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**Constrained Federalism and the Limits of Urban
Decentralization:
Explaining India's Urban Governance Deficit through
Intergovernmental Political Economy**

by

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Abstract

India's urban governance reveals a central paradox of federalism: despite constitutional decentralization under the 74th Amendment, Urban Local Bodies (ULBs) continue to operate with limited autonomy. This study examines how intergovernmental power asymmetries shape urban governance outcomes and contribute to persistent infrastructure deficits. Drawing on federal political economy, fiscal federalism, and multi-level governance, it develops the concept of *constrained federal decentralization* to explain the gap between formal institutional design and actual local empowerment. The analysis shows that ULBs function within a system marked by fiscal dependency, incomplete functional devolution, and administrative centralization, producing a condition of *devolution without autonomy*. These constraints generate a misalignment between autonomy, capacity, and accountability, conceptualized as a *Federal Governance Trilemma*. By situating urban governance within intergovernmental relations, the study challenges explanations that attribute governance failures solely to local capacity deficits. It argues instead that infrastructure deficits are structurally embedded within federal political economic arrangements. The study contributes to federalism scholarship by offering a theoretically grounded framework for understanding decentralization outcomes in developing federations.

Keywords

constrained federalism; urban governance; decentralization; fiscal federalism; intergovernmental relations; urban local bodies, political economy



1. Introduction

India's experience with urban governance reveals a central paradox of federalism: formal decentralization has expanded, but substantive local authority remains limited. The 74th Constitutional Amendment Act (CAA) (1992) established Urban Local Bodies (ULBs) as the third tier of governance in the country to foster political, administrative, and fiscal decentralization (Chattopadhyay, 2025). However, India's cities still have continued to suffer from infrastructural deficiencies, fragmented governance, and poor service delivery performance. Why does decentralization under the Constitution fail to translate to real local authority? (Jacob & Jacob, 2022). Current literature on decentralization often takes a perspective that institutional design results in efficiency, accountability, and development benefits for local communities (Bardhan & Mookherjee, 2006; Azfar et al., 2018). Nevertheless, the above perspective is currently being challenged amid developing federations wherein institutional design constraints limit decentralized decision-making due to intergovernmental asymmetry of power (Rodden, 2004; Bardhan, 2002; Faguet, J. P., & Shami, 2022). In this regard, decentralization becomes more procedural as opposed to substantive. Indeed, India is experiencing significant urbanization, and its urban population is projected to grow to about 600 million by 2036, making a substantial contribution towards GDP (Verma & Singh, 2025). However, this expansion has not been matched by commensurate investments in infrastructure or institutional capacity, resulting in persistent deficits in water supply, sanitation, housing, and urban services.

The federal system in India has a crucial influence on the results of urban governance. It refers to the phenomenon of *asymmetric federalism* when constitutional norms are supplemented by unequal power allocation between various governmental tiers (Bhattacharyya, 2023). Although the 74th amendment created the legal grounds for urban decentralization in India, it occurred against the backdrop of a federal system that granted considerable discretion to state governments (Rodden, 2004; Bardhan, 2002). This study extends the previous discussion by introducing an analytical framework of *constrained federal decentralization*, which implies constitutionally grounded decentralization that is effectively constrained by power imbalances within the intergovernmental system. Contrary to traditional assumptions regarding the inadequacies of local administrations as the reason



behind poor urban governance, the proposed model places emphasis on the interconnection between urban governance outcomes and the political economy of federalism.

While Sustainable Development Goal (SDG) 11 focuses on making cities more inclusive, safe, resilient, and sustainable, the rapidly expanding urban population in developing countries has created great pressures on the current available infrastructure, leading to a non-paying supply-demand gap (Nkengla-Asi et al., 2024). As stated by the Malhotra (2023), in order to cater to these rising demands, the Indian government needs to invest in the urban infrastructure equal to about 8-10 percent of its GDP every year, which is not happening. The municipal revenues in India make up for less than 1 percent of the country's GDP whereas in the OECD countries, these are about 4 to 5 percent, revealing the major financial constraint faced by ULBs (Musthaf, 2025). Such limitations can be seen from three different interconnected perspectives. First, financial dependence still exists as the sources of revenue for ULBs constitute only a negligible part of the total municipal income (Sridhar & Ravi, 2022; Musthaf, 2025). Second, functional devolution is yet to be complete, with less than half of the functions mentioned under the 12th Schedule being transferred (Janjua & Rohdewohld, 2019). Third, administrative control continues to be centralized, as key personnel and planning authorities remain under state jurisdiction (Ho et al., 2025). These patterns collectively reinforce a system of devolution without discretion, where responsibilities are transferred without corresponding authority.

The existing literature acknowledged the importance of infrastructural development in promoting full economic development and also the sustainability of the economy (Srinivasu & Rao, 2013; Mahmood et al., 2025). However, existing evidence indicates a persistent gap in service delivery outcomes. The current system of federalism in India emphasizes that the infrastructure development is necessary to maintain the rate of economic growth and urbanization. In India, Urban Local Bodies (ULBs) as part of the Constitution recognized as urban self-governments are responsible for local administration and public service delivery. This suggests that urban development in India depends on urban governance through active functioning of ULBs (Mohanty, 2022). Particularly, in infrastructure development such as roads, water supply, sanitation, and waste management as the rate of urban population growth increases (Usman, 2025). As a result, a disparity between demand and supply is apparent in and around urban centers. This gap illustrates the real difference between the necessity for infrastructure enhancement and the ability of the current infrastructure to



support a particular population (De, 2023). Over the long term, unregulated urban growth hinders the formation of sustainable communities (Chen et al., 2022). The local authorities, however, have restricted autonomy in terms of resource mobilization and fund generation. This in turn intensifies the disparity between the need for community services and welfare programs (Ohta et al., 2021). The lack of essential infrastructure in urban areas in many developing countries has prompted policymakers to recognize the need to upgrade existing infrastructure while simultaneously seeking additional investment for new infrastructure development (Gurara et al., 2018). Against this background, the study asks: *How do intergovernmental power asymmetries within India's federal system constrain the effective empowerment of ULBs and shape urban infrastructure outcomes?* Beyond administrative decentralization, this question must be situated within India's federal structure, where urban governance is constitutionally recognized but operationally mediated by state governments. This creates a form of dependent decentralization, where local governments remain structurally subordinate within intergovernmental hierarchies (Rodden, 2004; Bardhan, 2022). As a result, the effectiveness of ULBs cannot be understood in isolation from federal political economy dynamics that shape fiscal authority, administrative control, and governance outcomes. The study adopted a multi-theoretical approach that relies on decentralization theory, polycentric governance and political economy views. To address this, the study proceeds by first situating decentralization within federal political economy debates, then developing a conceptual framework of constrained federal decentralization, and finally applying this framework to explain urban governance outcomes in India.

This study makes three contributions to federalism and urban governance scholarship. (i) it introduces the concept of *constrained federal decentralization* as a mid-range theoretical framework to explain the divergence between formal decentralization and substantive local autonomy. (ii) it develops a *Federal Governance Trilemma*, demonstrating how autonomy, capacity, and accountability are jointly shaped by intergovernmental relations rather than local institutional design alone. (iii) the study empirically explains the problems with the urban infrastructure of India in the political economy of federalism, rejecting technocratic arguments that only blame administrative inefficiency for failures in governance. The analysis is based on the institutional context of Indian federalism, however, the approach can prove to be analytically relevant for other developing federations with asymmetric intergovernmental relations. The argument developed here engages directly with broader



debates in comparative federalism by demonstrating how decentralization outcomes are shaped by intergovernmental power configurations.

2. Literature Review: Federalism, Decentralization, and Urban Governance

Scholarship on governance in urban settings and decentralization reflects the interdisciplinary nature of the field. Traditional decentralized governance theory, based on fiscal federalism, claims that the transfer of decision-making powers from higher to lower levels of government improves efficiency, accountability, and responsiveness to local interests (Oates, 1972). Modern research has developed the idea by adding that political and institutional aspects influence the effectiveness of decentralization (Faguet, 2014). Recent trends in the literature have questioned the belief that decentralization necessarily entails positive governance implications. Comparative evidence suggests that decentralization frequently has unequal consequences in developing nations, especially when institutions lack strength and intergovernmental relationships are imbalanced due to power differences (Rodden, 2004; Smoke, 2015). This concern is reflected in scholarship on “incomplete decentralization,” which means the transfer of responsibilities to the grassroots without adequate fiscal and administrative authority (Smoke, 2015). In this context, local governments are held accountable to deliver services, yet they are formally connected to the central administration. The same issues are present in the literature on unfunded mandates, in which sub-national governments are given policy mandates without sufficient funding, resulting in institutional tension and lack of accountability. The sequencing and political control of decentralization reforms also suggest that these affect the actual governance outcomes to a greater degree than just constitutional design (Falleti, 2010). Administrative and politically decentralized systems that do not include substantive fiscal empowerment often result in the reintroduction of a hierarchical mode of control. These insights have also implications for explaining the lack of meaningful local autonomy in the constitutional change process in developing federations.

Decentralization may result in the fragmentation of political communities, the capture of public policy by elites, and coordination problems rather than enhanced public services in



regions with poor institutional development and asymmetric intergovernmental interaction (Bardhan, 2002; Crook & Manor, 2002). Federalism studies offer an important perspective on these phenomena. Federalism's political economy explains how the allocation of fiscal responsibilities, bureaucratic control, and political motivations at various levels of government impacts governance (Rao & Singh, 2006; Weingast, 2009; Weingast, 2025). For example, the idea of vertical fiscal imbalance helps us to understand how disparities in taxing authority and spending obligations can affect local governance (Rodden, 2004). Likewise, second-generation approaches to fiscal federalism highlight the role played by incentive-compatible interactions among governments, rather than just the constitution, in determining institutional effects (Weingast, 2009).

Scholars define the Indian experience of federalism as “a holding-together system,” where decentralization takes place under the structure of a strong central-state system (Steytler et al., 2021). Although the introduction of the 74th CAA aimed at entrenching urban decentralization, there are marked differences among states in respect of fiscal transfers, administrative capacity, and institutional functions (Chattopadhyay, 2025). Studies reveal shortcomings in financial structures, institutions, and services provided by municipal bodies, which imply that decentralization has failed to empower the city government (Mathur, 2024; De, 2023). Empirical evidence from India underscores the structural limitations of urban decentralization, which are responsible for delivering core urban services, remain severely constrained in fiscal and institutional capacity (Shrestha & Hankla, 2025). Municipal revenues in India account for only about 0.6-1 percent of GDP, compared to significantly higher shares in other federal systems, indicating a narrow fiscal base. This constraint is particularly striking given that urban areas contribute nearly 60 percent of India's GDP, revealing a clear mismatch between economic contribution and fiscal empowerment (Reserve Bank of India, 2022). Property tax revenues, one of the primary sources of municipal finance, remain extremely low at around 0.12 percent of GDP, reflecting weak local revenue mobilization (Mathur, 2024). As a result, ULBs rely heavily on intergovernmental transfers, with grants from central and state governments constituting a substantial share of municipal income, thereby limiting financial autonomy and long-term planning capacity (Reserve Bank of India, 2022; Mohanty, 2022). Institutional constraints further compound these fiscal limitations: less than half of the functions listed under the Twelfth Schedule have been effectively devolved in most states, and administrative control over key personnel continues to rest with



state governments, weakening local decision-making authority (Ministry of Housing and Urban Affairs, 2021). These patterns collectively demonstrate that decentralization in India remains largely procedural, with substantive empowerment of urban local governments constrained by entrenched intergovernmental asymmetries.

The research on urban governance is primarily concentrated on reforms of administration, institutional capacities, and service provision, while intergovernmental power structures remain largely unexamined in this context. This study seeks to explore an important gap in the extant literature by merging the federal political economy approach with urban governance research. For this purpose, the concept of constrained federal decentralization is introduced, highlighting both decentralization processes and constraints on reform caused by intergovernmental politics. The study develops an analytical model called *Urban Governance Trilemma* that investigates how autonomy, capacity, and accountability are jointly shaped in a federal context. By bringing the issue of urban governance into the federalism discussion, the article provides a theoretical perspective for investigating decentralization outcomes in developing federations. Specifically, this study goes beyond the current decentralization debate by showing the relevance of power asymmetries between different government levels in explaining the impact of urban governance. Consequently, decentralization is treated in the article as a matter of federal political economy rather than a problem of local institution-building. The objective of this research is not to invalidate previous decentralization models but to complement them through the consideration of power asymmetries. From the literature review, it is evident that decentralization outcomes depend very much on the political and institutional context.

3. Research Methodology

The research adopts the qualitative paradigm, where the research question involves theory development. It does not involve testing of any hypotheses. Rather, an explanation for the gap between formal decentralization and reality is to be developed through the research. Conceptually, the research belongs to comparative institutional and federal political economy approaches with reference to fiscal federalism theory, decentralization literature, and multi-level governance frameworks (Oates, 1972; Rodden, 2004; Weingast, 2009). The



approach is to be explanatory and interpretive in nature, with an intention to uncover causal mechanisms behind the impact of intergovernmental relationships on urban infrastructure performance.

The theoretical framework is based on structured reading of government reports, policy papers, and scholarly literature, including but not limited to Reserve Bank of India, Ministry of Housing and Urban Affairs; policy papers NITI Aayog, RBI, World Bank; scholarly literature. These resources will be utilized to explore three major themes of urban governance, which include fiscal autonomy, administration, and accountability. The study ensures consistent analytical approach and empirical basis through triangulation of these sources. In order to organize the research, the paper uses the conceptual-analytical framework known as the Urban Governance Trilemma. This approach makes it possible to understand the relationship between autonomy, capacity, and accountability of urban authorities in the specific context of federalism, without assuming that weak local institutions alone explain urban governance results.

The study also utilizes a comparative approach, using secondary sources from other federal states like Brazil and Germany in order to show the impact of different levels of fiscal decentralization and intergovernmental coordination on urban governance outcomes. Comparative analysis improves the external validity of the proposed conceptual-analytical framework and situates the case of India in the broader context of federalism scholarship. Although the study does not use any primary data and quantitative tools for statistical inference, it focuses primarily on theoretical generalization and causation. Consequently, the research seeks to make an important contribution to the theory of federalism and urban governance in terms of its mid-level character and analytical generality that can be applied to other developing federal states with asymmetrical intergovernmental relations. While the reliance on secondary data may limit causal inference, the study prioritizes analytical depth and theoretical coherence to identify structural patterns that are consistently observed across multiple data sources.



4. Theoretical and Conceptual Framework

The study is based on fiscal federalism, multi-level governance, decentralization theory, polycentric governance, and political economy approaches to explain the persistence of urban infrastructure deficits in India. The argument combines insights from fiscal federalism and multi-level governance to locate urban governance within India's federal structure. Fiscal federalism explains how mismatches between revenue authority and expenditure responsibilities create structural inefficiencies in multi-level governance systems (Oates, 1972; Rodden, 2004). While vertical fiscal imbalance is well-documented in federalism literature, this study extends the argument by linking it to governance outcomes through a multi-dimensional framework of autonomy, capacity, and accountability. Multi-level governance highlights the interaction between central, state, and local actors, emphasizing coordination rather than hierarchical control (Hooghe & Marks, 2010). According to the decentralization theory, political, administrative, fiscal authority should be devolved to local governments to improve efficiency, accountability, and responsiveness (Oates, 1972; Faguet, 2014). In less developed situations, the process of decentralization can produce institutional asymmetry, a condition where responsibilities are devolved to local governments without corresponding fiscal authority, administrative control, or policy discretion. The study also draws on polycentric governance (Ostrom, 2010), which focuses on the coexistence of multiple decision-making centers operating at different levels. Though polycentric systems may be more flexible and innovative, the effectiveness of such system is dependent on the ability to coordinate and institutional coherence which are not evenly strewn in the Indian context. Lastly, the political economy approach is used to place decentralization into larger power dynamics. In the Indian context, decentralization operates within what this research conceptualizes as *constrained federal decentralization*, where state governments act as gatekeepers of local autonomy. This limits the transformative potential of the 74th CAA, as local governments remain dependent on state-level political and fiscal decisions. In this respect, the results of governance are determined by institutional design as well as the political incentives, bureaucracy interests, and intergovernmental bargaining (Bardhan, 2002). This concept synthesis has supported the elaboration of the Urban Governance Trilemma Model that is expounded in the next section.



4.1. Conceptual Framework

The theoretical framework recognizes three main determinants for urban infrastructure performance: (i) *Institutional Capability*: administrative efficiency, technical capability and governance systems; (ii) *Financial Autonomy*: financial capability, intergovernmental funding and resource management practices; and (iii) *Governance Processes*: civic engagement, PPP approaches and collaboration between different agencies. These components are considered within a broader framework of political economy, which is a multi-level approach of governance and asymmetry in power relations. From an analytical point of view, this research examines the urban infrastructure outcomes, namely, the efficiency in providing service, infrastructure availability and quality of urban services, as the dependent variable. The determination of urban local bodies effectiveness as the independent variable is based on institutional capability, fiscal autonomy and governance processes (Rodden, 2004; Bardhan, 2002). According to the analysis presented above, good urban infrastructure results can be achieved only when there is a synergy of fiscal, administrative capabilities and accountability in the governance process. The casual pathway connecting ULB empowerment with better infrastructure outcomes goes in three directions. (i) Fiscal decentralization expands local resource availability and improves allocative efficiency. (ii) Administrative autonomy enables context-specific planning and quicker decision-making. (iii) Participatory governance strengthens accountability by aligning service provision with citizen needs (Rodríguez-Pose et al., 2009). To measure these relationships, urban infrastructure performance can be measured using quantifiable proxies (e.g., coverage of services, i.e. water supply, sanitation access), efficiency measures (e.g. cost recovery ratios, project completion rates), and quality measures (e.g. reliability and continuity of services) (Athar et al., 2023). In settings with limited data comparative evaluation across cities and governance settings can be provided using this proxy-based appraisal.

4.1. The Urban Governance Trilemma Model

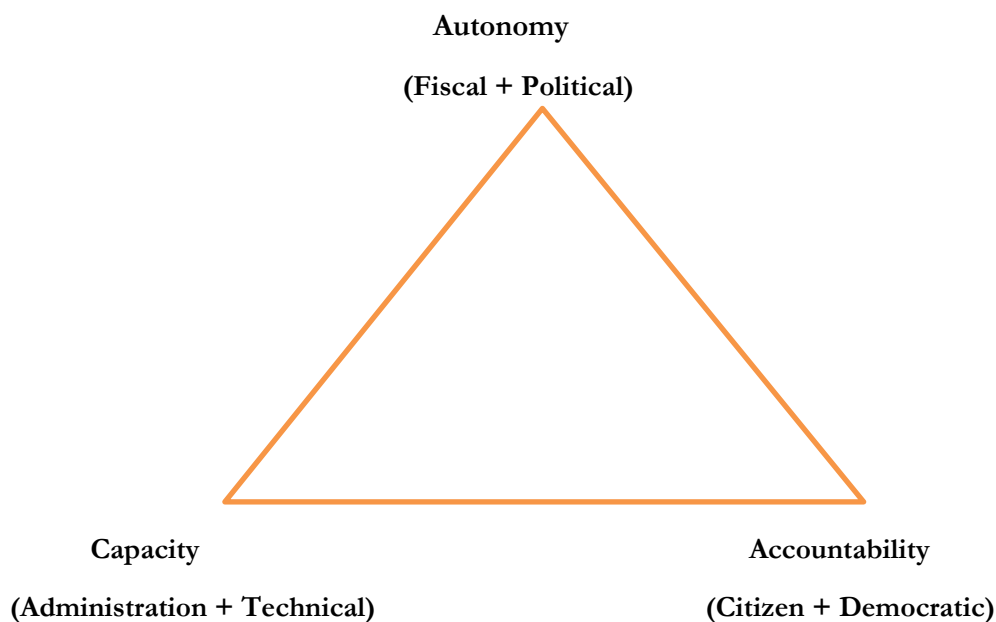
On the theoretical foundations above, this study reconceptualizes the *Urban Governance Trilemma Model* within a federal framework to explain the persistence of urban infrastructure deficits in India. The model theorizes urban governance in terms of three interdependent elements: (i) *Autonomy*, referring to fiscal and political authority of Urban Local Bodies



(ULBs), which is contingent upon intergovernmental fiscal relations (Gogo & Ochiga, 2025); (ii) Capacity, encompassing administrative competence and institutional capability, which is shaped by state-level institutional design (Fernández et al., 2024); and (iii) Accountability, including citizen participation and democratic oversight, which is mediated through both electoral and bureaucratic structures within the federal system (Gibson et al., 2005). In this federal reinterpretation, the *Urban Governance Trilemma* can be understood as a Federal Governance Trilemma, where the balance between autonomy, capacity, and accountability is structurally conditioned by intergovernmental relations.

Unlike conventional models that treat these dimensions as locally determined, this framework emphasizes that they are shaped by vertical power asymmetries between central, state, and local governments. As illustrated in Figure 1, these dimensions constitute a trilemma framework where these dimensions are difficult to balance simultaneously within federal governance structures. The model proposes that urban outcomes depend on how autonomy, capacity, and accountability are aligned within federal arrangements. As an example, lack of administrative capacity and fiscal autonomy can result in inefficiency and lack of accountability and strong administrative systems, respectively. Likewise, participatory processes that lack substantial authority normally lead to symbolic and non-substantive governance.

Figure.1. Urban Governance Trilemma



Source: Author's compilation



It is a multiplicative conception of urban governance in the model, according to which the results of urban infrastructure are conditional on the simultaneous alignment of autonomy, capacity, and accountability. From a federal perspective, this multiplicative relationship implies that local governance effectiveness is conditional upon the alignment of intergovernmental fiscal arrangements, administrative structures, and accountability mechanisms across different tiers of government. In this definition, inadequacy or deficiency of one dimension limits the effectiveness of governance in general. This is the reason why even with formal institutional reforms under the 74th Constitutional Amendment, decentralization in India has not led to better infrastructure results. The ULBs are based on an imbalanced system structure with low financial autonomy, ineffective administrative structures, and limited participation structures. Comparatively, the model is also useful in explaining difference in contexts of governance. For instance, in federal systems such as Brazil and Germany, stronger alignment across these dimensions is achieved through institutionalized intergovernmental coordination and fiscal decentralization, whereas in India, this alignment remains structurally weak. The relatively equitable fit of autonomy, capacity and accountability in Western states and particularly in Scandinavian welfare states leads to effective service delivery (Zimmermann & Momm, 2022). In contrast, India is a skewed decentralization, whereas many Global South nations are characterized by fragmented or transitional trilemma. Therefore, *Urban Governance Trilemma Model* has a conceptual basis and a generalizable range of limits of decentralization and the political economy of urban infrastructure deficits.

4.3. Constrained Federal Decentralization: A Conceptual Proposition

The study introduces the concept of *constrained federal decentralization* to explain the paradoxical coexistence of formal decentralization and substantive centralization within federal systems. While decentralization theory assumes that the devolution of authority enhances efficiency and accountability (Bardhan & Mookherjee, 2006), this assumption does not hold in contexts where intergovernmental power relations remain asymmetrical. Constrained federal decentralization refers to a condition in which lower tiers of government are constitutionally recognized and assigned functional responsibilities, but lack corresponding fiscal authority, administrative control, and political autonomy. In such



systems, decentralization exists in form but is limited in practice by higher-level governments that retain control over key decision-making processes. This condition is characterized by three interrelated features. Fiscal dependency remains acute, with own-source revenues forming only a small share of municipal finances. The devolution process has been incomplete in the sense that many of the functions outlined in the 12th Schedule have not been fully devolved. Further, the administrative process of decision-making has also not been decentralized, since important officials and planning are kept under the control of the state government. As distinct from the classic theory of decentralization (Oates, 1972), which presumes harmony between function and finance, constrained federal decentralization focuses on the continuance of vertical disharmony and strategic non-delegation (Rodden, 2004; Bardhan, 2002). Further, *constrained federal decentralization* stands in distinction from approaches to multi-level governance in that it stresses power asymmetry as against coordination between the various levels of government (Hooghe & Marks, 2003). *Constrained federal decentralization*, when applied to the Indian case, explains why the enactment of the 74th CAA has failed to lead to effective local autonomy. ULBs exist in a framework characterized by devolved authority, yet continued control by state governments, leading to weak institutions and deficient infrastructure.

This study presents a framework for analyzing constrained federal decentralization, based largely on the Indian federal experience and with broader comparative importance for understanding the impacts of uneven decentralization. The theory states that decentralized outcomes are neither based on institutional arrangements alone nor on fiscal, administrative, and political incentives individually. Instead, it is an outcome of the dynamic interplay among all three factors at different levels of government. In such a context, when the resource allocations and political control over decisions remain with higher-order governments but responsibility is devolved to lower levels of governance, decentralization leads to the emergence of a constrained structure rather than effective decentralization outcomes. The result of this process is an inherent structural inconsistency between institutional arrangement and governance outcomes. The theory highlights that infrastructure deficiencies in federations are not just matters of capacity problems, but an inherent feature of the political economy of federations. Such federal political economies are such that local governments are encouraged to become dependent on higher-order governments rather than



build capacity on their own, whereas higher-level governments are motivated to maintain control over the same.

However, it should be noted that the study neither denies the validity of the concept of decentralization nor the failure of decentralization per se. However merely emphasizes that the success and failure of decentralization can be attributed to the power distribution dynamics in federal structures. Thus, the notion of constrained federal decentralization moves the analysis from a focus on institutional design to inter-governmental political economy.

Based on the conceptualization above, three propositions can be generated:

P1: Decentralization without fiscal independence results in a structural weakness in local governance processes.

P2: Administrative capacity is an endogenous variable to inter-governmental power relations, not institutional design only.

P3: The effectiveness of accountability is impossible under conditions when fiscal and political authorities are not aligned.

Despite its empirical applicability specifically to India, the framework has broad relevance for other federations in which decentralization exists in asymmetric relations between federal levels. The distinction between formal decentralization and substantive empowerment is central to this framework. Formal decentralization is the constitutional or legal delegation of authority to sub-national levels; substantive decentralization is a matter of the transfer of fiscal resources, administrative autonomy and political decision-making power. What the Indian case shows is that even with decentralization in the Constitution it does not mean that there is meaningful local autonomy in place.

5. The Political Economy of Urban Governance in India

The problem of urban governance in India is better comprehended from the perspective of a federal political economy rather than simply administrative inefficiency. In this section, the empirical evidence for the main claim made in this study: that the outcomes of decentralization efforts in India have been structurally limited by intergovernmental power imbalances rather than administrative inefficiency alone will be presented. It is not to be



denied that local government lacks capacity, but it should be noted that such a deficit exists in a larger intergovernmental context which influences the extent and nature of local governance. Despite Constitutional recognition, ULBs operate within a limited intergovernmental structure (Jha, 2020). It signifies an inherent contradiction in the nature of federalism in India, as in theory, decentralization is institutionally accepted, whereas in practice, it is limited due to state dominance over financial and administrative aspects (Rao & Singh, 2005; Rodden, 2004). The constraints that exist in this regard can be best understood in the light of three different aspects.

5.1. Fiscal Dependence and Vertical Imbalance: First, financial dependence is not overcome since ULBs are dependent on grants from higher tiers of government, and internal revenues make up a small proportion of total finances of municipalities (RBI, 2022; Mathur, 2024).

5.2. Incomplete Functional and Administrative Devolution: Second, the incomplete functional devolution restricts the discretionary capacity of municipalities since several of the functions enumerated in the 12th Schedule have been partially devolved or are administered through parastatal institutions (Ministry of Housing and Urban Affairs, 2021).

In light of the insights drawn from political economy, such an approach is a reflection of incentives within a federal structure that tend to discourage devolution. As suggested by Bardhan and Mookherjee (2006), decentralization initiatives are opposed by both central and regional actors due to fears about losing their influence in terms of fiscal authority, political power, and patronage networks. In the Indian context, this leads to the practice of controlled decentralization whereby the local authorities have constitutional recognition but operate under certain restrictions. This fits into Weingast's (2009) second-generation theory of fiscal federalism that highlights the role of incentive structures underlying intergovernmental relations in shaping governance outcomes apart from institutional considerations.

5.3. Federal Governance Trilemma in Practice: All of the above issues can be viewed systematically under the lens of the *Urban Governance Trilemma* developed in this study. With regard to India, the autonomy-capability-accountability trinity is characterized by significant structural misalignments. First, the level of autonomy remains relatively low due to limited tax authority; next, the capability aspect is undermined by inadequate institutions; finally, accountability suffers due to the lack of strong participation processes.



The implications of these structural constraints become clearer when India is compared with other federal systems that institutionalized stronger intergovernmental coordination. As compared to other federal states, the situation in India shows a marked difference from those systems where intergovernmental coordination and fiscal decentralization are institutionally institutionalized. For instance, the Brazilian system where constitutionally required fiscal transfers and local taxes give rise to functioning municipalities with respect to service delivery (Zimmermann & Momm, 2022). Germany is another country which practices cooperative federalism, thereby allowing functional allocation and coordination in the administration at different governmental levels (Hesse, 2025). It can be observed that there exists more to decentralized governance than constitutional requirements; rather, fiscal and administrative authorities have to match up with each other. One can observe the results of limited decentralization in the case of India through disparities in urban development. Metropolitan cities like Mumbai, Bengaluru, and Pune provide a higher level of infrastructural services due to their greater administrative capabilities and revenue generating capacity (Shaw, 2012). Nonetheless, this variation does not signal systemic success, but rather, highlights the problem with the fact that there is no institutional capacity to uniformly provide such resources. This is reflected in national-level statistics too, whereby more than half of the functions assigned by the 12th Schedule have not been devolved in almost all states and many households in Indian cities do not have basic amenities such as sanitation services (Ministry of Housing and Urban Affairs, 2021). Altogether, these examples clearly show that the problems of urban governance in India arise from limited federalism in the country, whereby power relations between governments constrain the capacity of local governments.

6. Global Models of Urban Governance and their Relevance to the India Context

Comparative studies indicate that urban development is more influenced by fiscal-administrative integration than by formal decentralization (Pierre, 2011). This is further clarified by studies conducted in federations. For instance, Brazil represents a model of strong municipal federalism, where local governments enjoy constitutionally guaranteed fiscal autonomy and play a central role in service delivery (Souza, 2005). In South Africa,



local government is recognized as a distinct sphere within a system of cooperative governance, ensuring greater institutional clarity and accountability (Steytler, 2005). Similarly, Germany's model of cooperative federalism emphasizes strong intergovernmental coordination and clearly defined functional responsibilities across tiers (Benz & Zimmer, 2011). Urban governance in Western countries and especially in Scandinavian welfare states is typified by a high level of fiscal decentralization, high administrative capacity, and formalized citizen participation (Jouve, 2005). These systems are based on the networked system of governance, wherein local governments interact with the private actors and civil society, in well-identified regulatory frameworks. The outcome is that there is high level of coordination, effective service provision and high social accountability.

The Indian model of urban governance on the other hand is a type of partial or constrained decentralization. Though the 74th CAA formally institutionalized ULBs, they are still in a weak position, as they are functionally under-resourced, administratively fragmented and still dominated by institutions in the state. This positions ULBs as implementing agencies as opposed to independent decision-making bodies. This structural imbalance undermines their planning and effective delivery of infrastructure creating a chronic gap in service delivery despite growing policy focus and financial investments. Simultaneously, there are selective cases in India, including decentralized planning in Kerala and public-private partnership (PPP) form of service delivery in cities like Pune, which illustrate that better results can be achieved in case of the institutional capacity and governance mechanisms enhancement (Heller et al., 2007). It is further complicated by experiences in other Global South settings. South Africa post-apartheid reforms in South Africa institutionalized the concept of democratic decentralization, which focused on equity and participatory governance, yet spatial inequality and service delivery continue to be a problem (Reddy & Maharaj, 2008). Similarly, the decentralization reforms in Indonesia have helped to make the country more decentralized; however, they have also created fragmentation and unequal outcomes in the governance of the country (Nasution, 2017). In China, the opposite case has been witnessed, with robust state-based coordination paired with selective decentralization, which has facilitated a rapid infrastructure development, though with minimal participatory processes (Zhang et al., 2023).

These comparative insights reinforce the Federal Governance Trilemma proposed in this study, demonstrating that the alignment of autonomy, capacity, and accountability is



fundamentally shaped by federal institutional design. These trends are also indicative of what scholars refer to as being in fragmented decentralization whereby similar institutional reforms have a divergent result based on local political and economic conditions. This supports the point that governance reforms cannot be changed and transplanted without consideration to contextual realities. These disparities indicate the conflict between the hierarchical and network models of governance, in a theoretical perspective. Although networked arrangements enhance flexibility, innovation, and stakeholder involvement, robust institutional capacity is necessary to maintain coordination and accountability. Where such capacity is feeble as in most developing countries, hybrid forms of governance develop, which integrates components of hierarchy, markets, and networks. The comparative analysis suggests that the problem of urban governance in India is not lack of decentralization, but lack of decentralization in its totality and its skewed execution. Reform should go beyond the institutional design to substantive empowerment of ULBs by financial empowerment, institutionalized capacity building, and institutionalized citizen engagement. Table.1 summarizes the comparative nature of urban governance in various settings. Nonetheless, the applicability of these models to India is subject to the structural and institutional realities.

Table 1. Comparative Urban Governance Models

Dimension	Scandinavian Welfare States	Other Western Federal Systems (e.g., Germany, Canada)	India	Global South (e.g., South Africa, Indonesia)
Governance Model	Highly decentralized, welfare-oriented governance	Cooperative and institutionally coordinated federal governance	Semi-decentralized, state-dominated	Hybrid, transitioning governance systems
Fiscal Autonomy	Very high local revenue and fiscal discretion	Moderate to high fiscal decentralization	Limited fiscal autonomy and dependence on transfers	Moderate but uneven fiscal decentralization
Institutional Capacity	Strong administrative	Strong institutional coordination mechanisms	Weak to moderate	Variable, and often



	and technical capacity		institutional capacity	institutionally constrained
Citizen Participation	Highly institutionalized participatory governance	Formal democratic participation mechanisms	Limited and uneven citizen participation	Expanding but inconsistent participation
Role of Private Sector	Regulated and welfare-oriented partnerships	Structured public-private coordination	PPP-driven but uneven implementation	Increasing reliance on PPPs
Coordination Mechanism	Strong inter-municipal and state coordination	Cooperative intergovernmental coordination	Fragmented institutional structure	Weak to moderate coordination
Governance Outcome	High-quality and equitable service delivery.	Efficient urban governance with regional variation	Persistent infrastructure and service delivery deficits	Mixed and uneven governance outcomes

Source: Author's compilation

These comparative insights raise an important question regarding the adaptability of global models within the Indian context.

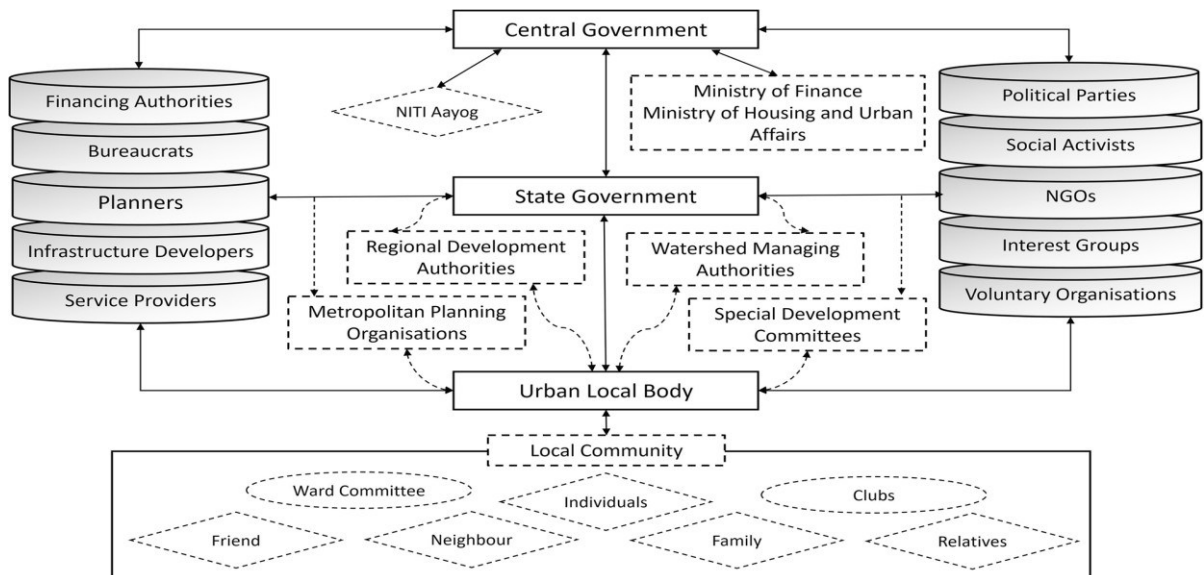
6.1. How far these models appropriate to Indian Context?

Regardless of the operational procedures, the backbone of sustainable urban development lies in infrastructure systems such as water supply, sanitation, transportation, waste management, and communication networks. Urban infrastructure governance models in different parts of the world are critically examined and compared with the current three-tier model in India, with the functional aspects of the three levels of government (central, state, and local) being defined in systematic way. Public-private partnerships (PPPs) have emerged as an alternative mechanism for infrastructure delivery in India (Delhi & Mahalingam, 2020). However, they require both regulatory capacity and accountability. In situations where there is little local autonomy, partnerships tend to exacerbate existing imbalances rather than address existing governance gaps (Harvey, 2005). Consequently, PPPs



cannot take the place of fundamental reforms to federal governance and must instead be part of a broader intergovernmental framework.

Figure.2: Urban Local Bodies Structure in India



Source: Authors' compilation

7. Limitations and Scope for Future Research

The current study employs a qualitative and theory-based approach, which does not involve any kind of primary empirical evidence or econometrics testing. Moreover, the theory involved focuses on theoretical generalization than context-based variations, which might affect its ability to explain things clearly in extremely heterogeneous federalism structures. Even though it helps understand concepts in-depth, the limitation is that the proposed theory cannot be statistically validated. In future research, propositions can be tested statistically to prove their validity. Other limitations are the inability to cover the variations that exist within India in terms of different states and even different cities. This will help identify the extent of constrained decentralization that takes place there. Comparative analysis across countries is needed to enhance the ability to generalize the proposed framework.



8. Conclusion

The study demonstrates that formal decentralization of power does not necessarily lead to substantive local empowerment in federal systems. The 74th Constitutional amendment established an institutional structure for urban decentralization in India, but authority over finance, administration and planning remains firmly in the hands of higher levels of government. From the results, it can be observed that ULBs are subject to constrained federalism, whereby there is dependency with respect to financial resources, administrative subordination, and limited political independence. The *Federal Governance Trilemma* that has been developed contributes to existing literature because it shows how urban governance is possible if all three components such as autonomy, capacity, and accountability are aligned in the multi-level governance context. What makes this framework different from traditional decentralization theories is the understanding that the dimensions are influenced by political economy motivations. As a result, decentralization in India has remained largely procedural, where constitutional recognition of ULBs has not been matched by substantive fiscal and administrative autonomy. In light of this, policy innovations need to go beyond decentralization and focus more on the structural obstacles faced in fiscal federalism, institutional capability, and democratic accountability. Otherwise, decentralization shall continue to serve only as a symbolical exercise of governance without achieving any transformative effect.

The Indian experience illustrates how the nature of decentralization is dependent on the federal power configuration and intergovernmental political economy. In light of this insight, there is a need to re-conceptualize decentralization not as an organizational problem but as a highly political and contentious phenomenon. Such an approach raises a more general point about the field of federalism research: decentralized arrangements have to be studied not as institutional innovation but as processes of political mediation. There are three principal contributions to the literature: (i) the study provides the concept of constrained federal decentralization as an analytical framework. (ii) it outlines a structural theory, namely, the Federal Governance Trilemma. (iii) it identifies infrastructure deficiencies as a reflection of federal political economy rather than a result of bureaucratic incapacity. All these conclusions can be confirmed in comparative studies on federal politics.



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