



DAILY EDITORIAL ANALYSIS

TOPIC

**SHAPING THE URBAN
CHALLENGE FUND: STEPS TO
STRENGTHEN DELIVERY**

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SHAPING THE URBAN CHALLENGE FUND: STEPS TO STRENGTHEN DELIVERY

Context

- Nearly one-third of the population in India living in urban areas, with a projection of 40% by 2036 and over 800 million urban population by 2050 presents both a challenge and an opportunity.

Scale of the Urban Challenge

- According to a **World Bank estimate**, India aims to require **nearly ₹70 lakh crore by 2036** to meet its urban infrastructure needs.
- However, current annual investments hover around 1.3 lakh crore — barely a quarter of the required 4.6 lakh crore per year. This shortfall is compounded by:
 - Stagnant municipal finances**, which remain at just 1% of GDP;
 - Low tax collection efficiency** among Urban Local Bodies (ULBs);
 - Underutilization of central schemes, such as Smart Cities Mission and AMRUT;
- Untapped Potential of Indian Cities:** Capital expenditure on urban utilities infrastructure (excluding real estate) averaged just **0.6% of GDP** between 2011 and 2018.
- India's Urbanisation Challenge:** The 2027 Census is expected to reveal that **over 60% of India's population will live in urban areas**, up from 31% in 2011.
 - States like Kerala exemplify this shift, with projections indicating an urbanisation rate of 96% by 2036.
- Other challenges that Indian cities are facing are *inadequate spatial planning, climate vulnerability, social inequality and segregation, weak urban governance, and economic distress-driven migration*.

Government Response: Urban Challenge Fund

- The **Union Budget 2025–26** introduced the **₹1 lakh crore Urban Challenge Fund (UCF)** to address these issues. It aims to:
 - Finance up to 25% of bankable urban projects; with the remaining 75% expected from bonds, bank loans, and Public-Private Partnerships (PPPs)
 - Promote initiatives like **Cities as Growth Hubs, Creative Redevelopment, and Water & Sanitation**;
- The fund reflects a strategic shift toward performance-linked, competitive urban development, with an initial allocation of 10,000 crore for FY 2025–26.

Planning Reforms and Capacity Building

- NITI Aayog is piloting a **new framework** based on land use and economic activity in four regions — Mumbai, Varanasi, Surat, and Visakhapatnam. Key recommendations include:
 - Increasing demand for qualified urban planners in both public and private sectors;
 - Adopting spatial planning tools to guide sustainable development;
 - Reimagining urban governance to empower local bodies and improve accountability.
- India risks a 'silent crisis in motion' where unplanned urbanization undermines economic and social progress, without these reforms.

Financing Innovations and Global Partnerships

- The **Asian Development Bank (ADB)** has pledged up to \$10 billion over five years to support India's urban infrastructure, including metro expansions, RRTS corridors, and capacity-building initiatives. It includes:
 - Sovereign loans and private sector financing;
 - Technical assistance for project preparation;
 - Support for rooftop solar and transit-oriented development;

- ADB's involvement underscores the importance of international capital and expertise in scaling urban solutions.

Recommendations for Strengthening the Urban Challenge Fund (UCF)

- **Embed Lifecycle Thinking:** Projects must integrate **operations, maintenance, and citizen satisfaction** into planning, shifting the paradigm from “infrastructure as product” to ‘infrastructure as service’.
- **De-Risk Private Investment:** Tools such as **first-loss guarantees, credit enhancements, and revenue shortfall protection** should be blended with UCF grants to attract private investors.
- **Empower Cities to Raise Resources:** Urban local bodies (ULBs) must improve financial independence by **expanding property tax collection** and introducing transparent **user-pay charges**. Without this, private investors will remain reluctant.
- **Build Institutional Capacity:** Tier 2 and Tier 3 cities need dedicated **project preparation cells, technical mentorship, and streamlined approvals** to manage complex projects effectively.
- **Incentivise Innovation:** UCF should introduce **targeted challenge windows** (e.g., water-secure or zero-waste cities) with outcome-linked funding to foster scalable innovation.
- **Focus on High-Impact Projects:** Priority should be given to projects with **clear revenue models** such as **waste-to-energy plants, smart water systems, and transit-oriented development hubs**, while avoiding overlaps with existing schemes.
- **Ensure Institutional Clarity:** A **lean, agile governing body** must oversee the UCF, ensuring autonomy, competition, and innovation at every stage—from selection to monitoring.

Towards Viksit Bharat 2047

- For India to achieve its vision of **Viksit Bharat by 2047**, its cities need to become **bankable, liveable, and resilient**. The Urban Challenge Fund represents a timely and catalytic opportunity to reshape urban development.
- It could spark the transformation needed to unlock the full potential of India's urban future, if designed and executed effectively.

Source: BS

Mains Practice Question

Q. Critically evaluate the strategic vision behind the Urban Challenge Fund (UCF). How can its design and implementation reshape urban governance and infrastructure delivery in India?

