



DAILY EDITORIAL ANALYSIS

TOPIC

**BRIDGING GAP IN INDIA'S HIDDEN
URBANIZATION**

www.nextias.com

BRIDGING GAP IN INDIA'S HIDDEN URBANIZATION

Context

- The recent initiatives like '**City Economic Regions**' (announced in Union Budget 2025-26), and introduction of **Urbanisation Premium Grant** to facilitate rural-to-urban transition in **16th Finance Commission** have revived the debate on **India's undercounted urbanisation** and need for better urban governance.

Urbanisation in India

- According to the **Census (2011)**, **31.16%** of India's population was living in urban areas, contributing to **almost two-thirds of the country's GDP**.
- As per the NITI Aayog reports and estimates of the government, the pace of urbanisation is **likely to speed up** in the coming decades with cities turning out to be the main engines of economic growth, innovation and employment.
- Urbanisation in India occurs by:
 - Cities natural population increase;
 - Move from rural to urban areas;
 - Existing city expansion into surrounding villages;
 - Reclassification of rural settlements into urban areas;
- However, official statistics often fail to capture the last two processes adequately.

India's Hidden Urbanization

- India's official urban statistics **rely mainly on administrative definitions**. A settlement becomes urban only if:
 - It is notified as a **statutory town** by the State Government, Or it is designated as a **Census Town** on the basis of population, density and non-agricultural employment.
- The process is **normally slow**, but the economy grows much faster.
- The **administrative city and economic city** have a **significant gap** which leads to the underestimation of the real urban population in India.

Statutory & Census Town in India

- Statutory Town:** A settlement declared as an urban area **by the State Government under a law**.
- It is managed by an urban local body like a Municipal Corporation, Municipality, Cantonment Board and Notified Area Committee.
- Its urban status is determined by **legal/administrative notification**, regardless of population or other demographic criteria.

Census Town

- It is a classification of a town that is designated as such by the Census of India **only for statistical purposes**, but is still **governed by a Gram Panchayat** unless the State Government converts it into a statutory town.
- They are urban areas but administered as rural areas, causing challenges in governance and infrastructure.
- A settlement is called a Census Town when it satisfies **all three conditions**:
 - Population:** More than 5,000;
 - Population Density:** Minimum 400 persons per sq. km
 - Economic Activity:** 75% or more of the male principal working population is engaged in non-agricultural activities.

Key Reasons Behind Hidden Urbanization

- Administrative reclassification** of expanding settlements **delayed**.
- Delaying of Census (2021)**, leaving cities with outdated data.

- **Rapid growth in the peri-urban areas** where villages are becoming more and more urban economies.
- Changes in administration not related to **economic transformation** from agriculture to manufacturing and services.
- **Dependence on traditional Census definitions** that do not fully represent functional urban areas.

Key Issues and Concerns in India's Urbanization

- **Data Gap:** The real urban population is not reflected in official urban statistics, which hampers evidence-based policymaking.
 - ♦ Urban labour markets, industries, housing and transport networks cut across multiple local bodies, but governance remains fragmented. Economic cities extend beyond municipal boundaries.
 - ♦ Satellite images reveal that cities such as **Kozhikode in Kerala** have expanded beyond their municipal boundaries and the **Indore-Pithampur-Dr. Ambedkar Nagar area in Madhya Pradesh** has emerged as a single integrated economic region encompassing many towns and villages.
- **Poor Urban Governance:** Many Census Towns are still governed by the Gram Panchayats although they have urban characteristics. This results in poor municipal service delivery.
- **Infrastructure Deficit:** Peri-urban areas are often deficient in basic civic amenities like water supply, sewerage, waste management and street lighting.
- **Fiscal Mismatch:** Insufficient financial resources are devolved to urban local bodies keeping in mind their growing responsibilities. The capacity of urban local bodies to manage expanding urban populations is limited.

Policy Recognition of Emerging Urban Reality

- **Union Budget 2025-26:** It emphasised City Economic Regions, recognising agglomeration economies as engines of growth.
- **16th Finance Commission:** Recommended increase in share of local government grants to urban bodies from **36% (15th FC) to 45%** considering the growing urbanisation, **against 19% under 10th Finance Commission.**
- **Introduction of 10,000 crore Urbanisation Premium Grant** to help:
 - ♦ Encouragement to merge peri-urban villages into Urban Local Bodies (ULBs).
 - ♦ Suggest a policy for an orderly transition from rural to urban.
- The move towards smoother urban transition through better fiscal support and municipal reforms is reflected in the case of states like **Odisha** and the recommendations of the **Maharashtra State Finance Commission.**

Way Forward: For Improved Urban Governance

- **Conversion of Census Towns to Statutory Towns:** Set up a time-bound administrative mechanism for automatic conversion of eligible Census Towns into statutory municipalities after every Census.
 - ♦ Municipal state laws should limit discretionary delays.
- **Fund Rural to Urban Transition:** Create a dedicated Central or State fund for peri-urban areas on the lines of **AMRUT**.
 - ♦ Linking financial assistance with the establishment of urban local bodies for infrastructure and governance strengthening must be pursued.
- **Develop City-Region GDP Estimation:** Estimate urban economic output beyond city boundaries.
 - ♦ Estimate GDP for functional city regions combining **GST data, Annual Survey of Industries (ASI), Periodic Labour Force Survey (PLFS), Annual Survey of Unincorporated Sector Enterprises (ASUSE)** and satellite imagery.
 - ♦ Pilot projects in major metropolitan areas can assist in standardisation of methodology.

Conclusion

- India's urban transformation is happening faster than official statistics suggest.
- The growing mismatch between administrative boundaries and functional economic regions carries important implications for planning, infrastructure, fiscal transfers and governance.
- Timely conversion of Census Towns to statutory towns, targeted support for periurban transitions and robust city-region economic estimation could help bridge this gap.
- For sustainable, inclusive and evidence based urban development, it is important to measure and recognise true urbanisation of India.

Daily Mains Practice Question

[Q] India's urbanisation is significantly underestimated due to administrative definitions rather than economic realities. Discuss and suggest institutional reforms to improve urban governance and planning.

Source: LM

■■■■

