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# From Panchayats to Municipalities:

## How India's Legal Framework Shapes Rural-Urban Transitions

Authors: Pritika Malhotra and Avani Kapur

Suggested citation: Malhotra, P. & Kapur, A. (2025).

From Panchayats to Municipalities: How India's Legal Framework Shapes Rural-Urban Transitions.  
Foundation for Responsive Governance (ResGov). Delhi.

December 2025

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# 1. Introduction

The 73rd and 74th amendments to the Constitution of India created a third tier of government. Panchayats and municipalities were recognised as institutions of self-government in rural and urban areas, respectively.<sup>1</sup> While these amendments outlined the structure, composition, and broad powers of these institutions, they stopped short of clearly defining what constitutes an urban and rural area itself. Instead, they offered only a set of factors that may be considered by states when deciding whether an urban area should be classified as large, small or transitional (i.e. an area in transition from rural to urban).<sup>2</sup>

As per the 2011 Census, 31% of India's population lives in urban areas. The Census recognised two types of urban areas i.e. statutory towns and census towns:



**Statutory towns:** settlements formally notified as urban under state/ UT law and governed by an urban local body (ULB) such as the municipal corporation, municipal council, or nagar panchayat.



**Census towns:** settlements containing urban characteristics that continue to be governed as rural because they have not been notified as urban. To be a census town a rural settlement must have:

- A minimum population of five thousand
- At least 75% of the male main working population engaged in non-agricultural activities.
- A population density of at least 400 persons/ square km



Rural areas have no definition and settlements not notified as a statutory town are assumed to be rural. The upcoming 2027 Census will continue using the same classification of urban and rural areas.<sup>3</sup>

As stated above, while both statutory and census towns are urban in character, only the former are legally recognised as urban and governed by municipalities. Census towns, in contrast, remain under rural governance. The Constitution provides a pathway for transition from rural to urban status, through the establishment of nagar panchayats in areas being converted to urban or those merged with an existing urban area.<sup>4</sup> For residents, such transitions bring both opportunities and trade-offs.<sup>5</sup>

On the one hand, remaining a rural area means continued access to employment guarantee schemes like NREGA, lower taxes/ user charges and fewer building regulations, but can come at the cost of limited economic growth and infrastructural development.

Conversely, urban classification means improved access to infrastructure-focused schemes, enhanced economic prospects, and rise in property values, but at the same time leads to higher taxes, more stringent regulations, and greater centralisation of service delivery and grievance redressal mechanisms.

The process of identifying and declaring transitional areas is left to the discretion of states. Each state's municipal law sets its own thresholds and procedures for transitions, resulting in variation and uneven patterns of urbanisation across India. Studies indicate that:

11 states in India are at least 15% more urbanised than the official figures suggest because their state definition of urbanisation falls short of ground realities.<sup>6</sup>



545 out of the 825 notified transitional areas do not actually conform with the criteria laid down by the state government.<sup>8</sup>



There are 24,000 settlements in India with populations larger than towns but not classified as urban only because they do not meet the 75% non-agricultural work criteria. These grey settlements are home to around 190 million people who as a result, could be missing out on infrastructure, housing, and employment policies that target urban populations.<sup>7</sup>



Even when transitions occur, they often result in municipalities inheriting larger populations, without additional revenue or capacity, because there is no clear policy on when and how new taxes will be introduced, how panchayat staff will be transferred, how service delivery will be organised, or even how ULB capacities will be scaled to manage new responsibilities.<sup>9</sup> This affects service delivery.

Furthermore, data from the 2001 and 2011 Census showed that many settlements categorised as census towns in the 2001 Census continued to be governed as rural even in 2011,<sup>10</sup> indicating that the decision to notify an area as urban is often political. These challenges highlight the need for a clear rural-urban transition policy, presence of uniform standards for converting rural settlements into urban or merging them with an existing ULB, and transparent procedures to ensure better planning.<sup>11</sup>

This report examines how India's legal and institutional framework has shaped the transition from rural to urban. It focuses on the analysis of legal provisions defining and regulating the transition, and the judicial interpretation of these provisions in five states- Rajasthan, Madhya Pradesh, Bihar, Maharashtra, and Uttar Pradesh. The report also draws lessons from Odisha's 2023 Rural-Urban Transition Policy and Rajasthan's Draft Transition Policy, which provide structured frameworks for managing transitions. By comparing the policies across states, the report provides suggestions on how to strengthen the rural-urban transition framework.

## 2. Constitutional and legal framework governing the rural-urban transition

The Constitution (Seventy Fourth) Amendment Act, 1992 introduced Part IX-A, relating to the establishment of municipalities in urban areas. Prior to this amendment, municipal bodies were weak and ineffective because they were frequently superseded and their financial and other powers were encroached upon by state governments. The amendment sought to correct this by providing constitutional recognition to ULBs, ensuring regular elections, and clarifying the manner of constitution so as to safeguard the autonomy of municipal bodies.<sup>12</sup>

Part IX-A provides for the establishment of 3 types of municipalities in every state:<sup>13</sup>

- Municipal corporations for large urban areas
- Municipal councils for smaller urban areas
- Nagar panchayats for transitional areas i.e. area in transition from rural to urban



Municipalities are divided into territorial constituencies known as wards for electoral purposes, with each ward directly electing a representative.<sup>14</sup> All bodies have a 5 year tenure, after which fresh elections must be held.<sup>15</sup> States are required to give municipalities the powers they need to function as institutions of local self-government, and can also devolve additional powers to implement schemes or carry out functions related to matters mentioned in Schedule XII of the Constitution.<sup>16</sup>



This report focuses on the legal provisions governing nagar panchayats, since they are the institutions that govern rural areas transitioning to urban governance. A comprehensive legal framework is essential to ensure that transitions are predictable, transparent and well-governed. For this, three aspects require clarity:

1. Criteria for selecting rural areas for upgradation to urban status
2. Procedure to be followed for upgradation
3. Governance and administrative arrangements after upgradation

In this section, we examine whether constitutional provisions and state legislations provide clarity on these aspects or whether ambiguities persist that may hinder transitions. The analysis draws on Supreme Court decisions and 24 High Court decisions across five states, to show how courts have interpreted and applied the legal provisions. In several states, transition-related provisions are contained within the panchayat laws and so, these too have been reviewed where relevant.



## 2.1. Criteria for selecting rural areas for upgradation to urban status

There is no clear definition of what constitutes a 'transitional area' or any set of uniform criteria for upgrading a rural area to urban, in the Constitution. Article 243Q only lists certain factors that the Governor of a state may consider when classifying an area as transitional. These include: population, population density, revenue generated, employment in non-agricultural activities, economic importance, and any other factors the Governor may think fit.

There are, however, certain exceptions. Municipalities cannot be constituted in:



areas notified as industrial townships where services are provided by an industrial establishment<sup>17</sup>



scheduled and tribal areas since these are governed under Schedule V and VI of the Constitution<sup>18</sup>



areas governed by cantonment boards<sup>19</sup>

Thus, while the Constitution provides broad guidance, it gives states significant discretion to determine when to convert a rural area into a nagar panchayat. However, due to conflicting judicial pronouncements, the limits of this discretion are unclear.

In 2018, the Supreme Court held that formally notified parameters are a precondition for reclassification. In 2022, however, the Court took a contrary position holding that no separate notification prescribing parameters is required. Because both decisions were delivered by two-judge benches, the conflict is unresolved and awaits clarification by a larger bench.



### Conflicting views of the Supreme Court on how states are to comply with Article 243Q

In 2018 (*Champa Lal v. State of Rajasthan*) the Supreme Court held that the Governor of a state does not have unfettered discretion to declare transitional areas and that:<sup>20</sup>

- States must first fix uniform parameters based on the factors mentioned in Article 243Q
- Municipalities can be constituted only after determination of these parameters
- Classification of an area as transitional cannot be done solely on the basis of population

Accordingly, a state government notification converting a rural area into a nagar palika<sup>21</sup> was held to be invalid in the absence of such parameters being fixed.

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In 2022, however, the Supreme Court (*State of Rajasthan v. Ashok Khetoliya*) took a contrary position, holding that:<sup>22</sup>


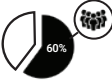



- State legislatures are competent to legislate in respect of municipalities and the only limitation to their powers is that there must be consistency with Part IX-A of the Constitution
- No separate notification under Article 243Q setting out uniform parameters is required prior to declaring a rural area as a municipality


Lack of clarity has resulted in divergent state practices. Uttar Pradesh, Rajasthan, and Madhya Pradesh follow the 2018 Supreme Court approach and have issued separate notifications specifying criteria. In contrast, Bihar and Maharashtra list the criteria for transitions within the municipal legislation itself.

High courts have upheld these divergent approaches, in the absence of guidance from the Supreme Court. The Madhya Pradesh High Court has emphasised that any notification upgrading a panchayat to a municipality must be area-specific and should consider the Article 243Q factors relevant to that area.<sup>23</sup> The Patna High Court, however, has taken a more flexible view, holding that while uniform parameters must exist, there is no requirement for them to be notified separately and they can be mentioned within the municipal legislation itself.<sup>24</sup>

The substantive criteria used to upgrade rural areas to urban also vary across states. Rajasthan only considers population, while Uttar Pradesh, Bihar, Maharashtra and Madhya Pradesh set thresholds for additional factors as well. Thresholds also widely differ - in Bihar a rural area with population of 12,000 becomes eligible for upgradation to a nagar panchayat while in Madhya Pradesh and Uttar Pradesh it only becomes eligible when the population touches 20,000.<sup>25</sup> Table 1 shows the extent of variation in criteria set by the five states.

Table 1: Variation in criteria for declaring transitional areas

Criteria	Uttar Pradesh <sup>25</sup>	Madhya Pradesh <sup>26</sup>	Bihar <sup>27</sup>	Rajasthan <sup>28</sup>	Maharashtra <sup>29</sup>
Population 	20,000+ in plains 10,000+ in hills	20,000+	12,000-40,000	Upto 1 Lakh	10,000-25,000
Population density 	-	60% of population must be densely populated	-	-	-
Revenue Generated 	Earlier required, now removed <sup>30</sup>	>= 10 lakh/ annum Mentioned but no threshold	Mentioned but no threshold	-	-
Employment in non-agriculture activities 	>= 75% of population	>= 50% of population	Total population of main cultivator workers and marginal cultivator workers < 50%	-	>=25% if <=20km from a municipal corporation/ A Class Council >=50% if >20km from a municipal corporation/ A Class Council
Economic importance 	-	Markets and cattle markets should generate more revenue than nearby GPs	Mentioned but no threshold	-	-

Criteria	Uttar Pradesh	Madhya Pradesh	Bihar	Rajasthan	Maharashtra
Specification of additional criteria 	Yes. Evaluation of road traffic and urban amenities (such as police station, development block, business centre, school, health centre, electricity, bank, post office) <sup>31</sup>	Yes. The following criteria must be met: <sup>32</sup> <ul style="list-style-type: none"> <li>• At least 30% of buildings should be covered under the scope of property tax and have a minimum annual rental value of Rs. 4,800</li> <li>• Water supply and widespread installation of electric poles</li> <li>• Functional gram panchayat building that can host at least 10 employees and meetings for at least 15 councillors</li> <li>• 30% of total roads to be paved and have drains</li> </ul>	No additional criteria listed	No additional criteria listed	Yes. Distance from the territorial limits of a municipal corporation/ 'A' class council <sup>33</sup> is considered and the threshold for employment in non-agricultural activities is made dependent on this distance <sup>34</sup>

Logically the above thresholds should be preconditions that are met before the gram panchayat/ village can be converted to a municipality. Notifications upgrading Panchayats have frequently been set aside where population, revenue, or workforce criteria were not satisfied.<sup>35</sup>

However, here too there are differences in legal interpretations. For instance, the Patna High Court interpreted the criteria differently and held that population, revenue and workforce thresholds need not be satisfied at the village level and should be assessed with reference to the entire urban area proposed to be constituted.<sup>36</sup> This interpretation makes it significantly easier to incorporate rural settlements into an existing nagar panchayat: even if a particular village does not meet non-agricultural workforce thresholds, the larger proposed municipal area might.

Additionally, Bihar<sup>37</sup> and Maharashtra<sup>38</sup> require reliance on census data when assessing whether the population threshold has been met. The Patna High Court has observed that this means that reclassification should ideally be only undertaken once every 10 years, following each new Census.<sup>39</sup> Other states do not specify a data source, creating ambiguity.

Hence, there are several ambiguities in how criteria for upgradation are set:

- Each state considers different factors for upgrading rural areas to urban and even when the same factors are used, the thresholds widely vary. An area eligible for upgradation in one state may not qualify in another due to this.
- Some states embed criteria within municipal legislations, while others have issued separate executive notifications. The level of detail also substantially differs.
- In some states thresholds are preconditions, in others they apply to the new proposed area. This affects which rural settlements can be upgraded.
- While some states specify reliance on Census data, others give no guidance leaving things open to interpretation.

## 2.2. Procedure to be followed for upgradation

In this sub-section we examine whether state legislations clearly set out the procedural steps to convert a rural area into urban. Across the states reviewed, legislations typically contain two procedural requirements: prior intimation to the public about upgradation by publication of a draft notice and mandatory consideration of any objections.

Table 2: Comparative analysis of transition provisions in state municipal legislations

Provision		Uttar Pradesh	Madhya Pradesh	Bihar	Rajasthan	Maharashtra
PROCEDURAL ASPECTS	Prior intimation	✓	✓	✓	✗	✓
	Mandatory consideration of objections	✓	✓	✓	✗	✓
POST-UPGRADATION CLARITY	Application of municipal laws	✓	✓	✗	✓	✗
	Interim governance arrangements	✓	✓	✓	✗	✓
	Provisions for continuity	✗	✓	✗	✓	✗

### PROCEDURAL ASPECTS

#### Prior intimation

Most states require the draft notification for converting a gram panchayat into a municipal area to be published before the final declaration is issued.<sup>40</sup> This draft must typically be published in the official gazette, a local newspaper and at conspicuous places, including the office of the District Magistrate. The purpose is to inform the public and give them time to raise objections, if any. Hence, states require publication in the vernacular language as well to ensure accessibility.

Courts have consistently enforced this requirement and quashed notifications without proper intimation.<sup>41</sup> For instance, the Allahabad High Court set aside notifications that expanded the final notified area to include additional villages that were not mentioned in the draft notification, holding that such changes alter the “entire complexion and character of the preliminary notification”<sup>42</sup> by rendering the right to object illusory and defeating the intent of intimation. The Bombay High Court also set aside a notification that was not published in a newspaper, despite publication at a conspicuous place, holding that this resulted in a violation of the principles of natural justice.<sup>43</sup> The Madhya Pradesh High

Court has quashed a notification when publication was superficial.<sup>44</sup> The court observed that while all modes of publication need not be followed mechanically, publication must be proper and adequate and not a *“halfhearted attempt”*. The purpose of notifying the public i.e. to learn about their reactions and give them time to object, must be fully achieved.<sup>45</sup>

In Bihar, there is an additional legislative safeguard. If only part of a gram panchayat is proposed to be upgraded, the Gram Panchayat must first be consulted. Failure to consult its members may render a notification invalid.<sup>46</sup> In Maharashtra, however, courts have found that there is no mandatory requirement to consult the Gram Panchayat.<sup>47</sup> In fact, a notification upgrading a gram panchayat to a nagar panchayat, instead of a nagar parishad, taking into account the opinions of the panchayat members, was set aside on grounds that this was not a relevant factor to be considered when taking the decision.<sup>48</sup>

However, Rajasthan is an exception. Its municipal act does not contain any requirement to publish a draft notification or give prior intimation. Though the Panchayati Raj Act mandates a one-month notice for converting a village into a municipality,<sup>49</sup> the High Court in February 2025 held that this requirement does not apply because the municipal act is more recent than the panchayat act and prevails over it.<sup>50</sup> Hence, in Rajasthan no prior notice is legally required for conversion of a rural area to a municipality.

### **Mandatory consideration of objections**

All states, except Rajasthan, provide a specified period for residents to file objections to the draft notification.<sup>51</sup> The intention is to provide affected people with the opportunity to make their voices heard. Maharashtra has an additional requirement- the gram panchayat can only be upgraded to urban after 1 year of elections having taken place.<sup>52</sup>

Among the five states, Uttar Pradesh stands out for strongly upholding the democratic right of people to submit an objection. The Allahabad High Court has struck down notifications when objections were not individually considered by<sup>53</sup> the state government signalling that this is not a procedural formality but a substantive safeguard.

**In a 2024 judgment,<sup>54</sup> the High Court emphasised that:**

*...the notification... visits the persons living in the area notified with several civil consequences that may include taxation on properties, deprivation of benefits from government programs and schemes for village areas, etc. Under such circumstances, which may bring about drastic changes in the various aspects of lives of persons, the opportunity of making objections and/or suggestions after publication of draft notification and due consideration of the same by the Governor, are vital and mandatory requirements of the statute...it is a matter of consideration that collective benefits that accrue to people living in the Gram Panchayat area prior to such notification are sought to be taken away in the name of perceived benefits of such area being included in the Nagar Panchayat. Therefore, each person resident of such area which is subject to such notification, is a stakeholder and is conferred a right by the Act, 1916 to make suggestions and objections as the case may be. Such suggestions and objections, when duly filed, have to be accorded due consideration by the Governor...*



This judicial approach strengthens transparency and accountability.

In contrast, the Patna High Court has adopted a more limited interpretation of this right. The high court has held that the state government is under no duty to give reasons for disposing of objections received to upgradation<sup>55</sup> and in another judgment observed that “state Government is only required to take into account those objections. There is no statutory duty cast on the State Government for disposal of those representations/objections after recording reasons...”.<sup>56</sup> Further, the Patna High Court has restricted the scope of permissible objections, holding that objections can only be raised for violation of procedures set out in the municipal legislation and one cannot object about “any and every issue under the sun.”<sup>57</sup>

The Bombay High Court too has limited the scope of the objection provision by holding that the state government does not need to record any reasons as to why it finds objections to be insufficient, and the petitioner need not be given reasons for rejection of their objections.<sup>58</sup>

Hence, overall, the procedures for upgradation are fairly consistent across state legislations, and follow principles of natural justice, with the exception of Rajasthan. Judicial interpretation, however, varies. While Uttar Pradesh adopts a strict protective approach, Bihar and Maharashtra take a different stance. Consultation with gram panchayats is not required in all states, leading to inconsistency.

## POST UPGRADATION CLARITY

Once a rural area is upgraded to urban, there may be uncertainty about how it should be governed. Key questions include when and how the municipal laws will apply, who governs the area until elections are held, how assets/ liabilities/ staff/ finances are transferred and when residents will become subject to new taxes and lose access to rural entitlements. This section reviews how different state legislations address these aspects, and where gaps exist.

### *Application of municipal laws*

States vary in how quickly municipal laws apply to newly upgraded areas:

- In Uttar Pradesh and Rajasthan, once a rural area is included in an existing municipality, it immediately becomes subject to all municipal laws in force.<sup>59</sup>
- Madhya Pradesh, too, provides similar rules for rural areas merged into existing municipalities, however, for newly constituted nagar panchayats, existing gram panchayat laws continue unless inconsistent with municipal law, hence allowing for a more gradual transition.<sup>60</sup>
- In Bihar and Maharashtra, the legislations do not clearly specify how and when municipal laws will apply to newly constituted urban areas, creating a grey zone. The municipal legislation in Maharashtra only states that the state government can make any provisions of the act that apply to municipal councils applicable to a transitional area.<sup>61</sup>

### *Interim governance mechanism*

Since elections cannot be held immediately upon transition, interim governance mechanisms become very important, especially if the rural area is declared to be a new nagar panchayat. Approaches vary across states:

- In Uttar Pradesh, powers are exercised by the District Magistrate or any officer/ committee appointed by him.<sup>62</sup> There is no time limit specified within which elections must occur and the legislation only requires the magistrate/ other officers to arrange for them to occur as early as possible.
- In Madhya Pradesh, a committee performs municipal functions until elections, but only for up to 6 months.<sup>63</sup>
- In Bihar, the gram panchayat continues to function for up to 6 months, after which elections are expected.<sup>64</sup>
- In Rajasthan, there is no dedicated interim governance committee that is constituted. The legislation only provides for the sarpanch/ panches to become additional municipal members upon merger of a village into a municipality, until elections are held (such elections should be held within 6 months). For newly constituted municipalities, the law is silent.<sup>65</sup>
- In Maharashtra, by way of a government order, the state government has made applicable a provision that requires the appointment of a government officer who will exercise all powers/ functions until the constitution of a new council, to transitional areas.<sup>66</sup>

### **Provisions for continuity**

Provisions governing continuity i.e. the transfer of assets and liabilities, treatment of existing finances and contracts, and the status of staff and elected representatives, are essential to ensuring a smooth transition from rural to urban governance. However, state approaches vary considerably.

Uttar Pradesh provides no clarity on how existing schemes will operate post transition, how new taxes will be introduced, the manner of transfer of assets/ liabilities or how staff positions will be handled. The law simply states that assets and liabilities will be disposed of "*as prescribed*"<sup>67</sup> without providing any substantive mechanism leading to administrative uncertainty. The Allahabad High Court, however, has clarified that once a nagar panchayat is constituted, the Gram Panchayat ceases to exist immediately, and the Pradhan loses authority instantly. There is no interim period during which the Pradhan continues to function. Bihar and Maharashtra too offer limited guidance in their legislations.<sup>68</sup>

In contrast, Madhya Pradesh, has very comprehensive provisions that address the transfer of unspent balances, continuity of budget estimates and valuations, treatment of debts/ contracts, continuation of legal proceedings, status of officers, and application of existing taxes.<sup>69</sup> This helps reduce ambiguity during transitions.

In Rajasthan, once an area is included in a municipality, the panchayat ceases to exist and assets/ liabilities vest in the municipality. Further all rules/ taxes immediately start applying.<sup>70</sup>

Hence, there is considerable variation in legislative frameworks across states which can affect the entire transition experience and stability of governance. Lack of clarity leads to uncertainty for both administrators and residents, affecting the continuity of services. Ambiguous provisions can also weaken ULB capacity and lead to confusion.

### 3. Suggestions and Recommendations

States vary in both substantive and procedural requirements for converting rural areas into municipalities. No uniform thresholds exist for identifying transitional areas, and states exercise considerable discretion in determining when a gram panchayat should be upgraded. There is variation not only in the thresholds adopted by states but also in how they are applied. Procedural safeguards also vary with municipal legislations addressing requirements in varying degrees of depth.

Madhya Pradesh has the most comprehensive and detailed provisions for transitions, while other states' municipal legislations provide limited clarity. Judicial decisions also reflect divergent approaches, especially when it comes to evaluating whether prior notice was given and objections sufficiently addressed. Importantly, a review of 24 high court decisions across these 5 states reveals that the courts rarely interfere with the decision to upgrade a settlement from rural to urban because this is a legislative act.<sup>71</sup> In case of a challenge to a notification to upgrade, courts have limited their scope to assessing whether thresholds are met and procedures followed. Challenges by petitioners on grounds that the conversion of the Gram Panchayat interferes with their right to hold an electoral office have been rejected.<sup>72</sup>

The consensus seems to be that transitions indicate development, a better standard of living and increased flow of benefits and so they are presumed to be in public interest unless a clear procedural violation is shown.<sup>73</sup> As observed by the Patna High Court: <sup>74</sup>

*conversion of the area from Gram Panchayat to Nagar Panchayat will ensure the sustained development of the area and will improve the standard of living of the local population and the benefits that will flow to a Nagar Panchayat will be greater than that of the benefits available to a Gram Panchayat. Therefore, in the opinion of this Court, the decision to upgrade the Gram Panchayats in question to Nagar Panchayat will be in larger public interest.*



The Bombay High Court<sup>75</sup> has also held that the conversion to urban ensures overall development, “is in the broader public interest in providing urban infrastructure, regulatory frameworks and essential civic amenities to the villagers” and “rooted with an objective of ensuring the welfare of its residents.” Considering this, submissions that the transition was politically motivated should not be considered a ground to overturn the transition, as long as procedural statutory requirements have been complied with because doing so will “override the legitimate purpose of ensuring good governance and sustainable development”.

This makes it even more important to ensure that states have a rural-urban transition policy that addresses all key aspects, protects citizen interest and supports better planning. Without this, there is risk of administrative uncertainty and potential governance gaps. Citizens may face service disruptions, unclear taxation regimes and inconsistent institutional arrangements.

### 3.1. Odisha's Rural Urban Transition Policy

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Odisha's rural urban transition policy<sup>76</sup> gives a useful model for structural transitions. It applies to all census towns and peri-urban areas<sup>77</sup> and was introduced to ensure transitions occur smoothly, without abrupt shocks, in a manner that empowers all stakeholders. The key features of the policy are:

- **Phased transition:** To avoid administrative disruption, the policy requires all infrastructure gaps to be evaluated and assessed in advance. The Housing and Urban Development Department (HUDD) is required to liaise with rural institutions for this purpose. Additionally, rural/ peri-urban areas are to receive urban-level services and infrastructure, in a phased manner, even before they are formally reclassified. Formal classification as urban will occur only after the existing elected body reaches the end of its term.
- **Incremental increase in taxes:** Taxes and user charges are introduced incrementally to ensure that residents are not suddenly financially burdened.
- **Supporting institutional architecture:** A multi-tier governance structure is established to oversee the transition. This includes the constitution of a steering committee (to oversee the transition), advisory committees (to provide technical guidance), State Urban Development Agency (SUDA) (responsible for state-level project management) and District Urban Development Agencies (DUDA) (responsible for ground-level implementation). Both the SUDA and DUDA will be staffed by deputing officials or through open market procurement.
- **Clear procedures for selection of areas:** Individuals can submit applications for an area to be considered for a transition, and these applications will be reviewed in the last quarter of the financial year to allow for budgetary allocations in the upcoming financial year. All applications will be reviewed by the SUDA, in consultation with the advisory committee, and ranked/prioritised based on factors similar to those contained in Article 243Q. After final approval by the SUDA, the HUDD notifies the transition.
- **Support to ULBs:** ULBs will be supported to develop GIS based master plans. Additionally, they will also receive staffing support, capacity strengthening, and assistance in demarcating wards so that elections take place in a timely manner.
- **Allocation of financial resources:** The policy acknowledges that additional financial resources are required for successful transitions. Funding will be mobilised through convergence across existing schemes. HUDD will provide critical gap funding. User charges and incremental taxes will also contribute to long-term sustainability.

## 3.2. Rajasthan's Rural Urban Transition Scheme and Bill

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Rajasthan has taken steps towards developing a structure for rural-urban transitions through its draft Rural-Urban Transition Bill and Rural-Urban Transition Support Scheme.<sup>78</sup> Though these instruments have not been formally approved, they remain a useful framework to guide transitions. Key features are:

- **Phased transitions:** The framework provides for issuance of a notification valid for up to 10 years. During this period, urban schemes can be extended to transition settlements, even before the formal constitution of the nagar palika.
- **Supporting institutional architecture:** A multi-tiered governance structure to manage transitions is set up comprising a Board responsible for notifying transitional areas, allocating funds, monitoring and evaluation, a district urban transition council responsible for coordination and oversight, a settlement transition cell for every transitioning settlement to carry out implementation, and cells at lower governance levels too to help provide support during the transition.
- **Clear criteria for area selection:** The framework sets out specific factors that the Board must consider before notifying a settlement as a transition area.
- **Allocation of financial resources:** The scheme proposes the creation of a separate 'Transition Fund' to support infrastructure upgrades, service improvements, and administrative capacity-building in transition settlements.
- **Development of transitional plans:** For each transition settlement, the draft Bill mandates preparation of a Transition Enabling Plan, which includes a baseline study evaluating current land use/ investments/ topographical and ecological characteristics, land register enumerating all common and public lands, and a list of projects that will be undertaken to ease the transition.

### 3.3. Recommendations

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India's current approach to rural-urban transition is fragmented and unpredictable. Drawing on statutory analysis, judicial interpretation, and emerging policy models in Odisha and Rajasthan, the following recommendations are proposed:

- **Establish Clear and Uniform Criteria for Identifying Transition Areas:** States should adapt the criteria mentioned in Article 243Q to suit their own individual contexts. They should consider a range of factors, rather than relying on just a single factor (as in Rajasthan), and clearly specify whether the thresholds stated will apply to the gram panchayat or the entire proposed municipal area to avoid confusion. Additionally, an independent mechanism to assess whether a gram panchayat is suitable for transitioning should be established, which is not reliant on Census population data, because the long gaps between Census' make this data outdated.
- **Introduce a well-defined transition period:** Currently, the absence of guidance on the period immediately before and after transition creates uncertainty for citizens as well as institutions. States should establish a formal transition period during which existing rural schemes continue to avoid sudden deprivation, urban schemes are progressively phased in, and tax rates are gradually increased. Timelines for elections should be clearly specified to limit prolonged control by non-elected committees. Rules for handover of staff, contracts, finances etc. must be clearly stated as well.
- **Ensure services start prior to transitions:** As demonstrated in Odisha's policy, urban level services and infrastructure must be strengthened before the formal transition so that residents experience improvements before being subjected to urban tax rates. Infrastructure improvements should serve as preconditions for final upgradation.
- **Adequate human and financial resources:** Transitioning from rural to urban governance requires significant resources. States should create a dedicated transition fund with multi-year allocations, allow convergence of existing schemes to finance gaps, and mandate transparent disclosure of utilisation and allocations for transitions in the state budget. Staffing needs to be strengthened by extending the services of experienced gram panchayat officials, deploying staff on deputation, and creating transition cells to provide additional support.
- **Ensure citizen-centric planning:** Citizen participation must be sought at every stage of the transition. This will help ensure that resident concerns are considered. Participatory decision-making through public hearings helps prevent resistance as well. Further, dedicated grievance redressal mechanisms must be established to address any complaints during the transition period. Social audits are a useful tool that can help ensure that service and infrastructure upgrades are delivered on time, so that citizens remain confident and invested in the process. Lastly, transition settlements should have publicly accessible plans to ensure transparency.

India's rural-urban transition is inevitable, but without structured guidance it risks producing uneven urbanisation, governance gaps, and citizen dissatisfaction. Currently transitions are not just administrative decisions but also political ones, often shaped by local power dynamics and electoral considerations. Recent instances of de-notification of urban areas back into rural show that a range of factors affect the decision to upgrade. Further, perceptions among state officials that ULBs are weaker than gram panchayats also impact their effectiveness and must be studied in greater depth. In any event, a clear, predictable, and citizen-centric transition framework, supplemented by deeper research into these political and institutional dynamics, is essential to ensure that rural-urban transitions strengthen local governance and improve the quality of life for citizens.

## Endnotes

- <sup>1</sup>The Constitution of India, Part IX, IXA.
- <sup>2</sup>The Constitution of India, Article 243Q.
- <sup>3</sup>Census 2027 to retain 2011 Census definition of an urban area, Vijaita Singh, *The Hindu* (23 August 2025) [Url](#)
- <sup>4</sup>The Constitution of India, Article 243Q.
- <sup>5</sup>*Annual Survey of India's City Systems (ASICS) 2023: Janaagraha Centre of Citizenship and Democracy: [Url](#)*; Why do 'urbanised' villages resist being labelled as urban local bodies, Ramanath Jha, ORF (22 September 2020) [Url](#)
- <sup>6</sup>Janaagraha Centre for Citizenship and Democracy. (2024, November 19). A roadmap for India's City-Systems Reforms [Url](#)
- <sup>7</sup>India's Missing Middle: 24,000 'villages' with populations greater than towns lose out on policies for urban areas, Arindam Jana and Archita S (23 January 2019) *Indiaspend* [Url](#)
- <sup>8</sup>Officiating Urbanisation. What makes a settlement officially urban in India? Bhanu Joshi, Kanhu Charan Pradhan (January 2018) Centre for Policy Research [Url](#)
- <sup>9</sup>Why do 'urbanised' villages resist being labelled as urban local bodies, Ramanath Jha, ORF (22 September 2020) [Url](#)
- <sup>10</sup>Why India's urban definition is failing its growing towns, Niranjana K.P., *The Hindu* (26 September 2025) [Url](#)
- <sup>11</sup>Merging villages into cities: more unfunded mandate, Ramanath Jha, ORF (15 July 2021) [Url](#)
- <sup>12</sup>The Constitution (Seventy Fourth Amendment) Act, 1992, Statement of Objects and Reasons, [Url](#)
- <sup>13</sup>The Constitution of India, Article 243Q
- <sup>14</sup>The Constitution of India, Article 243R
- <sup>15</sup>The Constitution of India, Article 243U
- <sup>16</sup>The Constitution of India, Article 243W
- <sup>17</sup>The Constitution of India, Article 243Q
- <sup>18</sup>The Constitution of India, Article 243ZC
- <sup>19</sup>The Constitution of India, Schedule 7, Entry 3
- <sup>20</sup>*Champa Lal v. State of Rajasthan*, 2018 16 SCC 356 (26 April 2018)
- <sup>21</sup>In Rajasthan, nagar panchayats are referred to as nagar palika.
- <sup>22</sup>*State of Rajasthan v. Ashok Khetoliya and Anr*, 2022 12 SCC 185
- <sup>23</sup>*Kan Singh and Others v. State of MP*, 2021 SCC OnLine MP 4956
- <sup>24</sup>*Birendra Prasad Yadav v. State of Bihar*, 2022 SCC OnLine Pat 1060
- <sup>25</sup>GO No. 2979/9-1-2016-426SA/14 (6 October 2016) [Url](#)
- <sup>26</sup>Notification dated 27 December 2011 issued by the Ministry of Urban Administration and Development
- <sup>27</sup>Bihar Municipal Act, 2007, S. 3
- <sup>28</sup>Notification dated 30 April 2012
- <sup>29</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 341A
- <sup>30</sup>GO No. 2934/9-1-2014-426SA/14 (28 August 2014) [Url](#)
- <sup>31</sup>GO No. 2979/9-1-2016-426SA/14 (6 October 2016) [Url](#)
- <sup>32</sup>Notification dated 27 December 2011 issued by the Ministry of Urban Administration and Development
- <sup>33</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 4. An 'A' Class Council is a smaller urban area with a population of more than 1,00,000.
- <sup>34</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 341A
- <sup>35</sup>*Anand Kumar Jha v. State of Bihar*, 2010 SCC OnLine Pat 2277; *Somaru Paswan v. State of Bihar*, 2009 SCC OnLine Pat 1364; *Neelam Devi v. State of Bihar*, 2010 SCC OnLine Pat 2122
- <sup>36</sup>*Anil Kumar v. State of Bihar*, 2023 SCC OnLine Pat 8930; *Kirti Azad v. State of Bihar*, 2022 SCC OnLine Pat 7204; *Usha Devi v. State of Bihar*, 2022 SCC OnLine Pat 4530
- <sup>37</sup>Bihar Municipal Act, 2009, S. 7; *Anand Kumar Jha v. State of Bihar*, 2010 SCC OnLine Pat 2277
- <sup>38</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 2(33); *Gram Panchayat v. State of Maharashtra*, 2025 SCC OnLine Bom 2945; *Jaydeep Vilas Taw Are v. State of Maharashtra*, 2022 SCC OnLine Bom 565
- <sup>39</sup>*Neelam Devi v. State of Bihar*, 2010 SCC OnLine Pat 2122
- <sup>40</sup>The Uttar Pradesh Municipalities Act, 1916, S. 4; The Madhya Pradesh Municipalities Act, 1961, S. 6; Alteration of Limits, Disestablishment or Change of Headquarters Rules, 1994, Rule 3; Bihar Municipal Act, 2007, S. 4; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 3(3)-(6), 341A
- <sup>41</sup>*Ratan Singh and Others v. State of MP*, 2020 SCC OnLine MP 2534; *Rajesh Sharad Marpara and others v. State of Maharashtra and others*, 2016 SCC OnLine Bom 980
- <sup>42</sup>*Sujit and Ors. v. State of UP*, 2022 SCC OnLine All 1480
- <sup>43</sup>*Rajesh Sharad Marpara and others v. State of Maharashtra and others*, 2016 SCC OnLine Bom 980

- <sup>44</sup>Gram Panchayat Padlyakhurd v. State of Madhya Pradesh (WP No. 910/2012) 16 March 2012
- <sup>45</sup>Gram Panchayat Padlyakhurd v. State of Madhya Pradesh (WP No. 910/2012) 16 March 2012
- <sup>46</sup>Bihar Panchayat Raj Act, 2006, S. 11; Neelam Devi v. State of Bihar, 2010 SCC OnLine Pat 2122
- <sup>47</sup>Gram Panchayat v. State of Maharashtra, 2025 SCC OnLine Bom 2945; Jaydeep Vilas Taw Are v. State of Maharashtra, 2022 SCC OnLine Bom 565
- <sup>48</sup>Sau. Padmatai v. State of Maharashtra, 2016 SCC OnLine Bom 1100
- <sup>49</sup>Rajasthan Panchayati Raj Act, 1994, S. 101
- <sup>50</sup>Motan Das v. State of Rajasthan, 2025 SCC OnLine Raj 404
- <sup>51</sup>The Uttar Pradesh Municipalities Act, 1916, S. 4; The Madhya Pradesh Municipalities Act, 1961, S. 5A; MP Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993, S. 126; Alteration of Limits, Disestablishment or Change of Headquarters Rules, 1994, Rule 4; Bihar Municipal Act, 2007, S. 5, 6; The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 3(3)-(6)
- <sup>52</sup>Government Order dated 30 September 2024: [Url](#)
- <sup>53</sup>Gram Panchayat and Another v. State of UP and Others, 2024 SCC OnLine All 7088
- <sup>54</sup>Gram Panchayat and Another v. State of UP and Others, 2024 SCC OnLine All 7088
- <sup>55</sup>Awadh Kishor Roy v. State of Bihar, 2021 SCC OnLine Pat 2140
- <sup>56</sup>Dinesh Kumar Himashu v. State of Bihar, 2014 SCC OnLine Pat 7862
- <sup>57</sup>Usha Devi v. State of Bihar, 2022 SCC OnLine Pat 4530
- <sup>58</sup>Gram Panchayat v. State of Maharashtra, 2025 SCC OnLine Bom 2945
- <sup>59</sup>The Uttar Pradesh Municipalities Act, 1916, S. 5; Rajasthan Municipalities Act, 2009, S. 3
- <sup>60</sup>The Madhya Pradesh Municipalities Act, 1961, S. 7
- <sup>61</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 341C
- <sup>62</sup>The Uttar Pradesh Municipalities Act, 1916, S. 333
- <sup>63</sup>The Madhya Pradesh Municipalities Act, 1961, S. 7, 16
- <sup>64</sup>Bihar Municipal Act, 2007, S. 12
- <sup>65</sup>Rajasthan Municipalities Act, 2009, S. 3(8)
- <sup>66</sup>The Maharashtra Municipal Councils, Nagar Panchayats and Industrial Townships Act, 1965, S. 340; Government order dated 12 March 2015: [Url](#)
- <sup>67</sup>The UP Panchayat Raj Act, 1947, S. 8
- <sup>68</sup>Nilesh Singh v. State of UP and Others, 2022 SCC OnLine All 1492
- <sup>69</sup>The Madhya Pradesh Municipalities Act, 1961, S. 7
- <sup>70</sup>Rajasthan Municipalities Act, 2009, S. 3(8)
- <sup>71</sup>Gyan Prakash Patel v. State of MP, 2017 SCC OnLine MP 1973; Usha Devi v. State of Bihar, 2022 SCC OnLine Pat 4530; Gram Panchayat v. State of Maharashtra, 2025 SCC OnLine Bom 2945
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- <sup>74</sup>Awadh Kishor Roy v. State of Bihar, 2021 SCC OnLine Pat 2140
- <sup>75</sup>Gram Panchayat v. State of Maharashtra, 2025 SCC OnLine Bom 2945
- <sup>76</sup>Rural Urban Transition Policy (27 June 2023) Housing and Urban Development Department, Odisha
- <sup>77</sup>These are defined as areas experiencing land use changes, prone to governance transitions and where there is a two-way flow of commuters/migrants as well as goods, capital and information exchange.
- <sup>78</sup>Chief Minister's Rajasthan Economic Transformation Advisory Council: Policy Study on Urbanisation of Rural Areas, IIHS (2023)

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Yashoda Banduni

## Authors

Pritika Malhotra and Avani Kapur

**Suggested citation:** Malhotra, P. & Kapur, A. (2025). From Panchayats to Municipalities: How India's Legal Framework Shapes Rural-Urban Transitions. Foundation for Responsive Governance (ResGov). Delhi.

*We are grateful to Sharad Pandey, Mukta Naik and Kanhu Charan Prasad for their insightful comments.*



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Foundation for Responsive Governance  
(ResGov)

S-351 Panchsheel Park  
New Delhi 110017

 [www.resgov.org](http://www.resgov.org)

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