

# Incentivizing Transition of Census Towns to Statutory Towns

For The 16th Central Finance Commission of India



WORLD BANK GROUP



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# Abbreviations

AMRUT	Atal Mission for Rejuvenation and Urban Transformation
CAG	Comptroller and Auditor General
CFC	Central Finance Commission
CSS	Central and State
CTs	Census Towns
DUDAs	District Urban Development Agencies
FCs	Finance Commissions
FM	Financial Management
GFDRR	Global Facility for Disaster Reduction and Recovery
GIS	Geographic Information System
Go	Government of India
GPs	Gram Panchayats
MoHUA	Ministry of Housing and Urban Affairs
MoPR	Ministry of Panchayat Raj
OSR	Own-Source Revenue
PBG	Performance-Based Grant
PMU	Project Management Unit
PRIs	Panchayat Raj Institutions
RADFI	Rural Area Development Plan Formulation and Implementation
RRDA	Ranchi Regional Development Authority
SDO	Sub-Divisional Officer
SFC	State Finance Commission
STs	Statutory Towns
SUDA	State Urban Development Agency
ULBs	Urban Local Bodies



# About the Study

The 16th Central Finance Commission (16th CFC) requested the World Bank to carry out a study on Rural to Urban Transition in India with a focus on Census Towns and providing recommendations on incentivising the transition of Census Towns to Statutory Towns. This has involved setting the issue in the larger National context, studying the various factors which impact such a transition and most importantly the infrastructure investments and service delivery which will impact the economic growth in these areas.

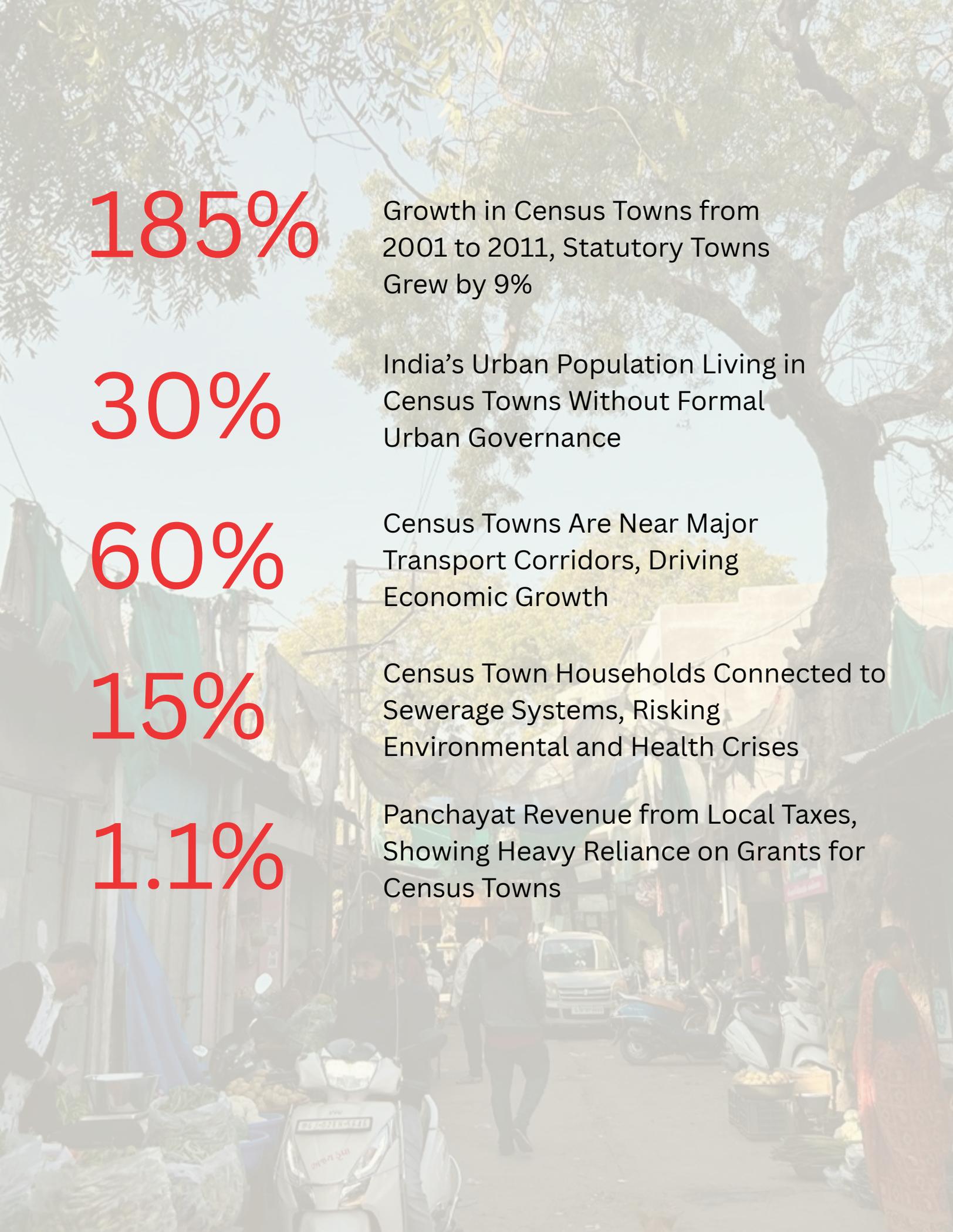
## **The World Bank has undertaken research and analysis on the following:**

1. Landscape, functioning, governance and financial management of Census Towns. *(What environment do Census Towns operate in?)*
2. The potential way forward for the management of Census Towns to enable their efficient and sustainable development. *(What actions are required so that Census Towns can develop as urban areas which are centres of economic growth?)*

## **Based on the above, the study is organised into two parts:**

1. **Main Report:** Summarises and analyses pattern of Census Towns functioning, transition process to Statutory Towns, and recommendations towards their better management.
  - Outlines definition of CTs in India and places this in the International context. *(Chapter 1)*

- Categorises Census Towns based on spatial analysis and provides an overview of current status in terms of planning, service delivery, administration and financial management). (*Chapter 2*)
  - Provides a summary of de jure and de facto transition process from CTs to STs. (*Chapter 3*)
  - Provides an overview of actions to improve the management of CTs at Central, State and local level with a focus on recommendations for the 16th CFC. (*Chapter 4*)
2. **Annexures:** Includes findings of primary research, analysis, information and key government notifications.



185%

Growth in Census Towns from 2001 to 2011, Statutory Towns Grew by 9%

30%

India's Urban Population Living in Census Towns Without Formal Urban Governance

60%

Census Towns Are Near Major Transport Corridors, Driving Economic Growth

15%

Census Town Households Connected to Sewerage Systems, Risking Environmental and Health Crises

1.1%

Panchayat Revenue from Local Taxes, Showing Heavy Reliance on Grants for Census Towns



# Executive Summary

**Emerging towns, often classified as Census Towns (CTs), represent a significant opportunity for India's economic growth.** These towns, characterised by rapid urbanisation and a shift towards non-farm employment, are poised to become decentralised economic engines. However, their transition from rural to urban governance structures faces significant challenges, including inadequate infrastructure, limited financial resources, and a lack of clear legal frameworks.

**Governed by Article 243Q of the Constitution, the existing policy framework allows States to define transitional areas based on population, density, non-agricultural employment, and economic importance. However, its discretionary nature results in inconsistent State policies.** The planning framework is similarly fragmented, with States leveraging distinct mechanisms.

**To incentivise this transition, a multi-pronged approach is necessary, involving actions at the Central, State and local levels. The 16th Central Finance Commission (16th CFC) can play a pivotal role by recommending and incentivising a structured approach for the transition of Census Towns (CTs) to Statutory Towns (STs).**

**The 16th CFC should consider a Performance-Based Grant (PBG) model, with incentives for actions at both the State and local levels.** These grants should be linked to clearly defined performance criteria to ensure accountability and performance, and disbursements should be contingent upon completing specific activities. This could include percentage-based releases upon achievement of various actions. Crucially, access to these funds should be based on a challenge mechanism, rewarding States demonstrating a clear commitment and appetite for undertaking this strategic transition. **The PBG model should focus on key areas such as:**

- **Enabling Factors:** States should establish a Convergence Committee to coordinate government schemes and resources to support CTs. They should also develop a co-financing plan that combines funds from Central Government grants, State budgets, National/State mission grants, local revenue, and SFC contributions.
- **Capacity Building:** States should establish a dedicated Capacity Building/Support Unit to enhance the administrative, technical, and financial capabilities of CTs. This unit should provide training, technical assistance, and policy guidance on urban planning, financing, and monitoring the transition process.
- **Planning:** States should develop strategic frameworks, including spatial, economic, and infrastructure plans, to guide the sustainable urban development of CTs. This involves zoning, land use regulations, and infrastructure provisioning tailored to CT types, addressing unregulated growth, service deficits, and climate vulnerabilities.
- **Notification:** States should establish a clear process for officially declaring a CT as a transitional urban area eligible for ST status. This involves meeting predefined criteria, State notification, initiating the transition process, enabling access to urban governance powers and funding.
- **Spatial Infrastructure:** States should develop a detailed roadmap integrating spatial planning with infrastructure development for CTs, specifying prioritised projects, timelines, and funding sources. This translates the GIS-based master plan into actionable steps, involving stakeholders to ensure community buy-in and support the transition to ST status.
- **Transition to Statutory Status:** States should establish a clear legal and administrative process for reclassifying a CT as an ST, typically as a Nagar Panchayat, Municipal Council, or Municipal Corporation, under State legislation. This involves meeting urban criteria, State notification, and establishing urban governance structures to access ULB-specific funding and powers.

By implementing a comprehensive PBG model, the 16th CFC can effectively incentivise States to undertake the transition of CTs to STs, paving the way for sustainable urban development and economic growth in emerging towns across India.

# Context and Problem Statement

1

## 1.1 Why are Census Towns Important in India?

### 1.1.1 Objectives

Most analytical studies on Census Towns till date have focused on growth trends and/or service delivery, several of these being at the State level. The objective of this report is to provide a concise analysis on the factors impacting the transition of Census Towns (CTs) to statutory towns (STs). The central objective of the exercise has been to develop a roadmap for improving the management of Census Towns with a focus on the role and actions which can be played by the 16th CFC. This will need to be crafted in cognizance that given India's constitutional structure, while incentives can be provided by the Centre, actions will be undertaken at the State and local level.

### 1.1.2 Definition of Census Towns

**In India, a Census Town is one whose population has attained urban characteristics (as per the definition of the Census of India), but it is not statutorily notified and continues to be administered by and as a rural local body.** As per the Census, an area is classified as urban if it meets three criteria:

- (i) Population exceeding 5,000.
- (ii) At least 75% of the male workforce engaged in non-agricultural activities.
- (iii) Population density of at least 400 persons per square kilometre.

Between 2001 and 2011, the number of CTs saw a rise of 185% with their total population increasing from 21 million to 54.3 million. In contrast, STs grew by only 9%.

**TABLE 1: Growth of Census and Statutory Towns**

	Number			Population		
	2001	2011	% Change	2001	2011	% Change
Statutory Towns	3711	4081	9.9	265	322.7	21.8
Census Towns	1362	3892	185.9	21	54.3	158.2

It is worth noting that the dramatic rise in CTs in India occurs despite the application of three factor criteria used by the Census for defining urban areas, thereby placing India among the few countries globally – less than 5 percent – to use such criteria. The Table 2 indicates that 75 percent countries, globally, use two or a smaller number of criteria for defining urban areas.

**TABLE 2: Criteria Used Across the World to Define Urban Areas**

	No. of Criteria	Administrative	Economic	Population size/ density	Urban characteristics	No. of Countries or Areas	Percentage (n=233)
Countries or Areas using any criteria to delineate the urban	1 Criteria	✓				59	25.3%
	1 Criteria		✓			0	-
	1 Criteria			✓		37	15.9%
	1 Criteria				✓	8	3.4%
	2 Criteria	✓	✓			0	-
	2 Criteria	✓		✓		17	7.3%
	2 Criteria	✓			✓	20	8.6%
	2 Criteria			✓	✓	9	3.9%
	2 Criteria			✓		0	-
	2 Criteria			✓	✓	20	8.6%
	3 Criteria	✓	✓	✓		4	1.7%
	3 Criteria	✓	✓		✓	0	-
	3 Criteria	✓		✓	✓	10	4.3%
	3 Criteria			✓	✓	14	6.0%
	4 Criteria	✓	✓	✓	✓	11	4.7%
	Entire population is urban						12
No definition or unclear definition						12	5.2
<b>Total</b>						<b>233</b>	<b>100%</b>

**Source:** United Nations Department of Economic and Social Affairs (2018).

In 108 countries, an area is classified as urban based on its population size or density. In 37 of these countries, demographic characteristics are the sole criteria, with population thresholds ranging from 200 to 50,000 inhabitants. **If India were to use the two combined criteria of population and density only, the number of CTs in 2011 would increase to 17,380.**

**As per NITI Aayog, urban areas contribute 60% of the national GDP while occupying only 3% of the country's land. It also estimates that every percentage increase in urbanisation at the district level increases GDP by 2.7%. If India aspires towards a 'Viksit Bharat' by 2050 then it must accept the real criteria of urbanisation, so that the urban areas are managed by appropriate institutions, receive funding and handholding to drive the country's growth.**

### 1.1.3 Trends in Growth of Census Towns

**The 2011 Census envisaged a continued trend in the rise in CTs – estimating these to increase to 5,978 in 2021.** 2011 was a watershed year, revealing a dramatic increase in CTs. For the first time since Independence, the absolute increase in urban population exceeded that of the rural population. Contributing to this acceleration are (i) communication (ii) connectivity and (iii) availability of land<sup>1</sup>. The largest concentration of CTs (approximately 70%) falls within the population range of 5,000 to 19,999 residents with 690 CTs having a population of over 20,000 and 20 having a population of over a lakh.

**TABLE 3: Census Towns Over the Years**

Census	No. of CTs	No. of STs	Total Urban	Notes
1961	803	1897	2700	First recognition of CTs; Pradhan (2013)
1971	1062	2064	3126	Steady growth post-1961
1981	1344	2034	3378	Continued urbanisation trend
1991	1702	2987	4689	Increase in CTs reflects economic shifts
2001	1362	3799	5161	Dip due to reclassification of some CTs
2011	3892	4043	7935	Sharp rise, highlighting subaltern urbanisation

Census of India. General Population Tables. Government of India.

**The rise of CTs has seen an increasing trend since 1961 and is expected to continue to do so. The larger CT settlements, such as those in peri-urban areas of metropolitan cities, often already function like STs but remain classified as CTs. Though this approach may not appear to be of consequence in the short term, it is likely to lead to inconsistent planning, reduced revenue for the local body, and lower levels of service delivery in the long term.**

<sup>1</sup> Chandramani et al. How to transform census towns into economic growth engines: an Indian (Pune) perspective.

## 1.2 Factors Impacting the Transition of Census Towns to Statutory Towns

It is clear from the above data that CTs despite exhibiting urban characteristics, remain Rural Local Bodies and lack the formal ULB governance structure of statutory cities. This unique duality—urban in character, rural in governance—reflects a blend of de jure legal provisions and de facto practical realities, resulting in significant service deficits and governance gaps. The key factors impacting this reality and transition can be categorised into the following:

- a. Management and Functioning (planning, service delivery).
- b. Finances/Funding.
- c. Administration.
- d. Central and State Level Legislations.

## 1.3 Study Methodology and Limitations

**Methodology:** This research adopted a mixed-methods approach to critically examine the emergence, growth trajectories, governance, spatial planning and service delivery challenges of CTs in India. The study was anchored at three levels- National, State and local. While the study was based on the Census 2011, it was supplemented by qualitative, State-specific case studies to capture the institutional diversity and contextual dynamics that shape CT development. Considering the significance of urbanisation patterns and practices of urban legislations, three States viz Gujarat, Madhya Pradesh, and Kerala were selected for in-depth case analysis. The study also incorporated policy reviews from selected States, with particular focus on Odisha and Jharkhand. Rajasthan and Tamil Nadu also offer promising of State-led initiatives to manage peri-urbanisation. The study combines quantitative analysis, case study research, spatial techniques, and policy review for identification of both empirical patterns and normative gaps in India's approach to managing its emergent urban geographies and providing recommendations for the same.

**Limitations:** The analysis provides a robust foundation for understanding Census Towns (CTs), their rapid proliferation and the governance challenges associated with their transition to Statutory Towns (STs). While the study offers valuable insights into legal, administrative, and policy frameworks across States like Gujarat, Madhya Pradesh, and Kerala, certain constraints present opportunities to further strengthen its scope and impact. The reliance on Census 2011 data, though comprehensive for its time, may not fully capture urban transformations of the past 14 years, underscoring the need for updated datasets. The emphasis on States with significant CT growth, such as Gujarat, Madhya Pradesh, Kerala, West Bengal, and Jharkhand, provides rich insights but could be complemented by examining regions with slower urban transitions to ensure a balanced National perspective. In addition, the impact of recent urban and rural development programs, such as Swachh Bharat

Mission (Rural) and Pradhan Mantri Awas Yojana (Rural), on CT transitions remains underexplored, offering a pathway for evaluating their role in supporting transitional areas. Social dimensions, including displacement, gender equity, and inclusion, merit further attention to promote equitable urban development. Projections estimating 8,500–9,500 CTs by 2031, based on a business-as-usual scenario, invite future studies to incorporate potential policy innovations. Finally, while global urban classification systems are referenced, adapting these to India's unique socio-economic and governance context could enhance policy relevance.

## 1.4 Audience

As noted at the onset, the study has been carried out at the request of and for the 16th CFC of India. Having said that, the study has been set in the larger landscape of spatial patterns, service delivery, planning and governance of Census Towns to provide a holistic picture of their current status and key challenges (Chapter 2). In addition, a successful and sustainable transition of CTs to STs is possible only with joint effort at Central, State and local level (Chapter 4). Hence, the endeavour has been to draft the study such that it recommends a coordinated and complementary roadmap of actions across key stakeholders – Ministry of Housing and Urban Affairs (MoHUA), Ministry of Panchayat Raj (MoPR), State Finance Commission (SFC) and State Urban and Panchayat Departments.



# Analysis of Census Towns | 2

This chapter analyses the spatial pattern of CTs in select states and categorises them to differentiate the approaches of transition towards these. It also provides an overview of the status of CTs in terms of planning, service delivery, administration and financial management and contrasts these with Statutory Towns.

## 2.1 Categorisation of Census Towns

### 2.1.1 Spatial Mapping of Census Towns

#### **BOX 1: The Three Categories of Census Towns**

The growth of CTs has largely occurred outside the realm of formal planning, infrastructure provisioning, and urban governance. A national-level proximity analysis as well as spatial mapping of CTs for select States was undertaken. These studies offer insights into the spatial logic and clustering patterns of this growth. A key insight is that CTs are not randomly distributed. **CTs tend to cluster around two primary spatial drivers (i) proximity to urban agglomerations and adjacency to existing STs; and (ii) alignment along transport corridors and industrial and agricultural market nodes.** Accordingly, CTs can be categorised into three broad groups:

Criteria	No. of CTs	Population	% of CT Population	% of Urban Population
Peripheral	1,673	2,74,61,510	50.5%	9.5%
Intentional (Transport Corridor-Industrial nodes)	3,422	4,43,67,483	89.9%	17.06%
Organic Growth	267	29,77,760	5.4%	1.0%

### BOX 1: The Three Categories of Census Towns (continued)

#### Definitions:

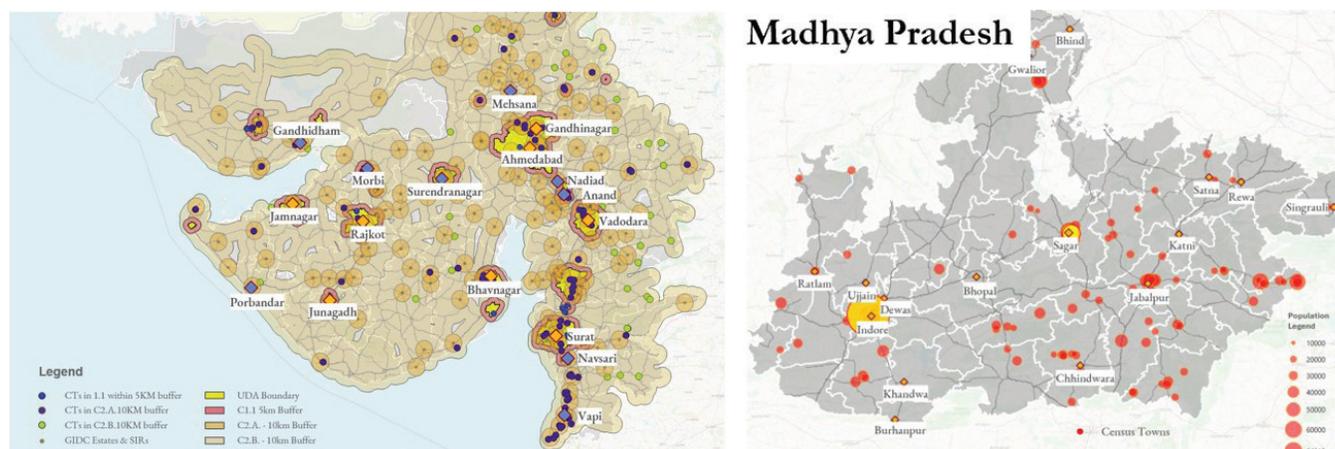
**Peripheral CTs:** Within a 20 km buffer zone of boundaries of Urban Local Bodies (ULBs) and Urban Development Authority.

**Intentional (Transport Corridor-Industrial nodes):** Within a 20 km buffer zone of National/State highways and industrial zones/nodes.

**Organic Growth:** Located neither near peri-urban areas nor transport corridors or industrial nodes. They have been categorised as CTs primarily due to organic population growth.

The maps below show the clustering of Census Towns in Madhya Pradesh and Gujarat, supported and reinforced by similar mappings in Kerala and Rajasthan along with data analysis (see Annex for details). The map of Gujarat shows the clustering of Census Towns along municipal corporations. In addition, a clear pattern of emergence of large CTs can be seen along the Mumbai-Ahmedabad corridor. In Madhya Pradesh, significant clustering of large Census Towns is seen around municipal corporations.

**FIGURE 1: Spatial Mapping of Census Towns in Gujarat and Madhya Pradesh**



**The three distinct categories of CTs illustrate the need for a differentiated approach in planning and service delivery for each. CTs with greater potential for economic growth must be prioritised for targeted actions.**

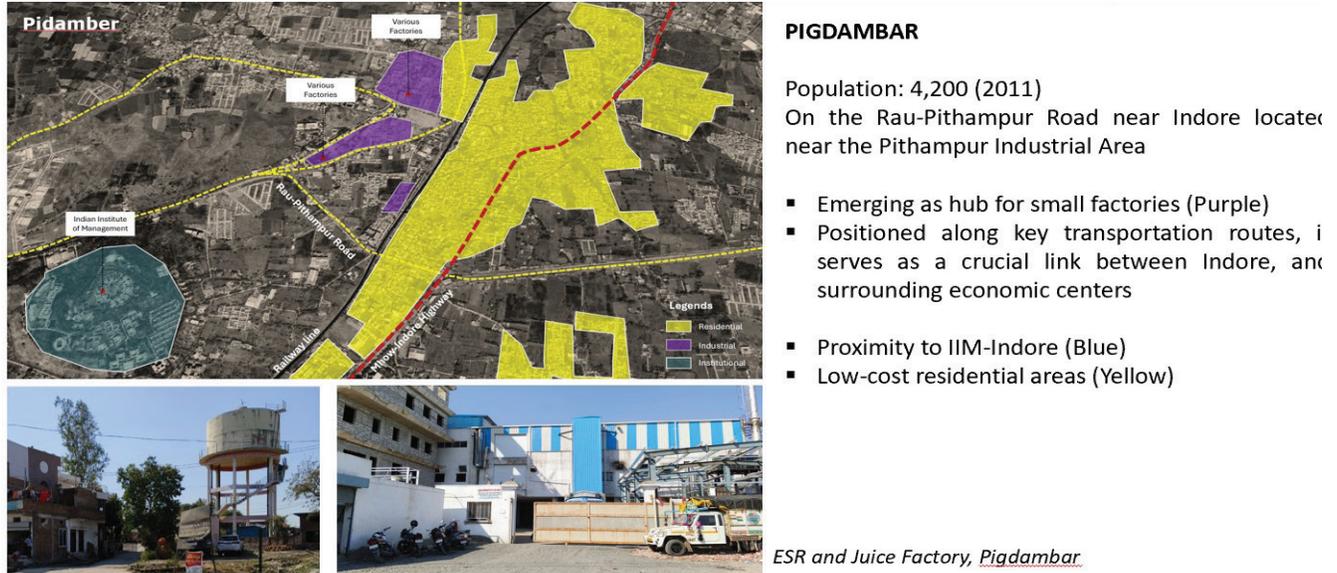
### 2.1.2 The Economic Potential of Census Towns

Census Towns are increasingly functioning as economic hubs due to their strategic locations near major cities, transport corridors and industrial nodes/agricultural markets<sup>2</sup>. Their growth is fuelled by both exogenous factors—agglomeration benefits and proximity to transport corridors—and endogenous factors like declining agricultural viability and a shift towards non-farm employment sectors

2 Based on primary research and interviews in the three States of Madhya Pradesh, Gujarat and Kerala.

such as manufacturing, construction, and trade. The formation of CTs is transitioning from proximity to market towns and agglomeration villages towards the availability of affordable housing, logistics and education hubs, and manufacturing units of various sizes due to lower land costs and improved accessibility.

**FIGURE 2: Pigdambar, An Emerging Economic Hub Near Indore**



**Promoting the development of CTs that can bridge rural and urban economies, host industrial and service activities, and bolster regional development with a potential to increase their significance as decentralised economic drivers.** Benefits will accrue in the form of economic growth, improved liveability, increased land prices, increased revenue to the local body, and a lower cost to the environment.

## 2.2 The Management of Census Towns (Planning, Service Delivery, Financial Management and Administration)

### 2.2.1 Planning of Census Towns

**Unplanned and unregulated growth is widely recognised as a major issue in CTs.** There is haphazard and rapid build-up of commercial buildings (malls, hospitals, education institutes and even small industrial units and housing complexes), particularly in CTs which are in peripheries of large cities or transport nodes. The lower land costs combined with minimum building regulations and lack of, or negligible property taxes exacerbate the problem.

The aforementioned outcomes result in disorganised development and disproportionate strain on service infrastructure. Additionally, they lead to loss of revenue for local authorities, quiet conversion of agricultural land without adequate planning, and consequent ecological degradation, including air and water pollution and overburdened sanitation systems.

## BOX 2: Summary of Planning and Related Initiatives by Madhya Pradesh

Madhya Pradesh has undertaken several initiatives towards improved planning, development, and property tax collection in Gram Panchayats (GPs, rural local bodies) which can be leveraged by and for CTs. While some are advanced, others are in nascent stages. Overall, they indicate the recognition of the State towards the need for greater rigour in management of CTs. Key initiatives are:

- **MP Bhumi Vikas Rules, 1984:** Provides a framework for land development and building regulations in areas beyond ULBs. However, multiplicity of rules and laws (TCPA, Land Development Rules etc.) create ambiguity among implementation agencies. Simplification/integration of these would greatly benefit the ability of agencies to implement the rules.
- **MP Colony Development Rules 2014:** Empower GPs to oversee residential colony development, approve building plans, enforce building norms and even charge a development fee which is used to fund basic services.
- **Rural Area Development Plan Formulation and Implementation (RADFI):** This guides development of large GPs and CTs. Training and partnership with academia is provided by the State.
- **GP Spatial Development Plan:** MP has piloted in two peri-urban GPs spatial plans under RADFI via a tri-partite partnership between the GPs, a planning institute, and the Ministry of Panchayat Raj.
- **Section 77 and 77A (MP Panchayat Avam Gram Swaraj Adhiniyam, 1993):** Authorises GPs to impose compulsory and optional taxes, including property taxes.
- **Section 61-A-G and 61 EA:** Penalise offenders for aiding or abetting illegal land diversion or construction.

**States should consider defining planning areas which should be followed by the implementation of district/regional spatial planning framework<sup>3</sup>. The implementation can be incremental by prioritisation of rapidly urbanising districts. Combined building regulations for select types of development may be considered. CTs located on the immediate peripheries of urban agglomerations must be integrated into the planning framework of the main agglomeration and planned for either by the relevant urban development authority or the municipal corporation.**

### 2.2.2 Service Delivery in Census Towns

A comparison between CTs and STs, with similar population levels, regarding basic service delivery reveals that both types of local bodies are comparable in terms of *access*. Particularly, larger CTs (GPs) may have greater Central and State level resources for service delivery versus similar sized STs (Nagar Panchayats, Class C/D municipalities). **Having said that, service infrastructure is provided in most CTs as per rural standards and norms which makes them ill and under equipped to face the growing population and economic growth requirements<sup>4</sup>.** For example, while CTs

3 Plans should map current land use, project growth trajectories, and reserve land for critical infrastructure like water supply, sanitation, affordable housing etc., particularly blue-green infrastructure such as drainage systems, water bodies, and green spaces.

4 A critical gap in the current policy discourse is its reliance on outdated data, primarily from Census 2011. While earlier assessments (e.g., MoHUA, 2019; NITI Aayog, 2018) suggest better performance in large STs—often due to targeted programs like AMRUT and SBM (Urban)—more recent interventions such as SBM (Rural) and PMAY (Rural) have not been adequately evaluated, particularly in transitional urban areas.

may collect solid waste, they are unlikely to have access to disposal sites. Also, service benchmark levels are lower for CTs versus STs which may lead to an underestimation of infrastructure and funding required.

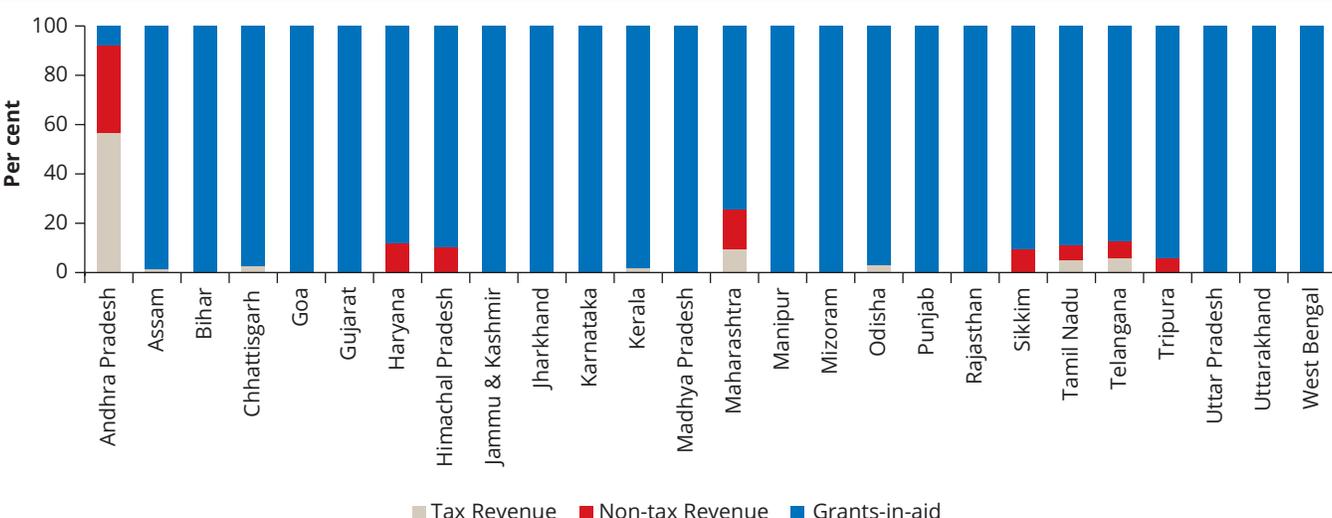
**Overall, the lack of adequate sewerage infrastructure and proper disposal of solid waste in both STs and CTs are the most severe and persistent challenges in India<sup>5</sup>.** Field research highlights that, in most cases, State-level agencies lead the provision of water supply and sewage, while responsibilities for solid waste management and toilet infrastructure are delegated to local governments. Fragmented institutional frameworks and weak local-level capacity, particularly within Rural Local Bodies (RLBs), further exacerbate service delivery challenges.

**The findings underscore a central argument: the standards and levels of basic service provision should be determined by population/density of a local body and not its administration status.** Statutory recognition alone is insufficient to address the structural deficiencies in urban service provisioning. Parallel investments in planning, institutional capacity, and governance for both existing small and medium towns and newly emerging CTs will be critical to the increased strain on the broader urban service delivery and subsequently liveability and the environment.

### 2.2.3 Financial Management in Census Towns

**The 2024 Reserve Bank of India report on Panchayat Raj Institutions (PRIs), from 2020–21 to 2022–23, highlights that only 1.1% of their total revenue was generated through local taxes, with the rest coming from State and Central transfers.** India’s local finance system operates within a multi-level governance framework, with both rural and urban local bodies being heavily dependent on intergovernmental fiscal transfers.

**FIGURE 3: Sources of Income of Gram Panchayats (2023)**



Source: Reserve Bank of India.

<sup>5</sup> Fewer than 15% of households are connected to formal sewerage systems, resulting in widespread discharge of untreated wastewater into the environment—contributing to ecological degradation and posing serious public health risks.

**There is significant variation between Gram Panchayats (GPs) across States with respect to revenue dependence.** With the exception of Andhra Pradesh, rural local bodies Rural Local Bodies in most major States remain heavily dependent on Central Government grants. In Maharashtra, approximately one-quarter of rural local body Rural Local Body income is generated through Own-Source Revenue (OSR). State and CT analyses reveal significant variation in fund allocation and utilisation, shaped by institutional capacities, socio-economic diversity, and policy orientations.

**TABLE 4: Summary of Financial assessment of CT & ST**

Indicator	Census Towns/PRI	Statutory Towns
<b>Own Source Revenue (OSR) Contribution</b>	1-2% of total revenue receipts	59% of total revenue receipts
<b>Tax Revenue Share</b>	Property tax is key but low collection, almost minimal	47.1% of total revenue receipts
<b>Revenue Receipts to GDP (FY 2022-23)</b>	0.13%	>1%
<b>Fiscal Autonomy</b>	Highly dependent on grants (State & Central) more than 95%	40-50% through Grants
<b>Financial Reporting</b>	Cash-based Receipt & Payment (E Gram Swaraj)	Accrual basis-NMAM (City finance portal)
<b>Contingent Liability Not Reported</b>	A key challenge in the transition is the lack of reporting on contingent liabilities, such as legal cases and employee retirement benefits, making Statutory Towns (STs) hesitant to accept mergers	Transparent reporting of contingent liabilities, including proper accounting of employee retirement benefits
<b>Update of Applicable Acts</b>	The State Panchayati Act, and its Rules have not been amended for long. It lacks teething provision for recovery of taxes/ fees, leading to a low collection ratio	Statutory towns (STs) have updated Municipal Acts with provisions for arrear recovery, enabling efficient collection and resulting in a higher collection ratio

**STs outperform CTs in revenue generation, likely due to their institutional status—such as legal authority to levy a broader set of taxes and access to property tax mechanisms.** Field observations from sample CTs and STs from Gujarat and MP are presented in the Table 5. CTs are more reliant on grants – particularly those lacking robust local economies or administrative capacity. However, not all CTs are the same; for instance, Pigdambar (CT) performs relatively well in terms of their own revenue, approaching the levels of some lower-end STs.

**TABLE 5: Per-capita Revenue and Grant Analysis, Sample Local Bodies**

Sl. No.		Gujarat			Madhya Pradesh		
		Bechraji (CT)	Ambaliyasan (CT)	Vijapur (ST)	Pigdambar (CT)	Santer (CT)	Betma (ST)
1	Per capita - On Balance	₹1,217	₹242	₹4,867	₹1,506	₹1,185	₹4,227
2	Per Capita - Grants	₹3,748	₹966	₹1,679	₹719	₹1,156	₹1,245

**Source:** CEPT Analysis based on Income and Expenditure Statements of Pigdambar, Santer and Betma Nagar Panchayat, FY 2018-19 to FY 2022-23.

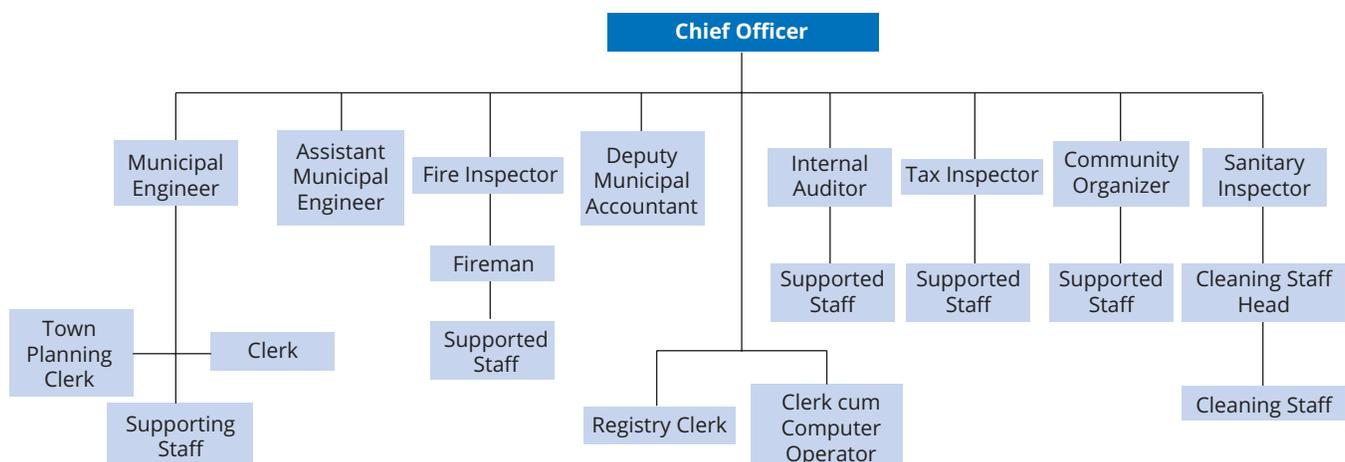
**Statutory Towns compared to Panchayat Raj Institutions (PRIs) generate over 50% of their revenue independently, though this leads to higher expenses such as salaries. Therefore, while the transition from a Census Town (CT) to a Statutory Town (ST) may enhance Own-Source Revenue generation, STs must also effectively manage their revenue expenditures to ensure financial sustainability.**

### 2.2.4 Administration in Census Towns

**A comparison of governance models reveals stark differences in administrative capacity of STs and CTs.** Municipalities have structured teams with specialised staff for functions like engineering, finance, and sanitation, enabling efficient service delivery. In contrast, CTs (as Gram Panchayats) operate with limited personnel and lack dedicated departments, leading to overburdened staff, service delays, and reliance on external agencies for critical functions like fire safety and sanitation.

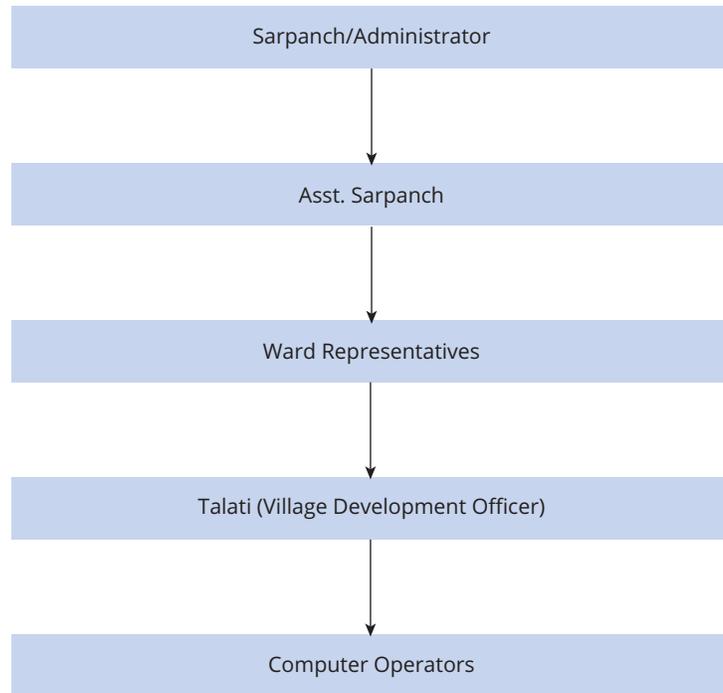
The organograms below of Vijapur Municipality (Class C) and Bechraji (Gram Panchayat) in Gujarat illustrate the difference in administrative capacity between STs and CTs. **This also implies that a CT will need significant strengthening of personnel/positions if it transitions to an independent ST – the financial means and sustainability of the same will need prior assessment.**

**FIGURE 3: Organogram of Vijapur Municipality (Class C)**



**FIGURE 4: Organogram of Bechrajji (Gram Panchayat/Census Town)**

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# Transition of Census Towns to Statutory Towns

## 3

### 3.1 Legal Framework

**The Indian Constitution does not explicitly recognise “Census Towns”, treating them as a statistical category rather than a legal entity.** The State designates certain settlements as Statutory Towns, governed by Urban Local Bodies urban local bodies like Municipal Corporations, councils, and town panchayats<sup>6</sup>. Consequently, there is often no clear path for how the transition of smaller urban or peri-urban areas will occur, or how they will effectively address the challenges of that change.

**Two Constitutional amendments shape the governance of Census Towns – the 73<sup>rd</sup> and 74<sup>th</sup>.** The 73<sup>rd</sup> Amendment (1992) empowers PRIs to manage rural areas, including CTs, under Article 243G, but their urban needs strain PRI capacity (Kundu, 2011). Conversely, the 74<sup>th</sup> Amendment establishes ULBs via Article 243Q, offering a pathway for CT reclassification as Nagar Panchayats, though State discretion often delays this process (Sivaramakrishnan, 2011). The Seventh Schedule reinforces State control over local governance (Entry 5, State List), leaving CTs’ urban status non-binding.

**While the governance of CTs typically falls under rural frameworks (Panchayati Raj Institutions)<sup>7</sup>, the conversion process typically falls under the purview of Urban Development Departments, which utilise specific provisions within State-level Municipal Acts.** Most States have outlined procedures for identifying

6 There is significant variation across States in how they define what constitutes a Statutory Town or a village and how governance mechanisms are applied. While factors such as area, population size and density, occupation, revenue, economic importance, pace of urbanisation, and demand for progressive services are broadly considered, States employ these factors differently and establish their qualifying thresholds, resulting in unique and intriguing definitions of Statutory Towns.

7 Unless States reclassify them as statutory urban areas (e.g., Nagar Panchayats) via state-specific Municipal Acts.

and reclassifying transitional areas. However, the pace remains uneven. Despite this, the Ministry of Housing and Urban Affairs has been actively encouraging States to accelerate the transition of CTs to ULBs, offering hope and optimism for the future of urban governance.

States rely on the 74th Constitutional Amendment (Article 243Q) to enable Urban Local Body (ULB) formation, such as Nagar panchayats, for areas with urban characteristics<sup>8</sup>. **However, no State Act explicitly names “Census Towns”, treating them as statistical entities eligible for reclassification rather than a distinct legal category - a commonality that underscores a national gap between Census-defined urbanity and statutory recognition.** The process universally begins with Census identification, followed by State-level assessment, cabinet approval, and notification.

**The pace of conversation of Census Towns to Statutory Towns across States suggests that managing transitional areas hinges less on uniform legal provisions and more on State intent, fiscal resources, and political will.**

### 3.2 De jure versus De facto

**Each State defines its own criteria and procedures for transitioning rural areas to urban governance structures through its Municipal and/or Panchayati Raj Acts.** This has resulted in States having varied transition criteria, which include census thresholds, fiscal and infrastructural considerations, legislative mechanisms, and requirements like No Objection Certificates from Rural Local Bodies. A key challenge in the transition of CTs to STs is the absence of a unified legal framework nationwide. As noted above, Article 243Q provides a directive rather than a binding mandate, leaving substantial discretion to States.

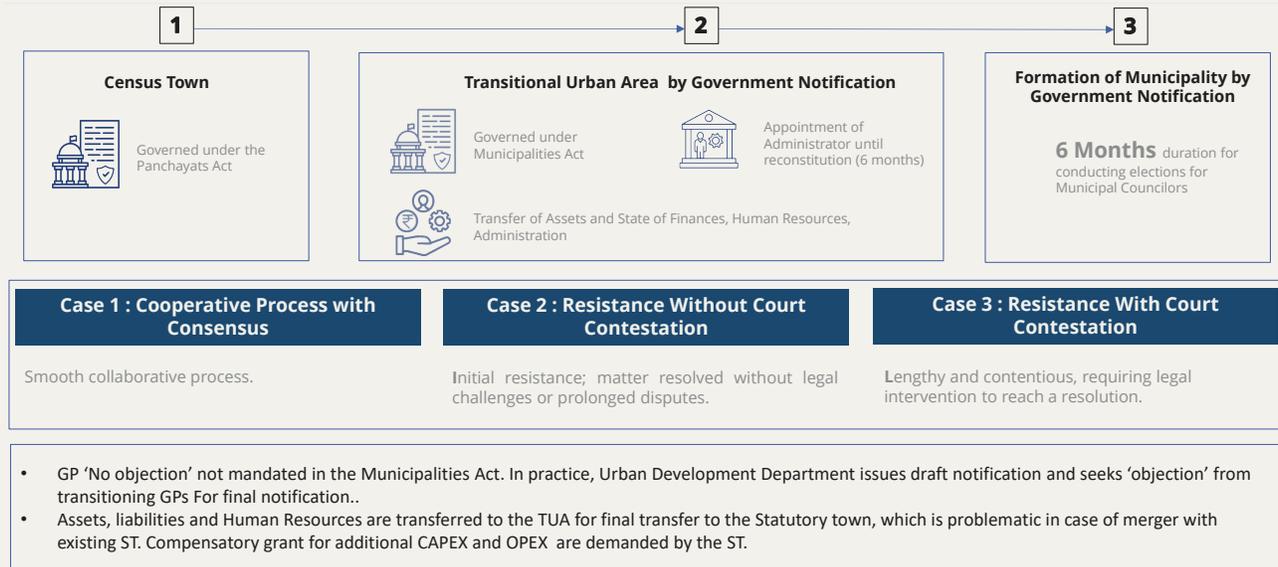
**The management of transitional areas like Census Towns (CTs) under State Municipal Acts in India reveals shared structural features and significant divergences, reflecting the interplay of legal provisions, State discretion, and socio-political realities.** Common across States is the reliance on the 74th Constitutional Amendment (Article 243Q) to enable Urban Local Body (ULB) formation, such as Nagar panchayats, for areas with urban characteristics (e.g., population thresholds ranging from 5,000 in Kerala to 20,000 in Uttar Pradesh and Karnataka). **However, no State Act explicitly names “census towns,” treating them as statistical entities eligible for reclassification rather than a distinct legal category - a commonality that underscores a Nationwide gap between Census-defined urbanity and statutory recognition.**

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<sup>8</sup> Example. Population thresholds ranging from 5,000 in Kerala to 20,000 in Uttar Pradesh and Karnataka.

### BOX 3: Statutory Provisions for the Transition of Rural Local Body to Urban Local Body

The process of transition universally begins with Census identification, followed by State-level assessment, cabinet approval, and notification. Yet, the pace of conversation across States suggests that managing transitional areas hinges less on uniform legal provisions and more on State intent, fiscal resources, and political will, leaving many CTs trapped in a governance paradox that demands tailored, rather than standardised, solutions.



**State Municipal Acts must have a clear provision for declaration of Rural Local Bodies as transitional urban areas. The Act should also detail the process of transition. The “transitional urban areas” do not need to be limited to Census Towns and may include Gram Panchayats not classified as Census Towns.**

### 3.3 Jharkhand: A Case Study

Following the 2016 MoHUA directive, which emphasised increased urbanisation of certain Gram Panchayats that met the parameters of Census Towns but lacked official recognition post-2011, Jharkhand undertook a major urban restructuring between 2016 and 2019. During this period, over 100 Gram Panchayats (Census Towns - CTs) transitioned to Statutory Towns in three ways:

- CTs merged with nearby Municipal Councils and upgraded to Municipal Corporations (within 20 km radius).
- CTs merged to form Independent Nagar Panchayats (Beyond 20 km radius).
- Denotification and reclassification of certain Statutory Towns post-municipalisation.

Section 9(6) was utilised to identify already transitioned Statutory Towns, granting the State Government the authority to abolish or modify municipal area boundaries. As per the provision, the State Government may, through notification, revise the boundaries of two or more adjoining municipal areas. The transition to STs has been sustained and successful in Jharkhand, particularly with regard to the increase in Own-source Revenue (see Annex for additional details).

#### **BOX 4: Parameters Defined for Urban Areas in Jharkhand**

In alignment with Article 243(Q) and Sections 8-14 of the Jharkhand Municipal Act, 2011, the Government of Jharkhand established its parameters to ensure uniformity in the declaration and structuring of urban areas. This framework defined clear criteria for the notification of larger, smaller, and transitional urban areas.

<b>Criteria</b>	<b>Transitional Urban Area</b>	<b>Smaller Urban Area</b>	<b>Larger Urban Area</b>
Population	12,000-40,000	Above 40,000	Above 1.5 lakh
Density (per sq. km)	≥ 400 (or urban characteristics)	≥ 400 (or urban characteristics)	≥ 400 (strategic areas included)
Annual Revenue	₹25 lakh and above	₹50 lakh and above	₹1.5 crore and above
Employment (non-agriculture)	≥ 75%	≥ 75%	Not less than 75%
Economic Importance	Market access, industrial potential	Market access, industrial potential	Established industries, infrastructure
Other Factors	Urban characteristics emerging	Urban characteristics emerging	Peripheral villages' growth impact

#### **There have been three critical factors in the successful transition of CTs to STs in Jharkhand. These are:**

- **Staffing:** Full-time City Managers and Accountants were appointed in each transitioned ULB, with the Sub-Divisional Officer (SDO) initially serving as in-charge until a full-time Executive Officer was designated.
- **Financial Management (FM) and Revenue Enhancement:** For financial management and revenue enhancement, tax collection, user charges, and fees were outsourced to specialised agencies <sup>9</sup>, with technical support from the State-Level Project Management Unit (PMU). Additionally, to facilitate the transition, exemptions from interest and penalties on property tax assessments were provided during the initial years.
- **Service Delivery & Urban Planning:** Waste collection and disposal were managed through concessionaire agreements, while master planning responsibilities

<sup>9</sup> Reference: 15th FC report-Page 185 Chapter 7-Empowering Local Government.

were initially assigned to RRDA for technical support. Furthermore, building plan approvals were streamlined through State-level software, ensuring efficiency in urban development processes.

### 3.4 Financial Impact and Implications of Transition

**When a Census Town transitions into a Statutory Town or grows organically, a key consideration is the impact on its finances—both own-source revenues and intergovernmental transfers—and the effect on per capita allocations.** While transitioning CTs see a relative rise in per capita finances, they continue to fall behind established STs and may not qualify for larger urban schemes (e.g. Metro, AMRUT, Smart Cities). The drop in per capita for STs underscores the need to increase Central and State (CSS) allocations for growing urban areas, ensuring equitable support as Census Towns transition and expand. Details are discussed in Annex.

**The 2024 RBI report highlights significant differences in the financial sustainability of local bodies, specifically between Census town Panchayati Raj Institutions (PRIs) and Statutory Towns.** These differences are evident in aspects such as revenue structure, financial independence, and consistency in financial reporting. Additionally, the Comptroller and Auditor General (CAG), based on performance audits of numerous urban local bodies and PRIs, identified key challenges which include incomplete devolution of functions, heavy reliance on Central and State grants, and low own-source revenue.<sup>10</sup> Some key issues discussed regarding the financial management of local bodies that must be considered during the transition from Census Towns (CT) to Statutory Towns (ST) include both financial and non-financial aspects.

**However, a major factor influencing the decision to transition is the financial robustness of the local body and the potential burden on the State or local administration. These have been enumerated below:**

- **Revenue Dependence and Own-Source Revenue (OSR) Generation:** Panchayati Raj Institutions (PRIs), including Census Towns (CTs) rely heavily on fiscal transfers due to limited own-source revenue. Property tax, their main revenue source, remains underutilised in CTs due to a narrow tax base, weak administration, and unclear regulations. Many PRIs refrain from levying taxes despite having legal authority. According to the RBI's 2024 report on PRIs, own-source revenue accounted for only 1% of total revenues over a three-year period (2020-21 to 2022-23). In contrast, the Statutory Town category of Municipal Corporations exhibits greater financial autonomy, with own-source revenue (OSR) contributing 59% of total revenue receipts between 2020-21 and 2022-23, and tax revenues accounting for 47.1%. Larger Statutory Towns (STs) require 35-40% government grant support, while smaller STs rely on 60-70% - still lower than a case of PRIs.

<sup>10</sup> Comptroller and Auditor General of India. (2025, March 5). The CAG and Sixteenth Finance Commission hold consultations on public finance [Press release].

- **Fiscal Incentives and Grant Mechanisms:** Finance Commissions (FCs) have played a role in incentivising revenue efforts for both PRIs and STs. However, in the case of PRIs fiscal transfers are not directly linked to performance in own revenue generation, limiting the incentive for self-sufficiency. On the other hand, successive FCs have linked grants to fiscal performance.
- **Financial Reporting Challenges:** While both PRIs and STs face challenges in financial reporting, but the gaps are more pronounced in PRIs. Many PRIs do not consistently report revenue expenditure and capital receipts, leading to data gaps and making financial analysis less reliable. The number of PRIs reporting capital expenditure is even lower, further restricting long-term financial assessments.

**The CTs finances and their sustainability are interconnected with a broader framework, including Central schemes, Finance Commission grants, and State finances. These factors ultimately shape CT finances and influence the success or failure of their transition to Statutory Towns (STs). Long term financial sustainability must be at the core of the transition process.**

### 3.5 Observations on Transition

**Census towns underscore the complexities of India’s urbanisation trajectory—organic growth outpacing institutional capacity.** Their statistical urbanity belies a rural governance reality, perpetuating service gaps and socioeconomic inequities. Constitutional tools exist to bridge this divide, but State-level action remains the linchpin.

**As India urbanises, integrating CTs into a cohesive policy framework is critical to ensuring inclusive, sustainable development. Box 5 below summarises key takeaways.** The next chapter details recommendations.

#### BOX 5: Key Takeaways

While # of CTs has grown at a decadal rate of 185 %, transition of these to STs has been minimal	Transition to STs can be a long cumbersome process; Suitability to and local demand critical
CTs can be classified into (i) peripheries of large cities; (ii) transit or industrial nodes; and (iii) organic growth	Type 1 and 2 CTs most suitable to transition. Type 3 CTs suited for in-situ improvement
While all CTs may not be growth hubs, new growth hubs are likely to emerge from CTs	States best placed to select CTs to transition. Handholding by states is critical
Larger STs are likely to have better services versus CTs; Smaller comparable sized CTs likely to have better service delivery than STs	Fund allocation and transfers at all levels will impact transition, in particular to newly created STs
Strengthened local administration; improved efficiency of service delivery with increased own source revenue; and improved planning-building norms critical for CTs to emerge as sustainable growth hubs.	Different government agencies across levels will impact CTs and transition thereof. CFC will need to pick areas of influence at relevant levels.

# Potential Way Forward for Census Towns and Recommendations to the 16th CFC

This Chapter provides an overview of the potential way forward for the management of Census Towns. Section 4.1 recommends a differentiated approach towards the three categories of Census Towns; Section 4.2 lays out the high-level actions at the Central, State and local level and Section 4.3 focuses on the recommendations for the 16<sup>th</sup> CFC.

## 4.1 Differentiated Approach Towards Census Towns

The three categories of Census Towns based on spatial mapping laid out in Section 2.1 were (i) peripheries of large cities; (ii) transport corridors or industrial nodes; and (iii) organic growth. The three categories emerge due to distinct locations, growth patterns and economic drivers and hence require a differentiated approach. The Box 6 suggests such an approach<sup>11</sup>.

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11 This is corroborated with Jharkhand's transition of over 100 Gram Panchayats, Odisha Transition Policy (2021) and IIHS's Study "Policy Study on Urbanisation of Rural Areas" for the Government of Rajasthan.

## BOX 6: Suggested Approach Towards Different Categories of Census Towns

CT Type	Logical Approach	Influencing Factors	TAKEAWAYS
1. <b>Peripheral</b>	Likely to be merged in established ULB. Better delivery of services and increased property values for CT. Greater area to manage for established ULB.	<ul style="list-style-type: none"> <li>Current service delivery</li> <li>Administrative charge: from Sarpanch to Urban Body</li> </ul>	<ul style="list-style-type: none"> <li>Type 1 and 2 CTs most likely candidates for transition to STs</li> <li>Difficult to derive a one size definition of which CTs should transition (given Additional Factors)</li> <li>State best placed to decide which CTs to transition to STs</li> </ul>
2. <b>Intentional</b> <ul style="list-style-type: none"> <li>Transport Corridor</li> <li>Industrial Nodes</li> </ul>	New ST/Merging of number of CTs into a large ST	<ul style="list-style-type: none"> <li>Levy of property tax and user charges</li> <li>Current building regulations/restrictions</li> </ul>	
3. <b>Organic Growth</b>	Improved planning and service delivery in CT	<ul style="list-style-type: none"> <li>Human resource requirement</li> <li>Local demand for transition or resistance towards it</li> </ul>	

## 4.2 Potential Way Forward for Census Towns (Actions at Central, State and Local Level)

The management and development of Census Towns towards growth drivers and nodes of economic growth requires concerted actions from various stakeholders at the Centre, State and local level with each having a distinct role with its unique value addition. The Table 6 provides a list of key actions at the three levels. Section 4.3 focuses on recommendations to the 16th CFC.

**TABLE 6: Priority Actions By the Three Levels of Government**

Level	Priority Actions
<b>Centre</b>	<p><b>16th CFC</b></p> <p><b>Role: Ideation (Strategic perspective, planning and management for CTs)</b></p> <ul style="list-style-type: none"> <li>Incentivise States to transition Census towns to Statutory Towns</li> <li>Performance-based grants for the States towards timely recognition and classification of CTs based on their functional characteristics</li> </ul> <p><b>MoHUA/MoPR</b></p> <p><b>Role: Co-ordination and Handholding for Operationalisation</b></p> <ul style="list-style-type: none"> <li>Set up a national committee to review the definition of "urban" and conduct a feasibility analysis for incorporating spatial density and other relevant criteria.</li> <li>Develop operationalisation guidelines to allocate funds, including Key Performance Indicators linked to fund disbursement.</li> <li>Mandate periodic reviews of CT status using spatial, demographic, and economic indicators.</li> </ul>

<b>State</b>	<p><b>SFC Role: (Strategic perspective, planning and financial management for CTs)</b></p> <ul style="list-style-type: none"> <li>▪ Incentivise States to transition Census towns to Statutory Towns</li> <li>▪ Performance-based grants for the States towards timely recognition and classification of CTs based on their functional characteristics</li> </ul> <p><b>State Urban and Rural Departments</b></p> <p><b>Role: Value Creation, Coordination and Handholding</b></p> <p><b>Policy/Frameworks/Guidelines:</b></p> <ul style="list-style-type: none"> <li>▪ Develop State-level policy and institutional frameworks like those in Odisha and Rajasthan for the timely recognition and classification of CTs.</li> <li>▪ Mandate the preparation of the State/district urbanisation report for periodic review of CTs status using spatial, demographic, and economic indicators.</li> <li>▪ Grade CTs based on proximity to cities, demographic trends, economic and environmental vulnerability.</li> <li>▪ Form Area Development Authorities, Transport Periphery Controls, and specialised regulations for CTs along transport corridors and industrial areas.</li> </ul> <p><b>Planning and Service Delivery:</b></p> <ul style="list-style-type: none"> <li>▪ Create a multi-scale spatial planning framework, including regional, district, and city-level plans, and enforce uniform building regulations across the planning area to develop regional growth hubs across the State.</li> <li>▪ Align CT planning with regional economic development strategies and corridor-based investments through regional and district spatial planning.</li> <li>▪ Establish combined building regulations for all CTs, STs, and the designated planning area.</li> <li>▪ Implement robust monitoring and evaluation frameworks to track the progress of CTs and the effectiveness of implemented policies.</li> </ul> <p><b>Financial Management:</b></p> <ul style="list-style-type: none"> <li>▪ Focused grants to States for capacity and service improvements in priority Census Towns.</li> <li>▪ Alternative funding sources (CSR, CER, municipal bonds, TDR, FAR)</li> <li>▪ Ensure that CTs have access to a broader range of financial instruments and resources, including Tax revenue (through property tax, etc.) and non-tax revenue (fees, etc.)</li> </ul> <p><b>Handholding:</b> Provide support for human resources and capacity building.</p>
<b>Local</b>	<p><b>Local (District Collectors and Agencies, Rural Local Body and Urban Local Body)</b></p> <p><b>Role: Value Creation and Implementation of Planning and Sustainable Service Delivery</b></p> <ul style="list-style-type: none"> <li>▪ Develop and strengthen district-level structures to support and handhold conversions of CTs and smaller STs.</li> <li>▪ Develop human resource norms for CTs and smaller STs.</li> <li>▪ Build local capacity for tax collection and enable access to grants under the State Finance Commission.</li> <li>▪ Invest in local institutions, such as municipal training centres and community-based organisations.</li> <li>▪ Introduce land value capture mechanisms (e.g., betterment levies, impact fees) in CTs and peri-urban areas.</li> <li>▪ Develop plans tailored to economic development for each transitioning town.</li> </ul>

## BOX 7: Odisha’s Rural to Urban Transition Policy

Odisha is the first State to establish a policy, governance, and implementation framework for managing the rural-to-urban transition. Key features include:

- Systematic transformation of peri-urban areas from being governed by rural local bodies to urban bodies by defining factors and prioritisation methodology for the selection of these areas.
- Define the standard of services and support for peri-urban areas to bridge the existing infrastructure, facilities, and services gap between the peri-urban and proposed urban areas.
- Strengthen governance mechanisms to enable peri-urban areas to transform into urban areas with minimal financial and administrative hassles.
- Implement a ‘hub and spoke’ governance approach for managing the overall implementation.
- Finance and revenue collection from peri-urban areas in a phased manner.

**To address CTs’ governance paradox, States should pursue flexible transitions—leveraging Article 243Q for reclassification as STs or empowering PRIs with urban revenue tools supported by fiscal incentives and central schemes. Based on learnings from Odisha, Jharkhand’s experience, IIHS Report (Rajasthan) and primary interviews conducted for this study, the table below suggests a process for a transition roadmap.**

**TABLE 7: Process of Developing a Transition Roadmap**

State Level Transition Committee	A Committee headed by the State Chief Secretary with Rep of the Gol
State Level PMU	<ul style="list-style-type: none"> <li>▪ <b>Listing of Settlements:</b> Based on census criteria, including prioritising areas with rapid urban growth potential and regional balance.</li> <li>▪ Identification of Rural Areas for Transition: Declaring a potential settlement Urban Status with a Transition Period.</li> <li>▪ Preparing a transition plan.</li> <li>▪ Notifying the areas, (while in transition, may take time) and provide a transition window.</li> <li>▪ During this interim period, the State undertakes administrative measures such as ward delimitation and restructuring local governance to align with urban requirements.</li> <li>▪ Preparation of Rapid GIS-Based Master Plans.</li> <li>▪ Plan for Upgradation of Infrastructure Services: Plan for roads, street lighting, drainage systems, and water supply, focusing on blue-green infrastructure (e.g., water bodies and green spaces) to create sustainable, sponge cities.</li> <li>▪ Implementation Plan.</li> </ul>
Adoption of a Hub-and-Spoke Model for Governance	<ul style="list-style-type: none"> <li>▪ The State Urban Development Agency (SUDA) oversees policy execution. District Urban Development Agencies (DUDAs) and Development Authorities at the city level manage local implementation.</li> </ul>
Monitoring and Evaluation	<ul style="list-style-type: none"> <li>▪ Performance-Based Approach and compliance reports to the State Committee every year.</li> </ul>
Formal Notification as Urban Areas	<ul style="list-style-type: none"> <li>▪ Transition of Census Towns with formal changes.</li> </ul>

## 4.3 Recommendations to the 16th CFC

**Role: The Central Finance Commission can play a pivotal role by recommending & incentivising the adoption of a structured approach by States for the transition of Census Towns or rural-urban (ru-urban) settlements towards Statutory Towns.**

The absence of a clear correlation between Census and Statutory Towns and the lack of an objective criteria in notifying new towns underscores the need for a strategic, evidence-based approach to urban transition.

**Approach: The Central Finance Commission can incentivise States to undertake this transition through a performance-based grant (PBG) model, with incentives for actions both at the State and local level (via State).** The CFC grants should be linked to clearly defined performance criteria to ensure accountability and performance, and disbursements should be contingent upon completing specific activities. This could include percentage-based releases upon achievement of various actions. Crucially, access to these funds should be based on a challenge mechanism, rewarding States demonstrating a clear commitment and appetite for undertaking this strategic transition.

**Even States that may not immediately opt for the formal conversion of Census Towns to Statutory status should be encouraged to undertake the preparatory steps to avail this facility, as these planning measures are essential for sustainable long-term development, regardless of formal classification.**

**Implementation Mechanism: The CFC should ring fence funds for “Transition of Census Towns to Statutory Towns” via a PBG mechanism over five years.** Ministry of Housing and Urban Affairs (MoHUA) should provide a guiding framework to support States in effectively utilising CFC funds. It will also monitor the achievement of States for achievement of PBG targets and the subsequent funds to be disbursed. The transition process should be overseen by a State-level committee chaired by the Chief Secretary and include a representative of the Government of India. Upon achievement of annual targets, funds to be released to State for onwards transmission to relevant state and local bodies.

**TABLE 8: Suggested Performance Based Grant Matrix**

Indicator/ Criteria	% Financing Amount	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Enabling Factors (From State). 25 % of total funds to be allocated and can be spent at State level</b>						
Convergence Committee	5%	To be completed				
Co-financing plan		To be completed				
Capacity Building/ Support Unit	5%	Establishment of a Project Management Unit				
Planning for Census Towns	10%		State Urbanisation Report Framework Transition Policy and Framework/ State Prioritisation			
Notification of Census Towns for Transition	5%			Prioritisation and Issue of Notification for CTs to be transitioned for next five years		
<b>Transition (Local Level). 75% of total funds to be allocated and spent at local level</b>						
GIS Based Master Plan	5%		Completed GIS Plans			
Spatial Infrastructure and Implementation Plan	5%		Completed Plan			
Transition to Statutory status	65%				Number of Transitions	Number of Transitions

## Definitions

1. Convergence Committee	A multi-stakeholder body at the State or District level tasked with coordinating government schemes and resources to support Census Towns (CTs). It ensures integrated interventions in sectors like water supply, sanitation, housing, and economic development by converging funds from programs such as AMRUT, PMAY, and Swachh Bharat Mission, facilitating the transition to Statutory Towns (STs).
2. Co-financing plan	A financial strategy that combines funds from Central Government grants (e.g., Central Finance Commission), State budgets, National/State mission grants (e.g., AMRUT, PMAY), local revenue (e.g., property taxes), and SFC contributions to support the transition of Census Towns (CTs) to Statutory Towns (STs). It outlines timelines for infrastructure, governance, and capacity-building initiatives.
3. Capacity Building/ Support Unit	A dedicated team or institution at the State level tasked with enhancing the administrative, technical, and financial capabilities of Census Towns (CTs) to prepare for Statutory Town (ST) status. It provides training, technical assistance, and policy guidance on urban planning, financing, and monitoring the transition process.
4. Planning for Census Towns	Developing strategic frameworks, including spatial, economic, and infrastructure plans, to guide the sustainable urban development of Census Towns (CTs). It involves zoning, land use regulations, and infrastructure provisioning tailored to CT types (Peripheral, Intentional, Incremental), addressing unregulated growth, service deficits, and climate vulnerabilities.
5. Notification of Census Towns for Transition	The formal process by which a State government, under its Municipal or Panchayati Raj Act, officially declares a Census Town (CT) as a transitional urban area (e.g., Nagar Panchayat) eligible for Statutory Town (ST) status. It meets predefined criteria (e.g., population, density, economic activity), is issued by the Governor as per Article 243Q and initiates the transition process, enabling access to urban governance powers and funding.
6. GIS-Based Master Plan	A comprehensive urban planning document developed using Geographic Information Systems (GIS) to map and analyse spatial, demographic, and economic data for Census Towns (CTs). It includes land use planning, infrastructure layouts, growth projections, and climate risk assessments tailored to CT types (Peripheral, Intentional, Incremental) to guide sustainable development and transition to Statutory Town (ST) status.
7. Spatial Infrastructure and Implementation Plan	A detailed roadmap integrating spatial planning with infrastructure development for Census Towns (CTs), specifying prioritised projects (e.g., water supply, sewerage, roads), timelines, and funding sources. It translates the GIS-based master plan into actionable steps, involving stakeholders to ensure community buy-in and support the transition to Statutory Town (ST) status.
8. Transition to Statutory status	The legal and administrative process of reclassifying a Census Town (CT) as a Statutory Town (ST), typically as a Nagar Panchayat, Municipal Council, or Municipal Corporation, under state legislation. It involves meeting urban criteria, State notification, and establishing urban governance structures to access ULB-specific funding and powers, despite political and rural resistance challenges.

# ATTACHMENTS

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# URBAN TRANSITION PROFILE GUJARAT

## 1 Demographic Overview



Total Population : 6 Crore  
 Urban Population : 43%  
 CT Population : 7%  
 ST Population : 93%



## 2 Urbanization Dynamics

- Number of Towns
  - Statutory Towns: 195
  - Census Towns: 153

## 3 Economic Contribution

- State GDP (2023-24 est.): ₹25.63 lakh crore
- GSDP Growth Rate (2023-24): 13.36%



\*Source : [www.ibef.org/states/gujarat](http://www.ibef.org/states/gujarat)



## 4 Legal and Governance Framework

Legal Process of Transition

- Gujarat Municipalities Act, 1963 governs urban local bodies
- Transition is discretionary: Decision by State Cabinet based on demographic and fiscal indicators
- No automatic conversion; requires formal notification under Section 3 of the Act

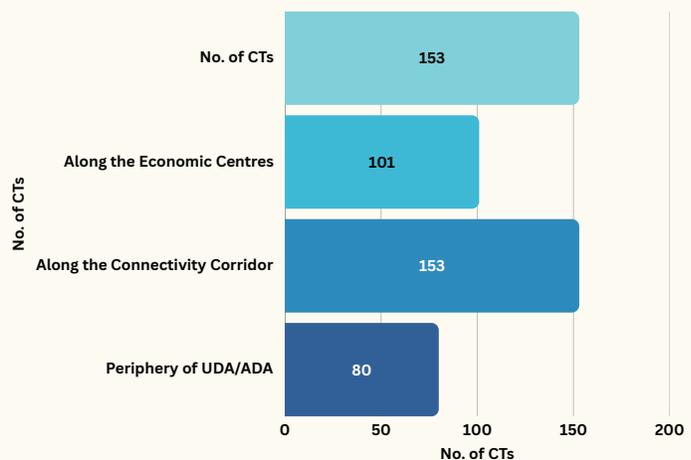
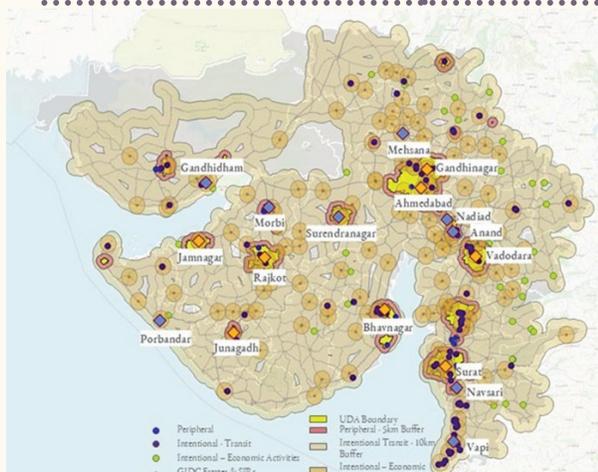
## 5 SFC Recommendations

- Clearer urban-rural distinction in grants
- Improving fiscal decentralization and capacity in smaller towns
- Better classification and monitoring of transitioning settlements.



## 6 Key Initiatives

- Adopted cluster-based infrastructure development to support growing CTs
- State Urban Development Department (UDD) launched policy reviews for including large CTs in spatial plans
- Push towards integrating CTs under AMRUT for basic service delivery.



# URBAN TRANSITION PROFILE MADHYA PRADESH

## 1 Demographic Overview



Total Population : 7.3 Crore  
Urban Population : 28%  
CT Population : 6%  
ST Population : 94%



## 2 Urbanization Dynamics

- Number of Towns
  - Statutory Towns: 366
  - Census Towns: 113

## 3 Economic Contribution

- State GDP (2024-25 est.): ₹15.2 lakh crore
- GSDP Growth Rate (2024-25): 11.05% (current price)



\*Source: prsindia.org



## 4 Legal and Governance Framework

- Governed by Madhya Pradesh Municipalities Act, 1961.
- Transition requires state cabinet approval based on population density (>400/sq. km), non-agricultural workforce (>75%), and infrastructure readiness.
- No automatic conversion; formal notification under Section 5 of the Act.

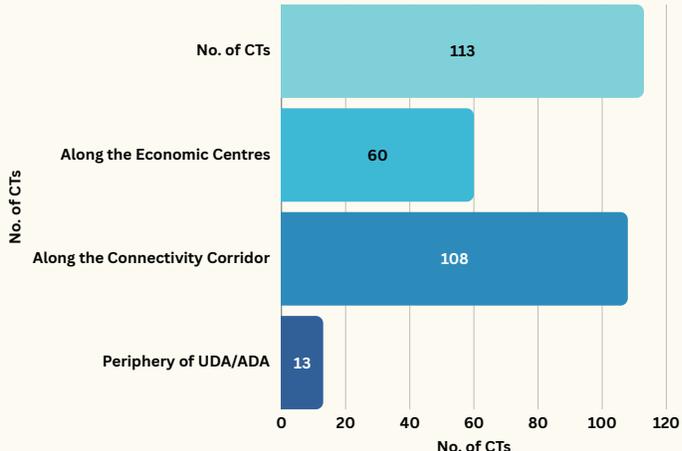
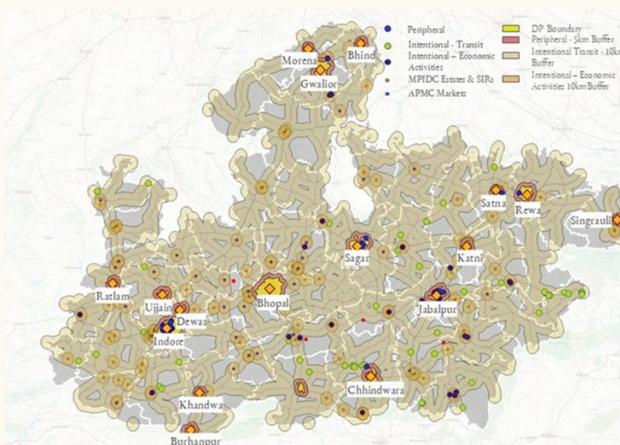
## 5 SFC Recommendations

- Emphasized fiscal devolution to PRIs and ULBs.
- Separate grants for peri-urban areas and capacity-building for transitioning CTs.
- Called for integrated regional planning to address urban sprawl.



## 6 Key Initiatives

- Peri-Urban Development: Extending urban infrastructure (roads, water) to fringe areas.
- Affordable Housing: Schemes for rural migrants.
- Cluster-based development: Pilot projects in Indore periphery (e.g., Santer CT).



# URBAN TRANSITION PROFILE KERALA

## 1 Demographic Overview



Total Population : 3.3 Crore  
Urban Population : 48%  
CT Population : 6%  
ST Population : 94%



## 2 Urbanization Dynamics

- Number of Towns
  - Statutory Towns: 63
  - Census Towns: 461

## 3 Economic Contribution

- State GDP (2023-24 est.): ₹11.03 lakh crore
- GSDP Growth Rate (2023-24): 11.2% (current price)



\*Source: prsindia.org



## 4 Legal and Governance Framework

- Governed by Kerala Municipality Act, 1994 and Panchayati Raj Act.
- Transition is rare; Kerala prioritizes decentralized governance over municipalization.
- CTs remain under Grama Panchayats unless exceptional economic/administrative need arises.

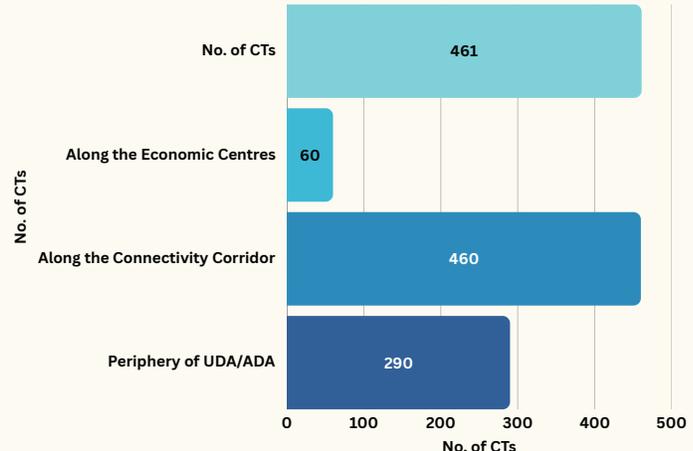
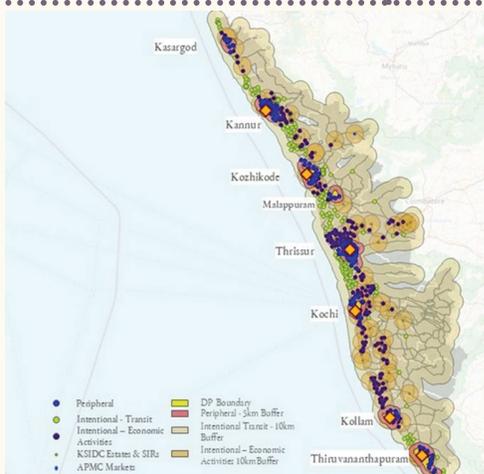
## 5 SFC Recommendations

- Separate grants for census towns and enhanced local governance.
- Emphasized spatial planning for urban agglomerations (e.g., Kochi).
- Recommended retaining Panchayat status in ecologically sensitive areas.
- Financial management to accommodate rural-urban transitions.



## 6 Key Initiatives

- Decentralized Planning: Panchayats manage urban services (e.g., water, waste).
- Kochi Metro Rail: Integrated transport for agglomeration areas.
- Special Economic Zones (SEZs): IT hubs like Infopark drive peri-urban growth.



# URBAN TRANSITION PROFILE JHARKHAND

## 1 Demographic Overview



Total Population : 3.29 Crore  
Urban Population : 24.10%  
CT Population : 18.9%  
ST Population : 81.1%



## 2 Urbanization Dynamics

- Number of Towns
  - Statutory Towns: 40
  - Census Towns: 188

## 3 Economic Contribution

- State GDP (2023-24 est.): ₹4.61 lakh crore
- GSDP Growth Rate (2023-24): 9.06% (Avg growth rate)



## 4 Legal and Governance Framework

- Jharkhand Municipalities Act, 2011(amended 2020) governs urban local bodies No automatic conversion; requires formal notification under Section 8,9 of the Act

## 5 SFC Recommendations

- No such recommendations as sfc has been appointed and report awaited.

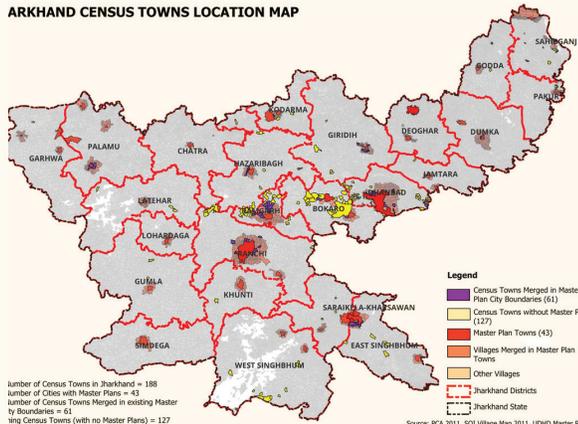


## 6 Key Initiatives

- Dedicated Project Management Unit (PMU) supports revenue growth and municipal capacity during CT to ST transition
- Third-party agencies engaged to address staff and technical gaps in property tax, water charges, and trade license collections.



ARKHAND CENSUS TOWNS LOCATION MAP



No. of CTs



# URBAN TRANSITION PROFILE ODISHA

## 1 Demographic Overview



Total Population : 4.2 Crore  
Urban Population : 17.03%  
CT Population : 14.8%  
ST Population : 85.2%



## 2 Urbanization Dynamics

- Number of Towns
  - Statutory Towns: 107
  - Census Towns: 116

## 3 Economic Contribution

- State GDP (2023-24 est.): ₹8.65 lakh crore
- GSDP Growth Rate (2023-24): 7.8% average growth rate



## 4 Legal and Governance Framework

- Governed by the Odisha Rural-Urban Transition Policy, which adopts a "Hub and Spoke" model for coordinated development.
- The State Urban Development Agency serves as the central hub, collaborating with district agencies and Development Authorities.

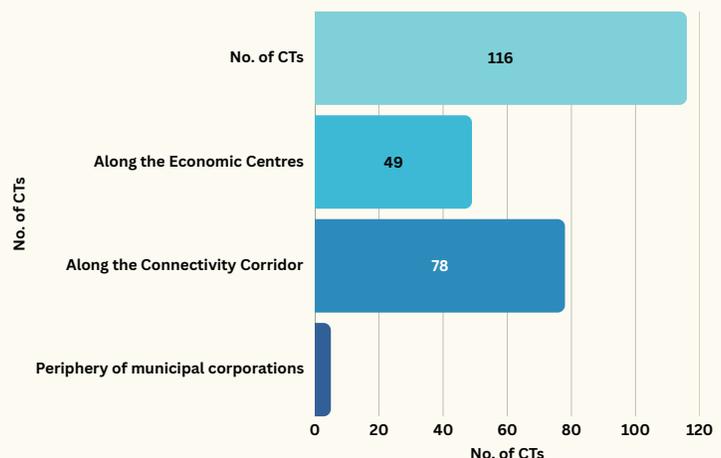
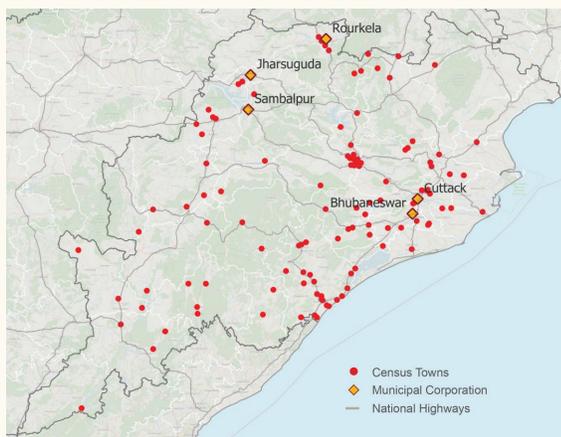
## 5 SFC Recommendations

- Improved service delivery and capacity building in census towns.
- Targeted funding for infrastructure (water, sanitation, roads) and incentivizing ULBs to generate own revenue.
- Legislative adjustments to enhance local governance (e.g., amendments to the Odisha Gram Panchayat Act).



## 6 Key Initiatives

- Integrated Township Policy: Development of industrial hubs (e.g., Rourkela, Sambalpur) and affordable housing under PMAY.
- Smart Cities Project: 24x7 water/power supply and internet connectivity in new urban areas.
- Transitional Zones: Infrastructure parity with urban areas during interim periods.



# Becharaji (Guj): CT Snapshot

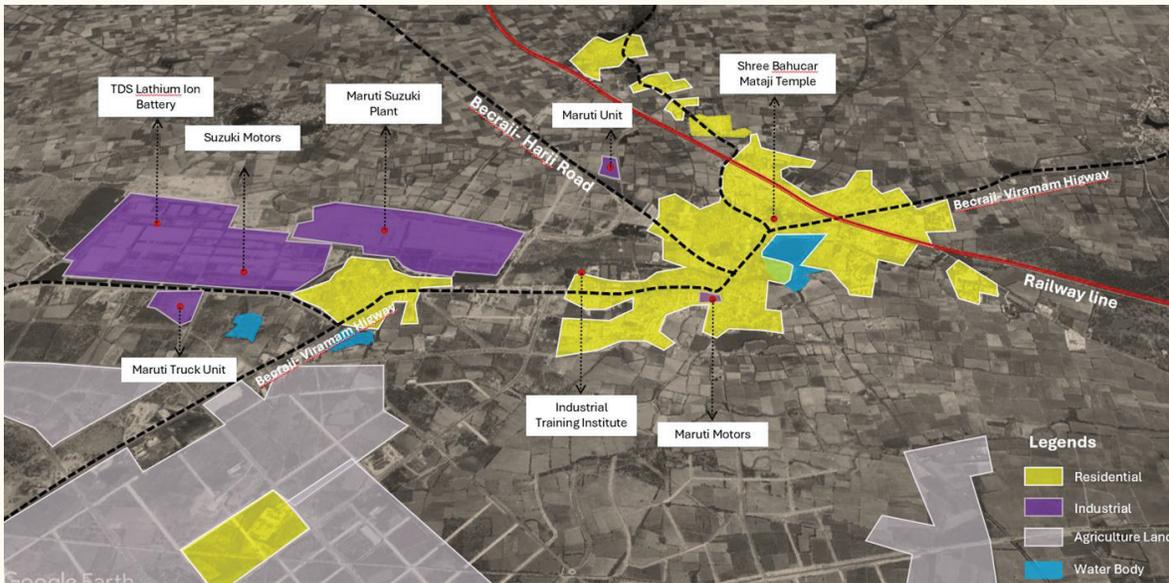
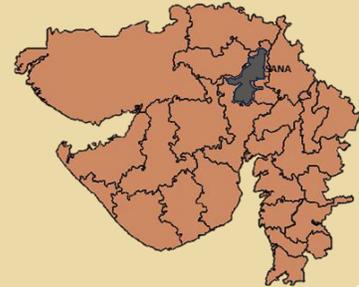


Taluka capital of Mehsana District



Prominent Pilgrim Centre

Population: 12,000



Emerged as industrial hub within the **Mandal-Becharaji Special Investment Region**



Home to auto manufacturers, including **Maruti Suzuki, Honda** producing 1 mn cars annually.



Houses **30 industrial units** (glass, rubber, cotton, logistics)

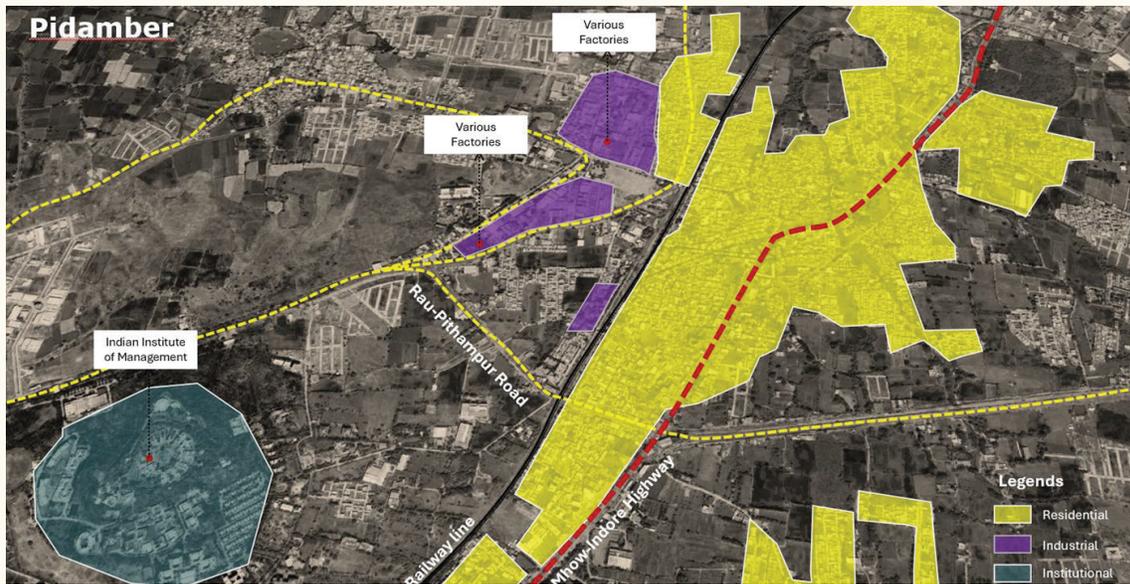
# Pigdambar (MP): CT Snapshot



**Population: 4,200  
(2011)**



**On the Rau-Pithampur Road near Indore  
located near the Pithampur Industrial Area**



**Emerging as hub for small  
factories**

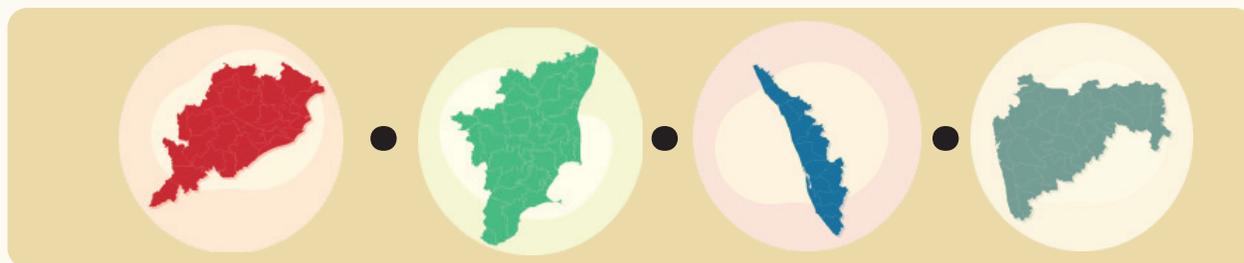


**Positioned along key  
transportation routes, it serves as  
a crucial link between Indore, and  
surrounding economic centers**



**Proximity to IIM-Indore  
Low-cost residential areas**

# States Beginning To Factor a Differentiated Approach To CTs



	Odisha	Tamil Nadu	Kerala	Maharashtra
<b>State Finance Commission*</b>	Need for improved service delivery & capacity building in CTs	Bifurcate larger GPs, reclassifying peri-urban villages based on <b>population &amp; proximity to urban centers</b> and integration to urban governance	Separate grant category for CTs to accommodate transitions.	Adequate financial resources and devolve functions. Revisit PRI laws to introduce user charges.
<b>Policy/Act for CTs</b>	<b>Odisha Rural-Urban Transition Policy (2023)</b>	Urban Dev. Act: - Recommends establishing Urban Transition Authority	Notification to map and transition all CTs (323 GPs).	
<b>Recognition/Classification</b>	Notified by the Housing & Urban Development Department.	- gives <b>power to UDAs</b> to manage <b>peri-urban urban areas</b> .		
<b>Planning/Land Use</b>	Recommended for integrated regional planning approach		Regional planning under TCP Act. <b>Functional District Planning Committees for Rural Urban Integration</b>	Regional Town Planning Act recommends Regional Planning Boards. (MIDC/CIDCO)
<b>Infrastructure Provision</b>	Upgrade infrastructure for basic services and connectivity	<b>Converge funds and schemes for peri-urban areas</b>	Converge funds and schemes for peri-urban areas	<b>Regional authorities</b> to identify growth centers and focus on peri-urban development.

\* Haryana, West Bengal, Rajasthan and Karnataka SFCs have also made recommendations on census towns and peri-urban areas.

*Jharkhand issued a notification for conversion for CTs to STs: Nagar Vikaas and Awaas VibhagSoochna (January 18, 2016).*

*Rajasthan has initiated a study on census town which has recommended a draft bill (separate act to manage transitions).*

# Standards For Service Level: Rural And Urban



	Rural	Urban	References
<b>Water Supply (Requirements)</b>	70 lpcd	135/150 lpcd	<ol style="list-style-type: none"> <li>1. CPHEEO Manual</li> <li>2. Integrated Cluster Action Plan Guidelines,</li> <li>3. SBM (Gramin) Guidelines</li> <li>4. SWM Rules</li> </ol>
<b>Sanitation (Collection)</b>	For collection of wastewater, <b>low-cost drainage/ small bore system</b> , soakage pit may be adopted.	As per CPHEEO <b>conventional Sewers</b>	
<b>Sanitation (Treatment)</b>	Faecal Sludge Management <b>Decentralized</b> and Waste Stabilization, Duckweed based and Phytoid methods	Includes <b>advanced mechanical treatment</b> systems	
<b>Solid waste Collection and Treatment</b>	Focus on <b>treatment of biodegradable</b> waste usually through composting	<p>Focus on segregation of non biodegradable waste for <b>landfilling</b> and bio-degradable waste for composting/ alternate technologies</p> <p>All gated communities and institutions with more than 5,000 sqm area shall ensure bio-degradable waste shall be processed, treated and disposed of through composting or bio-methanation within the premises as far as possible. (SWM 2016)</p>	

# Baseline Process of Transition of CTs to STs (Selected States)



States	Census Town	Transitional Urban Area by Government Notification	Formation of Municipality by Government Notification
Gujarat	<ul style="list-style-type: none"> <li>Governed under the Gujarat Panchayats Act, 1993 (Under Section 266A)</li> </ul>	<ul style="list-style-type: none"> <li>Governed under the Gujarat Municipalities Act, 1963 (Under Section 266B-a)</li> </ul>	<ul style="list-style-type: none"> <li>6 Months duration for conducting elections (Under Section 266B-dd)</li> </ul>
Madhya Pradesh	<ul style="list-style-type: none"> <li>Governed under the Madhya Pradesh Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993 (Under Section 5-1(b))</li> </ul>	<ul style="list-style-type: none"> <li>Governed under Madhya Pradesh Municipalities Act, 1961</li> <li>With notification in the Gazette, constitute a Town Panchayat for Transitional Area. (Under Section 5)</li> </ul>	<ul style="list-style-type: none"> <li>A committee will be constituted under Section 16 to exercise the Council's powers until it is fully constituted. (Under Section 7-b)</li> <li>Executive and elected staff appointed (Under Section 7-g)</li> <li>Administration appointed. (Under Section 16-1)</li> </ul>
Kerala	<ul style="list-style-type: none"> <li>Kerala Panchayat Act, 1994 (Under Section 4-1)</li> </ul>	<ul style="list-style-type: none"> <li>Governed under Kerala Municipalities Act, 1994</li> <li>With notification in the Gazette, constitute a Town Panchayat for Transitional Area. (Under Section 4-1a)</li> </ul>	<ul style="list-style-type: none"> <li>Elections held and Chairman and Vice-Chairman elected (Under Section 10.1 and 11.1)</li> <li>Executive and elected staff appointed (Under Section 12)</li> </ul>

It is evident that during the transition period, no NOC is required, and the Panchayat Act does not include any provisions for an exit mechanism.

# Case of Desakota, Indonesia (1/2)

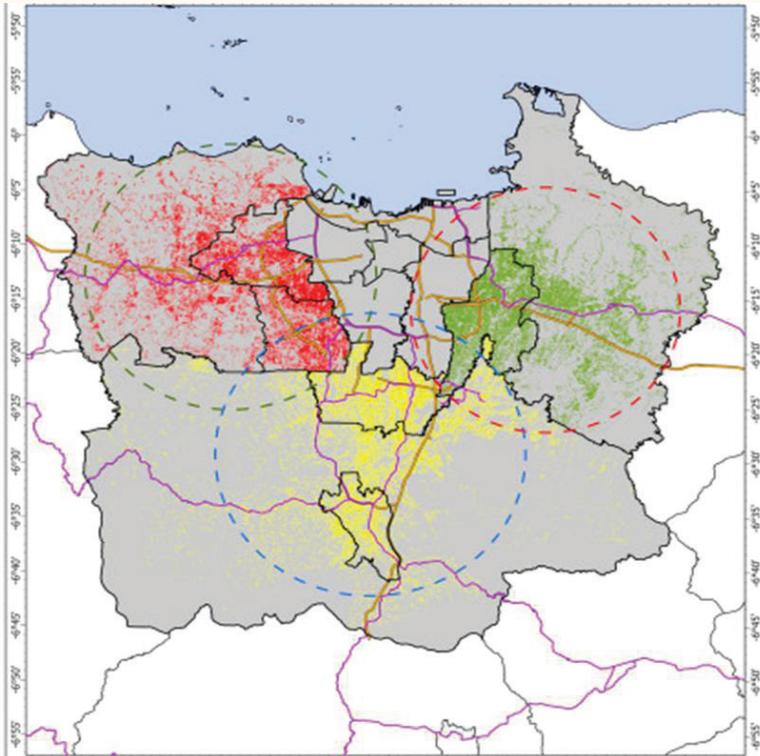
## Concept of Desakota

Desakota (meaning ‘village-town’) refers to peri-urban regions where rural and urban characteristics coexist and interlink.

These areas experience rapid urbanization, yet retain agricultural and informal economic activities, leading to unique development challenges.



# Case of Desakota, Indonesia (2/2)



0 4 8 16 24 32 Kilometers

Spatial Reference  
 Name: WGS 1984 UTM Zone 48S  
 PCS: WGS 1984 UTM Zone 48S  
 GCS: GCS WGS 1984  
 Datum: WGS 1984  
 Projection: Transverse Mercator

### Legend

- Jabodetabek Administrative Boundary
- Built-up Area of WPUZ
- Built-up Area of SPUZ
- Built-up Area of EPUZ
- Compactness Reference of WPUZ
- Compactness Reference of SPUZ
- Compactness Reference of EPUZ
- Toll Roads
- National Roads

Source : Finding a new approach to spatial planning of complex Desakota regions: the use of spatial-based indicators in regional sustainability

## Spatial Sustainability Framework for Desakota Regions



**Promotes Sustainable Land Use Management:** Prevents uncontrolled urban sprawl by promoting compact, connected, and efficient land use while preserving agricultural areas.



**Uses Data-Driven & Evidence-Based Planning:** GIS and remote sensing indicators help measure urban, economic, and social sustainability, improving monitoring and planning.



**Adapts to Different Peri-Urban Patterns:** Recognizes that urban-rural interfaces, mixed-use areas, and segregated spaces need tailored policies for effective development.



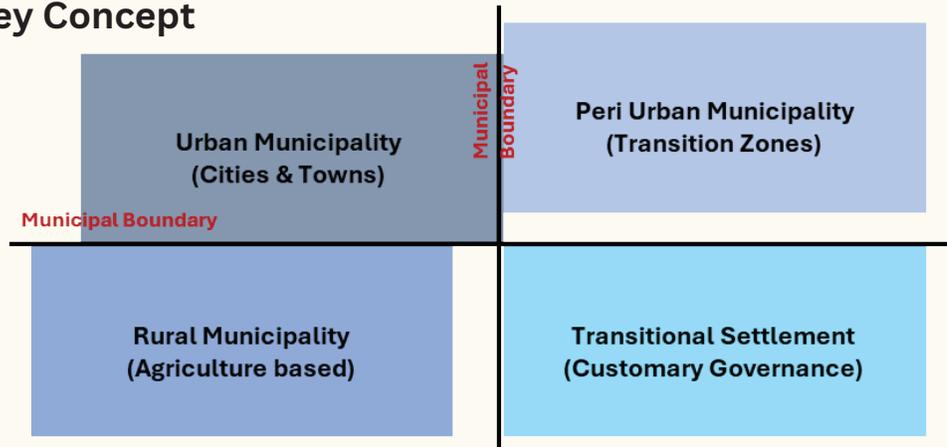
**Strengthens Governance & Policy Coordination:** Encourages multi-stakeholder governance, integrating local governments, regional planners, and private sectors for coordinated infrastructure and service delivery.



**Supports Balanced Economic & Social Growth:** Ensures fair land use and infrastructure access, reducing social inequality and displacement risks while enhancing economic sustainability.

# Case of Wall to Wall Municipality Model, South Africa (1/2)

## Key Concept



The Wall-to-Wall Municipality Model in South Africa was introduced to ensure that the entire national territory is governed under a single, integrated municipal system.

Unlike conventional urban-rural governance divisions, this model eliminates unincorporated areas, bringing all regions, urban, peri-urban, and rural, under municipal jurisdiction.

## Key Benefit

1

Matching Capacity and Delivery needs for all

2

All municipalities have the constitutional and legislative powers and functions assigned to them.

3

Five-year Integrated development plans (IDPs) will become the defining developmental programmes for municipalities.

4

One of the challenges is to ensure all three spheres of governance operated in a more integrated way.

5

National/Provincial/Local spheres operate as a single unit in areas like water, electricity, sanitation and sewerage, transport and health.

6

The President's response to traditional leader locates them contributions specifically in the broader area of governance.

7

The influence of traditional communities has been significantly broadened into the bases of economic and political power through the demarcation process



# List of Persons Met

## GUJARAT

---

- Mr. Ashwini Kumar, IAS, Principal Secretary, Urban Development and Housing Department, Gandhinagar, Gujarat
- Ms. Mona K. Khandhar, IAS, Principal Secretary, Panchayat, Gandhinagar, Gujarat
- Ms. Manisha Chandra, IAS, Principal Secretary, Panchayat, Rural Housing & Rural Development Department, Gandhinagar, Gujarat
- Ms. Shalini Duhan, IAS, Commissioner of Municipalities, Gandhinagar, Gujarat
- Mr. Harpal Dave, Addl. Chief Town Planner, Ahmedabad Urban Development Authority, Gujarat
- Mr. B J Patel, District Development Officer (DDO), Gandhinagar, Gujarat
- Mr. P V Vasaiya, Deputy Commissioner, Office of the Development Commissioner, Gandhinagar, Gujarat
- Mr. M Nagarajan, IAS, Collector, Mehsana, Gujarat
- Dr. Hasrat Jasmine, IAS, District Development Officer
- Mr. Haresh Chaudhary, Taluka Development Officer
- Mr. Parag Vaghela, Asst. Taluka Development Officer
- Mr. Girish Rajgor, Political Representative
- Mr. Mukesh Patel, Political Representative

## MADHYA PRADESH

---

- Mr. Kuldeep Meena, IAS, Addl. Commissioner, UADD, Bhopal
- Mr. Chote Singh, Commissioner, Rural Development
- Mr. Devendra Vyas, UADD
- Mr. V K Tripathi, Dy. Director, Panchayat Raj
- Mr. Pankaj Dharotiya, Block Development Officer (BDO), Mhow Janpad Panchayat
- Mr. Sunil Namdev, Block Program Officer (BPO), Mhow Janpad Panchayat
- Mr. Roop Singh Yadav, Sarpanch, Pigdambar Gram Panchayat
- Mr. Kamal Kishore, Secretary, Pigdambar Gram Panchayat
- Ms. Geeta Chandel, SHG Member & Tax Collector, Pigdambar Gram Panchayat
- Mr. Omprakash Patidar, Secretary, Santer Gram Panchayat
- Ms. Ranjana Goyal, Chief Municipal Officer (CMO), Betma Nagar Parishad
- Mr. Ankit Yadav, Operator (Account), Betma Nagar Parishad

## KERALA

---

- Mr. S M Vijayanand IAS (Rtd), Chairman 6th Kerala State Finance Commission
- Mr. Harilal K N, Chairman 7th Kerala State Finance Commission
- Mr. Jiju P Alex, Member (Decentralised Planning), Kerala State Planning Board
- Ms. Nizamuddhin IAS, Executive Director, Kerala Institute of Local Administration (KILA)
- Ms. Deepa L S, Additional Director, Principal Directorate, (LSGD - Urban), Government of Kerala
- Ms. Timple Magi P S, Joint Director (LSGD -Panchayat), Government of Kerala
- Mr. Binu Vahid, Joint Director (LSGD -Panchayat), Government of Kerala
- Mr. K S Sanal Kumar, Office of the Vice Chairman, Kerala State Planning Board
- Ms. Roshni Padmanabhan, Decentralised Planning Division, Kerala State Planning Board
- Ms. Shyni K S, Research Officer, Decentralised Planning Division, Kerala State Planning Board
- Mr. Jiju Krishnanan, Delimitation Commissionerate, Government of Kerala
- Mr. George Nivin Uthup, LSGD-Auditor, Accountant General's Office
- Mr. T K Santosh, Secretary, Thrikkakara Municipality
- Ms. Mitsy Thomas, Town Planner, Ernakulam District
- Mr. Siju Kumar, Infrastructure Expert, AMRUT (Ernakulam District)
- Ms. Sukanya K U, Coordinator, Center for SDGs and Local Governance, Kerala Institute of Local Administration

- Mr. Jason, Accounts Officer Edathala Panchayat
- Mr. Daya Vijayan, SDG Coordinator, Vazhakulam Taluk Ernakulam District

## **OTHERS**

---

- Mr. R Srinivas, Ex. TCPO
- Mr. O P Aggarwal, NITI Ayog
- Mr. Kanhu Ch. Pradhan, NIUA
- Dr. M Ramachandran, IAS, Ex. Secretary, MoHUA
- Dr. C Chandramouli, IAS, Ex. RGI, Government of India
- Shri Partha Mukhopadhyay, Think Tank
- Shri Sameer Unhale, Government of Maharashtra
- Smt. Uma Adusumilli, Ex. Chief Town Planner, Maharashtra
- Dr. Davendra Verma, MOSPI
- Shri Tikender Pawar, Dy. Mayor
- Mr. Nidish Nair, Private Sector
- Mr. Mathi Vathanan, Government of Odisha
- Prof. Jyoti Chandiramani, Academia
- Dr. Neha Sami, Academia





# Pidamber

