6. Urban Challenge Fund - Economy

Urban Challenge Fund (UCF)

The Urban Challenge Fund is a Centrally Sponsored Scheme (CSS) of the Ministry of Housing and Urban Affairs (MoHUA), designed to catalyse large-scale urban transformation through reform-linked, market-driven financing. The Fund provides ₹1 lakh crore as Central assistance, signalling a major shift toward performance-based and reform-oriented urban financing.

Financing Architecture- The Urban Challenge Fund is structured to promote fiscal discipline and private capital mobilisation. At least 50 per cent of project financing must be mobilised from market sources, including

1. Municipal bonds,
2. Bank loans,
3. Public–Private Partnerships (PPPs),
4. Other structured finance instruments.

The remaining share may be contributed by State Governments, Union Territories, Urban Local Bodies (ULBs), Other institutional or developmental sources. This blended financing model reduces fiscal burden on the Union Government while deepening urban financial markets.

Coverage and Eligibility- The Fund has a wide but structured coverage framework. All cities with a population of 10 lakh or more (as per 2025 estimates). State and Union Territory capitals not covered above. Major industrial cities with a population of 1 lakh or more. Additionally, All ULBs in hilly States and North-Eastern States, Smaller ULBs with population below 1 lakh, are eligible for support under the Credit Repayment Guarantee Scheme, which reduces borrowing risks and enhances credit access. This ensures that both metropolitan and smaller urban centres are included in the reform process.

Salient Features

Competitive Challenge Mode Selection-Projects are selected through a transparent and competitive challenge-based mechanism. Cities must submit reform-oriented, high-impact proposals. Funding is not automatic; it is performance-based. Encourages inter-city competition and innovation.

Reform-Oriented Framework- The Fund is anchored to a comprehensive reform agenda covering, Urban governance reforms (digitisation, transparency, capacity building), Market and financial reforms (improved creditworthiness, better revenue collection), Operational efficiency (utility reforms, service benchmarks), Urban planning reforms (integrated spatial planning, Transit-Oriented Development). Funding is conditional upon reform commitments and measurable outcomes.

Promotion of Private Sector Participation- The scheme actively promotes private investment through Structured risk-sharing frameworks, Viability Gap Funding models, Service delivery benchmarking, Performance-linked contracts. This reduces over-reliance on government grants and encourages professional urban management.

Credit Enhancement Mechanism- A dedicated ₹5,000 crore corpus has been created to enhance the creditworthiness of 4,223 cities, especially Tier-II and Tier-III cities. Enables first-time access to market finance. Improves municipal bond ratings. Encourages financial discipline.

Making ULBs Bankable- One of the central objectives is to transform ULBs into Credible borrowers, Financially disciplined institutions, Bankable entities in capital markets. This marks a structural shift from grant-based funding to sustainable borrowing frameworks.

Reform-Linked Funding Framework- Funding under UCF is tied to clearly defined reform commitments. The reform areas include Governance and digital reforms such as e-governance systems. Financial reforms to improve property tax collection and user charges. Operational reforms to enhance service efficiency in water, waste, and transport. Urban planning and spatial reforms, including climate-resilient infrastructure and green urban development. Project-specific reforms with defined Key Performance Indicators (KPIs), third-party verification, and sustainable Operation and Maintenance (O&M) mechanisms. This ensures accountability and long-term sustainability.

Project Verticals under Urban Challenge Fund

Cities as Growth Hubs- This vertical focuses on economic competitiveness and regional integration.

Identification of key economic zones. Corridor-based development. Improved urban mobility. Integrated metropolitan planning. Development of competitive infrastructure clusters. It aims to position cities as engines of economic growth.

Creative Redevelopment of Cities- This vertical focuses on urban regeneration.

1. Revitalisation of heritage and business districts.
2. Brownfield redevelopment.
3. Transit-Oriented Development (TOD).
4. Climate resilience enhancement.
5. Congestion reduction strategies.

Special emphasis is placed on Northeastern and hilly States.

Water and Sanitation- This vertical strengthens essential urban services.

1. Upgradation of water supply systems.
2. Sewerage and stormwater infrastructure development.
3. Solid waste management improvements.
4. Remediation of legacy waste.
5. Development of rurban infrastructure and water grids.

The focus aligns with Swachh Bharat and sustainable urban development goals.

Rurban Infrastructure- Conceptual Clarification- Rurban infrastructure refers to the development of rural areas with urban-like facilities while preserving rural character.

It typically includes

1. All-weather roads and transport connectivity.
2. Piped water supply and sanitation systems.
3. Reliable electricity and digital connectivity.
4. Solid and liquid waste management systems.
5. Skill centres, healthcare, and education facilities.
6. Market yards and agro-processing units.

This concept is associated with the Shyama Prasad Mukherji Rurban Mission, which aims to bridge the rural–urban divide through cluster-based development.

Significance of the Urban Challenge Fund

Building Future-Ready Cities- The Fund aims to develop cities that are

1. Resilient to climate change,
2. Economically productive,
3. Socially inclusive,
4. Digitally integrated,
5. Financially sustainable.

Strengthening Urban Governance- By linking funding to reforms, the scheme incentivises-

1. Transparency,
2. Professional municipal management,
3. Accountability,
4. Data-driven decision-making.

Deepening Urban Financial Markets- The requirement of market-based financing promotes

1. Municipal bond markets,
2. Credit discipline,
3. Private sector participation.

Advancing Cooperative Federalism- The scheme strengthens collaboration among

1. Union Government,
2. State Governments,
3. ULBs,
4. Private investors.

Catalysing India's Next Growth Phase- As India urbanises rapidly, cities are expected to contribute the majority of GDP growth. The Urban Challenge Fund aims to make cities-

1. Engines of industrial expansion,
2. Innovation hubs,
3. Sustainable growth centres.

Conclusion- The Urban Challenge Fund represents a structural shift from grant-driven urban development to reform-linked, market-oriented urban financing. By combining fiscal prudence, private participation, and governance reforms, the scheme aims to build competitive, resilient, and financially empowered cities that can drive India's long-term economic transformation.

Source- https-//www.pmindia.gov.in/en/news_updates/cabinet-approves-rs-one-lakh-crore-urban-challenge-fund-to-drive-market-led-urban-transformation/