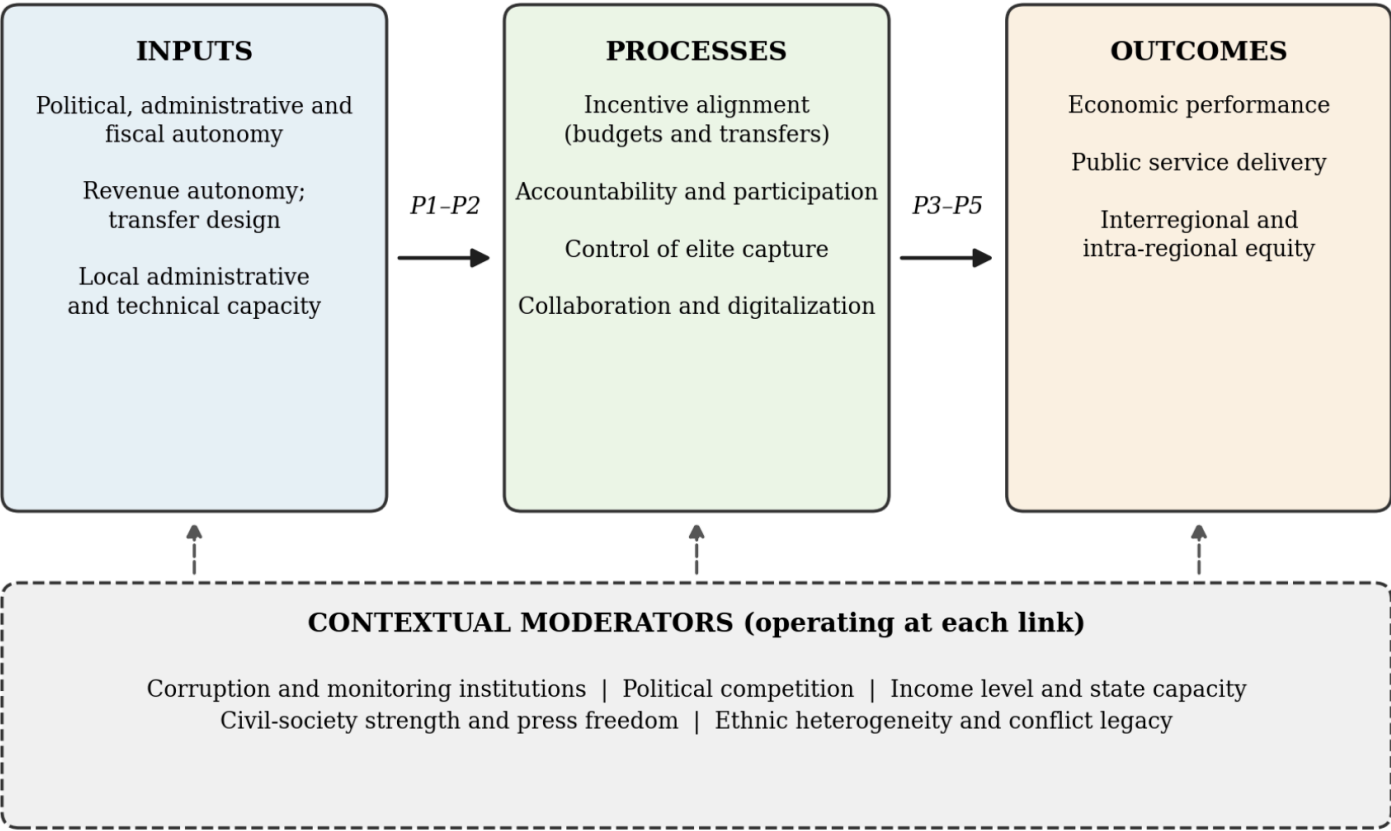


Figure 1

Final conditional framework