Updated urban definitions could optimize our resource allocation

The 16th Finance Commission should redefine cities and rework the formula used for determining urban fund devolutions

**KESAVAN SRINIVASAN &
SRIKANTH VISWANATHAN**

are, respectively, former deputy comptroller
and auditor general, and CEO of Janaagraha.

ULB coverage

Urban local bodies could be the focus of a new formula for resource allocation.

City population category	Urban local bodies in the category	ULBs + census towns in 60-km radius	Total urban population in 60-km radius	Share (%) in India's total urban population
>4 mn	8	971	110.4	29
>1 mn	45	2,242	188.4	50
>0.5 mn	86	3,331	237.3	63
>0.1 mn	470	6,310	348.2	92

The population cuts across state boundaries if the 60-km radius of a ULB also flows into a neighbouring state.
Analysis excludes Jammu and Kashmir and cantonment boards.

City population category	Number of urban local bodies	Population	Share of population of urban local bodies (%)
>4 mn	8	57.8	18.2
1-4 mn	38	57.8	18.2
0.5-1 mn	42	28.9	9.1
0.1-0.5 mn	388	75.1	23.6
<0.1 mn	3,565	98.7	31
Total	**4,041**	**318.5**	**100**

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Source: Janaagraha's Annual Survey of India's City-Systems (2023); Analysis based on Census 2011

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ndia's local governments are weak despite the 73rd and 74th Constitutional amendments. They effectively serve as extended implementation arms of state governments, rather than as an independent tier of government. If India has to deliver on its promise of Viksit Bharat by 2047, we must radically change how we view our local governments. Most economies that have graduated to developed status, including a totalitarian China that is fast moving towards it, have done so through the economic growth generated in and by cities, catalysed in turn by strong local governments. A paltry 4% of the divisible pool is allocated to local governments by Finance Commissions (FCs), with cities getting a minuscule 1.4%. India's investment in cities averaged 0.6% of GDP during 2011-2018 as against 2.8% of GDP for China during 2000-2014 (*World Bank, 2022*). If India has to develop rapidly, we need to empower cities and transfer resources commensurate with 18 constitutionally identified functions to realize the vision of the 74th Amendment of the Constitution.

One of the first challenges is defining a city. We have 88 municipal acts across 28 states and seven Union territories, and five different criteria to define a city—comprising population, density, employment, revenue generation and those from guidelines under Article 243Q of the 74th Amendment. These do not cover modern criteria, such as data on mobility and labour markets, density and built-up forms, and night-time data. Census 2011, already outdated in a rapidly urbanizing India, had identified 3,892 "census towns" governed as village panchayats but actually urban in character based on three criteria: Population of over 5,000, density of at least 400 persons per sq km and an outdated, gendered one of at least 70% of the male main working population being in non-farm jobs. There were 4,041 statutory towns governed as municipal areas. Census 2011 also identified 53 urban agglomerations (UAs). These UAs are not just large cities as defined by their municipal boundaries, but form a larger metropolitan area, including smaller urban local bodies (ULBs) and panchayati raj institutions (PRIs). However, PRIs falling within UAs were still treated as rural. We need a far more coherent way of thinking about urbanization and the central government must provide thought-leadership on it. The Odisha government has published a rural-urban transition policy for a more systematic approach to preparing urbanizing panchayats for urban governance that could serve as a reference point.

We make five recommendations to ensure that urban allocations do not undercount urban populations and serve as a catalyst for higher economic growth and human development.

First, the 16th FC should consider identifying cities using advanced geospatial tools and alternate data as an additional dimension, instead of relying only on the 2011 census for resource allocations. Solely relying on 13-year-old data to identify cities would be sub-optimal, given a pace of urbanization that makes it one of the world's most significant demographic transitions. With geospatial tools accessible now, the FC may explore the use of advanced mapping capabilities and alternative data to identify cities. For example, population projections of the Union ministry of health and family welfare, night-time luminosity and consumption expenditure, apart from vehicle and property registrations. The FC has an opportunity to break new ground.

Second, allocations for metropolitan areas must continue to be treated differently, with outcome-based funding for ambitious goals linked to economic growth and jobs, environment sustainability and equity considerations. This should cover the entire metropolitan area, essentially the UA as per census 2011 data but further informed by geospatial analysis. Census towns in metropolitan areas too need to be treated as urban rather than rural for resource allocation purposes. The UK's model of 'city deals' may be appropriate to learn from and adapt to our context.

Third, the 16th FC needs to support the progressive trend of differentiating between the needs and capabilities of different types of cities and suitably tailoring resource allocations. Our larger metropolitan areas have the economic might and scale to raise their own resources to finance development. However, mid-sized cities with a population range of 100,000 to 1 million may need support for some more time to create capabilities that will help them grow economically. The long tail of 4,200-plus smaller cities would need more long-term unconditional support to evolve as robust institutions. A one-size-fits-all approach will not work.

Fourth, the 16th FC should carefully evaluate the role and relevance of the district as a unit of resource allocation, particularly from the standpoint of Indian cities' spatial contiguity. Districts continue to be the best understood and capacitated level of administrative governance in India and are best placed to rise above the rural-urban binary and plan for integrated and coordinated economic and ecological development. The FC needs to evolve this concept further and consider spatial contiguity arising out of India's unique pattern of urbanization for better resource optimization and efficiency.

Fifth, and most importantly, while the 15th FC ascertained a state's share of local-government grants on the basis of total state population and then worked its way to individual ULB shares through a complicated process, we would recommend a simpler local-government-centric (rather than state-centric) approach to ascertain individual ULB shares across India. It should be done directly on the basis of their individual share in total ULB population (excluding metropolitan areas as mentioned in the second recommendation).

The 16th FC has an opportunity to redefine and reimagine urban allocations, albeit grounded in sound logic and spatial data. Allocations using new and improved underlying principles could help usher in Viksit Bharat ahead of time, particularly for the 4,200-plus cities in the under-100,000 population category, by placing them on the path of planned urbanization.