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REPORT TO THE XVI FINANCE COMMISSION

IDENTIFICATION AND FINANCING OF URBANISATION IN INDIA

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IDENTIFICATION AND FINANCING OF URBANISATION IN INDIA

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Executive Summary

Introduction

India's ongoing urban transition is the largest in the world, both in scale and complexity. Yet, the institutional and fiscal frameworks that shape this transition have lagged. Current definitions continue to underestimate the extent of urbanisation, while governance and funding arrangements struggle to keep pace with the changing spatial and demographic reality. The impact is starkest in small towns, Census Towns (CTs), and other transitioning settlements, areas where nearly 10 crore Indians presently live. The Sixteenth Finance Commission (FC-XVI) has the opportunity to recalibrate intergovernmental fiscal arrangements to support the country's urban transition and its urban future.

Key Insights

1. **Urbanisation in India is significantly underestimated.** India's thresholds for defining 'urban' are among the strictest globally. Coupled with varied and often discretionary urban notification processes across States, this has led to large-scale urban misrecognition. By 2026, an estimated 10.4 crore Indians will live in over 8,600 urban-like settlements governed under rural frameworks.

2. **Past FCs have under-responded to India's urban transition.** While grants to Urban Local Bodies (ULBs) have grown - rising from INR 2,000 crore under FC-XI to over INR 1.5 lakh crore under FC-XV – the allocation formula has not evolved in step with urban growth. Continued reliance on outdated Census data and fixed rural-urban splits has meant that certain hubs, such as smaller and transitioning towns, and urban centres with the greatest infrastructure gaps and weakest capacity, have remained fiscally neglected.

3. **Field experience suggests the need for targeted and differentiated support to transitioning settlements.** While there is a high diversity in India's transition pathways, common structural challenges persist: institutional capacity gaps, staffing shortages, service deficits, and poor fund utilisation. Transitions are rarely supported by dedicated policy, planning, or capacity development mechanisms - leaving settlements to manage urban pressures without the tools of urban governance.

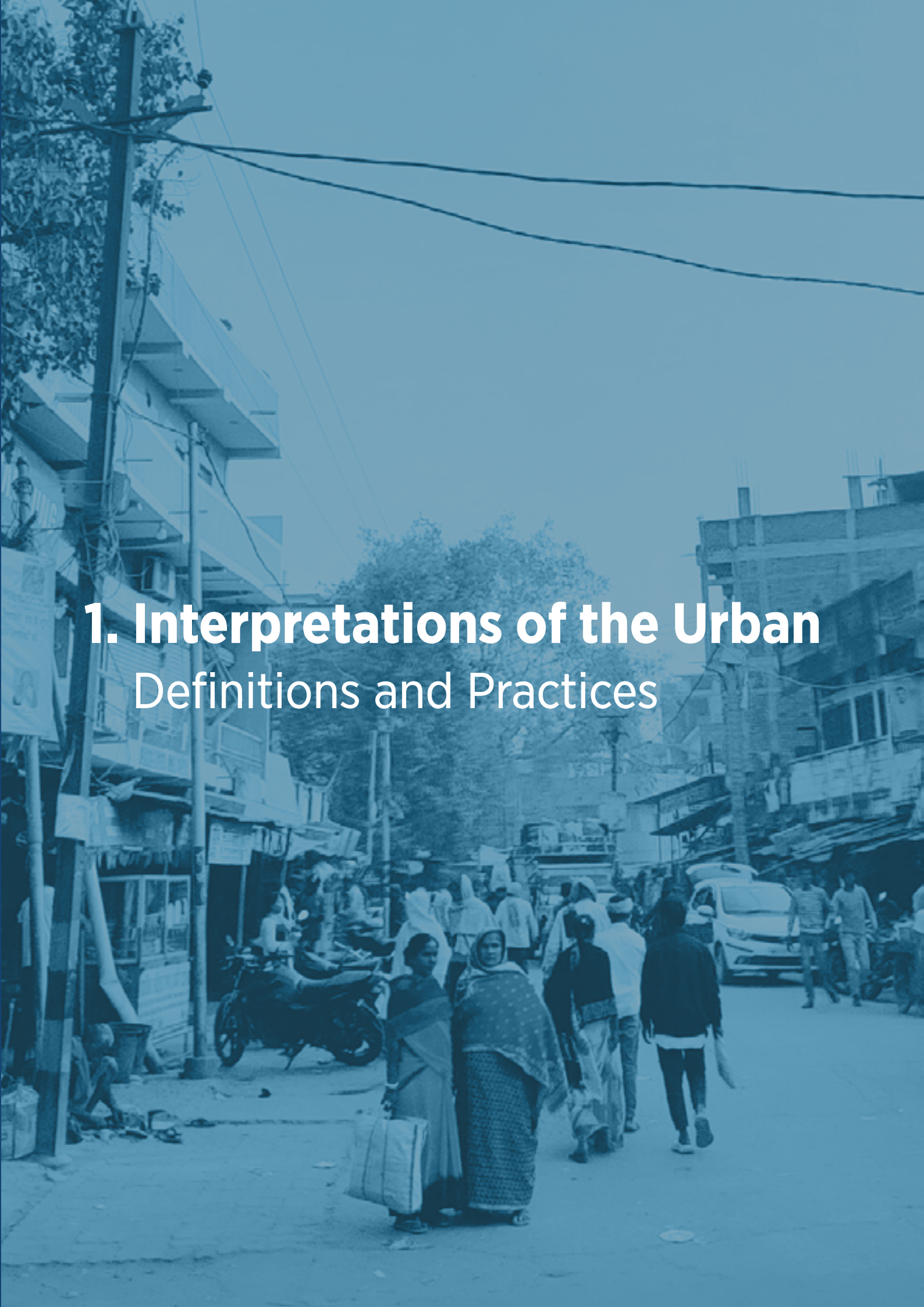
Recommendations

Raise the share of grants to ULBs: FC-XVI should raise the share of grants to ULBs from the FC-XV baseline of 36.5 per cent to 37-40 per cent over its award period, aligning with national projections of a 38-40 per cent urban population by 2030-31. This allocation should be revisited mid-cycle, if 2027 Census data becomes available.

Introduce a dedicated transition package of INR 31,452 crore: FC-XVI should introduce an INR 31,452 crore transition package to support newly notified towns and transitioning settlements in addressing critical infrastructure and capacity deficits. Of the total, 90 per cent should be allocated to capital investments in water, sanitation, stormwater and roads, and 10 per cent to capacity development—including staffing, training, and technical assistance.

Enable structured policies and institutions: States should be required to notify their respective Rural–Urban Transition Policies, establish multi-tiered institutional mechanisms (state, district, and local), and align their planning and budgeting frameworks to qualify for the transition package. This will ensure that investments are matched with the institutional capacity to implement them effectively.

As India's development trajectory becomes increasingly shaped by its cities and towns, recognising the full spectrum of urbanisation, and supporting it through more responsive, inclusive, and well-funded governance systems, will be essential to ensuring long-term economic and social progress. A forward-looking FC that enables structured transitions, strengthens smaller towns, and reforms fiscal allocations can lay the foundation for a more inclusive, resilient, and productive urban future.



1. Interpretations of the Urban
Definitions and Practices

1. Interpretations of the Urban: Definitions and Practices

1.1 Introduction

The distinction between rural and urban areas underpins governance structures, planning frameworks, and the allocation of financial resources in India. Yet, determining what constitutes 'urban' is far from straightforward. As this classification increasingly influences critical decisions, including the allocation of intergovernmental transfers (IGTs) by Finance Commissions (FCs), it is essential to reflect on how "urban" is defined and applied.

India employs both administrative and demographic-economic criteria to define urban areas. Settlements governed by an officially recognised Urban Local Body (ULB) such as a Municipal Corporation, Municipality, Notified Area Committee, Nagar Palika, or Town Panchayat are automatically classified as Statutory Towns (STs). These are legal urban entities with designated institutional frameworks.

In addition, the Census of India identifies CTs, settlements that meet three specific criteria: (a) a population exceeding 5,000; (b) a population density of at least 400 persons per square kilometre; and, (c) at least 75 per cent of the male main working population engaged in non-agricultural activities.

While CTs are urban in demographic and economic terms, they continue to be governed as rural institutions, the Gram Panchayats (GPs). In 2011, India had 4,050 STs and 3,882 CTs, accounting for about 32 per cent and 5 per cent of the national population, respectively. However, the dynamics of urban growth have been shifting in recent decades. As population densities rise, economic structures evolve, and peri-urban zones expand, many rural settlements are increasingly taking on urban characteristics.

Urban population growth in India is driven by three main factors: (a) natural increase (births minus deaths); (b) rural-to-urban migration; and, (c) reclassification of rural settlements into urban areas. Historically, natural increase accounted for the majority of urban growth, about 60 per cent over the 1981-2001 period, but the trend is changing. According to the 2011 Census, natural increase contributed about 43 per cent to urban growth, while rural-to-urban migration and reclassification accounted for about 23 per cent and about 31 per cent, respectively (Mathur, 2024). More recent studies underscore reclassification as a dominant and growing driver of India's urban transition (Mathur, 2024; Roy & Pradhan, 2018).

India's definitional and classification frameworks have not kept pace with this change. As a result, large segments of the population residing in urban-like settlements remain outside the ambit of urban governance and finance. This misalignment exacerbates infrastructure deficits, impedes service delivery, and leads to chronic underinvestment in areas that are functionally urban but administratively rural.

1.2 Formation of ULBs: State-level Practices and Processes

In India, urban development is constitutionally designated as a state subject. This vests the authority to declare an area as urban and to constitute an ULB, with the respective State Government or, in certain cases, the State Governor. Once notified, such areas become STs.

States typically use five broad criteria to assess whether a settlement qualifies for urban classification: (a) total population; (b) population density; (c) share of the workforce in non-agricultural activities; (d) revenue-generating capacity for local administration; and, (e) broader economic significance.

The notification process generally follows six steps:

1. Issue of an intent notification
2. Public objection period
3. Review of submissions
4. Issuance of final notification
5. Boundary delineation and adjustment
6. Formal constitution of the ULB

Despite this framework, practices vary across States, as presented in Table 1.1. In some cases, the Governor issues the final notification; in others, it is the State cabinet. In addition to different methods of notifying the settlements, the objection period typically lasts between 30 days but is upto 6 weeks in certain States. A few States, such as Chhattisgarh, Odisha, Rajasthan, and Punjab, include formal provisions for the transfer of assets and liabilities during the transition. Uniquely, Haryana combines decadal Census data with current population estimates and forward projections in its decision-making.

These differences in thresholds and reliance on varying indicators often lead to inconsistencies, not only with the Census definition of urban but also between States, and result in both the underestimation and overestimation of urban areas. Several scholars and practitioners have criticised the existing approach as being opaque and overly discretionary (Aijaz, 2017). This lack of uniformity introduces risks of arbitrariness, delays, and governance mismatch.

As India undergoes rapid urban transformation, there is a growing need for a clearer and harmonised framework, that maintains contextual flexibility while ensuring a transparent and accurate classification of urban settlements.

Table 1.1: Differences in criteria and thresholds used to define urban

State	Min. Population	Min. Density Persons /sq km	Male Non-Agri worker share (%)	Min. Revenue	Other Key Criteria
Census (All India)	5,000	4,00	75		ST or all 3 criteria
Bihar	>12,000		50		Economic significance
Chhattisgarh					
Haryana	up to 50,000				Economic significance
HP	> 2,000			INR 5 lakh	
Karnataka	>10,000	1500	50	INR 9 lakh or INR 45 per capita	
Kerala					
Maharashtra	>10,000		25 to 50		
MP	> 15,000	200	< 15		
Odisha	>10,000				Economic significance
Punjab					
Rajasthan	> 10,000	200	10	INR 10 per capita	
Tamil Nadu	> 5,000			INR 50 lakh	
Uttar Pradesh					

Note: Grey highlights = considered but unspecified
Source: Compilation from legislations from various States

1.3 Level of Urbanisation and Urban Governed as Rural

STs alone do not fully capture the scale or complexity of India's urbanisation. State-specific classification practices, inconsistent thresholds, and delays in notification often result in settlements with urban characteristics being governed as rural areas. Census provides a more comprehensive picture by including both STs and CTs.

As presented in Table 1.2, India's 2011 urban population of about 37.7 crore was distributed across 7,932 settlements: 4,050 STs housing about 32.3 crore people, and 3,882 CTs housing about 5.4 crore. This implies that nearly 14 per cent of the 2011 urban population lived in settlements that were urban in character but rural in governance.

Table 1.2: India-Urban Population Estimates

Year	No. of Settlements			Population (in crore)		
	STs	CTs	Total	STs	CTs	Total
2001	3,799	1,362	5,161	26.4	2.1	28.5
2011	4,050	3,882	7,932	32.3	5.4	37.7
2026	5,106	8,656	13,762	39.6	10.4	50.1

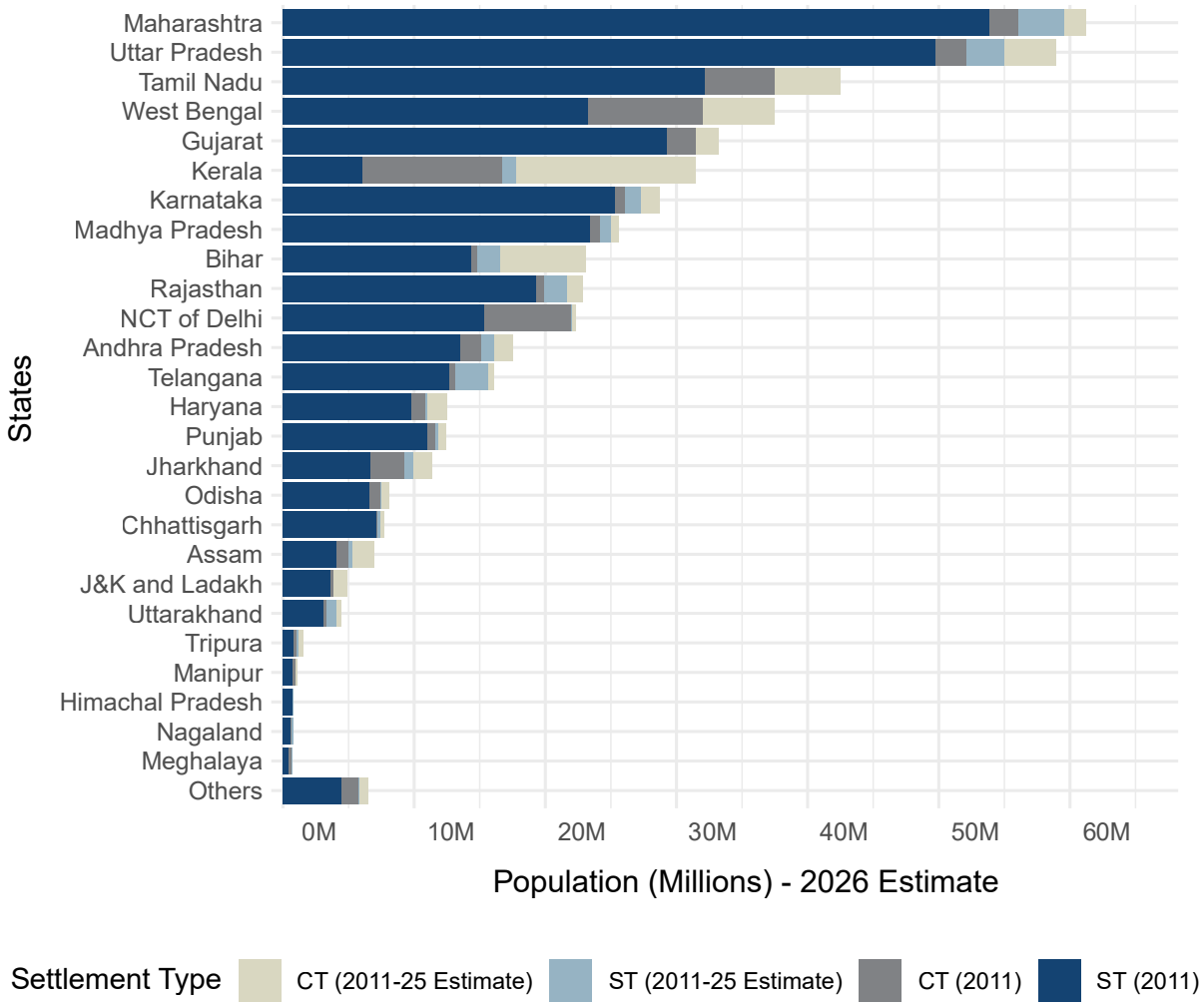
Note: The 2026 figures are IIHS estimates using the settlement reclassification (2026).
Populations of CTs and STs include outgrowths if present.
Source: Census 2011 and IIHS Analysis, 2025.

In the absence of an updated Census, current estimates of CTs and their populations are based on projected population growth and workforce moved away from agriculture (See Annexure 3 for methodology). By 2026, India is projected to have 8,656 CTs, with a combined population of about 10.4 crore, which will account for over a fifth of India's urban population, a significant rise from 2011.

This growth in CTs reflects broader spatial trends: suburbanisation, peri-urban expansion, and rural industrialisation. These developments blur the rural–urban divide, and call for a more dynamic, continuum-based understanding of urbanisation (Mathur, 2024; Roy & Pradhan, 2018).

The geographical distribution of different categories of urban settlements is presented in Figure 1.1. Detailed State-wise data for 2011 and 2026 (See Annexure Table A1.1) highlights significant variation in levels of urbanisation, total urban population, number of CTs, and its share in the overall urban population.

Figure 1.1: Geographical distribution of 2026 projected urban population by settlement type



Source: Census 2011; IIHS, 2025

Based on this data, states can be broadly grouped into five categories:

1. High CT population, low urbanisation: States such as Assam, Bihar, Jharkhand, Meghalaya and Odisha.

2. High CT population, medium urbanisation: States and UTs such as Haryana, Jammu and Kashmir and Ladakh, Manipur, Tamil Nadu, Tripura, and West Bengal.

3. High CT population, high urbanisation: States such as Goa, Kerala, Lakshadweep, NCT of Delhi, and Puducherry.

4. Low CT population, low urbanisation: States such as Arunachal Pradesh, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Rajasthan, and Uttar Pradesh.

5. Low CT population, medium-to-high urbanisation: States such as Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Mizoram, Nagaland, Punjab, Sikkim, Telangana, Uttarakhand.

These typologies reflect diverse urbanisation trajectories and reinforce the need for state-specific approaches to planning, governance, and fiscal support, particularly in transitional and peri-urban contexts.

1.4 Multiple Definitions of Urban and Implications

India currently defines urban settlements based on statutory designation (STs) and population, density, and workforce criteria (CTs). While this is intended to capture both administrative and functional aspects of urbanisation, they impose higher thresholds than global norms, and risk underestimating the true extent of urban transformation in the country.

According to the 2018 Revision of World Urbanisation Prospects, India is among only 28 countries that rely on a combination of administrative, demographic, and economic indicators to define urban areas (United Nations, 2019). In contrast, as presented in Table 1.3, most countries adopt simpler, less restrictive criteria, typically one or two indicators such as population size or density.

Table 1.3: Urban Definitions in Select Countries

Country	Definition	Criteria
Brazil	Urban zones of administrative centres	Administrative
Sri Lanka	All municipal and urban councils	Administrative
France	Minimum 2,500 population	Population
Mexico	Minimum 2,500 population	Population
UK	Minimum 1,500 population, 20 ha area	Population, Area
USA	Minimum 2,500 population, 1,000 per sq mile density	Population, Density

Source: IIHS, 2025

If India were to adopt alternate thresholds or rely on fewer indicators, its estimated level of urbanisation would rise significantly. Table 1.4 shows India's projected urbanisation levels using different combinations of criteria, highlighting the variation. Further, as presented in Annexure Table A1.2, urbanisation levels would be significantly higher across states and UTs if relaxed criteria were applied, most notably in Jammu & Kashmir, Jharkhand, Kerala, Tamil Nadu, Uttarakhand, and West Bengal.

Table 1.4: India's urbanisation estimates based on alternate criteria

Criteria	Urbanisation Level			
	2011		2026	
	Urban Population (Crore)	Urban Population (%)	Urban Population (Crore)	Urban Population (%)
All criteria	37.5	31	51.2	36
Population criterion only	56.9	47	72.6	51
Density criterion only	88.4	73	108.2	76
Economic criterion only	43.6	36	58.4	41
Population and density criteria only	53.3	44	65.5	46
Population and economic criteria only	41.2	34	48.4	34
Density and economic criteria only	43.6	36	54.1	38
Population threshold of 10,000, similar to UK	44.8	37	54.1	38
Population ≥ 5000; economic threshold 60 per cent, like Japan	42.4	35	52.7	37

Note: The 2026 figures are IIHS estimates using population projections.
Source: Census 2011; IIHS Analysis, 2025.

The analysis suggests that India's current urban definition excludes significant populations living in dense, highly populated conditions with significant non-agricultural earning opportunities commonly associated with urban contexts (Jana et al., 2016). The scale of this underestimation is reinforced by alternative assessments, summarised in Table 1.5. One notable example is DEGURBA (Degree of Urbanisation), a methodology developed by the European Commission and UN Statistical Commission. Using satellite data and spatial analytics, DEGURBA applies a universal grid-based urban definition, and estimates India's urbanisation at about 83 per cent in 2020, rising to about 86 per cent by 2030.

Table 1.5: India's urbanisation estimates with alternative approaches

Source	Year	Urbanisation Level (per cent)	Method/ Criteria	Approach
Uchida and Nelson	2009	43-52	Agglomeration index (density, population, travel time)	Census, GIS
Denis and Marius-Gnanou	2011	37	Contiguous built-up area with more than 10,000 population	Census, GIS
World Bank	2011	31	Population size, density, and satellite imagery	Mixed method
Global Human Settlements Layer (GHSL), European Commission (EC)	2010 2020	81 83	Satellite imagery	Grid-based

Source: IIHS, 2025

India's urban landscape is highly diverse, ranging from megacities to emerging small towns, peri-urban belts, and rural settlements with urban characteristics. Rigid rural–urban binaries are increasingly insufficient to capture this complexity. Instead, this calls for recognising urbanisation as a continuum and reimagining the definition of urban to better reflect functional, economic, and spatial realities. Doing so will not only provide a more accurate picture of India's development trajectory but also improve the targeting of infrastructure, service delivery, and fiscal transfers across the full spectrum of settlement types.

1.5 Limitations of current definitions and governance gaps

Despite recognising the urban through STs and CTs, India's current framework struggles to reflect the full complexity of its spatial transformation. Many fast-growing areas, particularly those along industrial corridors, near large cities or emerging from rural agglomerations, exhibit clear urban characteristics but remain governed as rural due to outdated criteria and delayed notifications.

These misclassifications stem from rigid definitions that do not accommodate the diversity of urbanisation pathways across states. Settlements undergoing transition vary in form - some emerge as peri-urban extensions of metros, others as isolated clusters, or corridor-led hubs. A one-size-fits-all approach cannot capture these typologies, nor guide institutional responses effectively.

The governance implications of this misclassification are serious. India's administrative architecture is anchored in a binary rural-urban divide, which shapes planning, financing, and institutional jurisdiction. Yet, many transitional settlements fall between these categories. For instance, while CTs are recognised as urban by the Census, they remain under rural governance until formally notified by the state, often resulting in under-investment and service gaps.

Further, the proliferation of overlapping authorities (parastatals, special purpose vehicles, industrial township bodies, Special Economic Zones (SEZs), and mega infrastructure agencies) creates institutional fragmentation, especially in and around rapidly urbanising areas. This weakens coordination, duplicates effort, and sidelines local democratic institutions. It also exacerbates exclusion, as planning often proceeds without meaningful engagement from Gram Sabhas or local communities.

To manage this transition effectively, institutional frameworks must recognise a broader spectrum of settlement types and align governance structures accordingly. This includes identifying transitional areas early, supporting integrated planning and financing, and strengthening capacities at both rural and urban levels. Without such systemic reforms, the gap between India's urban reality and its governance arrangements will continue to widen.

1.6 Key Insights

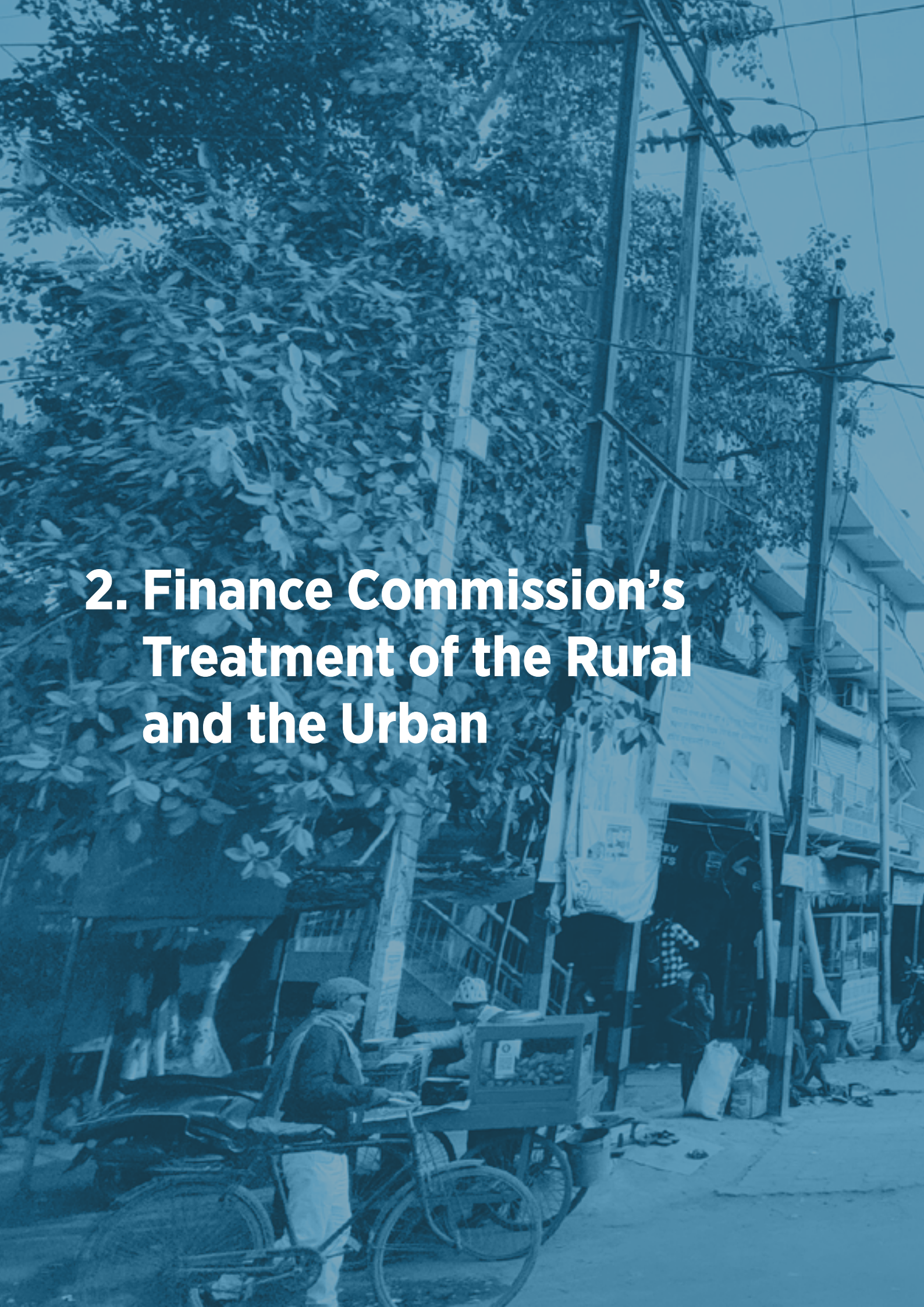
India's urban transition is accelerating, but institutional and definitional frameworks have not kept pace. Three critical disconnects stand out as listed below.

- **State-level variations in ULB formation:** The process of recognising rural-to-urban transitions and establishing ULBs varies widely across states, with the growing number of CTs reflecting both the pace of urban transformation and delays in formal governance shifts.

- **Urban governed as rural:** By 2026, more than 10 crore Indians are likely to live in urban-like settlements that will continue to be governed as rural, constraining their access to appropriate infrastructure, services, and financing.

- **Underestimation of urban India:** India's definition of 'urban' uses higher thresholds than most global standards, leading to systemic undercounting. If more flexible or internationally comparable criteria were applied, both the extent of urbanisation, and the number of transitioning settlements would be higher.

Together, these issues point to the urgent need for a more dynamic, inclusive, and accurate framework for defining and supporting India's urban transition.



2. Finance Commission's Treatment of the Rural and the Urban

2. Finance Commission's Treatment of the Rural and the Urban

2.1 Introduction

The 73rd and 74th Constitution Amendment Acts of 1992 conferred an expanded mandate upon FCs, assigning them the responsibility of recommending measures to augment the Consolidated Fund of a State to supplement the resources of the Rural Local Bodies (RLBs) and ULBs in the States. This marked a critical step towards strengthening the fiscal foundations of the third tier of government, with the goal of enabling local bodies to expand infrastructure and improve public service delivery.

Since then, five FCs (FC-XI to FC-XV) have made dedicated recommendations for local bodies, recognising the distinct needs of rural and urban institutions. Notably, even FC-X, constituted prior to the 73rd and 74th Constitution Amendments, allocated grants to local bodies. It earmarked 1.38 per cent of the divisible pool for local bodies, underscoring an emerging recognition of local government financing needs.

Over time, local body allocations have increased significantly in absolute terms, from INR 5,381 crore under FC-X (1995-2000) to INR 436,361 crore under FC-XV (2021-26). However, questions persist regarding the adequacy of grants for ULBs, especially in light of rapid urbanisation, mismatch between FC awards and urban demographic realities, and persistent financial deficits faced by ULBs.

2.2 Past FCs and Grants-in-Aid to Local Governments

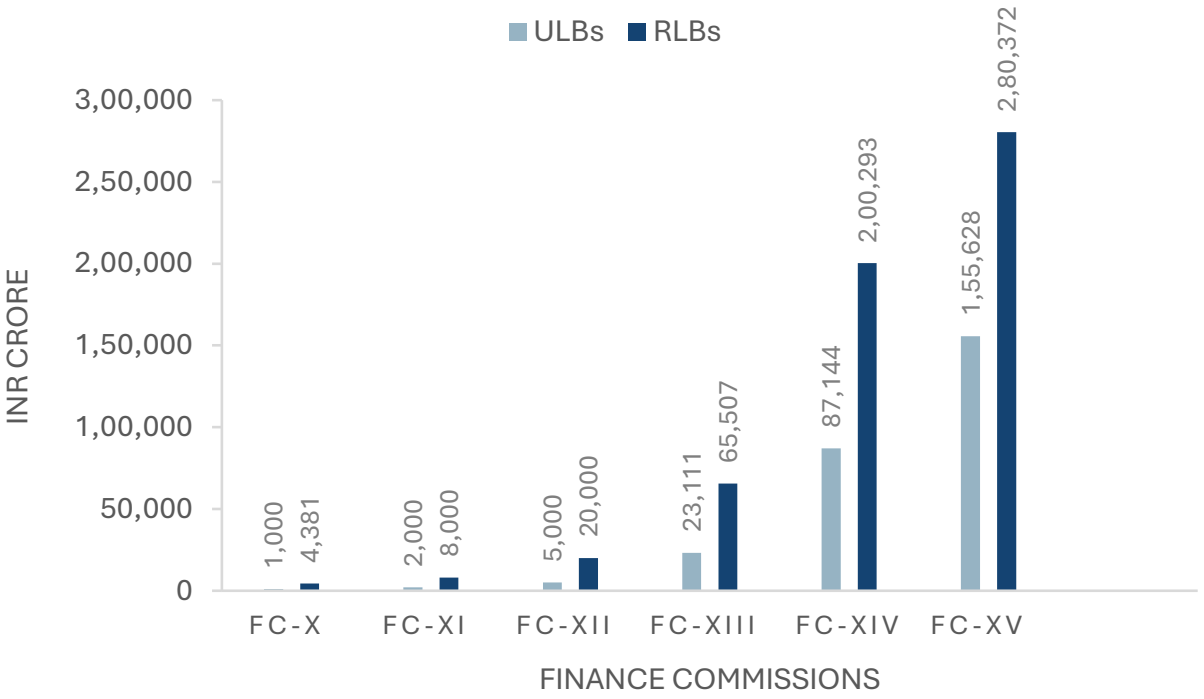
As presented in Figure 2.1, the volume of grants-in-aid to local bodies has grown over 80-fold between FC-X (1995-2000) and FC-XV (2021-26). As a share of the divisible pool, these grants rose from 0.78 per cent in FC-XI (2000-2005) to 4.3 per cent in FC-XIV (2015–2020), before moderating slightly to 4.15 per cent under FC-XV (2021–2026). In an indication of the growing recognition of the need for more predictable and buoyant revenue sources for ULBs in particular, the share of ULBs in total grants-in-aid has grown over time, rising from about 18-20 per cent during FC-X, FC-XI, and FC-XII to about 25 per cent under FC-XIII, about 30 per cent under FC-XIV, and about 36 per cent under FC-XV.

The most significant leap in absolute terms – a quadrupling – in grants-in-aid to ULBs occurred with FC-XIII. Two other directional shifts that FC-XIII considered were notable: (a) It considered allocating a direct share of the divisible pool to local bodies, based on demand from States. However, legal advice

suggested that this would be inconsistent with constitutional provisions. Instead, it recommended routing a percentage of the previous year's divisible pool to local bodies as grants-in-aid under Article 275 of the Constitution; (b) It equalised per capita grants across RLBs and ULBs.

A third significant shift occurred with FC-XV, which introduced differential treatment for Million-plus urban agglomerations, and split its urban allocation for Million-plus and other cities.

Figure 2.1: Grants to local governments by various commissions



Note: The FC-XV allocations for ULBs include health grants, incubation for new cities, and shared municipal services grants.
Source: Adapted from XV Finance Commission, 2020.

2.1.1 Criteria and parameters used by past FCs to allocate grants to ULBs

Successive FCs have used a mix of common and differentiated criteria to allocate grants-in-aid to States for local governments, as presented in Table 2.1. While population and geographical area have been used as common foundational criteria since FC-XI, other parameters such as distance from highest per capita income, indices of deprivation and decentralisation, and revenue effort have varied in emphasis across FCs, reflecting evolving concerns around equity, extent of decentralisation, and local bodies' own revenue mobilisation efforts.

Table 2.1: Criteria for distribution of grants to States for local bodies by Finance Commissions

Criteria	FC-X	FC-XI	FC-XII	FC - XIII		FC-XIV	FC- XV
				RLB	ULB		
Population	100	40	40	50		90	90
Census	1971	1971	2001	2001		2011	2011
Geographical area		10	10	10		10	10
Distance from higher per capita income		20	20	10	20	-	-
Index of decentralisation/ index of devolution		20	-	15		-	-
Index of deprivation			10	-	-	-	-
Revenue effort		10	20				
Proportion of SCs/STs				10	0		
FC local body grants utilisation index				5			

Source: FC-XV report, 2020; FC-XIII report, 2009

While the weightage assigned to geographical area has remained constant at 10 per cent, the population criteria has gained more prominence over time, rising from 40 per cent (FC-XI and FC-XII) to 50 per cent (FC-XIII) to 90 percent (FC-XIV and FC-XV). Other key parameters have included:

- **Equity-driven parameters**
    - ***Distance from Highest Per Capita Income:*** Introduced by FC-XI to address horizontal equity, it used the average ratio of the State Domestic Product (SDP) from the primary sector (excluding mining and quarrying) to projected rural population (1994-96) with urban SDP (excluding the primary sector), and urban population taken from the 1991 Census. FC-XII and FC-XIII updated the computation using 2001 Census data. FC-XI and FC-XII assigned 20 per cent weightage to this criterion, while FC-XIII gave it 20 per cent weightage for ULBs and 10 per cent weightage for RLBs.
    - ***Index of Deprivation:*** FC-XII assigned this criterion 10 per cent weightage based on intra-state disparities in access to drinking water and sanitation using Census 2011 data.

- **Decentralisation-oriented parameters:**
    - ***Index of Decentralisation:*** FC-XI assigned it 20 per cent weightage, measuring the implementation of the 73rd and 74th Constitution Amendments across ten parameters, such as the extent of devolution of functions, functionaries, and finances.
    - ***Index of Devolution:*** FC-XIII assigned this criterion 15 per cent weightage, based on the share of funds devolved by States to local bodies, and the institutional framework in place.

While population and area were universally applied, complex indices such as those tied to decentralisation or deprivation were limited by data availability, transparency issues, and lack of uniform benchmarks. FC-XIV and FC-XV ultimately reverted to population and area criteria for horizontal devolution, with FC-XIV explicitly stating that it would not be using the indices of devolution or decentralisation, as the Constitution does not authorise FCs to influence the devolution of powers to local bodies or endorse any specific model of decentralisation.

Criteria choices have directly shaped the distribution of grants to States for local bodies. The most significant implication for urban areas was deciding the split between rural and urban allocations before inter-state distribution, setting the stage for imbalances in urban financing.

2.1.2 Reliance on Census by past FCs and awards-demography mismatch

FCs have relied only on Census data for horizontal distribution of grants to local bodies across States, without considering future population projections or current estimates. As a result, States have received allocations based on the population weightage, linked to outdated baselines, that underestimated the urban population. For instance, FC-XI (2000-05) relied on the 1991 Census, while FC-XIII (2010-15) used the 2001 Census.

This undercounting occurred even as India saw a marked demographic shift between 2001 and 2011, where urban population grew by about 32 per cent compared to an increase of about 13 per cent in the rural population. Of the total population increase over 2001 and 2011, urban areas contributed slightly more (about 9.1 crore) than rural areas (about 9 crore). If alternative definitions of the urban, as discussed in Chapter 1, were to be considered, the extent of urban underestimation would be even higher. The impact of relying on outdated population figures is particularly significant for more urbanised and rapidly urbanising States.

A key driver of the underestimation is the vertical split between rural and urban grants. Various FCs split the grants as follows:

- FC-X to FC-XII split these grants in an ad hoc manner (though this was not part of the FC-X mandate).
- FC-X recommended INR 1,000 crore award for ULBs, to be distributed among States on the basis of the inter-state ratio of slum population from the 1971 Census.
- FC-XI and FC-XII distributed the allocation into urban and rural in the ratio of 20:80. This, too, was not based on Census figures, which reported urbanisation levels at about 25 per cent in 1991 and about 28 per cent in 2011.

- FC-XI acknowledged that per capita grants to RLBs were higher than to ULBs, justifying these because "urban local bodies can generate higher per capita revenue from the same taxes owing to the rural-urban income differentials" (FC-XI, 2000).

- FC-XII echoed this rationale, even while acknowledging that the urban population of 28 States in the 2001 Census was about 27 per cent. FC-XIII marked a shift, splitting basic and performance-based grants in rural and urban shares, based on 2001 Census data.

Table 2.2 Urban and rural split in FC awards (1995-2025)

FCs	Urban grants	Rural grants	Urban share per cent	Rural share per cent	Rationale /Remarks
FC-X (1995-2000)	1,000	4,381	20	80	Based on 1971 slum population
FC-XI (2000-2005)	2,000	8,000	20	80	1991 Census data; Higher per capita grants to RLBs as ULBs considered to have better revenue potential
FC-XII (2005-2010)	5,000	20,000	20	80	2001 Census data; Same rationale as above
FC-XIII (2010-2015)	23,111	65,507	27	73	2001 Census data; Uniform per capita entitlement
FC-XIV (2015-2020)	87,144	2,00,293	30	70	2011 Census data
FC-XV (2021-25)	1,55,628*	2,80,372	36	64	Beyond 2011 Census data; Annual increase in urban share

Note: Grants are in INR cr. *Includes health grants, incubation for new cities, and shared municipal services
Source: FC-XI, 2000; FC-XII, 2004; FC-XIII, 2009; FC-XIV, 2014; FC-XV, 2020

FC-XIV continued the trend and based the split on the 2011 Census. Acknowledging the unfolding demographic shift, FC-XV went further by recommending a gradual annual increase in share of urban grants, beginning with a 67:33 split in the first year and reaching a 64:36 split by the end of the award period.

If previous FCs had used population estimates instead of relying solely on Census data or ad hoc formulae, allocations to ULBs would have been higher. For example, if FC-XII (2005-2010) and FC-XIII had used Census 2001 figures along with urban population projections, the ULB share in local body grants would

have ranged from 27-29 per cent (INR 6,750 - INR 7,250 crore) and 31 percent (INR 27,472 crore) for FC-XII and FC-XIII, respectively. However, as presented in Table 2.2, the FC-XII's final award of INR 5,000 crore for ULBs amounted to a 20 per cent, and FC-XIII's final award of INR 23,111 crore amounted to a 27 per cent share in local body grants, which were lower than the projected allocations based on population estimates.

Importantly, FC-XV introduced a differentiated strategy based on urbanisation patterns. Million-plus Cities received only performance-linked tied grants (focused on improving ambient air quality and water and sanitation infrastructure), while other cities received tied grants and funds in a 60:40 ratio. This marked a departure from earlier FCs, which typically allocated grants between three tiers of ULBs, including municipal corporations, municipal councils and Nagar Panchayats (NP).

FCs have, thus far, not recognised the peculiar issues of transitional urban areas, though FC-XIII did encourage State Governments to consider guidelines for creation of NPs and municipalities. It further noted that these ULBs may have higher establishment costs and may require sustained support as they shift away from rural development programmes.

2.1.3 FCs use of conditionalities and performance to incentivise reforms

Successive FCs have used a mix of conditionalities, performance-linked grants, and floor conditions to incentivise better municipal governance. As presented in Table 2.3, these have targeted financial accounting, Own Source Revenue (OSR) mobilisation, digital governance, and core service delivery in sectors such as water and sanitation. While some progress has been achieved, particularly in larger urban areas, the outcomes remain mixed, especially in small cities and transitioning towns.

Table 2.3: Use of conditionalities and performance grants by past FCs (2011-2026)

Finance Commissions	Conditionalities and Performance	Key Conditions
FC XIII (2011-15)	General basic and performance grants	Submit audit system for municipal accounts, establish property tax board, service delivery standards, fire hazard plan, electronic transfer of FC funds, independent ombudsman, and nominate SFC members
FC XIV (2016-20)	20 per cent performance grants; 80 per cent basic grants	Submit audited accounts, demonstrate OSR increase, publish service level benchmarks (to access performance grants)
FC XV (2021-26)	100 per cent performance grants for Million-plus Cities; 60 per cent tied grants for other cities; entry level conditions	Entry level: Public disclosure of audited accounts, notifying floor rates for property tax in 2021-22 and ensuring annual increase aligned with GSDP growth; performance-based parameters for air quality and service level benchmarks for water, sanitation and SWM services

Source: FC-XIII, 2009; FC-XIV, 2014; FC-XV, 2020.

A persistent challenge lies in the lack of timely, reliable financial data. Even though financial reporting has improved in larger ULBs, data from smaller towns remain scarce. According to the City Finance Dashboard of the Union Ministry of Housing and Urban Affairs (MoHUA), only about 25 per cent of financial data for all ULBs was available in 2022-23. Data coverage was high (about 89 per cent) for cities with populations between 1-4 million, but fell drastically to about 19 per cent for towns with populations between 1-5 lakh, and about 25 per cent for those under 1 lakh (MoHUA, 2024). This persistent data gap makes it difficult to assess needs, develop appropriate plans, or track the impact of reforms.

FC-XV acknowledged these long-standing gaps, identifying delays in preparing accounts, and inconsistencies in account classification as key bottlenecks. Incomplete adherence to national and state municipal accounting codes and discrepancies between accrual-based audited accounts and cash-based budget actuals further complicate consolidation with Union and State accounts (Subalakshmi & Raghunathan, 2023). These issues are especially acute in recording IGTs and programme expenditures, where overlaps between revenue and capital classifications distort the financial picture and obscure capital investment needs.

While flagship missions like the Swachh Bharat Mission (SBM) and Atal Mission for Rejuvenation and Urban Transformation (AMRUT) have extended physical infrastructure, challenges remain in achieving universal coverage, sustaining consistent service delivery, and ensuring financial viability. For instance, nearly 30 per cent of India's urban population lives in small and medium towns (population less than 1 lakh), where ULBs struggle with limited financial resources, inadequate staffing, and low technical capacity (National Faecal Sludge and Septage Management [NFSSM] Alliance, 2022; National Institution for Transforming India [NITI] Aayog, 2021). These constraints have hindered their ability to meet the conditionalities attached to performance-linked grants, and many failed to access the much-needed funding due to non-compliance, limited digital capacity, or weak monitoring systems.

Audit evidence underscores the concerns about conditionalities in disbursing funds. The CAG (2024) reports that ULBs across 10 States experienced average shortfalls of INR 404 crore in FC transfers, and INR 1,606 crore in State Finance Commission (SFC) transfers between 2015 and 2020, largely due to non-compliance with grant conditions. The same report highlights a 42 per cent average gap between revenue and expenditure in ULBs, driven by rising operational costs and weak revenue generation. Notably, only 29 per cent of total ULB expenditure was directed towards programmes and development, while the rest was spent on establishment (28 per cent), general administration (17 per cent), and operations and maintenance (15 per cent).

There was also a considerable shortfall in capital investment. The High-Powered Expert Committee (HPEC, 2011) estimated the capital investment required across eight key urban sectors as INR 43,386 per capita over 20 years, equivalent to INR 4,616 annually at current prices. Yet in 2021–22, actual per capita capital spending by ULBs was only INR 2,201, implying a shortfall of in excess of 50 per cent (MoHUA, 2024).

Uniform conditionalities may therefore be inappropriate, particularly for smaller ULBs and newly formed ULBs that lack capacity. A one-size-fits-all approach may exclude these towns from critical funding streams, even when they are most in need. A more differentiated framework is needed, one that supports capacity building alongside fiscal incentives, especially in the early years of transition. Tailored exemptions or phased targets can enable these settlements to access funds while they build the institutional and financial foundations needed for sustainable urban governance.

2.3 Fiscal Landscape of ULBs and Adequacy of FC Awards for Urban

The fiscal empowerment envisaged under the 73rd and 74th Constitution Amendment remains only partially realised, as ULBs in India continue to face constraints in autonomy and institutional capacity across planning, budgeting, expenditure management, procurement, implementation, and monitoring (Revi et al., 2022; Verma et al., 2022). The fiscal space for ULBs has shrunk further post GST, with limited scope for expanding the tax base, and tightening Union and State finances. As a result, municipal finances remain inadequate to support services and meet infrastructure investment needs.

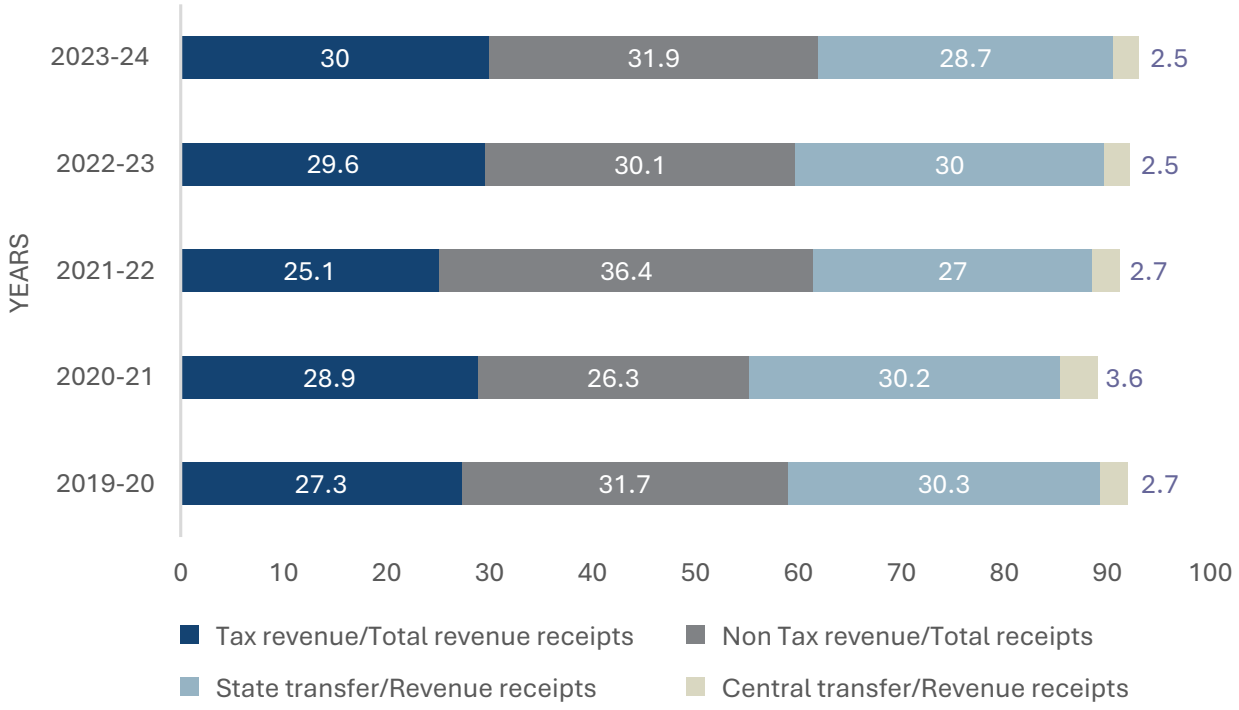
Municipal revenues in India accounted for about 0.6 per cent of the GDP in 2023-24, the same as in 2019-20 (RBI, 2024). The total expenditure of the local bodies was about 1.3 per cent of the GDP in 2023-24 (Budget Estimates (BE), with revenue expenditures/ GDP ratio of about 0.5 per cent and a capital expenditure/ GDP ratio marginally higher at 0.8 per cent (RBI, 2024). Municipal expenditures and revenues have been stagnating at about 1 per cent for over a decade, far less compared to other developing and developed countries, where they range from 4 to 14 per cent of the GDP (Ahluwalia et al., 2019).

This low base underscores the need for a more predictable and substantial share of IGTs from both the Union and States. IGTs from the Union and State to local bodies were a meagre 0.45 per cent of the GDP in 2011-16 (Ahluwalia, 2019) and more recent data from the RBI (2024) suggests that this may have declined to 0.35 per cent of the GDP in 2022-23 (BE). In comparison, IGTs to ULBs account for about 2 per cent of GDP in Denmark, about 6 per cent of the GDP in Norway, about 8 per cent of the GDP in Italy, and about 10 per cent of the GDP in the United Kingdom (Ahluwalia et al., 2019).

IGTs make up about a third of the total municipal revenues in India, with State transfers accounting for about 90 per cent, and the balance from Union transfers (RBI, 2024). Figure 2.2 below shows composition of revenue receipts of 232 municipal corporations in India, collated in the RBI report (2024).

Municipal revenues in India need to increase to about 5 per cent of the country's GDP in the next 10-15 years to improve the state of municipal finances, and bring it on par with the international norms (Ahluwalia et al., 2019). The study undertaken for the FC-XV recommended an award of INR 3,56,000 crore for the raising the ratio of municipal revenue to GDP to 2 per cent; the actual awards, it may be recalled, was less than half (Ahluwalia et al., 2019).

Figure 2.2: Composition of revenue receipts of municipal corporations in India



Source : Compiled from Report on Municipal Finances, Reserve Bank of India (2024).

2.3.1 Fiscal capacities and dependence on transfers across city classes

This subsection presents an analysis of municipal finances for 16 ULBs, grouped into four city classes based on population size:

- 4 Mega Cities (pop. >1 crore): Bengaluru, Chennai, Hyderabad, Mumbai
- 4 Class I-A Cities (50 lakh–1 crore): Ahmedabad, Kozhikode, Pune, Surat
- 4 Class I-B Cities (10–50 lakh): Indore, Jaipur, Kanpur, Rajkot
- 4 Class I-C Cities (1–10 lakh): Davanagere, Deogarh, Haldwani, Nizamabad

Municipal budgets and audited income statement data from 2020–21 to 2024–25 (for mega cities) and till 2023–24 (for other classes) were analysed to assess the composition and growth of OSR and IGTs, which are presented in Table 2.4.

Table 2.4: Key Findings from analysis of municipal budgets and audited income statement data

City Class	Average OSR growth rate (in %)	Average IGT growth rate (in %)	Share of OSR in total revenues (in %)	Share of IGTs in total revenues (in %)
1 crore +	21	7.7	51-62	28-40
Class I-A cities	23	4.6	48-58	38-40
Class I-B cities	16	6.8	38-46	45-56
Class I-C cities	12	49	31-39	58-62

Note: The IGTs are majorly comprised of revenue grants with assigned revenues being extremely negligible from 0-2.5 per cent. Tables for each city class in Annexure 2.
Source: IIHS, 2025.

The data in Table 2.4 shows a fiscal pattern across city classes, highlighting disparities in revenue composition and growth:

- **OSR share:** There is a clear correlation between city size and fiscal self-reliance. While mega and Class I-A cities derived over half their revenues from OSR indicating stronger internal revenue bases, Class I-C cities only received about 31-39 per cent of revenues from OSR, with the share declining from 39 per cent in 2020-21 to 31 per cent in 2023-24.

- **IGT share:** The share of IGTs increased as city size decreased. Mega cities relied on transfers for only about 28-40 per cent of revenue, compared to 58–62 per cent among Class I-C cities. This inverse relationship reflected weaker OSR capacity, and a heavier dependence on State and Central grants in smaller ULBs.

- **Revenue growth:** OSR growth was highest in Class I-A cities (23 per cent), followed by mega cities (21 per cent). This suggests that larger cities have managed to expand their fiscal base through stronger administrative capacity and enabling frameworks.

- **IGT growth:** This has remained flat across most classes, except for Class I-C cities, where transfers grew at a striking 49 per cent, a clear indicator of rising external dependence rather than improved internal capacity.

The above underscores the structural and administrative constraints that limit fiscal autonomy in smaller ULBs. These cities face dual challenges: low OSR generation capacity and growing infrastructure needs. As a result, they remain dependent on IGTs, both for revenue expenditure and capital investment.

While the dataset here is small, it aligns with broader trends observed in other studies. Revi et al. (2022), in a study of 80 ULBs (2012-17), found that Class I-C cities had high dependency on transfers and low per capita OSR (INR 866). Data from the City Finance Dashboard (2021–22) shows even lower per capita OSR INR 563 for transitional bodies like NPs (MoHUA, 2024).

Further, smaller towns also face significant capital investment shortfalls. HPEC (2011) estimated the per capita capital investment need for towns under 1 lakh population as INR 4,190 (current prices). However, actual capital spending in 2021-22 was only INR 1,454, leaving a gap of INR 2,737 per capita (HPEC, 2011; MoHUA, 2024). This gap must be bridged through State and Central transfers for these towns to build basic infrastructure and services.

2.4 Key Insights

India's urban transition demands a more responsive and well-aligned fiscal framework to support the growing responsibilities of cities and towns. While successive FCs have progressively increased allocations to ULBs, these remain modest relative to the pace of urbanisation, and the magnitude of infrastructure and service delivery needs.

- **Allocations have grown, but not in line with needs:** FC grants to ULBs have risen from INR 2,000 crore under FC-XI to over INR 1.5 trillion under FC-XV. However, overall municipal revenues remained stagnant at around 1 per cent of GDP, far below the 4-14 per cent range seen in many comparable countries.

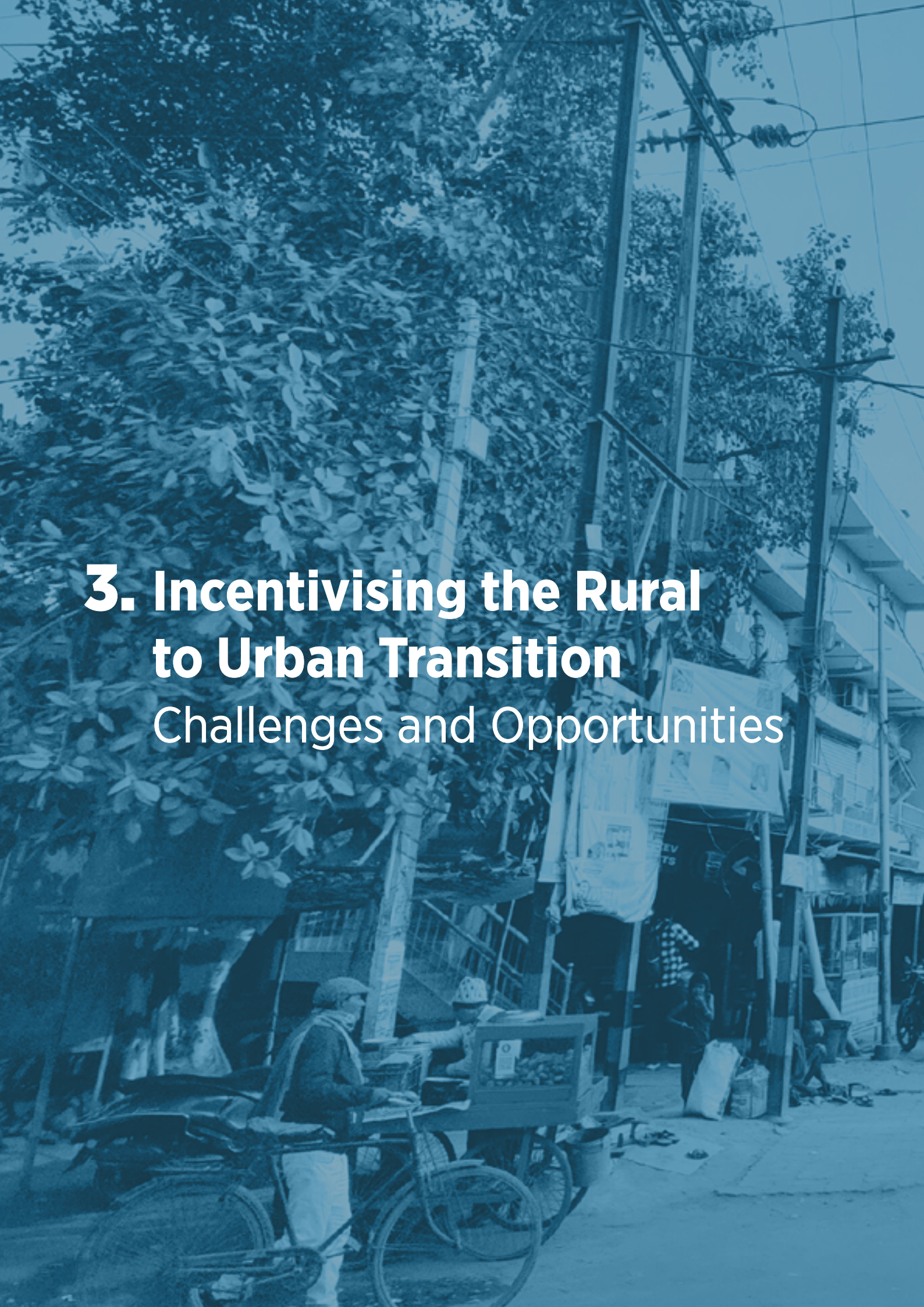
- **Demographic mismatches persist:** Continued reliance on past Census data and formulaic rural-urban splits has often under-allocated funds to States experiencing rapid urbanisation. Updated and more flexible approaches could better reflect contemporary population dynamics.

- **Smaller ULBs face deeper fiscal stress:** Towns with populations between 1-10 lakh and those below 1 lakh, many of them newly notified, have limited OSR capacity, and face the highest per capita infrastructure deficits. Transfers remain their primary fiscal lifeline but are often insufficient or conditional on performance metrics that are hard to meet.

- **Conditionalities have had uneven impact:** While performance-linked grants have helped improve financial accounting and service delivery in larger cities, smaller ULBs frequently struggle with compliance due to staffing shortages, weak digital infrastructure, and inconsistent data reporting.

- **Capital investment remains inadequate:** Per capita urban capital expenditure continues to fall short of estimated needs, especially in smaller towns. Bridging this gap will require greater support from both Union and State Governments through predictable, needs-based transfers.

A more differentiated, data-informed, and capacity-aware fiscal strategy is essential to strengthen urban finances, one that recognises the diversity of India's urban settlements and supports their transition toward more sustainable and inclusive growth.



3. Incentivising the Rural to Urban Transition

Challenges and Opportunities

3. Incentivising the Rural to Urban Transition: Challenges and Opportunities

3.1 Introduction

India's urbanisation has been rapid, uneven, and increasingly marked by blurred boundaries between rural and urban spaces. A significant feature of this transformation is the emergence of transitioning settlements - peripheral areas around cities, dense rural agglomerations, and corridor-based developments - that display urban characteristics but remain classified and governed as rural. These include CTs, large GPs near highways and cities, and small STs in flux. As discussed in Chapter 1, about 10 crore people could be living in CTs in 2025. Yet, India lacks a coherent framework to identify, support, and manage these transitions. The result is a mismatch between governance structures and demographic realities, leading to gaps in infrastructure investment, service delivery, and institutional accountability.

This chapter draws on policy research and field insights, including examples from Rajasthan and Odisha, to outline transition typologies, identify governance and planning challenges, and reflect on actionable strategies to guide inclusive and viable transitions.

3.2 Nature and Typology of Rural-Urban Transition in India

India's urban growth in the last two decades has been rapid, complex, and disparate. With the expansion of urban centres, there has been an increased focus on peripheral growth (Denis, Mukhopadhyay and Zérah, 2017). A wide range of literature has focussed on CTs (Roy and Pradhan, 2017), 'subaltern urbanisation', and growth of settlement agglomerations that are autonomous entities and not tied to larger planned cities (Denis, Mukhopadhyay and Zérah, 2017). A more recent study refers to India's urbanisation as a by-product of rural to urban areas, that leads to classification of areas around large metropolitan centres as urban, which eventually turn into small cities (Jain and Jehling, 2020).

There have been multiple efforts to define the typologies of transitioning settlements. A FC-XV study identified at least four types of transitional areas: (a) small urban and rural settlements (including CTs) in metropolitan shadows; (b) isolated rural clusters and large settlements not in metropolitan shadows; (c) small STs in transition; and, (d) corridor-led development nodes (FC-XV, 2020). Other typologies include GPs growing into ULBs on their own, GPs merging to form ULBs, or individual GPs that merge into the nearest ULB. The Ministry of Panchayati Raj, Government of India (GoI) has also flagged CTs

which are urban in nature but governed as rural, and GPs with population more than 10,000 within 5 km proximity of national and/ or state highways.

What India needs is transition frameworks that: (a) reflect these typologies, even while accommodating the many forms and stages of urbanisation across states; and (b) enable technical and financial support, recognising that such support will vary across typology, and will have to be ensured before, during, and after formal notification of ULBs.

The following typologies may be considered to assess and plan for different types of urbanisations:

- peripheral urbanisation, referring to urbanisation at the peripheries of large urban centres and metropolises,

- organic urbanisation, referring to urbanisation because of natural developmental processes, including rural settlements that are transitioning to the urban as well as small ULBs which are set to grow, and would require an institutional transition to a larger ULB, and

- economically driven urbanisation, referring to urbanisation led by economic and infrastructure investment such as corridors.

3.3 Key Transition Challenges: Governance, Planning, Service Delivery, Finances

Insights from fieldwork and state policy analyses, notably the Chief Minister Rajasthan's Economic Transformation Advisory Council (CMRETAC) Report (2023) on urban transitions, highlight several issues, corroborated both by other research and field insights from the present study (as presented in Chapter 4). All examples in the sections below are from the CMRETAC (2023) report.

Transitions and Governance

- **Misclassification:** Many urban settlements, CTs among them, remain classified and consequently governed as rural. This limits their access to relevant urban schemes. It also prevents the creation of an urban governance institutional structure. There is, however, strong resistance to being classified as urban, since this often comes with the loss of financial control and decision-making ability for rural local governments. There are also some instances where the opposite is true as well. For example, areas, such as Degana in Rajasthan, are regulated by urban taxation norms, despite being predominantly agrarian.

- **Absence of structured transition plans:** Currently, the process of transition to urban areas does not have an overarching mechanism for facilitating, reviewing or monitoring the process. The onus of navigating the transition falls on local bodies that are short of funds, functions, and functionaries to do so.

- **Scheme access linked to status, not need:** Most schemes are designed to support rural or urban areas, based on their settlement classification. In the transition of rural areas to urban areas, there is often an interim period in which there are no financial avenues to support newly notified urban areas. This is due to the lack of continuity in schemes (for example, a shift from SBM Rural to SBM Urban), but also because often the same schemes or support is not always available across urban and rural areas (for example Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)). This disruption delays urban infrastructure investments and development processes, as well as removes existing support schemes and structures.

Planning and Institutions

- **Lack of local consultation in urban planning:** Urban planning processes in the context of transitioning settlements are often top-down and led by State and Central bodies. ULBs and local populations are insufficiently engaged, leading to mismatches between local needs and the plans meant to address them. This often leads to a situation where the plan's stipulations are unable to meet the needs of the settlement.

- **Absence of integrated development frameworks:** During the transition of settlements, a range of new authorities and boards are often established alongside existing institutions. This results in overlapping mandates, fragmented jurisdictions, and competing development visions.

  In Bhiwadi, for instance, even routine responsibilities such as streetlight and road maintenance were shared ambiguously between the Nagar Palika and Rajasthan State Industrial Development and Investment Corporation (RIICO) (CMRETAC, 2023). Planning in such areas is further complicated by multiple, often unaligned, frameworks. Bhiwadi falls under the Greater Bhiwadi Master Plan, while also serving as a node in the Delhi–Mumbai Industrial Corridor (DMIC) and being governed by the National Capital Region Planning Board (NCRPB). Each of these entities brings different priorities - NCRPB emphasises regional connectivity, while Delhi Mumbai Industrial Corridor Development Corporation (DMIDC) focuses on economic corridors - with limited coordination across them. This lack of integration distorts development trajectories, and contributes to persistent gaps in infrastructure, housing, and social services. These mismatches often stem from a disconnect between planning assumptions and the real needs of transitioning settlements, particularly in areas such as housing, social infrastructure and resource use.

- **Staffing and institutional gaps:** Vacancies, short staffing, frequent transfers, and information asymmetry between officers, departments and bodies slow down decision-making processes, and leaves many aspects of urban development unattended.

Infrastructure and Services

- **Inadequate provisioning:** Across water, sanitation, solid waste management, public transport, housing, education and healthcare, settlements face inadequacies that impact citizen's quality of life. These arise from a range of reasons including gaps in capacity, funding and data, jurisdictional overlaps, and insufficient attention to informal settlements and floating populations.

- **Neglect of housing needs:** Transitioning settlements often experience rapid industrial growth, attracting migrant workers and floating populations. However, housing supply and planning frameworks rarely reflect this demographic shift. In Bhiwadi, for example, Economically Weaker Section (EWS) housing remains vacant because it is located far from industrial zones and employment hubs. Migrants, instead, rely on informal settlements that, while overcrowded and poorly serviced, offer affordability and proximity to work. Planning processes frequently overlook these populations in demographic and infrastructure projections, resulting in significant underestimation of actual service needs. This, in turn, creates persistent gaps in housing, public amenities, and administrative capacity.

- **Weak environmental integration:** Urbanisation, with the prospects of increased population, economic and construction activities and the mobility it brings, presents an environmental challenge for transitioning settlements with implications for the well-being of residents, more so in ecologically fragile zones. However, planning processes do not systematically reflect on the changes likely to be triggered and solutions for them, with some of the more pressing gaps found in relation to water bodies and other commons.

Local Finances

- **Abrupt funding loss:** Rural grants are withdrawn post urban notification, though urban funding does not flow immediately. In Degana for example, residents could not access MGNREGA post urban notification which led to a loss of employment and income for residents, until the Indira Gandhi Shehri Rozgar Yojana (now called Mukhyamantri Shehri Rozgar Yojana) was introduced.

- **Low OSR mobilisation:** Transitions bring in changes in taxation, such as the levying of property taxes, leading to higher taxes for residents. This can impact both political and popular acceptability of the transition. When Degana was first notified as urban, there were a series of protests owing to the agrarian nature of land use, the discontinuation of MGNREGA, changes in building norms, and increased expenses and costs associated with urban service delivery and taxation.

- **Weak fiscal management:** Given the persistent institutional capacity challenges, RLBs faced difficulties in resource mobilisation, budgeting, accounting, and fund utilisation throughout the transition.

3.4 Strategies for Sustainable Transitions

Potential strategies for sustainable transitions are presented here, in line with the challenges discussed in the preceding section.

Governance and Classification

- **State Transition Units (STUs) and Local Transition Cells (LTCs):** LTCs, hosted within an existing GP or a newly formed ULB, can be established to address issues of misclassification, identify critical gaps in both capacity and infrastructure using robust population projections, and ensure interim financial, planning, and organisational coordination. STUs can ensure timely funding and technical

support to LTCs. A critical role for the STUs and LTCs would be to ensure that rural schemes are not withdrawn till ULBs are able to access urban grants and schemes.

The STU-LTC formulation is consistent with the recommendations considered in Rajasthan and the hub-and-spoke model adopted in Odisha, where state and district authorities work together under the oversight of a multi-departmental steering committee to guide structured urban transitions.

- **Village planning for transitions:** Streamlining village plans and placing them within the larger development plan so that the village plans can automatically be incorporated into an upcoming urban plan is necessary. This requires greater integration between administrative and planning institutions in the urban area.

- **Data and monitoring systems:** A data architecture to track population, economic profile, land use, and infrastructure can enable timely reclassification and targeted support to the LTCs from STU.

Box 3.1: Rural-Urban Transition Bill Recommended for Rajasthan

Rajasthan's Rural-Urban Transition Bill has three overarching goals: to ensure the efficient, equitable, and sustainable transition of rural settlements to urban settlements; prepare rural settlements for smooth transitions; and provide targeted financial, material, and institutional support for newly transitioning areas.

The bill proposes a Rajasthan Rural-Urban Transition Board, tasked with declaring transition settlements, extension of schemes and allocation of funds and monitoring and evaluation. A key feature of the bill is to recognise the prevalence of urban characteristics in rural settlements before they are classified as urban. The Act introduces the idea of transition settlements for both rural areas and urban areas.

Once notified by the state, these transition settlements are eligible to receive a mix of rural and urban schemes during the transition period, with the aim to ensure continuity in welfare delivery and service provisioning. Support to these settlements has been institutionalised through a five-year Settlement Transition Enabling Plan (STEP).

At the state level, the Rajasthan Urban Transition Board (chaired by the Chief Minister) oversees overall direction, notification of settlements, and fund allocations. District Urban Transition Councils (DUTCs) take responsibility for plan approvals, disbursements, and local oversight. Settlement Transition Cells (STCs) embedded within each transition settlement anchor baseline studies and the transition plan. These are supported by a newly established Rajasthan Technical Support Institute, a dedicated body established to offer technical assistance, build capacity, and guide planning practices for this purpose. The bill also proposes the establishment of a Corpus Fund called the Rajasthan Rural-Urban Transition Fund, to be used for the purpose of fulfilling the objectives of this bill.

Source: CMRETAC, 2023.

BOX 3.2: Odisha's Rural–Urban Transition Policy (2023)

Odisha's 2023 policy provides a structured framework for transitioning peri-urban areas—such as CTs and adjoining rural areas—into urban local bodies. The goal is to enable this shift with a systematic and phased approach without abrupt changes, by strengthening infrastructure, services, and governance before formal reclassification.

Peri-urban areas are defined as transitional zones between cities and villages, often marked by mixed land use, governance overlap, and bidirectional flows of people and goods. The policy is led by the State Urban Development Agency (SUDA) as the central "hub", with District Urban Development Agencies (DUDAs) or Development Authorities (DAs) acting as "spokes" at the local level. SUDA oversees planning, financing, and institutional support, while DUDAs/DAs implement area-specific infrastructure and service upgrades. A Steering Committee led by the Chief Secretary is entrusted with the overall supervision of the implementation of this policy.

Eligible areas receive urban-level infrastructure and services before formal notification. These include water supply, drainage, roads, waste management, public amenities, and ward-level governance systems. Service standards are defined based on local needs. Revenue systems, such as property tax and user charges, are introduced incrementally to ease the transition (e.g., starting at 30per cent and rising gradually). SUDA also assists these areas in building capacity by hiring and training adequate staff, planning integrated master plans, defining electoral wards.

The policy includes institutional strengthening, with advance staff deployment, training, and the creation of ward offices. It also establishes mechanisms for monitoring, grievance redressal, and third-party evaluation. This decentralised, service-led model ensures that peri-urban areas are equipped for full urban governance, minimising disruption and promoting equitable development across Odisha's transitioning settlements.

Source: Odisha (HUDD),2023.

Planning and Institutions

- **Comprehensive local development planning:** Planning practices need to move beyond land use allocation and building regulation to:
    - integrate baseline audits for land, environmental resources, economy, and social infrastructure,
    - identify specific actions the audits reveal; and,
    - integrate identified interventions with the development vision of various agencies such as development authorities, industrial development boards and other parastatals, and their plans for the settlement or area.

  This requires investment in capacity development of state and local planning agencies.

- **Decentralised planning:** Present master planning processes lack involvement of ULBs and other local stakeholders. Local capacity development could create space for local needs and aspirations to find salience in the planning process.

- **Priority-based project pipelines:** Local bodies in transitioning settlements need support in identifying and implementing short- and medium-term projects that respond to pressing emerging priorities.

Infrastructure and Services

- **Integrated physical and social infrastructure:** Transitioning settlements need simultaneous investment in housing, education, healthcare, and public transport. Housing provision must match income profiles and workplace locations; and be backed by essential services, incorporating decentralised and off-grid solutions where networked solutions are not feasible. Further, affordable public transport needs to link homes to jobs, while local facilities such as schools, clinics and parks can reduce reliance on distant urban centres and make towns more inclusive and liveable.

- **Coordination with local authorities:** Infrastructure provision often suffers due to overlapping mandates and fragmented jurisdictions across local, state, and parastatal agencies. A coordinated mechanism is essential to align infrastructure planning, budgeting, and maintenance efforts. As settlements expand, new industrial zones, housing developments and peripheral extensions must be accompanied by commensurate investments in both basic and social infrastructure to ensure holistic and equitable growth.

- **Land management for natural resource protection:** As settlements undergo transition, land development for economic and social purposes needs to go hand-in-hand with the conservation of ecosystems and biodiversity. Local bodies need to regularly update and digitise land records, including those for public and common lands, to ensure informed land-use planning. This could guide the allocation of land for physical and social infrastructure, affordable housing, environmental

restoration and local economic development, identify ecologically sensitive areas that could be designated 'No or Low Development Zones', and inform safeguards for industrial land use.

- **Support local economic subsystems:** Investment in local economic development that aligns with the occupational profile and aspirations of the population, particularly women and informal workers, can lay the ground for urban economies that are viable and socially rooted. Skilling centres, micro-enterprise support and market infrastructure must reflect local economic potential.

Financial Challenges

- **Support based on emerging urban status**: Local bodies in rapidly urbanising areas need financial support based on their evolving urban character, even before formal notification. Conversely, newly notified urban areas with lingering rural features need to retain access to select rural schemes temporarily. These will ensure continuity in service provision, and a smoother transition to urban facilities.

- **Strengthen fiscal management and OSR**: Transitioning bodies need support to improve property tax assessment and collection and mobilise non-tax revenues such as fees, licences, rentals, hoardings cess and entertainment tax. This is contingent on states devolving necessary financial powers.

- **Seed funds with reform linkages**: Newly formed ULBs could benefit from a one-time corpus to kickstart fiscal operations, linked to reforms like setting floor rates for property tax, enabling of digital payments, and five-year fiscal plans that outline OSR growth targets and milestones.

3.5 Key Insights

India's rapidly changing settlement landscape demands a proactive, differentiated approach to support structured rural-to-urban transitions.

- **Typologies enable targeted support**: Transitioning settlements vary widely, from CTs near metros to corridor-based nodes. Recognising this diversity is essential to design appropriate State and Central interventions.

- **Misclassification creates gaps**: Urban-like areas governed as rural bodies lose access to schemes, planning tools, and interim financing. Rural grants are withdrawn prematurely while urban resources remain out of reach.

- **Planning must be integrated and responsive**: Fragmented planning across overlapping institutions and top-down approaches fail to capture ground realities. Decentralised, inclusive planning is key to aligning infrastructure, social needs, and economic growth.

- **Infrastructure and housing need urgent attention**: Lack of timely investment in basic and social infrastructure, especially for migrants and informal workers, leads to informal growth, service deficits, and vacant formal housing.

- **Environment and economy often overlooked**: Transition plans must integrate natural resource protection and local economic development, particularly for informal workers and women, to ensure long-term resilience.

- **Financing is a core constraint**: Smaller towns face a double bind of shrinking rural funds and weak OSR. Transitioning settlements need interim support, better fiscal powers, and reform-linked seed funding.

- **Institutional innovation is promising**: Models like Rajasthan's Transition Bill and Odisha's hub-and-spoke framework show how dedicated state units and local transition cells can drive smoother transitions.

Together, these call for a shift from fragmented, one-size-fits-all responses to a coherent, typology-sensitive strategy that supports inclusive, well-planned urbanisation.

4. Transition Dynamics at the Settlement level

Comparative Study

4. Transition Dynamics at the Settlement level: Comparative Study

4.1 Introduction

The rural-to-urban transition is a critical dimension of India's urbanisation trajectory, involving not just an administrative change of being designated as STs but a significant shift in structures and arrangements for planning, service delivery, and resource mobilisation.

This chapter examines how these changes unfold in practice, based on a comparative study of one RLB and one ULB each in Bihar, Himachal Pradesh (HP), and Maharashtra. The states were selected to represent contrasting urbanisation patterns: Bihar reflects a low urbanisation baseline, undergoing rapid expansion of ULBs; HP has dispersed and small urban settlements; and Maharashtra is a highly urbanised state with relatively mature ULB systems.

Settlements were chosen based on their proximity to major urban centres, infrastructure access, and demographic and spatial comparability. The cases reflect diverse state approaches to notification as urban and highlight the varying degrees of institutional readiness, fiscal alignment, and operational capacity. Primary field research included site observations, interviews with local officials, and review of budgets and audited accounts.

The cases offered an opportunity to examine the consequences of delayed notification, misaligned funding frameworks, and the absence of a systematic transition process (see Annexure 3), underscore critical capacity gaps spanning functions, funds, and functionaries, and point to mismatches between demographic realities and the fiscal and institutional architecture meant to support them.

4.2 Dehu Nagar Panchayat and Loni Kalbhor Gram Panchayat in Maharashtra

Dehu and Loni Kalbhor, both located within Pune's expanding metropolitan region, are comparable in size and regional context.

Dehu, 29 km from Pune, has grown due to religious tourism (linked to Sant Tukaram) and proximity to Maharashtra Industrial Development Corporation (MIDC) industrial zones in Talegaon, Talode, and Chakan. It was notified as a NP in 2020 under the Maharashtra Municipal Councils Act, 1965, following local demand and visible urban growth.

Loni Kalbhor, 18 km from Pune, has urbanised rapidly over the last decade on the back of a thriving rental economy linked to nearby educational institutions. Despite meeting state criteria to be governed as an urban body, and local demand for urban notification, it remains governed as a GP.

Table 4.1: Snapshot of Dehu NP and Loni Kalbhor GP

Indicators	Dehu Nagar Panchayat (ULB)	Loni Kalbhor Gram Panchayat (RLB)
Status	NP (since Dec 2020)	GP
Population	47,880 (2023) | 18,569 (2011)	40,862 (2024) | 22,518 (2011)
Economic Base	Industrial and services linkages (MIDCs, tourism)	Agriculture, small-scale industry, rental economy
Proximity to Pune	29 kms, within 20 kms of 3 MIDCs	15 kms on Pune-Solapur highway, near MIT college
Governance & Capacity	Elected council, CEO; 27 posts after transition	GP structure; lacks technical staff
Urban Notification Trigger	Local demand and population growth	Not notified despite urban traits
Service Infrastructure	Partial SWM, water supply, STP	60% piped water, no SWM or STP

Source: Authors' compilation

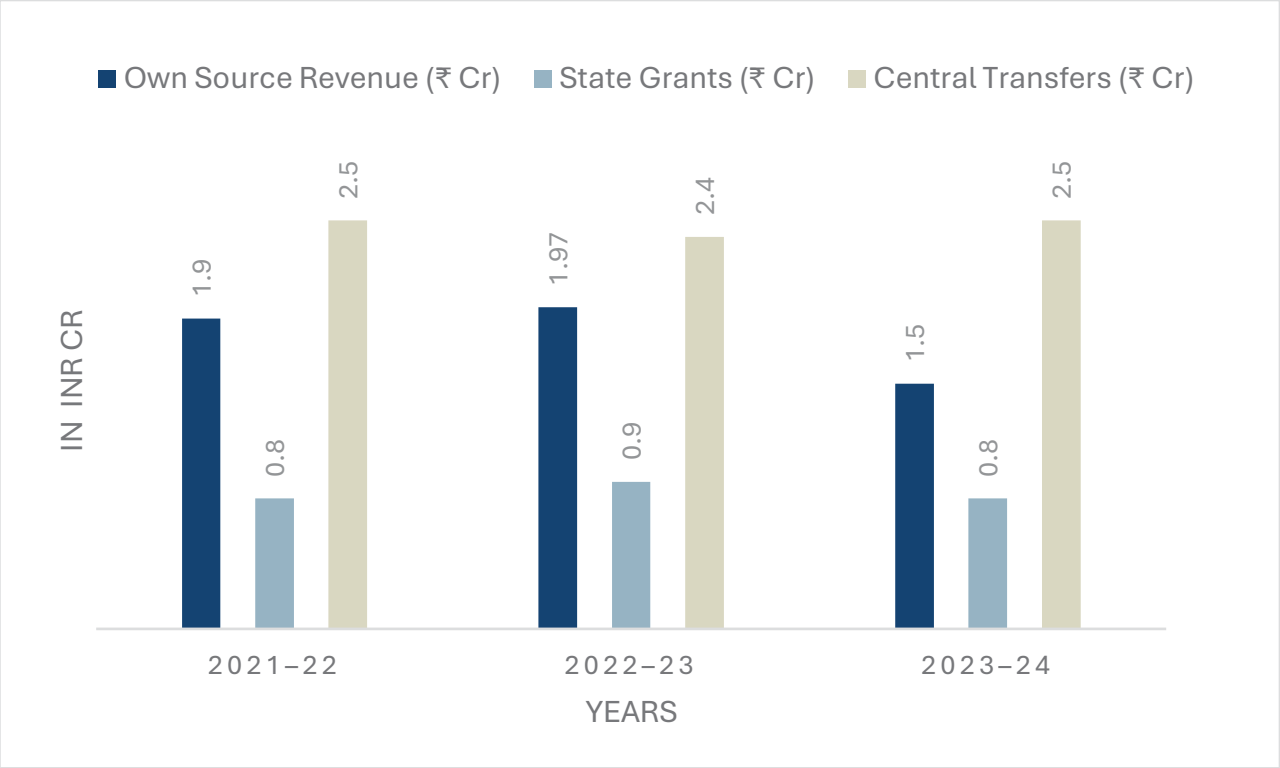
4.2.1 Urban characteristics, rural governance: The Loni Kalbhor case

Loni Kalbhor is a settlement with urban characteristics and rural governance. It lacks access to Maharashtra's urban capital grants or the state municipal cadre and relies on limited Central transfers. Its staff of 39 do not include key technical personnel such as engineers, accountants, or town planners.

Infrastructure, service provisions and sanitation coverage are inadequate. In the absence of a Sewage Treatment Plant (STP), untreated wastewater gets discharged into the environment. Water supply services reportedly cover only about 60 per cent of the population, with peripheral areas largely dependent on groundwater and tanker supply.

The GP has a budget of about INR 5 crore. Financially, as presented in Figure 5.1, Loni Kalbhor is heavily reliant on IGTs which accounted for about 63 per cent of its annual revenue over the 2021-22 to 2023-24 period, averaging about INR 3.3 crore annually. Over this period, Central transfers accounted for about 71-75 per cent of the total transfers, with FC transfers being nearly 15 times higher than transfers under Central schemes. While the GP generated OSR of about INR 1.5-2 crore in recent years (about 32-37 per cent of its total revenues), collection efficiencies are weak, with property tax realisation fluctuating between 30-50 per cent of assessed targets.

Figure 4.1: Loni Kalbhor Gram Panchayat – Revenue trends (2021-22 to 2023-24)



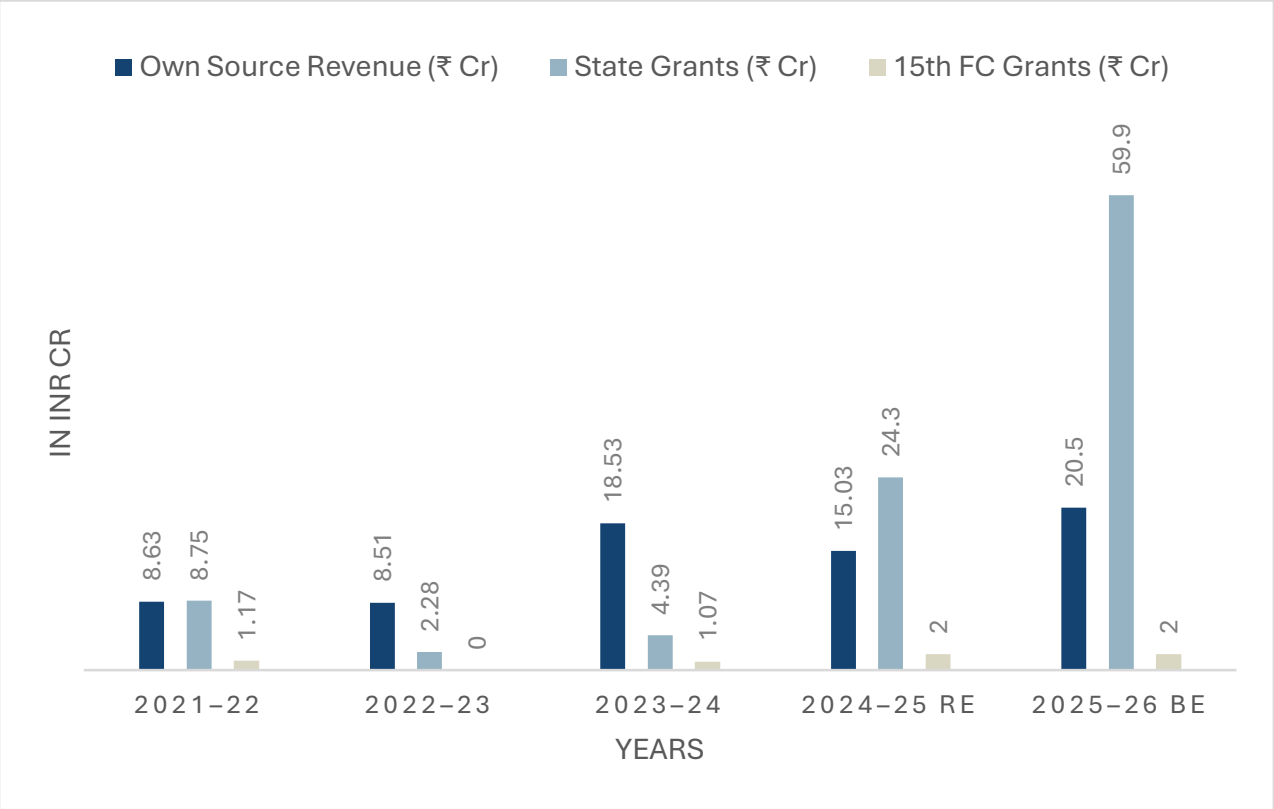
Source: Compiled from Loni Kalbhor GP budget 2021-22, 2022-23 and 2023-24

4.2.2 Transition realised but funding misaligned: The Dehu Case

Dehu represents a settlement where the administrative transition to urban status has occurred, but the alignment of fiscal flows and functional capacity remains incomplete. Although urban notification opened access to Maharashtra's urban capital grants and enabled 27 sanctioned posts, including key urban roles such as engineers, accountants, and sanitation experts, challenges remain. Fiscal transfers are based on outdated population estimates (2011), and staffing levels do not match requirements.

Meanwhile, service demand has surged with urban growth. The existing STP capacity of 3 million litres per day (MLD) needs to double, but the required investment of INR 90 crore is pending due to lack of funds, as is the INR 45 crore needed for water supply augmentation, along with additional sums estimated for improvements in roads, waste management, street lighting, and drainage. This is despite state capital grants driving a sharp increase in the NP's annual budget in recent years, from about INR 23.3 crore in 2021-22 to INR 97 crore in 2025 (BE). FC transfers remain between INR 1-2 crore per annum, lower than those for the Loni Kalbhor GP, reflecting a stagnation that contrasts sharply with the scale of Dehu's urban transition.

Figure 4.2: Dehu Nagar Panchayat – Revenue trends (2021-22 to 2025-26 BE)



Source: Dehu Nagar Panchayat budgets from 2021-22 to 2025-26 BE

The divergence between Dehu and Loni Kalbhor lies fundamentally in their legal status, institutional frameworks, and access to fiscal and functional capacities. Dehu, having been formally notified as a NP, benefits from the State's capital grants and a broader expenditure envelope. The formal recognition has enabled some expansion in infrastructure financing and staffing, yet persistent gaps in institutional capacity continue to constrain service delivery and long-term planning.

Loni Kalbhor, in contrast, remains administratively rural despite having urban characteristics and population thresholds that qualify it for urban status. As a GP, it is ineligible for Maharashtra's urban grants and lacks access to dedicated technical expertise or planning tools necessary for managing its growing urban service demands.

Both settlements, regardless of legal classification, share critical weaknesses in financial management. Their reliance on IGTs remains high and OSR mobilisation is modest, with property tax realisation in both cases being less than half the assessed target.

Box1: Fiscal Impacts of Transition: The Case of Dehu Nagar Panchayat

The transition of Dehu from a GP to a NP in December 2020 has led to a substantial transformation in its fiscal profile. In 2019-20, as a GP, Dehu's total revenues stood at about INR 4.3 crore. By 2021-22, as a NP, this had increased nearly six-fold to about INR 23.9 crore. This trend has continued, with revenues rising to about INR 46.9 crore in 2024-25 (Revised Estimates (RE) and projected to nearly double to INR 97 crore in 2025-26 BE. Expenditures have risen sharply too, from about INR 3.4 crore in 2019-20 to about INR 13.4 crore in 2021-22, indicating improved spending capacity.

Budget trends of Dehu Gram Panchayat (2019–20) and Dehu Nagar Panchayat (2021–22) (INR)

Receipts	2019-20 as GP	2021-22 as NP
14th FC/15th FC	1,02,42,124	1,16,67,484
Tax revenue	1,74,47,767	2,64,59,689
Non-tax revenue	39,27,589	5,98,40,790
State transfers	89,48,896	8,74,87,000
Income from interest	4,15,131	11,18,361
Others	0	1,30,32,457
Total Revenues	4,28,99,459	23,86,06,186
Total Expenditure	3,37,16,242	13,35,37,101

Source: Budgets shared by Dehu Nagar Panchayat, 2019-20 and 2021-22.

The increase in revenues has been driven largely by three components: a steep rise in OSR, a sharp increase in State transfers, and a substantial jump in non-tax revenue. OSR rose from about INR 2.1 crore in 2019-20 to INR 8.6 crore in 2020-21 and is projected to grow to INR 20.5 crore in 2025-26 (BE). State transfers increased almost ten-fold in the first year of transition, from about INR 89 lakh to about INR 8.8 crore and are expected to reach nearly INR 60 crore in 2025–26 (BE). In contrast, Finance Commission transfers have remained static, ranging between INR 1-2 crore per year throughout the period.

Dehu's fiscal trajectory demonstrates the impact of State capital grant allocations following urban reclassification. However, two concerns remain: the static nature of Central transfers, which do not reflect the town's growing population and service needs; and the continuing dependence on IGTs, despite increasing OSR. The current budget size, even at projected levels, remains insufficient to meet the capital investment required for critical infrastructure. The case of Dehu illustrates that notification alone is not enough; effective fiscal transition must be backed by institutional and technical capacity and a predictable transfer framework that accounts for current urban realities.

4.3 Paliganj Nagar Panchayat and Kita Chauhattar West Gram Panchayat in Bihar

Paliganj and Kita Chauhattar West, both predominantly agrarian settlements located on the peri-urban fringe of Patna, reflect contrasting institutional trajectories within Bihar's changing urban landscape.

Paliganj, a larger settlement about 52 km from Patna, was notified as a ULB in 2021 and formally transitioned into a NP in April 2023, as part of a broader State initiative that created 120 ULBs (after lowering the 75 per cent threshold for non-agricultural workforce for urban notification to 50 per cent). Kita Chauhattar West, located about 33 km from Patna, was part of a larger GP initially with population of 35,000 in 2011; it was split into 3 GPs, including KCW post 2011.

Table 4.2: Snapshot of Paliganj Nagar Panchayat and Kita Chauhattar West Gram Panchayat

Indicators	Paliganj Nagar Panchayat (ULB)	Kita Chauhattar West Gram Panchayat (RLB)
Administrative Status	Nagar Panchayat (since 2023)	Gram panchayat
Population	30,508 (2011)	12,000 (2011)
Economic Base	Agriculture, informal trade, real estate	Agriculture, wage labour, no industry
Proximity to Patna	~52 km; on regional corridor	~33 km; flood-prone zone
Governance & Capacity	Elected council; 15 staff (mostly contractual); no engineers	Secretary, elected body, shared technical assistant
Urban Notification Trigger	State-driven urbanisation policy	No local demand, workforce below urban threshold
Service Infrastructure	Open drains; partial waste collection; no STP	No SWM; sewage dumped in Ganga; unpaved roads

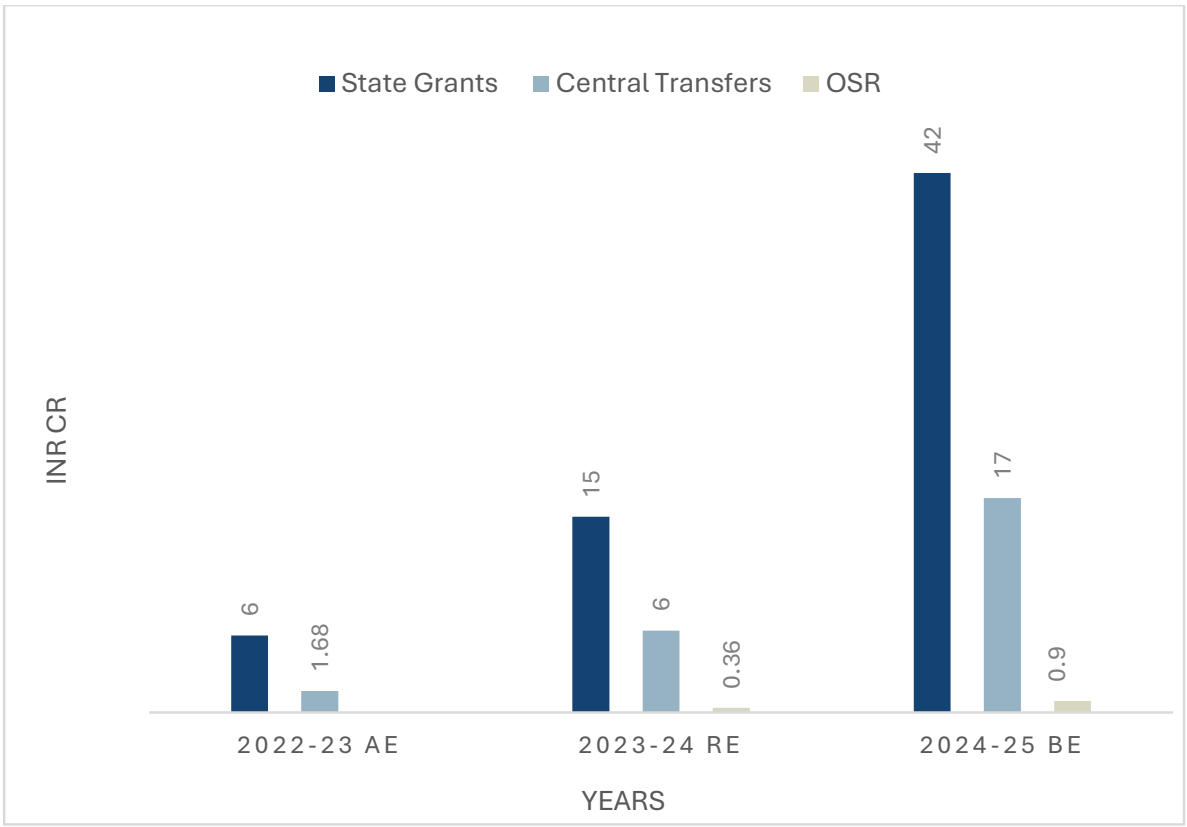
Source: Authors' compilation

4.3.1 Urban status, rural realities: Transitioning gaps in Paliganj

Paliganj's experience illustrates the challenges of an unstructured urban transition. While the NP now has access to a wider fiscal envelope, including both State capital grants and FC funds, the institution remains weak. Of the 15 sanctioned staff, only two are permanent, with key technical functions such engineering, financial planning, and sanitation unstaffed or outsourced to third-party agencies. Service delivery is rudimentary, with only partial piped water coverage, no sewerage or treatment facilities, open drains, and poor solid waste management in the absence of any processing facility. Seasonal flooding exacerbates these deficits due to the absence of planned stormwater management. No master plan exists to guide spatial expansion or infrastructure development.

Despite these institutional gaps, Paliganj's budget grew substantially, from about INR 8.2 crore in 2022–23 to a projected INR 62.5 crore in 2024–25. This increase was almost entirely driven by IGTs, which accounted for over 98 per cent of the NP's total revenue. State capital grants alone were expected to make up over half the projected total revenues for 2024–25; Central scheme allocations for urban infrastructure also grew rapidly, tripling between 2023–24 and 2024–25. OSR was initiated only in 2023 and remained marginal at about 1-2 per cent of the NP's total revenue receipts. However, Paliganj's weak technical and administrative capacity has limited its ability to absorb and utilise these funds effectively, delaying projects and leading to underspend.

Figure 4.3 Paliganj Nagar Panchayat – Revenue trends (2022-23 to 2024-25 BE)



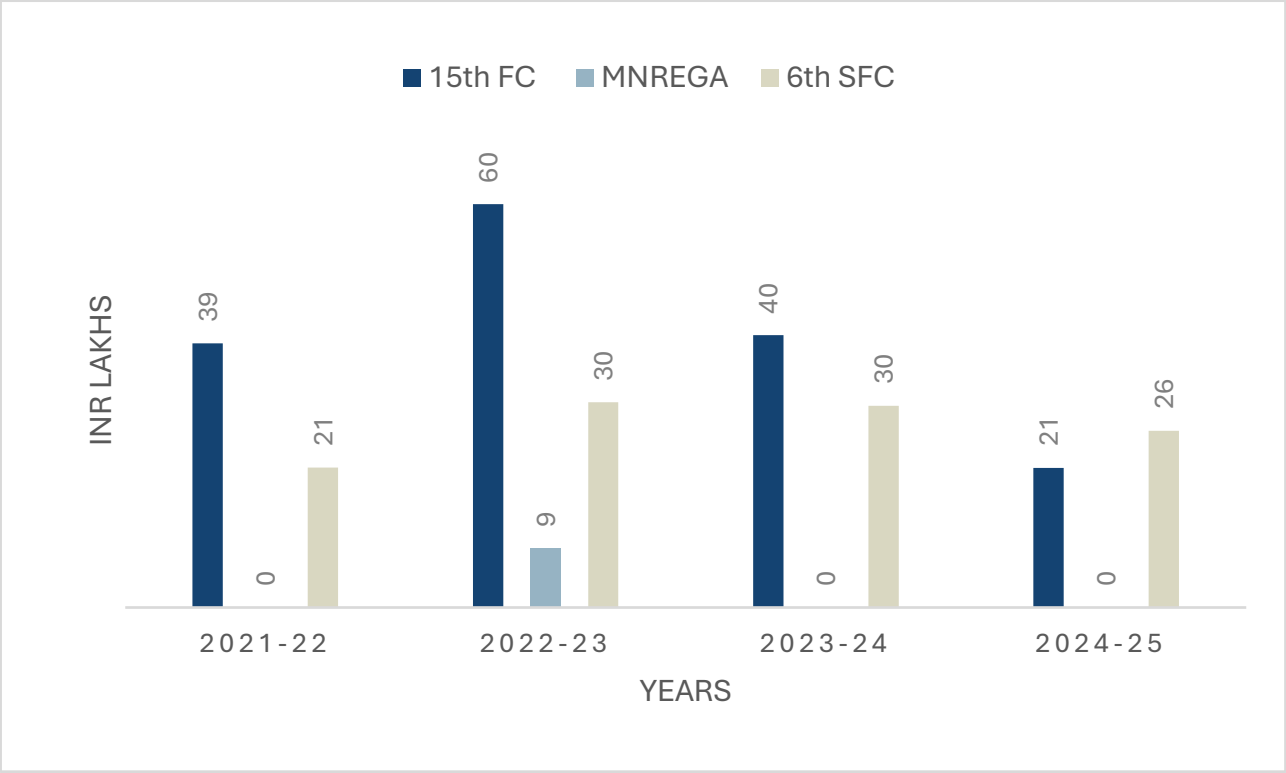
Source: Compiled from Paliganj Nagar Panchayat budget 2022-23 to 2024-25 BE.

4.3.2 Rural governance, funding and capacity challenges: Kita Chauhattar West

Kita Chauhattar West has a narrow fiscal base, is almost entirely reliant on IGTs, primarily Finance Commission and State Finance Commission (SFC) grants, and has no OSR. Budgets fell from about INR 1 crore in 2022–23 to INR 47 lakh in 2024–25, reflecting both stagnating transfers and limited capacity to mobilise OSR. Transfers under the FC declined significantly during this period and MNREGA allocations were received only once during this three-year period.

Institutionally, the GP functions with only a secretary and a shared technical assistant. There are no dedicated engineers, planners, or sanitation staff. Basic service delivery is concerning: untreated sewage is discharged directly into the Ganga, solid waste is dumped in the open, and water supply coverage is uneven, relying on handpumps and groundwater in peripheral areas. The settlement faces annual flooding, but mitigation plans have yet to be put in place.

Figure 4.4 Kita Chauhattar West Gram Panchayat – Revenue trends (2022-23 to 2024-25 BE)



Source: Compiled from Kita Chauhattar West budgets 2021-22 to 2024-25BE.

Paliganj and Kita Chauhattar West reflect the dual challenges of transition and misclassification. Paliganj demonstrates how urban notification, without accompanying administrative and technical reform, results in a weak urban institution with limited delivery capacity. Kita Chauhattar West illustrates the consequences of remaining rural despite urban-like pressures, where a large settlement is short of fiscal resources, staff, and planning frameworks. Together, they underscore the need for a coherent transition strategy, better-aligned funding mechanisms, and differentiated support structures based on the unique trajectories of urbanising settlements.

4.4 Shahpur Nagar Panchayat and Averi Gram Panchayat in Himachal Pradesh

Shahpur and Averi, two settlements in Kangra district of Himachal Pradesh, reflect distinct trajectories of rural-to-urban transition. Both lie within similar geographic and economic contexts and are experiencing spatial densification, yet they operate under sharply different governance structures. Shahpur was notified as a NP in 2016, while Averi remains a GP despite growing urban characteristics. Together, they illustrate the structural and fiscal constraints facing small towns and peri-urban settlements in a hill State with dispersed and low-density urbanisation.

Table 4.3 Snapshot of Shahpur Nagar Panchayat and Averi Gram Panchayat

Indicators	Shahpur Nagar Panchayat (ULB)	Averi Gram Panchayat (RLB)
Status	NP (since 2016); fully contractual staff	GP, shared engineers; no transition plan
Population	5,500 (2011 Census)	2,035 (2011 Census)
Economic Base	Agriculture, vendor economy disrupted by road widening	Agriculture; high outmigration
Proximity to city	~25 km from Dharamshala	~45 km from Dharamshala
Governance & Capacity	No permanent staff; weak coordination	Shared engineers; low technical capacity
Urban Notification Trigger	State decision; not demand based	No plan; income below urban threshold
Service Infrastructure	SWM stalled (land issue); delays in water/ sanitation	No septage or wastewater management

Source: Authors' compilation

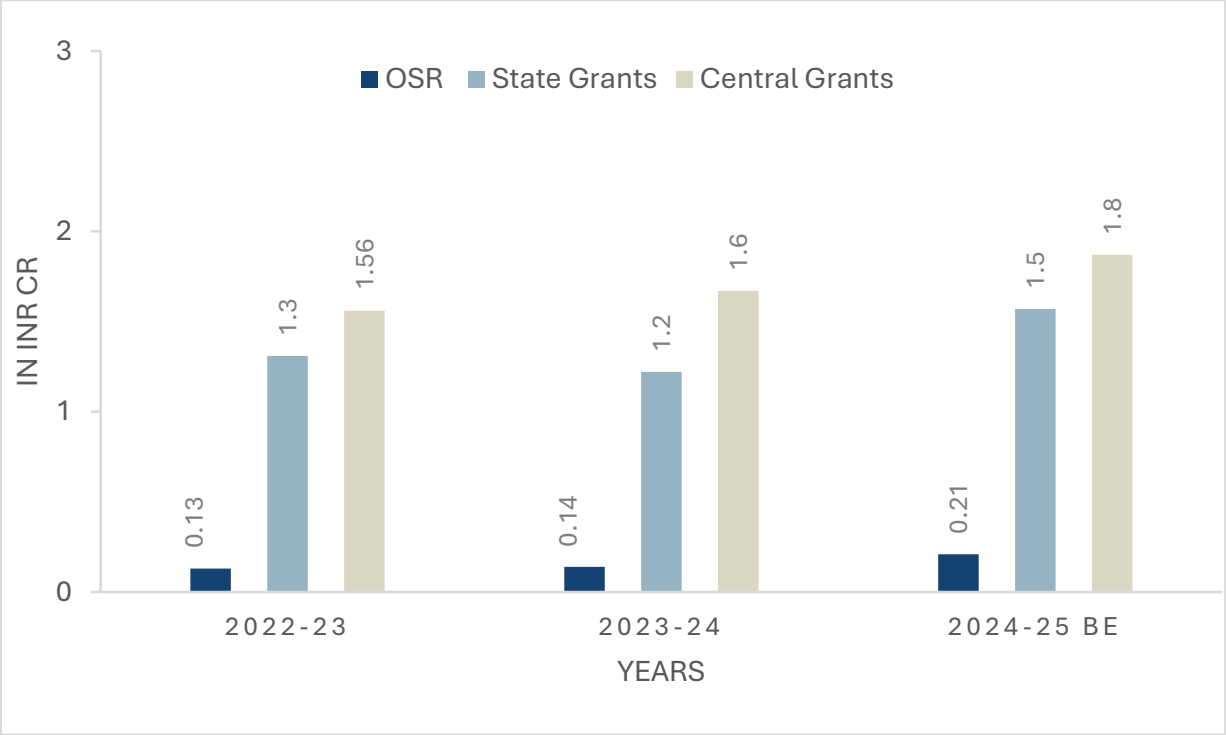
4.4.1 Unstructured transition, limited capacity: Shahpur NP

Shahpur, located about 25 km from Dharamshala, was designated a NP in 2016. However, its transition has lacked accompanying investments in institutional capacity, as a result of which it continues to function with rural administrative arrangements.

The NP's annual budget has ranged between about INR 3.1 crore in 2022–23 to about INR 3.8 crore in 2024–25 (BE), with IGTs making up more than 90 per cent of the total revenue. OSR remains low, between INR 12-21 lakh annually driven largely by modest collections from property tax, fees, and rentals. Utilisation of funds from Finance Commission and SFC resources and Centrally Sponsored Schemes (CSS) has been low, with unspent balances ranging 50-88 per cent of total annual revenues.

Staffing is a major bottleneck. All positions, except the secretary, are contractual. The NP lacks a dedicated urban cadre and shares a single junior engineer with other ULBs. Infrastructure services remain weak: piped water exists but is supplemented by local sources; sewerage system coverage is not comprehensive; wastewater is largely untreated; and, the SWM project has stalled due to unresolved land disputes. Compounding these issues, a road widening project has displaced local vendors without resettlement, exacerbating public dissatisfaction.

Figure 4.5 Shahpur Nagar Panchayat — Revenue trends 2022-23 to 2024-25



Note: State grants include SFC grants and State govt grants; Central grants include FC grants and CSS transfers
Source: Compiled from Shahpur NP budgets 2022-23 AE, 2023-24 AE, 2024-25 BE.

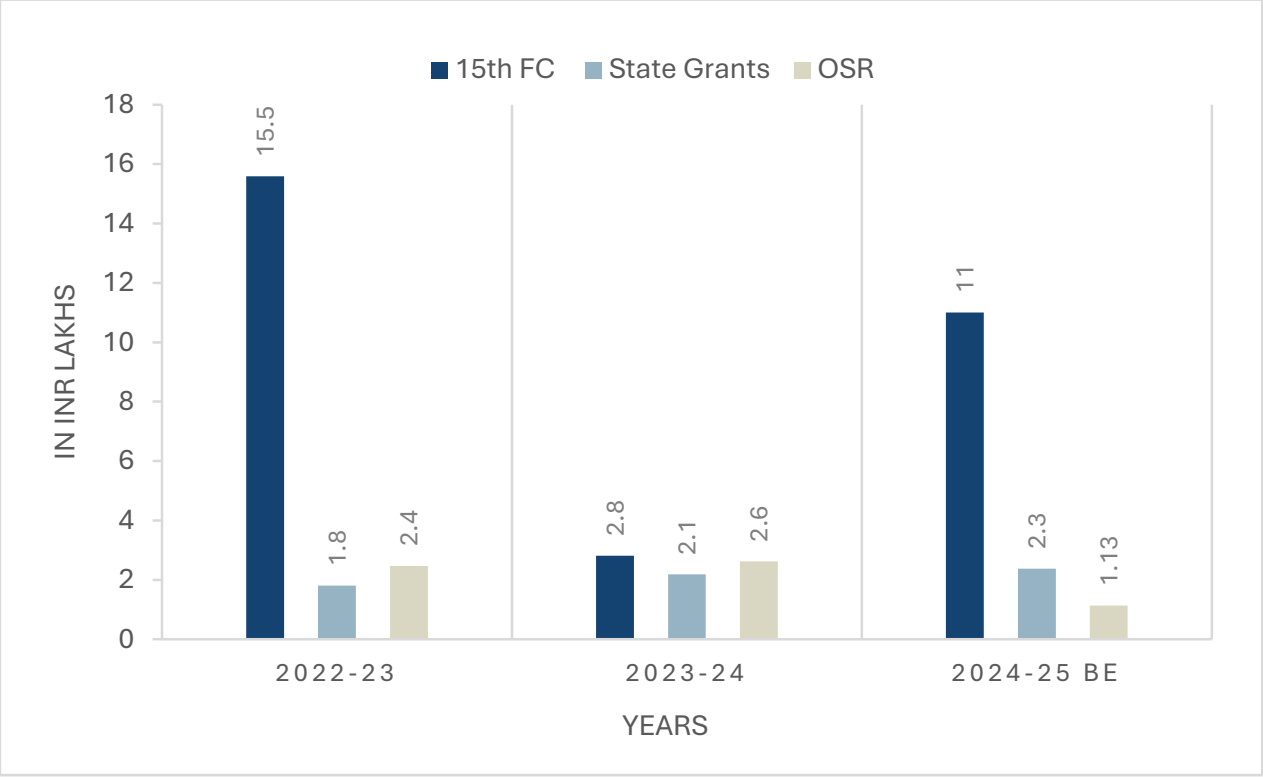
4.4.2 Rural governance, capacity gaps: The case of Averi Gram Panchayat

Averi, about 45 km from Dharamshala, is a growing peri-urban settlement governed as a GP. Though it meets the State's population criteria for urban classification, it falls short on income benchmarks and has therefore not been reclassified. As a result, it remains outside the urban fiscal and planning framework, limiting its ability to manage service delivery as densification increases.

Averi operates with a small budget of about INR 20–30 lakh per year. Its revenues are unstable: 15th FC grants made up over 75 per cent of the GP's receipts in 2022–23 and 2024–25, but only 37 per cent in 2023–24. State grants, which have ranged between INR 1.8-2.4 lakh per annum in recent years, remain minor. While the share of OSR in total revenues peaked at about a third in 2023–24 due to improved collection of house tax and shop rents, absolute amounts are negligible.

The GP has five staff members and relies on shared engineers for maintenance and project work. Individual household toilets have been built but faecal sludge or wastewater treatment systems are lacking.

Figure 4.6 Averi Gram Panchayat — Revenue trends (2022-23 to 2024-25 BE)



Source: Compiled from Averi Gram Panchayat budgets 2022-23 AE, 2023-24 AE and 2024-25 BE.

Although Shahpur and Averi are geographically and demographically similar, their governance status has shaped access to funds and capacity development differently. Shahpur, a notified ULB, has formal access to State and Central grants but is unable to utilise these effectively due to gaps in institutional and technical capacity. Averi, still classified as a RLB, is excluded from the urban fiscal architecture, despite facing growing service demands from expanding built-up areas.

4.5 Key Insights

The field studies underline that despite different administrative classifications, both newly formed ULBs and large RLBs with urban characteristics face strikingly similar challenges, rooted in weak institutions, poor infrastructure provisioning, financial fragility, and limited planning capacity.

- **Urban governance without urban capacity**: The shift from rural to urban status is often procedural, without corresponding investments in staffing, systems, or planning tools. Acute staff shortages and lack of capacity was noted in Shahpur and Paliganj. Most new ULBs lack baseline assessments, structured transition roadmaps, or integrated planning processes. RLBs, meanwhile, continue to operate with thin administrative capacity despite facing urban-scale service demands.

- **Severe infrastructure and service gaps**: Across both ULBs and RLBs, physical infrastructure for water, sanitation, solid waste, and stormwater is partial or absent. Institutional fragmentation, project delays, and weak execution capacity deepen these deficits, especially in high-growth settlements.

- **Finance remains a bottleneck**: Own Source Revenues (OSR) remain low, particularly in RLBs. While newly formed ULBs see an increase in total budget size post-transition, they remain heavily dependent on State transfers, and fund utilisation is weak as seen Shahpur and Paliganj's budgets. Capital investment is often below the levels needed to build and expand basic infrastructure to meet population demands.

- **Uncoordinated growth and environmental risk**: In the absence of integrated spatial plans or land-use regulations, growth is fragmented and increasingly encroaches on commons, wetlands, and water bodies. This is particularly visible in settlements like Dehu and Shahpur, where real estate speculation and poor land management threaten long-term sustainability.

- **Economic trajectories are uneven and untapped**: Some transitioned ULBs like Dehu benefit from proximity to industrial corridors or larger metros, while others like Paliganj and Shahpur remain disconnected from regional growth nodes. Yet, few have concrete economic strategies or institutional support to foster local enterprise, skilling, or job creation, especially for women and informal workers.

- **Misclassified RLBs are falling through the cracks**: Settlements with clear urban characteristics but governed as rural, such as Loni Kalbhor, face a compounded disadvantage: they face rising urban infrastructure and service demand without corresponding institutional or fiscal support.

Together, these insights underscore the need for a structured rural-to-urban transition framework, one that addresses institutional readiness, ensures interim financing, supports infrastructure provisioning, and links planning with local economic development.

5. Towards a New Framework for Defining and Supporting Urbanisation

5. Towards a New Framework for Defining and supporting Urbanisation

5.1 Introduction

India's urban transition is unfolding at a pace and manner that its current policy and institutional frameworks are struggling to accommodate. Criteria and practices employed to identify the urban have led to an underestimation of urbanisation in the country, with an estimated 10.4 crore Indians presently residing in 8,656 settlements with urban characteristics that continued to be classified, governed, and funded as rural. The implications are significant: fragmented governance structures, unmanaged growth, inadequate infrastructure investment, deficient service delivery, and missed economic opportunity.

Successive FCs have relied on dated Census population to arrive at urban grants, resulting in awards incommensurate with India's true urban population. Further, even existing STs often receive funding that falls short of the needs of their population. Overall, IGTs in India, about 0.35 per cent of GDP in 2022-23, are among the lowest in the world (RBI, 2024). This, coupled with weak local revenue bases, has left Indian ULBs in general - and smaller ULBs in particular – under-resourced.

Addressing the gap requires a new lens - one that sees urbanisation as a continuum and intervenes proactively. This will require four foundational shifts: (a) building dynamic systems to identify urbanisation patterns real time; (b) reforming FC transfers to reflect current urban population and differentiated settlement needs; (c) establishing policy and institutional frameworks to guide structured transitions; and, (d) introducing a dedicated transition package for newly urbanising areas. These will be essential to enable the next generation of Indian cities and towns to manage growth, deliver services, and unlock development potential.

5.2 Develop Dynamic Systems to Identity Urban

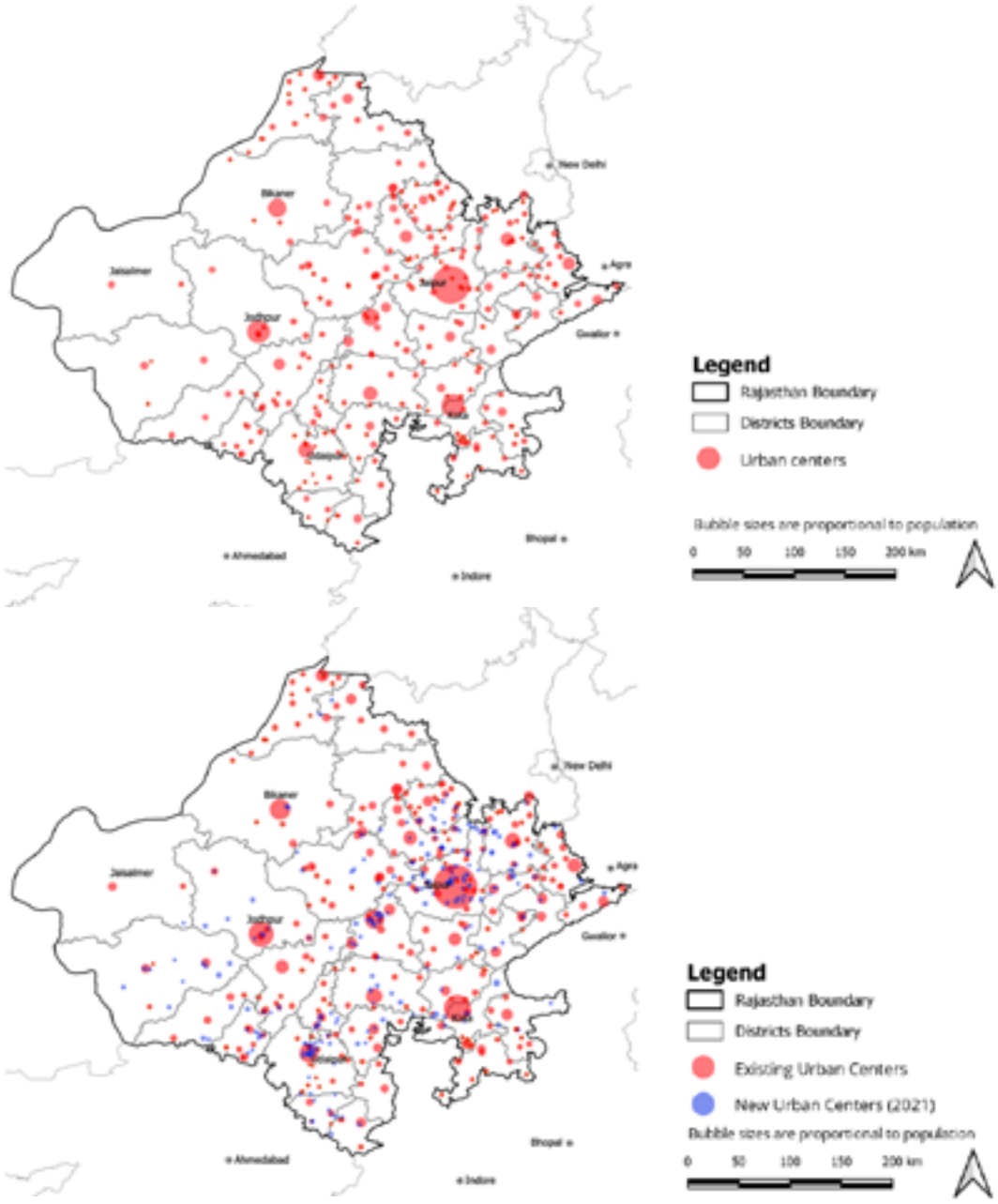
India must move beyond relying on decadal Census and adopt real time tools to map urban change. These could include:

- Administrative data from local and Central schemes (e.g., MGNREGA, ration card growth)
- Consumption proxies such as vehicle registration, electricity and water use, internet penetration, and enrolment trends

- Remote sensing tools to track built-up area growth and land use change

- For example, mapping exercises in Rajasthan have demonstrated how satellite data can project settlement growth beyond the 2011 Census baseline (Figure 5.1). The first map represents the settlement structure of urban areas in Rajasthan according to the 2011 Census and their population sizes. The second map shows the projected urban settlement structure in 2021 based on change in built up area as a proxy for population growth.

Figure 5.1: Mapping Newer Urban Settlement in Rajasthan



Source: IIHS, 2023

Complementary approaches, like those included in Odisha's rural-urban transition policy, also offer insights. Odisha uses nine parameters, including proximity to STs, population density, infrastructure presence, employment trends, and public transport connectivity, to identify peri-urban areas. Unless states adopt such dynamic identification systems, urban transitions will remain unplanned and under-resourced.

5.3 Population-linked grants; differentiated settlement strategies

The continued reliance on outdated Census data to determine the urban-rural population split in FC awards has significant implications, especially for transitioning settlements. As urbanisation accelerates, FC-XVI has an opportunity to adopt a more current, inclusive, and forward-looking approach.

- **Use current estimates to determine urban-rural split**: National estimates, from the Economic Survey 2023–24 and the Ministry of Health and Family Welfare, project India's urban population at 38-40 per cent by 2030-31 (GoI, 2024; National Commission on Population, 2019). FC-XVI should anchor its allocation formula in these updated figures. During FC-XV's tenure, the share of urban grants rose to 36.5 per cent in its final year. Building on this trajectory, FC-XVI could raise the share of ULB grants to 37-40 per cent over its award period. Should the 2027 Census be released during FC-XVI's award period, its data can be used to recalibrate allocations mid-cycle, enabling a more accurate distribution aligned with demographic realities.

- **Support for transitioning settlements**: Recognising the structural under-counting of urban areas, FC-XVI should adopt a differentiated strategy for newly transitioned statutory towns and transitioning settlements (such as CTs and large GPs with urban features). These areas require tailored governance, planning, and financing mechanisms to navigate the rural-to-urban shift effectively.

- **Incentivise structured transitions through a dedicated financial package**: FC-XVI could recommend a targeted capital grant scheme to support infrastructure and service delivery in these settlements, with an emphasis on Class III-V towns and CTs, where gaps are most acute. Alongside capital investments, the package should include earmarked funds for institutional capacity-building and technical assistance, helping local governments manage the transition process smoothly.

  By incorporating these measures, FC-XVI can ensure that the design of fiscal transfers reflects India's evolving settlement landscape better and actively supports the country's urban transition.

5.4 State Rural-Urban Transition Policy

Recognising the need for a structured approach to rural-urban transitions, some states have initiated relevant policy frameworks. The Government of Odisha notified a Rural-Urban Transition Policy in 2023; similar policy framework and accompanying legislation was recommended to the Government of Rajasthan the same year. These early efforts are aligned with the MoHUA's guidance encouraging states to convert CTs to STs to facilitate planned urban growth and governance.

Policy Notification and Legislative Action

- All states must notify their Rural-Urban Transition Policies by FY 2028-30, using data from the 2027 Census to identify relevant settlements.
- States with an urban population share exceeding 50 per cent should enact legislation to provide statutory backing to their Rural-Urban Transition Policies.
- States with an urban population share between 30 and 50 per cent should at a minimum notify a Rural-Urban Transition Policy and prepare a comprehensive road map for its operationalisation.
- States with an urban population share less than 30 percent must at least notify a Rural-Urban Transition Policy with clear commitments towards gradual implementation.

Policy Elements

- Define clear criteria for identifying transitioning settlements
- Identify local demographic and economic growth drivers to inform planning
- Establish benchmarks for minimum infrastructure and service levels
- Align transition goals with broader investment plans and state budgets

The State Rural-Urban Transition Policy can be drafted by the Urban Development Department, Housing and Urban Development Department or Local Self Government Department of the respective state.

5.5 Institutional Architecture for Structured Transitions

A multi-level institutional framework should be recommended to support structured rural-to-urban transitions in line with the policy provisions and elements above.

State-level

- **A State Transition Management Unit (STMU)** should be formed as the nodal agency for identifying transitioning settlements, preparing integrated development plans, building institutional capacity, and coordinating and monitoring implementation across levels, including coordination with the State Steering Committee for Rural-Urban Transitions (SSCRUT) discussed below. The STMU could be located within the Urban Development, Housing and Urban Development, or Local Self Government Department, and be led by the relevant departmental secretary.
- **A State Steering Committee for Rural-Urban Transitions (SSCRUT)** should be formed to provide policy guidance and strategic oversight, approve plans and budgets, and resolve inter-departmental issues relating to rural-urban transitions. This could be chaired by the Chief Minister

(CM), and comprise senior officials from key departments such Urban Development, Rural Development, Planning, Finance, Transport, and Power.

District-level

- A **District Transition Management Unit (DTMU)** should be formed to oversee district-level transition planning, co-ordinate between the state and local bodies, and anchor relevant capacity development programmes. The DTMU could be housed within the District Urban Development Authority or a relevant regional planning or development body, and should have presentation from RLBs, ULBs, elected local body representatives, and relevant parastatal agencies.

Local level

- A **Local Transition Management Units (LTMU)** should be formed in each transitioning settlement, whether GP, NP, a newly constituted ULB, or a ST likely to expand by merging adjoining rural areas. The LTMUs will carry out local assessments of infrastructure, service delivery and manpower, assist with local transition planning, facilitate community engagement, and support the transition process.

In addition, states may consider a Technical Support Unit (TSU) to provide expert assistance to STMUs, DTUMs, and LTMUs in areas such as GIS mapping, infrastructure planning, financial management, staff capacity development, and development of standardised tools and templates for planning and monitoring.

This multi-tiered structure will enable rural-urban transitions to be managed in a phased, accountable, and locally responsive manner. FC-XVI should further consider two other recommendations to institutionalise structured transitions, and elevate the issue in national and state policy discourse:

- Directing SFC to include a chapter on rural-urban transitions in their reports

- Recommending inclusion of a chapter or section on rural-urban transition in the GoI's annual Economic Survey.

5.6 Transition package for new ULBs

Support for transitioning settlements could be considered under two components, both to be administered under the institutional architecture recommended above:

- **A Transition Fund**, comprising 90 per cent of the package. This would provide capital grants for core urban services, including water supply, sanitation, sewerage, storm water drainage, and road connectivity. Priority should be accorded to environmental services (water supply, sanitation, sewerage, and storm water drainage), with road and transport projects considered only after service level benchmarks for environmental services are met.

- **A Capacity Development Fund,** comprising 10 per cent of the package. This would be used for conducting structured capacity development programmes for functionaries in transitioning

settlements (themes would be systematically assessed by the LTMUs, reviewed by the DTMUs, and approved by the STMU), and covering direct administrative costs associated with such capacity development programmes. This fund may also cover administration costs, including salaries, as long as they are restricted to costs associated with technical and specialised staff such as urban planners, water and sanitation engineers, and municipal accountants.

Quantum of the package

A transition package of INR 31,452 crore is recommended for the 2026-2031 period. This is based on:

- the per capita capital investment gap for towns with a population under 1 lakh, using the norms of GoI's HPEC for estimating the investment requirements for urban infrastructure services, and the present average per capita capital spend in these towns
- an estimated base population of about 10.4 crore in CTs as of 2026
- a 2 per cent annual increase in population in CTs between 2027 and 2031

The resulting capital investment need over 2026-31 is estimated at INR 31,452 crore, about 0.09 per cent of India's annual GDP.

Eligibility, Allocation, and Access Conditions for the package

The following are recommended:

- The transition package should target both transitioning settlements and newly designated STs (lowest tier), representing transitional areas, like NP. State governments would be responsible for identifying eligible settlements based on the transition policies and can also consider new NPs created post 2011 to be eligible for the package.
- Funds should be allocated to states using the AMRUT 1.0 allocation formula, giving equal weight to urban population and the number of STs.
- Access to the package should be conditional on: (a) states notifying Rural-Urban Transition policies; (b) states establishing the institutional architecture recommended above; and, (c) transitioning settlements meeting entry conditions including placing updated audited accounts in the public domain, operating a functional website with digital payment facilities, and submitting a comprehensive settlement level infrastructure report, identifying gaps in existing infrastructure and quantifying needs.

India's rapid urban transition is outpacing existing policies and institutions, leaving many settlements under-recognised, under-funded, and poorly serviced. The reliance on outdated Census data and weak intergovernmental transfers has compounded these challenges, particularly for smaller and transitioning towns.

This chapter has underscored the need for a new approach that treats urbanisation as a continuum rather than a binary shift. Key priorities include: developing real-time systems to track settlement change; reforming fiscal transfers to reflect current demographic realities; adopting state-level transition policies backed by institutional frameworks; and introducing a transition package to provide both capital investments and capacity support.

Together, these measures offer a pathway for managing growth more effectively. By anticipating change and supporting settlements in transition, India can move towards structured planning, enabling cities and towns to become inclusive, resilient, and engines of development.

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Annexures

Annexure 1

Table A1.1 Urbanisation and CT patterns across states

Note:

1. The urban population numbers are in 1000s.
2. The CT counts and fractions of populations are calculated from the IIHS' settlement reclassification (2011-2026).

Category	State / UT	Urban Population 2011	Urban Population 2026	Urban Population per cent 2011	Urban Population per cent 2026	CTs 2011	CT Population 2011	Urban Population in CTs % 2011	CTs 2026	CT Population 2026	Urban Population in CTs % 2026
High CT Population & Low Urbanisation	**Bihar**	11,758	16,554	11.3	12.5	60	491	4.20	777	7,013	42.4
	Jharkhand	7,933	10,932	24.1	26.7	188	2,582	32.5	378	4,081	37.3
	Odisha	7,004	8,696	16.7	19.5	116	828	11.8	211	1,492	17.2
	Assam	4,399	5,848	14.1	15.9	126	970	22.1	360	2,668	45.6
	Meghalaya	595	715	20.1	20.8	12	220	37.0	11	223	31.2
High CT Population & Medium Urbanisation	**Tamil Nadu**	34,917	42,669	48.4	55.0	376	4,999	14.3	959	10,336	24.2
	West Bengal	29,093	38,247	31.9	38.1	781	7,947	27.3	1420	14,160	37.0
	Haryana	8,842	13,723	34.9	43.8	74	914	10.3	265	2,635	19.2
	J&K and Ladakh	3,433	4,452	27.3	31.3	36	272	7.9	162	1,298	29.2
	Tripura	961	1,813	26.2	42.6	26	291	30.3	56	591	32.6
	Manipur	834	1,100	29.2	33.2	23	183	21.9	38	317	28.8
	Andaman & Nicobar Islands	143	186	37.6	45.8	4	35	24.5	6	51	27.4

Category	State / UT	Urban Population 2011	Urban Population 2026	Urban Population per cent 2011	Urban Population per cent 2026	CTs 2011	CT Population 2011	Urban Population in CTs % 2011	CTs 2026	CT Population 2026	Urban Population in CTs % 2026
High CT Population & High Urbanisation	**Kerala**	15,935	29,465	47.7	81.4	461	10,295	64.6	1108	24,397	82.8
	NCT of Delhi	16,369	22,495	97.5	99.8	110	4,966	30.3	139	6,994	31.1
	Goa	907	1,262	62.2	78.9	56	474	52.3	63	576	45.6
	Puducherry	853	1,241	68.4	70.6	4	91	10.7	29	367	29.6
	Daman & Diu	183	686	75.2	97.3	6	115	62.8	16	485	70.7
	Dadra & Nagar Haveli	161	613	46.8	73.4	5	62	38.5	18	332	54.2
	Lakshadweep	50	70	77.6	100	6	50	100	7	63	90.0
Low CT Population & Low Urbanisation	**Uttar Pradesh**	44,495	59,394	22.3	24.5	267	3,557	8.0	724	6,346	10.7
	Madhya Pradesh	20,069	26,292	27.6	29.3	112	1,106	5.5	159	1,406	5.3
	Rajasthan	17,048	22,615	24.9	27.0	112	1,240	7.3	215	1,886	8.3
	Chhattisgarh	5,937	8,763	23.2	28.1	14	135	2.3	61	429	4.9
	Himachal Pradesh	689	787	10.0	10.4	3	18	2.6	1	5	0.6
	Arunachal Pradesh	317	422	22.9	26.3	1	4	1.3	0	0	0

Category	State / UT	Urban Population 2011	Urban Population 2026	Urban Population per cent 2011	Urban Population per cent 2026	CTs 2011	CT Population 2011	Urban Population in CTs % 2011	CTs 2026	CT Population 2026	Urban Population in CTs % 2026
Low CT Population & Medium-High Urbanisation	**Maharashtra**	50,818	63,809	45.2	49.4	278	4,023	7.9	364	3,908	6.1
	Gujarat	25,745	37,192	42.6	50.2	153	1,767	6.9	325	3,910	10.5
	Karnataka	23,626	31,620	38.7	45.9	127	1,227	5.2	257	2,235	7.1
	Andhra Pradesh	14,610	20,573	29.5	38.3	112	2,012	13.8	204	3,064	14.9
	Telangana	13,731	19,349	38.9	49.8	116	2,105	15.3	92	913	4.7
	Punjab	10,399	13,441	37.5	42.9	74	687	6.6	139	1,246	9.3
	Uttarakhand	3,049	4,473	30.2	37.3	41	489	16	72	635	14.2
	Chandigarh	1,026	1,267	97.2	100	5	56	5.5	9	98	7.7
	Nagaland	571	1,150	28.9	50.1	7	66	11.6	5	58	5.0
	Mizoram	572	709	52.1	55.7	0	0	0	0	0	0
	Sikkim	154	391	25.2	55.2	1	6	3.9	6	43	11.0

Source: Population Projections for India and States, Report of the Technical Group on Population Projections (2019).

Table A1.2 State-level urbanisation under relaxed criteria

Note: The relaxed criteria used are:

1. Population at least 5000, and at least 75per cent of male main workers in non-agricultural work
2. Density at least 400 persons per sq. km., and at least 75per cent of male main workers in non-agricultural work
3. Population at least 3000, density at least 400 persons per sq. km., and at least 60per cent of male main workers in non-agricultural work

State	Urban Population per cent (2011 Official)	Urban Population per cent (2011, relaxed criteria 1)	Urban Population per cent (2011, relaxed criteria 2)	Urban Population per cent (2011, relaxed criteria 3)
J&K and Ladakh	27.3	31.5	43.8	40.2
Himachal Pradesh	10.04	10	22.6	11.7
Punjab	37.48	38.5	42.1	41.7
Chandigarh	97.21	99.2	100	100
Uttarakhand	30.23	34.3	40.4	39.7
Haryana	34.88	35.9	37.7	39.8
NCT of Delhi	97.5	98.6	99.5	99.3
Rajasthan	24.87	26.2	26.8	28
Uttar Pradesh	22.27	22.9	25.5	26.1
Bihar	11.29	11.8	13.6	14.2
Sikkim	25.22	26.6	34.7	33.2
Arunachal Pradesh	22.91	23.4	33.9	23.7
Nagaland	28.86	31.1	36.6	33.5
Manipur	29.2	30.2	38.1	36.7
Mizoram	52.13	52.1	53.2	52.1
Tripura	26.16	31	32.5	40.4

State	Urban Population per cent (2011 Official)	Urban Population per cent (2011, relaxed criteria 1)	Urban Population per cent (2011, relaxed criteria 2)	Urban Population per cent (2011, relaxed criteria 3)
Meghalaya	20.05	20.3	31.3	22.1
Assam	14.1	15.7	26.7	22.2
West Bengal	31.87	34.2	39.4	41
Jharkhand	24.05	25.3	33.7	30.3
Odisha	16.69	17.1	20.9	19.9
Chhattisgarh	23.24	23.6	24.6	24.9
Madhya Pradesh	27.63	27.9	28.5	29.1
Gujarat	42.6	43.8	44	45
Daman & Diu	75.23	89.9	99.8	95.1
Dadra & Nagar Haveli	46.84	53	58.1	65.6
Maharashtra	45.22	46.5	47.4	48.3
Andhra Pradesh	29.47	30.5	30.9	34.4
Karnataka	38.67	41	42	42.7
Goa	62.19	68.8	75	70.1
Lakshadweep	77.55	89.7	99.5	95.9
Kerala	47.7	79	76.3	89.3
Tamil Nadu	48.4	52	53.5	56.4
Puducherry	68.35	74	76.3	85.1
Andaman & Nicobar Is.	37.57	41.1	59.9	51.6
Telangana	38.88	39.4	39.6	41.7

Source: Census 2011 and IIHS analysis

Annexure 2

Consolidated Tables: Budgetary analysis for each city class.

Note: All numbers are in INR crore.

1. Mumbai

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 RE	2024-25 BE
Own Tax	5,808.41	6,892.17	6,471.36	7,097	4,950
Own Non-Tax	5,168.17	19,113.71	8,341.58	10,617.42	10,575.45
Rev Grants	1,411.83	613.88	616.81	684.35	1,248.93
Assigned Revenues	9,806.08	10,588.05	11,444.55	12,356.95	13,331.63
Investment/Interest/FD	1,721.18	1,535	1841.41	2,396.10	2206.3
Other	7,095.82	9,366.84	9,175.20	9,272.17	4,331.72
Total	31,011.52	48,109.69	37,890.90	42,424	36,644

Note: Data taken from Brihanmumbai Municipal Corporation (BMC) budget estimates 2024-25 and audited Annual Financial Statements 2021, 2022, 2023.

2. Bengaluru

Revenue Receipts	2020-21	2021-22	2022-23	2023-24	2024-25
Own Tax	2,738.54	2,800.47	3,039.23	3,780	4,792
Own Non-Tax	620.75	801.11	1,045.69	1,134.42	2,700.91
Rev Grants	1,012	1,503.19	987.39	631.84	589.59
Assigned Revenue	0	41.48	0	0	0
Investment/Interest/FD	96	72.4	50.9	70	75
Other	0	0	0	0	0
Total	4,467.29	5,218.65	5,123.21	5616.26	8,157.50

Note: Data taken from Bruhat Bengaluru Mahanagara Palike (BBMP) budget estimates 2024-25, 2023-24 and 2022-23.

3. Hyderabad

Revenue Receipts	2020-21	2021-2022	2022-2023	2023-24 RE	2024-25 BE
Own Tax	1,702	1,744.48	1,903.44	1,810	1,907
Own Non-Tax	752.2	1,270.10	1,618.61	1,677	1,972
Rev Grants	405.4	379.5	279.61	464.9	712
Assigned Revenue	0	0	42.47	252	85
Investment/Interest/FD	17.9	123.86	37.93	5	6
Other	60.11	5.6	0.87	40	1,256
Total	2,937.30	3,523	3,882.93	4,249	5,938

Note: Data taken from Greater Hyderabad Municipal Corporation budget estimates 2024-25 and audited Annual Financial Statements 2020-21, 2021-22 and 2022-23.

4. Chennai

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 RE	2024-25 BE
Own Tax	848.3	1,174.54	2,006.20	2,231.80	2,352
Own Non-Tax	389.4	268.93	285.71	260.48	295.59
Rev Grants	1,004.50	657.82	411.19	628.56	370.05
Assigned Revenue	652.6	711.95	858.7	1,218	1,280
Investment/Interest/FD	12.6	44.29	45.65	15.48	20.49
Other	124.4	127.07	157.06	153.98	146.47
Total	3,031.80	2,984.60	3,779	4,508.30	4,464.60

Note: Data taken from Chennai Municipal Corporation Budget estimates 2024-25, 2023-24 and 2022-23.

Class I-A Cities

1. Surat

Revenue Receipts	2020-21	2021-22	2022-23	2023-24
Own Tax	1,240.04	1,341.8	1,526.54	1,853.14
Own Non-Tax	406.94	784.06	992.53	1,435.22
Revenue Grants	334.02	361.4	138.14	185.72
Assigned Revenue	722.59	723.98	773.9	817.29
Investment/Interest/FD	0	0	0	0
Other	82.01	102.08	106.6	115.43
Total	2,785.6	3,313.32	3,537.71	4,406.80

Note: Data taken from Surat Municipal Corporation's Annual Financial Statements 2023-24, 2022-23 and 2021-22.

2. Pune

Revenue Receipts	2020-21	2021-22	2022-23	2023-24
Own Tax	2,793.57	3,470.39	4,042.96	4,996.71
Own Non-Tax	830.64	2,348.61	2,162.18	2,476.71
Revenue Grants	334.13	273.72	420.92	574.68
Assigned Revenue	1,787.02	2,339.37	2,538.95	2,753.47
Investment/Interest/FD	129.98	108.98	231.59	380.34
Other	33.09	21.91	29.16	24.9
Total	**5,908.43**	**8,562.98**	**9,425.76**	**11,206.81**

Note: Data taken from Pune Municipal Corporation Budget estimates 2023-24, 2022-23 and 2021-22.

3. Kozhikode

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	55.9	73.9	86.3	88.84
Own Non-Tax	26.9	56.6	69.3	67.62
Revenue Grants	327.8	287.2	317.7	395.85
Assigned Revenue/GPF*	0	0	0	37.52
Investment/Interest/FD	0.9	1.1	1.1	1.38
Other	0.3	0.3	0.4	0.37
Total	411.7	419.1	474.8	591.58

Note: Data taken from Kozikode Municipal Corporation's Annual Financial Statements 2023-24, 2022-23, and 2021-22.

4. Ahmedabad

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	1,434.18	1,560.48	1,704	1,950
Own Non-Tax	1,332.84	1,343.23	1,530.31	2,026.03
Revenue Grants	1,390.53	1,201.61	913.3	689.05
Assigned Revenue	1,045.80	872.03	1,119.69	1,194.12
Investment/Interest/FD	0.00	0.00	0	0
Other	0.00	0.00	0	504
Total	5,203.35	4,977	5,267	6,363

Note: Data taken from Ahmedabad Municipal Corporation's Annual Financial Statements 2023-24, 2022-23 and 2021-22.

Class I-B Cities

1. Indore

Revenue Receipts	2020-21	2021-22	2022-23	2023-24
Own Tax	487.94	511.03	596.31	605.21
Own Non-Tax	180.4	302.8	261.88	251.70
Revenue Grants	269.75	262.62	289.14	293.95
Assigned Revenue	553.65	646.52	655.77	663.52
Investment/Interest/FD	16.03	17	18.64	21.81
Other	57.12	67.49	70.58	91.95
Total	1,564.89	1,807.41	1,892.32	1,928.14

Note: Data taken from Indore Municipal Corporation's Annual Financial Statements 2023-24, 2022-23 and 2021-22.

2. Jaipur

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	24.92	0.78	59.02	70.04
Own Non-Tax	210.8	100	111.3	117.13
Revenue Grants	50	46	46	0
Assigned Revenue/GPF*	202.68	187.79	287.25	290.00
Investment/Interest/FD	17.83	15.78	53.31	96.03
Other	21.81	15.54	93.30	41.71
Total	411.7	419.1	474.8	614.91

Note: Data taken from Jaipur Municipal Corporation's Annual Financial Statement 2023-24, 2022-23 and 2021-22.

3. Kanpur

Revenue Receipts	2020-21	2021-22	2022-23	2023-24
Own Tax	191.28	195.79	195.79	367.46
Own Non-Tax	20.7	31.10	35.40	53.18
Revenue Grants	567.3	605.68	605.68	670.68
Assigned Revenue	357.80	396.30	395.80	0.00
Investment/Interest/FD	21.5	25.64	25.64	32.01
Other	4.08	3.93	3.93	3.39
Total	1,162.66	1,258.44	1,262.24	1,126.72

Note: Data taken from Kanpur Municipal Corporation's Annual Financial Statement 2023-24, 2022-23, 2021-22 and 2020-21.

4. Rajkot

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	238.68	240.88	302	217
Own Non-Tax	165.20	253.30	336.80	427.18
Revenue Grants	148.56	134.14	55.38	78.96
Assigned Revenue	0.00	134.14	143.53	148.56
Investment/Interest/FD	26.93	16.18	18.67	35.7
Other	25.86	2.05	10.30	30
Total	605.23	781	867	937

Note: Data taken from Rajkot Municipal Corporation Budget Estimates 2023-24 and Annual Financial Statement 2023-24, 2022-23, 2021-22 and 2020-21.

Class I-C Cities

1. Davanagere

Revenue Receipts	2020-21	2021-22	2022-23	2023-24
Own Tax	19.5	25.8	35.3	32.91
Own Non-Tax	21.8	57.2	24.7	0.60
Revenue Grants	62.4	72.2	70.5	56.62
Assigned Revenue	0	0	0	0
Investment/Interest/FD	2.40	4	2.2	0.8
Other	0	0	0	1
Total	106.1	158.7	132.7	91.93

Note: Data taken from Davengere Municipal Corporation Budget estimates 2023-24 and Annual Financial Statement 2023-24, 2022-23, 2021-22 and 2020-21.

2. Nizamabad

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	51.30	30.10	41	48
Own Non-Tax	7.30	30.60	31.20	5.92
Revenue Grants	99.00	30.20	115.4	171.27
Assigned Revenue	1.00	0	16.00	0.00
Investment/Interest/FD	4.50	2.50	11.2	45
Other	0.00	0.00	0	0
Total	163.10	93.40	214.40	270.34

Note: Data taken from Nizambad Municipal Corporation Budget estimates 2023-24 and Annual Financial Statement 2023-24, 2022-23 and 2021-22.

3. Deogarh

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	12.7	17.2	18.3	19.43
Own Non-Tax	2.8	5	5.5	6.06
Revenue Grants	7.3	24.8	26.3	24
Assigned Revenue/GPF*	0	0	0	0
Investment/Interest/FD	0.2	0.5	0.5	0.4
Other	0	0.1	0.1	0.05
Total	23	47.6	50.7	50.23

Note: Data taken from Deogarh Municipal Corporation Budget estimates 2023-24, 2022-23 and 2021-22.

4. Haldwani

Revenue Receipts	2020-21	2021-22	2022-23	2023-24 BE
Own Tax	3.2	2.8	2.45	3.00
Own Non-Tax	4	6.9	7.1	9.5
Revenue Grants	34.4	36.9	32.33	52.4
Assigned Revenue/GPF*	-	-	-	-
Investment/Interest/FD	0	0.4	0.1	-
Other	0.2	1.4	1.37	3.4
Total	41.8	48.4	43.35	68.30

Note: Data taken from Haldwani Municipal Corporation Budget estimates 2023-24, 2022-23 and 2021-22.

Annexure 3

Methodology and Budget documents

Methodology

A qualitative, case-based methodology was adopted. This included semi-structured interviews, field observations, and review of official documents, particularly local budget records. One ULB and one adjacent RLB were selected in each state—resulting in six study sites. Stakeholder interviews focused on governance transitions, staffing patterns, service delivery, financial management, and inter-institutional coordination. The team engaged with Executive Officers, Municipal Secretaries, Sanitation Supervisors, elected representatives, Panchayat officials, and block-level officers.

- **Maharashtra**
  The team met *Smt. Nivedita Gharge-Katkar* (Chief Officer) and *Smt. Pooja Amol Divate* (President) at **Dehu Nagar Panchayat**, and *Smt. S. N. Gawari* (Gram Vikas Adhikari) with staff at **Loni Kalbhor Gram Panchayat**.

- **Himachal Pradesh**
  Interviews were held with *Mr. Pradeep Dixit* (Secretary) and *Mr. Kamal Kanth* (Sanitary Supervisor) at **Shahpur Nagar Panchayat**, and with *Mr. Rakesh Patial* (BDO), *Mr. Kushal Kumar* (Panchayat Sachiv), and ward representatives at **Averi Gram Panchayat**.

- **Bihar**
  The study covered **Paliganj Nagar Panchayat** and **Kita Chauhattar West Gram Panchayat**. Interviews were conducted with *Mr. Sanjeev Kumar* (Acting Executive Officer), *Mr. Santosh Kumar* (Head Clerk), and *Ms. Alankarika* (SWM Expert) in Paliganj, and with *Mr. Ashutosh* (Panchayat Sachiv) and *Mrs. Nisha Sagar* (Block Panchayat Raj Officer, Maner) in Kita Chauhattar West.

Budget Documents received from Maharashtra, Bihar and, Himachal Pradesh

Table A3.1 Maharashtra | Loni Kalbhor GP Documents

Maharashtra: Loni Kalbhor GP Documents	
Loni Kalbhor GP	Loni Kalbhor Gram Panchayat Comprehensive document

Table A3.2 Maharashtra | Dehu NP Documents

Maharashtra: Dehu NP Documents	
Dehu NP	Dehu Nagar Panchayat Notification Dehu Income and Expenditure Before and After transition Dehu Budget- 2025-26 Dehu Detailed work report

Table A3.3 Bihar | Kita Chauhattar GP Documents

Bihar: Kita Chauhattar GP Documents	
Kita Chauhattar GP	6th SFC 2021-22 Document 6th SFC 2022-23 Document 6th SFC 2023-24 Document 6th SFC Summary 15th FC 2021-22. 15th FC 2022- 23 15th FC 2023-24 15th FC 2024-25 15th FC Summary 15th FC 2026-26

Table A3.4 Bihar | Paliganj NP Documents

Bihar: Paliganj NP Documents	
Paliganj NP	Budget Guidelines for expenditure_6th SFC_2022-23 Interim recommendation. 15th FC_Grant amount Office post creation Notification. Paliganj map

Table A3.5 Himachal Pradesh | Averi GP Documents

Himachal Pradesh: Averi GP Documents	
Averi GP	Comprehensive document

Table A3.6 Himachal Pradesh | Shahpur NP Documents

Himachal Pradesh: Shahpur NP Documents	
	Taxes imposed and their collection during 2020-21
	Taxes imposed and their collection during 2022-23
	Budget 2023-24
	Budget estimate for 2024-25
Shahpur NP	Tax 2023-24

Annexure 4

Methodology for working out the quantum of the Transition Package

Per capita capital investment gap for towns with a population under 1 lakh have been arrived at by using the norms of GoI's HPEC (2011) across 8 sectors to estimate the investment requirements for urban infrastructure services.

Sector	Average
Water Supply	6,755
Sewerage	6,648
Solid Waste Management	204
Storm Water Drains	2,800
Street lighting	207
Traffic support	378
Roads	22,400
Total	39,392

Note: This total refers to per capita requirements for 20 years from 2011-2031. HPEC has broken requirements per sector for towns below 1 lakh into 3 categories: population between 50,000-1,00,000; population between 20,000-50,000 and population less than 20,000. This report has taken higher value between these categories across all sectors.

To arrive at the gap in capital investment, average per capita spend in towns below 1 lakh has been considered drawing from the MoHUA city finance dashboard (INR 1,454). The gap in per capita capital spend works out to INR 2,736.63.

To estimate total capital requirement for transitioning and newly transitioned towns, population estimated in CTs in 2026 (10.40 crore) has been considered as a lower bound with an additional 2 per cent increase in population in CTs between 2027 and 2031.

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