

# Decentralization and State Control: Devolution of Finance, Functions, and Functionaries in India

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## Abstract

The constitutionalising of local self-government through the 73rd and 74th Constitutional Amendments marked a significant moment in India's democratic and federal evolution. These reforms sought to deepen democracy by devolving powers, responsibilities and resources to local governments. More than three decades later, decentralization in India has produced institutions that are electorally vibrant but administratively constrained. This paper examines the paradox of extensive formal devolution coexisting with persistent state control. Using the analytical framework of finance, functions, and functionaries (the "3Fs"), it argues that decentralization in India has unfolded as a managed and politically conditioned process rather than a comprehensive transfer of authority. While fiscal transfers and functional assignments have expanded unevenly, control over administrative personnel has remained firmly centralized. The retention of authority over functionaries emerges as the central mechanism through which state governments preserve power over local governance. The paper contributes to decentralization scholarship by shifting attention from constitutional design to political economy, highlighting personnel control as the key constraint on substantive local self-government in India.

## Keywords

Decentralization, State Control, 3Fs; Local Self-Government, Political Economy, Indian Federalism

## 1. Introduction

Decentralization occupies a central place in India's constitutional imagination and democratic discourse. In a vast and diverse federal polity, the promise of decentralization lies in bringing governance closer to citizens, enhancing accountability, and improving the responsiveness of public institutions. This vision found its most concrete expression in the 73rd and 74th Constitutional Amendments of 1992, which granted constitutional status to Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs). These reforms were widely celebrated as a democratic watershed, aimed at transforming local governments from administrative appendages into genuine institutions of self-government.

The objectives of these amendments extended beyond administrative efficiency. By mandating regular elections, reserving seats for women and marginalized groups, and enabling the devolution of powers and responsibilities, decentralization was expected to democratize governance, foster social inclusion, and strengthen participatory decision-making at the grassroots. Central to this transformative vision was the devolution of finance, functions, and functionaries are the three institutional pillars required for effective local self-government.

Yet, more than three decades after constitutionalising, the outcomes of decentralization remain uneven and contested. Local governments are firmly embedded in India's institutional architecture, and elections have become routine. However, substantive authority continues to be concentrated at higher levels of government. Local bodies often exercise limited fiscal discretion, operate within narrowly defined functional spaces, and lack control over the personnel responsible for implementing policies. As a result, they frequently function as implementing agencies for centrally and state-designed schemes rather than as autonomous decision-making institutions.

This gap between constitutional intent and administrative reality raises a central puzzle: **why has decentralization in India not resulted in genuine empowerment of local governments?** This paper addresses this question by examining decentralization not merely as a legal or institutional reform, but as a politically mediated process shaped by state-level incentives and bureaucratic structures. It argues that decentralization in India is uneven, selective, and politically conditioned. While states have complied with the formal requirements of decentralization, they have strategically retained control over key levers of power most notably administrative personnel and thereby constraining effective local self-government.

## 2. Conceptual Framework: Decentralization and the 3Fs

Decentralization is commonly understood as the transfer of authority, responsibilities, and resources from higher to lower levels of government. However, the literature emphasizes that decentralization is not a singular process but a multidimensional phenomenon encompassing political, administrative, and fiscal dimensions. Political decentralization refers to elected representation and participation; administrative decentralization concerns functional authority and managerial control; fiscal decentralization relates to revenue powers and expenditure autonomy. These dimensions are analytically distinct but functionally interdependent.

This interdependence is captured in the framework of **finance, functions, and functionaries (3Fs)**. The devolution of functions assigns responsibilities to local governments across sectors such as health, education, water supply, and local infrastructure. The devolution of finance provides the resources necessary to discharge these responsibilities. The devolution of functionaries entails transferring authority over the personnel responsible for service delivery, including recruitment, posting, supervision, and disciplinary control.

This paper distinguishes between **formal devolution** and **effective devolution**. Formal devolution refers to constitutional provisions, statutes, and government orders that assign powers on paper. Effective devolution captures the extent to which local governments exercise real discretion and control in practice. The central claim advanced here is that while formal devolution in India is extensive, effective devolution remains limited, particularly with respect to functionaries. Without control over personnel, political authority cannot be translated into administrative outcomes, rendering fiscal and functional devolution incomplete.

## 3. Constitutional Design and State Discretion

The constitutional framework for decentralization in India reflects a careful balance between empowerment and flexibility. The 73rd and 74th Amendments mandate the creation of local governments, regular elections, and political representation. However, they stop short of imposing binding obligations on states regarding the extent of devolution. The Eleventh and Twelfth Schedules list functions that *may* be devolved, while Article 243G empowers state legislatures to endow local bodies with powers “as may be necessary.”

This design accommodates India’s diversity but also grants substantial discretion to state governments. Fiscal decentralization exhibits similar ambiguity. Although State Finance Commissions (SFCs) were envisaged as key institutions to strengthen local finances, their recommendations are advisory rather than binding, and their implementation has been uneven. The constitutional framework thus guarantees the existence of local governments but does not ensure their effective empowerment, structurally enabling state control over the pace and scope of decentralization.

#### 4. Devolution of Finance and Functions: Limited Autonomy

Fiscal decentralization in India has expanded primarily through intergovernmental transfers rather than genuine revenue autonomy. Local governments’ own-source revenues remain weak due to narrow tax bases, political resistance to local taxation, and administrative constraints. Consequently, they depend heavily on transfers from state and central governments.

These transfers are dominated by conditional grants and Centrally Sponsored Schemes, which prescribe expenditure priorities, guidelines, and monitoring mechanisms. While such schemes increase the volume of resources flowing to the local level, they significantly restrict local discretion. Planning often becomes an exercise in aligning local proposals with centrally defined priorities rather than articulating local needs.

Functional devolution exhibits similar limitations. Although functions are formally assigned through activity mapping, line departments retain control over standards, targets, and implementation processes. Local governments are frequently responsible for execution without authority over prioritization or inputs. This produces a structural mismatch between responsibility and authority, weakening accountability and responsiveness.

#### 5. Devolution of Functionaries: The Core of State Control

Among the three Fs, the devolution of functionaries remains the most constrained and politically sensitive. Administrative personnel such as teachers, health workers, engineers, and panchayat secretaries are typically employees of state governments, governed by state service rules. Authority over recruitment, posting, transfer, promotion, and disciplinary action remains centralized, producing a system of **dual accountability**.

Functionaries are expected to coordinate with local governments but are substantively answerable to state departments. This weakens downward accountability, as elected local representatives lack leverage over personnel performance. Citizens, in turn, hold local governments responsible for service failures that they cannot effectively address.

Bureaucratic incentives reinforce this arrangement. Administrative hierarchies prioritize centralized control, standardized procedures, and career progression within line departments. Devolution of personnel authority threatens these structures, leading bureaucracies to favour delegation or deconcentrating over genuine devolution. Capacity constraints at the local level are frequently cited to justify non-devolution, yet this logic is self-reinforcing: without authority, local capacity cannot develop.

Political incentives further entrench state control. Empowering local governments with personnel authority creates alternative centres of power that may challenge state-level dominance, particularly in competitive electoral contexts. Control over functionaries enables states to influence implementation, allocate patronage, and manage local political dynamics. Personnel authority thus becomes a critical instrument of state power.

## 6. Comparative Patterns across States

Decentralization varies across Indian states, but this variation reflects differences of degree rather than fundamentally different models. States often described as decentralization leaders have devolved relatively extensive functions and institutionalized local planning processes. Yet even in these cases, control over functionaries remains largely centralized. Conversely, states with weaker decentralization display limited devolution across all dimensions, but here too personnel control remains firmly with the state.

This pattern suggests that functionaries represent a systemic boundary of decentralization rather than a state-specific anomaly. Political competition, party organization, and administrative capacity shape how decentralization is managed, producing diverse but bounded outcomes that converge on a common result: the preservation of state authority over local governance.

## 7. Discussion: Decentralization as a Managed Process

The Indian experience suggests that decentralization should not be understood as a failed reform but as a **managed process of institutional change**. By devolving finance and functions in limited and conditional ways while retaining control over personnel, states comply with constitutional mandates without relinquishing substantive power.

This challenges assumptions that constitutional design alone can drive empowerment. Instead, decentralization must be understood as a political process embedded within existing power structures. Without aligned incentives, legal reforms expand institutional presence without ensuring institutional power.

## 8. Conclusion

This paper has argued that decentralization in India has produced local governments that are constitutionally entrenched and politically visible but administratively constrained. The uneven movement of finance, functions, and functionaries reveals a pattern of managed decentralization in which state governments retain control over key levers of power.

The central contribution of the paper lies in foregrounding control over functionaries as the decisive constraint on effective decentralization. Without administrative authority over personnel, fiscal and functional devolution remain incomplete. Strengthening local self-government therefore requires confronting the political economy of state control rather than merely refining constitutional or institutional design.

More broadly, the Indian case underscores a critical lesson for decentralization reforms in complex federations: institutional presence does not guarantee institutional power. Without addressing underlying political and bureaucratic incentives, decentralization risks remaining an exercise in symbolic empowerment rather than a foundation for genuine grassroots democracy.

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