



PS/December, 1957, A46e/A4od/A46d.Panchayat meeting at Naggar village in Kulu Valley. Public Resource via Internet Archive

## Localising the State: Decentralisation and Democratic Governance

*The 73rd and 74th Amendment Acts 1992, institutionalised urban and rural local governments as a third-tier of governance. This was a landmark step. In practice, however, there continues to be much variation in the devolution of funds, functions and functionaries between states. Shifts in the architecture of welfare delivery have created parallel administrative structures, leading to the local governments increasingly operating as implementers rather than autonomous decision-making bodies. India's vision of decentralisation was intended as a means of deepening democracy by embedding decision-making power with institutions closest to citizens. Realising this vision requires aligning fiscal devolution with functional authority, strengthening local accountability, and empowering panchayats. Although a vital initiative to deepen democracy, significant corrective measures have to be taken towards achieving it in its intended form.*

# Localising the State: Decentralisation and Democratic Governance

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Decentralisation is widely recognised as a cornerstone of effective welfare delivery and democratic governance, bringing decision-making closer to citizens and improving responsiveness, efficiency and accountability. In India, the 73rd and 74th Constitutional Amendments of 1992–93 marked a critical juncture by institutionalising Panchayati Raj Institutions (PRIs) and urban local bodies (ULBs) as constitutionally mandated third-tier governments. Much of the literature on decentralisation in India focuses on the ‘3Fs’—funds, functions and functionaries— or fiscal, administrative and political decentralisation, referring to the transfer of financial resources, functional responsibilities and decision-making authority from the union and state government to elected local governments.

Several studies show that where panchayats were active in planning and resource allocation, villages experienced better school functioning, improved health indicators and more inclusive access to social protection programmes (Heller,

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Harilal and Chaudhuri 2007; Thomas and Rajesh 2011; Rajasekhar 2022). However, the effectiveness of decentralisation depends not merely on the formal transfer of powers but on the extent to which these three dimensions are realised. Fiscal decentralisation requires not just fund flows but predictability and autonomy. Administrative decentralisation extends beyond the assignment of functions to include control over personnel and implementation authority. Political decentralisation shapes whether these powers are exercised in a democratically accountable manner, through representation, participation and local oversight.

From a welfare perspective, decentralisation becomes meaningful when communities can utilise devolved powers, participate in decision-making and assert their rights and entitlements (Rajasekhar 2022). India's constitutional design recognised this broader intent. The 73rd Amendment not only redistributed power but also sought to democratise it socially through institutional mechanisms such as mandatory reservations for women, scheduled castes (SCs) and scheduled tribes (STs), and participatory forums like gram sabhas.

This is particularly significant in practice, as local governments—especially PRIs—form the last mile of the state and are often the primary interface for citizens accessing welfare programmes, including employment guarantees, social protection, nutrition services, and basic public goods. The effectiveness of the welfare state is therefore closely tied to the functioning of these institutions, including their ability to plan, implement and monitor programmes. This was evident during the COVID-19 pandemic, when local governments played a critical role in last-mile response.

Yet, more than three decades after these reforms, the promise of decentralised governance remains unevenly realised. While states such as Kerala, Tamil

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Nadu and Karnataka have institutionalised devolution in practice, others continue to exhibit partial financial autonomy, dependence on central and state schemes, and limited local accountability. At the same time, emerging administrative trends are reshaping the architecture of welfare delivery. The rise of digital governance tools, Direct Benefit Transfer (DBT) systems, and Centrally Sponsored Schemes (CSS) has strengthened welfare delivery, often through parallel administrative structures rather than elected local governments. This

has created a paradox: welfare outcomes may have quantitatively improved, but not necessarily through democratically accountable local governments. As a result, local

governments increasingly function as implementers rather than autonomous decision-making bodies.

### **The Indian Constitution on Decentralisation**

#### **Article 40 (Part IV: Directive Principles of State Policy)**

‘The State shall take steps to organise village panchayats and endow them with such powers and authority as may be necessary to enable them to function as units of self-government.’

#### **Article 243G**

‘The legislature of a state may, by law, endow the Panchayats with such powers and authority as may be necessary to enable them to function as institutions of self-government... such law may contain provisions for the devolution of powers and responsibilities upon Panchayats at the appropriate level...’

**The 73rd Amendment Act, 1992**, provided constitutional status to Panchayati Raj Institutions. It added Part IX, ‘The Panchayats’, covering Articles 243 to 243O. It also added the Eleventh Schedule which placed 29 functions under the purview of panchayats.

**The 74th Amendment Act, 1992**, granted constitutional status to urban local bodies. Part IXA (Articles 243P to 243 ZG) and the Twelfth Schedule, which lists the 18 functions to be devolved to urban local bodies were added.

In this context, recent developments in India’s fiscal federal architecture are significant. Successive Finance Commissions (FCs) have expanded fiscal transfers to local governments, from about 1.4 per cent of the divisible pool under the Tenth Finance Commission to around 3.2 per cent in recent periods, reflecting greater recognition of their role in service delivery (Sixteenth Finance Commission 2025). Under the Sixteenth Finance Commission, grants to local governments increased to ₹7.91 lakh crore—an increase of about 81 per cent over the previous award period (Sixteenth Finance Commission 2025). This has led to a contradiction. While the fiscal space available to local governments is expanding, their functional authority and role in welfare delivery have not kept pace.

Against this backdrop, revisiting the state of decentralisation and its next phase is necessary. This chapter provides an overview of the history, structure and challenges of decentralised governance in India, with a particular focus on rural governance.

It first reviews the historical evolution of PRIs, then examines fiscal devolution, including the role of State Finance Commissions (SFCs) and intergovernmental transfers. Subsequent sections analyse administrative arrangements and political accountability and then explore the tensions between decentralisation and centralisation in welfare delivery.



## Political, Administrative and Financial Structures of PRIs

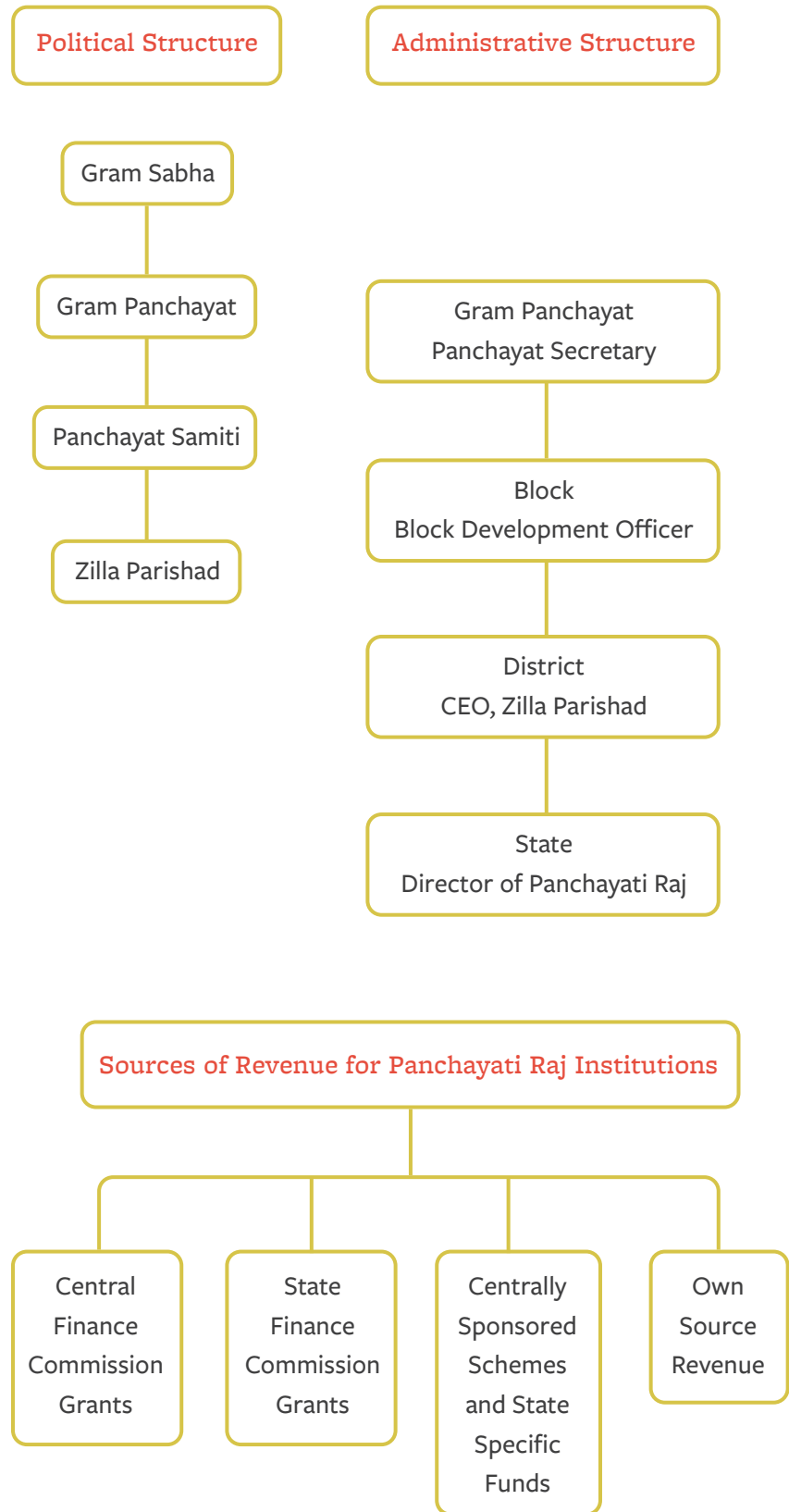


Photo Studio/December, 1957/K.L., A46e. B.D.O. Pilana addressing villagers at Roshangarh during an early morning visit. Public Resource via Internet Archive

## 17.1 A brief history of PRIs

India's idea of local self-governance predates Independence but took institutional shape thereafter. Article 40 of the Constitution of India, part of the Directive Principles of State Policy, directs the state to organise village panchayats and enable them to function as units of self-government. In line with this vision, the Union government launched the Community Development Programme (CDP)<sup>1</sup> in 1952, focusing on comprehensive rural development through state-led interventions in agriculture, infrastructure, health and education (Indian Institute of Public Administration [IIPA] 2024). This was followed by the National Extension Programme, which emphasised technical capacity-building rather than direct implementation. At the village level, panchayats, supported by gram sevaks, were responsible for implementing development projects.

However, evaluations of the CDP indicated limited impact due to top-down implementation and weak community participation. This led to the acceptance of the Balwant Rai Mehta Committee's (1957) recommendations for a three-tier structure of elected PRIs at the village, block and district levels and their introduction in 1958. Over the following years, most states enacted their own Panchayati Raj Act and adopted the three-tier structure. Despite this, the 1960s and 1970s saw a shift towards recentralisation, with state governments increasingly relying on line departments and parallel bodies for rural development. Irregular elections and entrenched local power structures further limited participation and representation.

The Emergency (1975–77) exposed the fragility of democratic institutions and was followed by the Ashok Mehta Committee report (1978), which recommended constitutional recognition of PRIs, regular elections and enhanced representation for disadvantaged groups. Debate continued through the 1980s, with committees such as the G.K.V. Rao Committee (1985) and the L.M. Singhvi Committee (1986) reiterating these recommendations.

By the late 1980s, a consensus had emerged on embedding PRIs within India's democratic framework, culminating in the 73rd Constitutional Amendment. Article 243G empowers state legislatures to endow panchayats with the authority to function as institutions of self-government.

## 17.2 Key features of the 73<sup>rd</sup> Amendment

Part IX of the Constitution (Articles 243–243O)<sup>2</sup> sets out the constitutional framework for PRIs. These provisions establish broad principles of governance—bringing planning, finances, service delivery and accountability closer to citizens—

<sup>1</sup> The programme was implemented through a pilot of fifty-five projects, each covering approximately 300 villages and 2,00,000 people.

<sup>2</sup> Part IX of the Constitution comprises sixteen Articles. Articles refer to specific provisions within the Constitution, while Schedules provide detailed subject lists linked to these provisions. The Eleventh Schedule, for example, lists functional areas that may be devolved to panchayats.

**1957**

**Balwant Rai Mehta Committee**

Recommended Panchayat structure at district, block and village levels, elected bodies with five-year terms, devolution of powers to Panchayats

**1963**

**K. Santhanam Committee**

Recommended limited revenue raising powers for Panchayats and setting up of State Panchayati Raj Finance Corporations

**1978**

**Ashok Mehta Committee**

Recommended that the district serve as the administrative unit in the Panchayat structure and tiers at district and block levels

**1985**

**G.V.K. Rao Committee**

Recommended that the block development office (BDO) should be strengthened

**1986**

**L.M. Singhvi Committee**

Recommended that local self-government should be constitutionally enshrined, and the gram sabha should be the base of decentralised democracy

**1993**

**73rd Amendment to the Indian Constitution**

Panchayats at district, block and village levels were created through the Constitution. Part IX for Panchayats was inserted in the Constitution with the 11th schedule that enumerated 29 matters for Panchayats.

**1996**

**Provisions of the Panchayats (Extension to Scheduled Areas) Act**

Powers of self-government were extended to the tribal communities in 'Fifth Schedule' areas

**2004**

**The Union Ministry of Panchayati Raj was created**

while leaving the detailed design and composition of PRI bodies to state legislatures. Article 243B lays down a three-tier structure of local government with gram panchayats (GPs) at the village level, panchayat samitis at the intermediate or block level, and zilla parishads at the district level. Smaller states with populations below twenty lakh may adopt a two-tier structure.

The Amendment also includes provisions to strengthen inclusion and representation. Article 243D mandates reservation of seats for SCs and STs at all tiers, in proportion to their population, and reserves at least one-third of all seats, including those of chairpersons, for women. These reservations rotate across election cycles, widening participation in local governance. Article 243E further mandates regular elections every five years, to be conducted by independent state election commissions, thereby reducing the discretion of state governments in constituting local bodies.

Article 243G enables states to devolve powers, authority and financial resources necessary for self-government to PRIs, while Article 243I requires the constitution of SFCs every five years to recommend the distribution of resources between states and local governments, similar to the Central Finance Commission's role in Centre-state fiscal relations. In addition, Article 243ZD provides for District Planning Committees (DPCs) to consolidate rural and urban plans into district development plans, enabling increased integration and coordination.

Finally, the Eleventh Schedule of the Constitution identifies twenty-nine functional areas to be devolved to PRIs, covering sectors such as agriculture, health, education, rural housing, drinking water, sanitation, social welfare, women and child development and poverty alleviation.

### **17.3 The three-tier system in practice**

While the 73rd Constitutional Amendment laid out the framework for decentralisation, there are significant differences in how states have implemented these provisions through their respective Panchayati Raj Acts. To understand these variations, this section examines decentralisation across three dimensions—administrative, political and fiscal—focusing on how structures, capacities and resources shape local governance.

India currently has about 2.62 lakh panchayats, including around 2.55 lakh GPs, 6,756 intermediate or block panchayats and 674 district panchayats (Local Government Directory n.d.). The scale and structure of these institutions vary widely across states. For instance, Uttar Pradesh has over 55,000 GPs, while Kerala has fewer than 1,000, with significant differences in the population covered by each GP (IIPA 2024).

**Table 17.1: Different nomenclatures across states**

Nomenclature	States
Sarpanch	Andhra Pradesh, Chhattisgarh, Goa, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Telangana
Pradhan/Gram Pradhan/ Panchayat Pradhan	Himachal Pradesh, Manipur, Tripura, Uttar Pradesh, Uttarakhand, West Bengal
Mukhiya	Bihar, Jharkhand
Adhyaksha	Karnataka
Chairperson	Arunachal Pradesh
President	Assam, Kerala, Tamil Nadu
Sabhapati	Sikkim
Panchayat Samiti	Bihar, Haryana, Himachal Pradesh, Jharkhand, Maharashtra, Odisha, Punjab, Rajasthan, Tripura, West Bengal
Taluka Panchayat	Gujarat, Karnataka
Janpad Panchayat	Chhattisgarh, Madhya Pradesh
Kshettra Panchayat	Uttar Pradesh, Uttarakhand
Mandal Parishad	Andhra Pradesh, Telangana
Panchayat Union	Tamil Nadu
Anchal Samiti	Arunachal Pradesh
Anchalik Panchayat	Assam
Block Panchayat	Kerala

Goa, Sikkim and Manipur follow a two-tier system of local-governance due to smaller populations or administrative exemptions under Article 243M of the 73rd Constitutional Amendment

Sources and notes: State Panchayati Raj Ministry and department websites

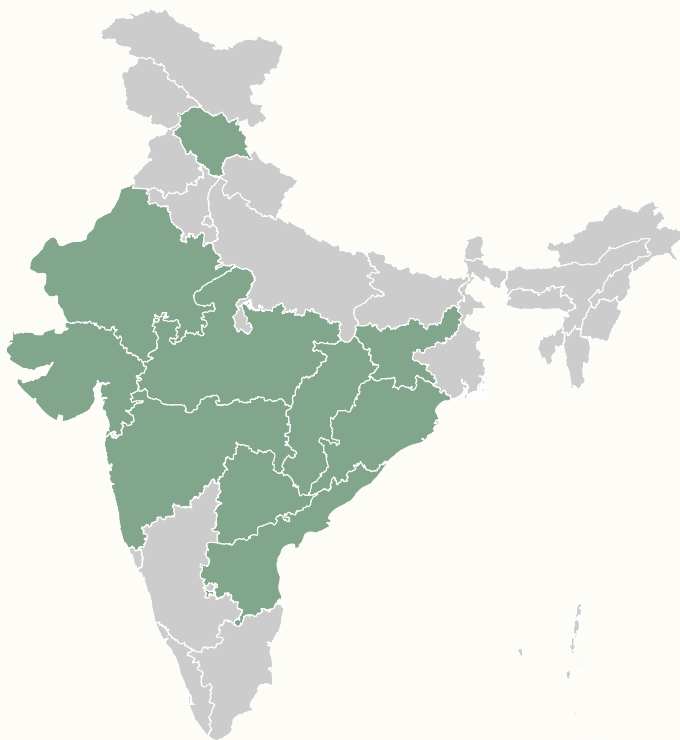
## 17.4 Administrative decentralisation

Administrative decentralisation refers to the transfer of functions, authority over personnel and implementation responsibilities to local governments. In practice, however, while functions have been assigned, control over personnel and decision-making often remains with higher levels of government.

### 17.4.1 Structure and institutional variation

Most states follow a three-tier structure at the village, intermediate and district levels. However, certain states such as Nagaland, Meghalaya and Mizoram, which fall under the Sixth Schedule of the Constitution, as well as Goa, and the union territories of Dadra and Nagar Haveli and Daman and Diu, Lakshadweep and Puducherry, have adopted a two-tier system reflecting their demographic and socio-political contexts. In scheduled areas, decentralisation is further shaped by the Panchayats (Extension to Scheduled Areas) (PESA) Act, 1996, which assigns additional powers to gram sabhas. A brief overview is provided in Box 17.1. This chapter does not engage in a detailed assessment of PESA implementation.

#### Box 17.1: States in which the Panchayats (Extension to Scheduled Areas) (PESA) Act, 1996 is applicable



The PESA seeks to preserve and protect tribal culture and customary laws while extending the 73rd Amendment to Scheduled Areas. PESA places the gram sabha at the centre of governance, granting it significant powers over local decision-making. These include recognising collective ownership of resources, enhanced administrative and financial powers to regulate, plan and implement schemes, keeping in mind local needs and promoting social inclusion. The Act applies to ten states with significant scheduled area populations.

### 17.4.2 Staffing structures and capacity

GPs function through a mix of elected representatives and administrative personnel. A key functionary is the panchayat secretary (PS), who acts as the interface between elected representatives and the administrative system. However, many states face severe shortages of PS, creating operational challenges. Evidence shows that while states such as Karnataka, Kerala and West Bengal have approximately one PS per GP, others such as Uttar Pradesh, Bihar, Punjab and Haryana have one PS responsible for multiple GPs. In Uttar Pradesh, for instance, one PS covers as many as three GPs and in some cases more than five (Verma and Ranjan 2023). Given differences in GP sizes, a PS in Bihar must also serve a much larger population than in states such as Gujarat, resulting in higher workloads.

PRIs also rely on a range of technical and support staff, including engineers, accountants, data entry operators and sectoral officers.<sup>3</sup> These staff support implementation and monitoring often through various management information systems. The growing role of digital systems has made positions such as data entry operators critical for data capture and fund tracking. However, many panchayats, especially in weaker states, lack adequate technical staff and IT support, limiting their ability to leverage digital governance for developmental outcomes. High attrition, limited training and weak onboarding systems further constrain capacity (Accountability Initiative 2024).

### 17.4.3 Legal and administrative powers

A recurring narrative over the past three decades is that many functions have been devolved ‘on paper’ but not in practice. Key welfare sectors such as education, health and rural development continue to be largely controlled by state line departments, which retain authority over personnel and fiscal decisions. This is compounded by overlapping mandates across tiers of panchayats and legal ambiguities in the transfer of the twenty-nine subjects listed in the Eleventh Schedule (see Annexure 17.1). According to the Devolution Index<sup>4</sup> 2024, while there have been improvements in the devolution of functions across states, very few states have devolved all twenty-nine functions in practice (see Figure 17.1).

These issues are further compounded by weak activity mapping. Based on the principle of subsidiarity, whereby functions should be performed at the lowest appropriate level, activity mapping involves breaking down broad functional responsibilities into specific activities and clearly assigning them across the three

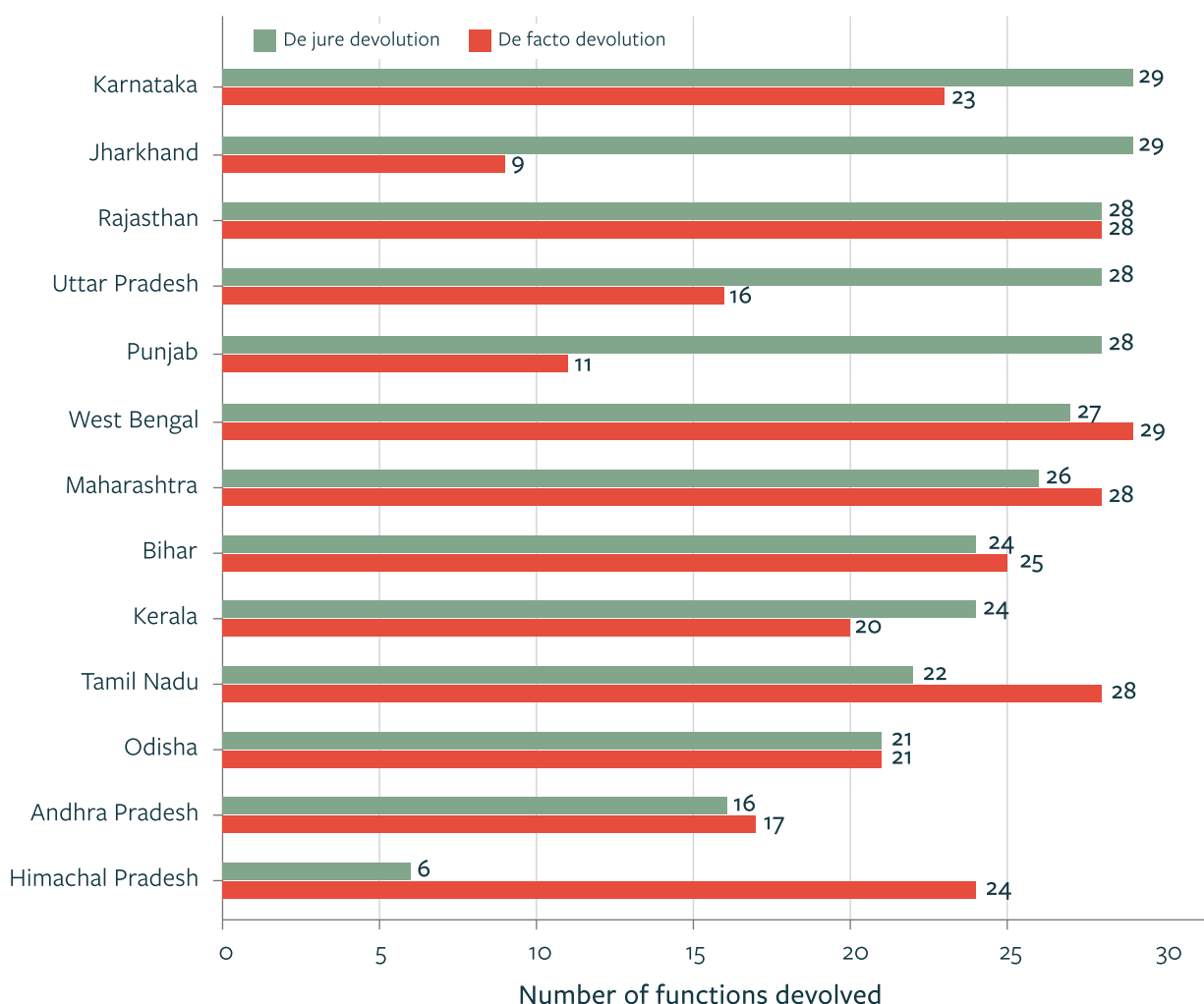
<sup>3</sup> These include Assistant Secretaries, Computer Assistants, Junior Engineers, Accountants, Bill Collectors, Water Collectors, and Management Information System personnel.

<sup>4</sup> The devolution index is an evidence-based assessment and ranking of the states produced by the Indian Institute of Public Administration (IIPA) to assess how effectively state governments have transferred powers, finances, functions, and functionaries to rural local bodies. The latest index covered 6 parameters including framework, functions, finances, functionaries, capacity building, and accountability of panchayats.

tiers of panchayats. For example, in the health sector, this includes responsibilities such as maintaining sub-centres, monitoring frontline workers, planning sanitation and local health awareness activities. Implementation, however, remains uneven. In Karnataka, sectors such as health and sanitation have been disaggregated into thirty-eight activities and agriculture into twenty-five, distributed across tiers. In contrast, states such as Madhya Pradesh and Odisha have made limited progress (National Institute of Public Finance and Policy 2025; IIPA 2024).

State-level variations aside, the overall depth of activity mapping remains limited across several sectors. While health and sanitation are relatively well disaggregated, others—including education, non-conventional energy, fisheries and

**Figure 17.1: De jure and de facto devolution of functions to different tiers of panchayats**



Sources and notes: IIPA 2024

De jure assignment of functions means that the devolution of these functions are legally and officially recognised through the Constitution or state-specific legislations. For example, the identification of beneficiaries for social security programmes like the National Social Assistance Programme. De facto assignment of functions refers to the extent that these functions are exercised by PRIs in practice, irrespective of whether they have been legally sanctioned or codified. For example, while GPs may have the authority to plan local infrastructure works on paper, in practice, the authority often lies with state government line departments.

Refer Table 5.1 of IIPS 2024 for the full list of functions devolved by states.

libraries—lack functional clarity ([National Institute of Public Finance and Policy 2025](#)). As a result, this lack of clarity reduces the role of PRIs and limits their ability, particularly that of GPs, to raise their own revenues. This is discussed further in the section on fiscal decentralisation.

## 17.5 Political decentralisation

Political decentralisation refers to the extent to which local governments are democratically constituted and accountable to citizens. While India’s constitutional framework provides for representation and participation, the depth of these processes varies significantly in practice.

### 17.5.1 Representation and inclusion

The Constitution mandates a minimum of 33 per cent reservation for women in PRIs, which has been increased to 50 per cent in twenty-three states and two union territories.<sup>5</sup> At the all-India level, about 46.63 per cent of PRI members are women, 12.02 per cent are SCs and 10.21 per cent are STs ([IIPA 2024](#)). While the Constitution does not mandate reservation for other backward classes (OBCs), Article 243-D allows states to provide for it, leading to variation across states. This discretion has been shaped by Supreme Court rulings, which require a ‘triple test’—empirical evidence, proportional allocation and adherence to a 50 per cent ceiling—thereby introducing safeguards while constraining expansion.

### 17.5.2 Accountability and local power structures

While formal representation has expanded significantly, its translation into meaningful participation and accountability remains uneven. The persistence of proxy leadership, often referred to as ‘sarpanch pati’ or ‘pradhan pati’, continues to undermine women’s effective participation, with male family members exercising de facto decision-making power ([Ministry of Panchayati Raj \[MoPR\] 2024](#)). In 2023, following a public interest litigation petition, the Supreme Court directed the constitution of a panel within the MoPR to address this issue, which continues even three decades after the 73rd Amendment ([Advisory Committee on Women Pradhans 2025](#)).

Local power structures and entrenched social hierarchies continue to shape the functioning of panchayats, often limiting the extent to which formal representation translates into substantive participation ([Bardhan and Mookherjee 2006](#); [Mansuri and Rao 2013](#)). Constitutional design places the gram sabha at the centre of local accountability, envisaging it as a forum for participatory decision-making

<sup>5</sup> These are Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Haryana, Himachal Pradesh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telangana, Tripura, Uttarakhand, West Bengal, Lakshadweep, and Dadra and Nagar Haveli and Daman and Diu.

and oversight (Article 243A). In practice, however, its functioning remains uneven across states. Evidence suggests that low participation, weak awareness and procedural compliance often reduce it to a formal requirement rather than an effective

*Na Lok Sabha na Vidhan Sabha,  
sabse badi gram sabha.*

- A popular slogan

platform for deliberation and collective decision-making (Mansuri and Rao 2013; IIPA 2024).

These limitations have direct implications for welfare delivery. Where local accountability mechanisms are weak, panchayats are less able to monitor implementation, address exclusion errors or ensure that benefits reach intended beneficiaries. Moreover, as welfare delivery increasingly shifts towards centrally designed schemes and digital systems, the space for local deliberation and accountability is further constrained (Singh and Shukla 2025; Drèze and Khera 2017).

## 17.6 Fiscal decentralisation

Fiscal decentralisation is central to the functioning of PRIs, as it determines the extent to which local governments can exercise autonomy in planning and service delivery. In practice, however, the fiscal capacity of PRIs is shaped by a combination of own revenues, intergovernmental transfers and scheme-based funding.

### 17.6.1 State finance commissions

State FCs are constitutionally mandated to recommend measures to augment the fiscal position of local governments, including PRIs. However, their functioning remains uneven, with disparities in their constitution, timeliness and implementation, affecting fiscal devolution. While these commissions are meant to be constituted every five years, many states delay this formation, creating gaps in fiscal planning. For example, Assam, Himachal Pradesh and Kerala have constituted their seventh commission while Mizoram has constituted only the second. States like Gujarat, Manipur and Nagaland are also slow having only constituted their fourth while Andhra, Karnataka, Madhya Pradesh and Tripura have constituted the fifth SFC. Even when these commissions are constituted, report submissions often extend beyond the award period, weakening implementation and creating a disconnect between recommendations and fund transfers.

A review of SFC reports by Gupta and Chakraborty (2019) found that of the twenty-five states studied, it took an average of thirty-two months (nearly three years) for an SFC to submit a report. This resulted in an average delay of sixteen months and left little time to implement its recommendations. Further, action taken reports published alongside SFC recommendations are often perfunctory and lack effective monitoring mechanisms. Most states issue broad acknowledgements without specifying concrete steps for implementation. Only a few states, like

Kerala and Karnataka, have active mechanisms for periodic monitoring and course correction.

### 17.6.2 **Finances**

PRIs finance their activities primarily through two sources: a) own-source revenues (OSR), including property tax, water taxes, user fees, fines and charges for services; and b) transfers and grants-in-aid from state and central FCs. In addition, panchayats also receive funds for executing CSSs such as the Rashtriya Gram Swaraj Abhiyan, the SVAMITVA scheme,<sup>6</sup> the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), and the mid-day meal scheme (now known as PM POSHAN), among others (IIPA 2024).

In practice, PRIs remain heavily dependent on transfers. The Reserve Bank of India (2024) estimates that in 2022–23, nearly 80 per cent of panchayat revenues came from the Union government and about 15 per cent from state governments, with only a small share generated locally. In terms of total quantum, average revenue from all sources – tax and non-tax revenues, and grants – per panchayat stood at ₹21.23 lakh in 2022–23 (Reserve Bank of India 2024).

As regards OSR, between 2017–18 and 2021–22, per capita collections were highest in Kerala (₹286), followed by Andhra Pradesh (₹209) and, among smaller states, Goa (₹1635). In contrast, collections were among the lowest in Himachal Pradesh (₹1), Jharkhand (₹2) and Bihar (₹4) (MoPR 2024). Within OSR, property tax<sup>7</sup> and common property resources, such as village ponds, grazing lands and community forests, remain underutilised, with only 18 per cent of GPs actively leveraging these assets (Shrawan, Krishnan, and Rao 2025).

Low OSR also constrains fiscal independence. Weak tax base assessments, poor collection systems and political reluctance to levy taxes mean many panchayats do not maximise their revenue potential. In addition, technical capacities for budget formulation, financial management, auditing and transparency remain limited in many PRIs, further hampering fiscal governance.

### 17.6.3 **Transfers and fiscal design**

Transfers from state governments, including grants recommended by SFCs, vary drastically, ranging from as high as 47 per cent of states' own tax revenue in Karnataka to as low as 3.7 per cent in West Bengal in 2018–19 (MoPR 2024). In per capita terms, between 2015–2019, grant recommendations ranged from over ₹6,000 in Karnataka to around ₹147 in Odisha and ₹152 in West Bengal (MoPR 2024). The

<sup>6</sup> Survey of Villages Abadi and Mapping with Improvised Technology in Village Areas (SVAMITVA).

<sup>7</sup> Property tax has been assigned to local governments, including Panchayats, in the states of Andhra Pradesh, Assam, Chhattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Puducherry, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal.

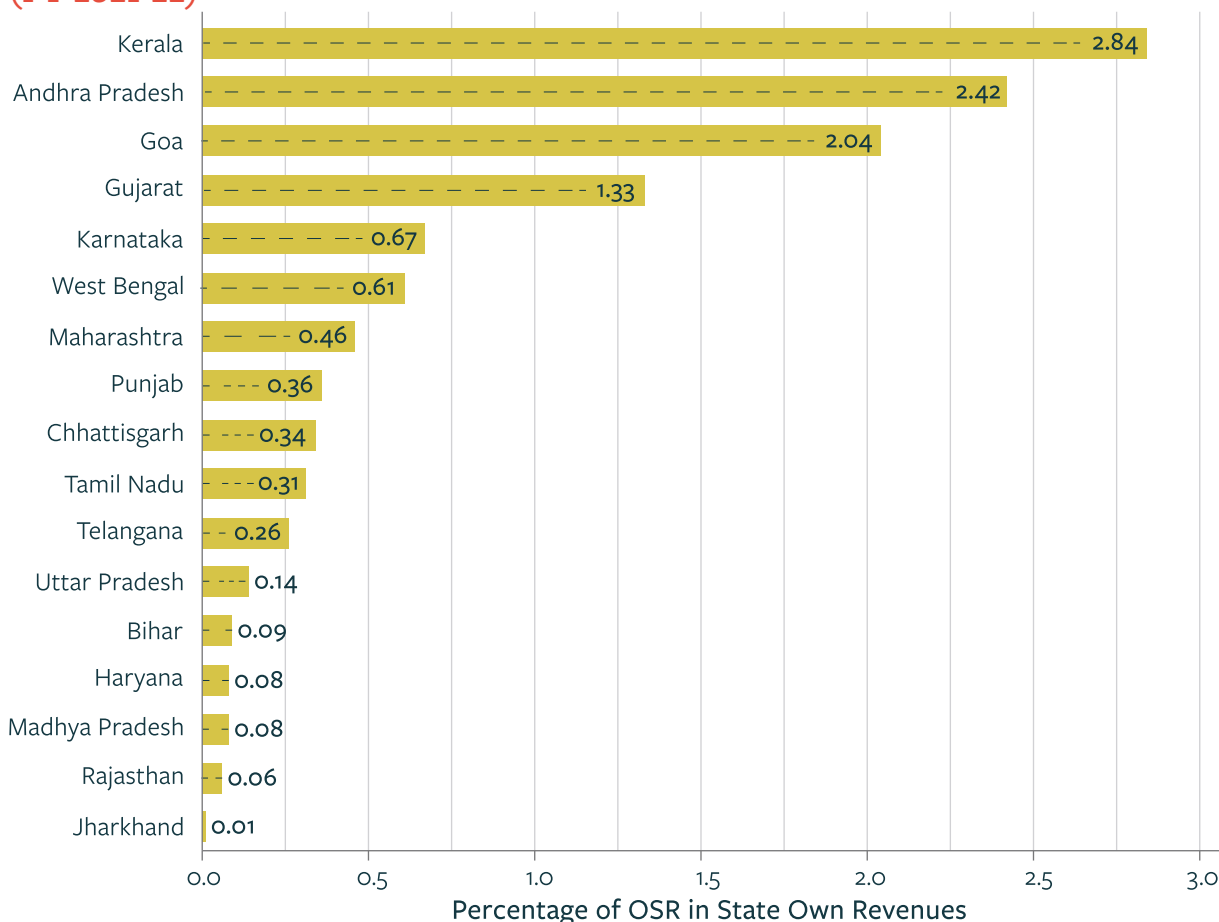
design of transfers also varies. States such as Karnataka and Rajasthan provide relatively higher shares of untied funding, while in states such as Bihar and Odisha, funds remain largely scheme-tied (Chakraborty, Chakraborty and Mukherjee 2018). Delays in the constitution of SFCs further reduce the predictability of these transfers.

The single most important source of finances for PRIs is transfers based on recommendations of central FCs. While the Sixteenth Finance Commission has increased allocations to local governments, including PRIs, experience shows that actual releases have often fallen short of recommended amounts due to non-compliance with conditions such as submission of utilisation certificates, audited accounts and performance criteria related to own revenue mobilisation.

### 17.6.4 CSS and DBT: Changing fiscal roles

PRIs also receive funds through CSSs. These funds are typically tied to specific schemes and are conditional, limiting local flexibility. Moreover, many CSSs and other welfare funds are routed through line departments or programme officers rather than directly through panchayats, constraining their authority and role. The increasing use of DBT has further altered the fiscal role of PRIs. Under DBT, funds

**Figure 17.2: Share of Panchayats’ Own Revenue in State’s Own Revenue (FY 2021-22)**



Sources and notes: IIPA 2024

**Table 17.2: Recommended fund devolution by Central Finance Commissions versus actual devolution**

Finance Commission	Recommended Devolution (in ₹ crore)	Actual Devolution (in ₹ crore)	Shortfall (%)
XFC	4,381	3,576	18
XIFC	8,000	6,602	17
XIIFC	20,000	18,927	5
XIIIFC	64,408	58,257	10
XIVFC	2,00,292	1,79,491	10
XV	2,36,805	2,26,723	4

Sources and notes: Central Finance Commission reports

are transferred directly from government treasuries to the bank accounts of beneficiaries, bypassing panchayat budgets. While panchayats may be involved in the identification, verification and grievance redressal of beneficiaries, they have limited control over financial flows.

As a result, panchayats increasingly function as administrative intermediaries rather than decision-making bodies. This shifts accountability away from local communities towards higher administrative levels. At the same time, panchayats have less say in how welfare funds are allocated, even though they continue to be responsible for implementation on the ground.

## 17.7 Navigating the inherent tensions

A common concern in decentralisation debates is whether panchayats are adequately equipped, financially and technically, to perform even their core functions, let alone broader welfare responsibilities. Core functions typically include basic service delivery such as sanitation, drinking water, along with the maintenance of community assets, including roads, footpaths, street lighting and burial and cremation grounds. While additional functions have been formally devolved to PRIs, in practice, limited trust in PRIs often becomes self-reinforcing in practice. The proliferation of CSSs and parallel administrative structures has undermined the authority, planning capacity and accountability of panchayats. This is particularly evident across several welfare sectors.

In key schemes such as the PM POSHAN, the MGNREGA and the Integrated Child Development Services (ICDS), now subsumed under Saksham Anganwadi and POSHAN 2.0, PRIs are formally designated as implementing agencies, but control

over technical staff, budgets and monitoring largely rests with line departments. A study from Karnataka found that despite approximately ₹6 crore flowing annually to GPs through various schemes, only about ₹20 lakh—roughly five per cent—was under their discretionary control for planning and decision-making. The remainder was managed by line departments (Kapur 2023).

This challenge is compounded by the presence of sectoral frontline workers such as Accredited Social Health Activists (ASHAs), anganwadi workers and MGNREGA functionaries, who are essential to service delivery but typically report to departmental hierarchies rather than elected panchayats. While such specialised cadres are necessary, their limited accountability to panchayats creates coordination gaps and weakens local oversight. These parallel structures and vertically designed programmes discourage panchayats from playing a proactive role in programme design and monitoring. For instance, [Rajasekhar and Manjula \(2019\)](#) find that, in Karnataka, twenty-two out of thirty GPs studied did not prepare annual action plans under the Swachh Bharat Mission between 2015 and 2019. This reflects the design of CSSs. Such schemes are accompanied by detailed guidelines, reporting requirements and performance metrics determined at higher levels of government. While intended to ensure standardisation and accountability, they limit panchayats' ability to adapt programmes to local needs and reduce local ownership.

This inherent tension has long been recognised by successive FCs and expert committees. The Fourteenth Finance Commission increased the quantum of untied grants to PRIs from ₹87,519 crore under the Thirteenth Finance Commission to ₹2,00,292 crore with the explicit objective of enhancing local fiscal autonomy. However, even where such recommendations were accepted, their implementation reflected a degree of recentralisation. Analysis of guidelines issued by the Ministry of Finance and MoPR between 2015 and 2017 shows that GPs were directed to prioritise specific expenditure areas, including waste management, installation of dustbins, drinking water supply and construction of toilets in schools and anganwadis. The use of centrally prescribed software systems such as PlanPlus for monitoring fund utilisation was also mandated, and caps were introduced on operations and maintenance as well as capital expenditure ([Accountability Initiative 2019a](#)).

At the same time, efforts were made to strengthen local planning through the introduction of the Gram Panchayat Development Plan (GPDP) framework in 2015. While the GPDP aimed to promote participatory planning and convergence across schemes, in practice, it remained closely aligned with centrally designed programme priorities and did not fully account for the constitutionally mandated role of DPCs in consolidating local plans. To encourage participation and performance, the MoPR created a scoring system to rank GPs and made the release of performance grants contingent not only on increasing OSR but also on outcomes such as open

defecation-free status and immunisation. These are outcomes over which GPs have limited control.

Recent years have seen a shift towards digitisation in welfare delivery, monitoring, and transparency. Platforms such as e-Gram Swaraj, GPDP portals, PRIASoft, PlanPlus, the National Asset Directory and the Local Government Directory have improved transparency and enabled better tracking and planning at the GP level. At the same time, digital monitoring systems and direct payments to individuals often bypass panchayats and weaken their role in budgeting and oversight as funds flow directly to citizens or through parallel administrative channels.

However, the Union and state governments are not the only actors shaping these outcomes. Panchayats themselves have often been reluctant to strengthen their revenue bases and their fiscal autonomy. This is compounded by weak accounting systems and gaps in maintaining reliable data on allocations and expenditures. Despite the expansion of digital platforms, successive FCs have continued to highlight concerns regarding the quality of panchayat-level financial data. A study for the Fifteenth Finance Commission, found significant discrepancies between data reported on the PRIASoft portal and that collected from sample GPs ([Accountability Initiative 2019b](#)). Strengthening accounting and financial management systems is therefore critical. It is necessary not only for a more accurate assessment of needs but also for building trust between higher levels of government and PRIs.

Finally, the most critical dimension of decentralisation remains its social foundation – participation, inclusion and empowerment. While constitutional provisions mandate representation for women and marginalised groups, translating this into meaningful participation requires sustained effort, including addressing proxy leadership and strengthening deliberative forums such as gram sabhas and ward committees. Across states, gram sabhas have demonstrated the potential of participatory institutions when given meaningful authority. In Chhattisgarh, for instance, gram sabhas have asserted control over local forest management by protecting forests from illegal logging, establishing forest protection committees, and framing regulations for sustainable use. Similarly, in Jharkhand, gram sabhas have played an active role in regulating liquor sales by imposing bans where necessary and designing locally appropriate systems for limited sales ([IIPA 2024](#)). Kerala’s decentralised planning experience shows how local bodies can achieve greater convergence of welfare programmes by fostering collaboration and shared accountability between elected representatives and technical staff ([Rajasekhar 2022](#)).

## 17.8 Towards the next phase of decentralisation

The analysis in this chapter highlights a persistent structural imbalance in India's decentralisation framework. While fiscal transfers to panchayats have expanded significantly, including under the Sixteenth Finance Commission, the alignment between funds, functions and accountability remains weak. Panchayats continue to operate within centrally and state-designed systems, with limited control over planning, personnel and financial decision-making. The Commission presents an important opportunity to address this gap. However, this will require ensuring that increased transfers are leveraged to deepen decentralisation in practice—particularly towards more citizen-centric welfare delivery rather than remaining merely an expansion of fiscal flows.

India's federal and democratic vision of decentralisation was not intended only as an exercise in administrative efficiency, but as a means of deepening democracy by embedding decision-making power with institutions closest to citizens. Realising this vision requires aligning fiscal devolution with functional authority, strengthening local accountability, and enabling panchayats to play a more substantive role in shaping welfare outcomes. This shift is particularly significant for India's welfare state. As the composition of union government spending evolves, and responsibility for financing and implementation increasingly rests with states and local governments, the effectiveness of welfare delivery will depend critically on the capacity of local institutions. Strengthening panchayats is therefore not only a question of decentralisation, but also central to sustaining and improving welfare outcomes.

Against this backdrop, the next phase of decentralisation must focus on the following priorities. First, fiscal transfers must be aligned with clearly defined functional responsibilities. Comprehensive activity mapping across states can clarify roles across tiers and link funds to specific functions, particularly in core welfare sectors. This requires closer alignment of sectoral staff and budgets with panchayat authority, reducing the current fragmentation between line departments and local governments.

Second, the growing use of performance-linked and conditional transfers requires careful calibration. While such mechanisms can strengthen fiscal discipline, excessive conditionality risks constraining local decision-making. A clear distinction must be maintained between untied and performance grants, with a substantial share of resources remaining flexible. Performance criteria should be linked to functions within panchayat control, rather than outcomes shaped by multiple administrative actors.

Third, strengthening SFCs is critical to building a predictable and rules-based system of intergovernmental transfers. Ensuring their timely constitution, along with the report submission and implementation of their recommendations,

can reduce uncertainty and enhance fiscal stability at the local level. Notably, the increasing use of performance conditions by FCs—including linking transfers to the constitution and functioning of SFCs—reflects a paradox within India’s federal design, where constitutionally mandated institutions depend on higher-tier incentives to function effectively.

Fourth, the role of panchayats in welfare delivery needs to be reconfigured. While digital platforms and DBT systems have improved efficiency, they have also altered accountability structures by bypassing panchayat budgets. Integrating panchayats more meaningfully into planning, beneficiary identification and grievance redressal can help restore the link between welfare delivery and local accountability.

Fifth, improving fiscal capacity at the local level remains essential. Strengthening OSR mobilisation, investing in accounting and audit systems, and improving the reliability of financial data are necessary for enhancing autonomy and meeting increasing performance expectations.

Finally, the effectiveness of decentralisation ultimately rests on its social dimension. Strengthening deliberative institutions such as gram sabhas, addressing proxy leadership, and building the capacities of elected representatives – particularly women and marginalised groups – are central to ensuring that decentralisation translates into meaningful participation and accountability. Taken together, these priorities suggest that the success of the Sixteenth Finance Commission in strengthening local governments will depend not only on the scale of resources devolved, but on whether it enables a shift from financing local governments to empowering them.

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