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# **What is “Urban/Rural” India?**

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## **Executive Summary**

The issue of labeling settlements as “urban” and “rural” has important policy implications in India since the label determines the local governance structure (panchayat or urban local body) and the allocation of resources under government schemes. Policymakers often work on the faulty assumption that “rural” is a proxy for “poor” and accordingly spend greater resources on provisioning of public goods in areas defined as “rural”. However, the current classification uses a combination of administrative definition and census criteria which are often inadequate in capturing speed and scale of urbanization in India. As a result, de facto urban areas are often governed by panchayats which are less efficient in provisioning of public goods than urban local bodies. India needs a more dynamic approach to defining rural-urban areas which includes technological indicators like night-time light intensity. Further, the government needs to establish “trigger mechanisms” which automate the transition from rural to urban settlement after the prescribed threshold is reached. More fundamentally, the government needs to revisit the assumption of creating schemes based on the rural-urban divide which is a poor proxy for scarcity.

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## **Introduction**

The last few decades have seen an unprecedented amount of urbanization in India. Close proximity of skilled individuals and capital mixed with high provision of public goods allows these cities to produce goods and services at a rate significantly higher than possible in rural areas (Tandel, Hiranandani, Kapoor 2016). The differences within the two ecosystems – rural and urban -- prompt different forms of administrations that have practical and significant differences in how the location develops and the type of support it receives from central and state governments. Rural areas benefit from a multitude of schemes from the central and state governments under the tacit assumption that rural economies that do not have the proximity of skilled individuals and capital, are inherently poorer and need support. Adjoining the tacit assumption of policy-makers is the incentives of elected political figures to bestow state aid upon large populations in order to increase their probability of winning the next election (Bawn. Et al 2012). The two motives occasionally clash whereupon politicians and their constituents have an incentive to keep newly developing urban areas ‘Rural’ for as long as possible.

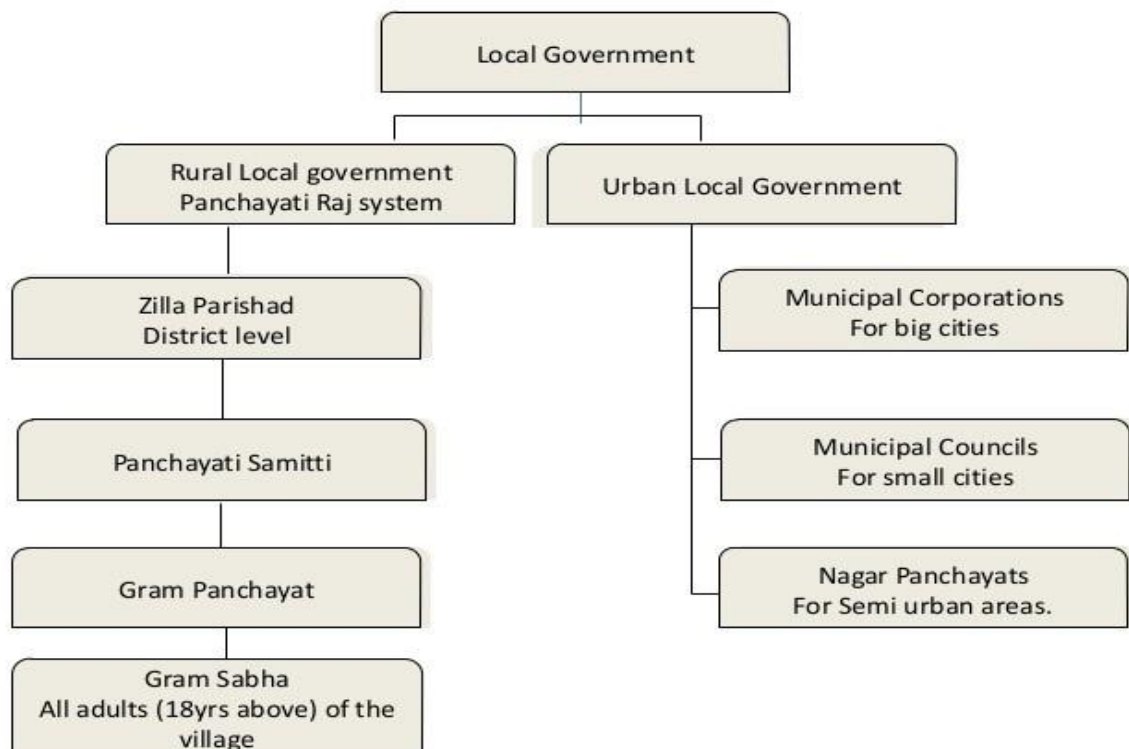
The Indian state is presented with two questions that if successfully tackled would positively transform the nature of urbanization in the country as well as the future of its rural economy. The first concerns the nature of resource allocation based on ‘Ruralness’. If we neglect the secondary incentive of politicians, then government programs should allocate based upon scarcity as opposed to the ill-defined metric of “Rural”. Second, an automatic trigger needs to be created that prompts administratively-rural settlements but de facto urban to start the legal transition into administratively-urban settlements. Apart from the misallocation of resources that currently occur due to misclassification, delayed administrative shifts can stifle urbanization and lead to a host of problems. Urban administrations enforce stricter building codes, create

municipal corporations, and are entrusted with a host of other responsibilities that increase the quantity and efficacy of public goods.

### Current Definition of Rural

As of December 2017, ‘Rural’ is defined in relationship with ‘Urban’. Any settlement that is not considered ‘Urban’ is automatically considered ‘Rural’. There are two types of urban settlements: administratively urban and census urban. Administratively urban settlements are those that are governed by an Urban Local Body (ULB) which are either Municipal Corporations, Municipal Councils, or Nagar Panchayats. Rural settlements are on the other hand governed by a Gram Sabha. Administratively rural settlements can have a population stretching from less than 100 inhabitants to greater than 10,000 inhabitants. Government schemes currently make no distinctions and classify them all as Rural (Tandel, Hiranandani, Kapoor 2016).

Graphic 1: Local Governance Structures



Census Urban Settlements are those that are administratively urban, those that have a population greater than 5,000, 75% of male population working in non-agriculture, and a density of 400 people per sq. Km; and those that border a core town of 50,000 people and have a high probability of urbanization.

## **The Problem**

The administration of a settlement along urban-rural lines determines the allocation of various schemes by the states and the center. These states allocate resources to administratively rural settlements under the assumption that ‘Rural’ is a proxy for poor. Tandel, Hiranandani, & Kapoor found that urban locations as defined by census or by either 5000+ population in settlement or 2500+ population settlement are more strongly correlated with poverty rates, per capita Net State Domestic Product (NSDP), and percent of workers in agricultural occupations than the administrative definition. *This implies that the current definition is not the most effective proxy for poor.*

Furthermore, the 74<sup>th</sup> Constitutional amendment mandates Urban Local Bodies to include representatives with specific skills in municipal administration and entrusts them with various functions like land-use planning, building regulations, and fire services which are not required of panchayats. This results in rapidly urbanizing settlements with rural administration having haphazard and limited civic construction. This frequently means that solid waste management and sanitation are on the backburner - leading to health challenges such as open defecation. Panchayats in de facto urban areas are ill-equipped in terms of human resources and take longer in setting up necessary ground infrastructure like police stations, courts, mass-transit, water-storage, energy, slum-management, and hospitals. These lead to an unsustainable strain

on public good use in other areas. Panchayats also lack the capacity to be easily informed of land-use changes which deprives the state of revenue that would be normally used in furthering provision of public goods. Overall, ULBs significantly contribute to the provision of public goods as compared to panchayats, and delayed transitions can hold settlements back.

State governments hold the power to induce a settlement to adopt a ULB, but the friction produced by the systems in place often leads to no such change. Rural areas usually have lower taxes than Urban areas (Deshmukh 2014).<sup>2</sup> There is a perception that administratively rural areas receive more government funding (Sivaramakrishnan 2002). Panchayats frequently resist conversion to preserve their power. Construction companies often lobby vigorously to avoid stricter building norms. And lastly Samanta (2014) found that state governments oppose the formation of ULBs in places where different political parties enjoy local support.

In conclusion the slow transition from rural administrative panchayats to ULBs results in incorrect standards of services being applied, unmet requirements of local public goods, and the misallocation of developmental programs.

### **Solution 1: Revamping the definition of Rural/Urban**

#### **A: Technological Fix**

Streetlight Differentiating Model – A new paper produced by Blanca Arellano and Josep Roca<sup>3</sup> has utilized luminosity levels supplied by SNPP satellite to determine an urbanization gradient. It proposes an index known as land impacted by light per capita (LILpc) as an indicator of level of

urbanization. The methodology used in the paper can be summarized in the following steps: a) a logistic regression between Urban Areas (UA), as a dependent variable, and night-time light intensity, as an explanatory variable, allows us to establish a nightlight intensity level for the determination of Areas Highly Impacted by Light (AHIL); b) the delimitation of the centers and peripheries is made by setting a threshold of night-time light intensity that allows the inclusion of most of the centers and sub-centers; c) once identified urbanized areas, or AHIL, it is necessary to delimit the rural areas, or Areas Little Impacted by Light (ALIL), which are characterized by low intensity night light; d) finally, urban landscapes are those with nightlight intensities between ALIL and AHIL. This model could be adjusted for an Indian context by incorporating energy levels and income levels per settlement to understand how electricity availability/income of a settlement influences what counts as Areas Highly Impacted by Light. In other words, India could utilize the model but incorporate electricity supply and income as a control in the initial logistic regression.

## **B: Other population-based definitions**

Ghana and Qatar – An Urban Settlement has a population greater than 5000

Mexico and Venezuela – An Urban Settlement has a population greater than 2500

United States Census – Splits Urban into three levels: 2500+, 10,000+, and 50,000+

United States Office of Management and Budget – Metropolitan/micropolitan area is any county containing an urban area of 50,000/10,000 or more people, together with any adjacent counties that have a high degree of social and economic integration (as measured by commuting to work).

United States Rural-Urban Commuting Area Codes – Utilizes the Management and Budget definition but includes many more classifications and produces 10 primary codes and 30 secondary codes differentiating locations. 4 of the 10 primary codes are classified as urban.

United States Business and Industry Loan Program – Any settlement with 50,000 or more people and their adjacent and contiguous urbanized areas.

### **Solution 2: Scheme Allocation**

This paper recommends that India adopt a dynamic approach to the concept of Rural<sup>4</sup>. Instead of solely relying on the administrative definition of rural, ministries should utilize the census and other settlement wide indicators to determine the definition of rural that best suits their particular program's mandate.

This report goes a step further in asking ministries and departments to question the rationale behind setting up programs based upon the urban-rural divide. If the end-goal is to provide government support in areas of scarcity, India should not utilize a badly constructed proxy measure for scarcity if a better alternative is available. As data collection and analysis across the country grows, schemes and programs should be drafted with regard to where they are needed the most. Revamping the proxy measure of 'Rural' is an important short-term gain as applying this suggestion will take considerable time and resources. But in the long-term, government programs should be directed towards tackling scarcity whenever available data permits it.

### **Solution 3: Triggering Transitions to ULBS**

Currently, there are two major impediments stopping a rural panchayat settlement from transitioning to an ULB. Firstly, there is political resistance from either the local body itself or the state government. Secondly, the measure of population within a settlement is conducted every 10 years. This paper calls



for the Ministry of Housing and Urban Affairs and the Ministry of Rural Development to take responsibility of the transition. They can do this by creating a “trigger” which once a settlement passes must begin and vigorously pursue the transition to an ULB. Their enforcement mechanism can be a combination of the carrot and the stick – MRD should withhold resources from centrally administered schemes if the settlement fails to start the transition and MHUA should offer financial assistance in the forms of schemes/newly minted transition fund and logistical support to settlements that start and pursue the legal process.

The exact nature of what this trigger should consist of is up for debate – the Indian Government could follow the Census definition or it could follow various other iterations outlined above. The difficulty in utilizing the census is that it is released every 10 years and urbanization takes place at a much faster rate. As of such, this paper recommend that the government utilize an Indian adapted Streetlight Differentiating Model as a trigger. The model can be created with real time data, and as such triggers need not only be triggered once a decade.

## **Conclusion:**

The slow and stymied transition from rural panchayats to Urban Local Bodies both deprives *de facto* urban areas of much-needed public goods and services and misallocates central and state government resources. This paper recommends that over time, the government shift away from using “Rural” as a proxy measure of need and instead use more direct measures of scarcity/density.

This paper also recommends that in the short-term, governments use an alternative definition of urban (and hence rural) when using ‘rural’ as a proxy. Lastly, this paper recommends that the Ministry of Housing and Urban Affairs create a ‘trigger’ for when a rural panchayat should start the transition to an ULB. This trigger should be jointly enforced with a carrot from the MoUD and a stick from the MRD. These reforms would transform the nature of emerging cities in India.

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