

FREQUENTLY ASKED QUESTIONS ON URBAN CHALLENGE FUND (UCF)

1. What is URBAN CHALLENGE FUND?

Urban Challenge Fund (UCF) is a new Centrally Sponsored Scheme of MoHUA with ₹1,00,000 crore Central Assistance (FY 2025-26 to FY 2030-31, extendable by 3 years) to support transformative and bankable urban projects through competitive “challenge-mode”. This will lead to a total investment of ₹4 lakh crore in urban sector in next five years, marking a paradigm shift in India’s urban development approach from grant-based financing to market-linked, reform-driven and outcome-oriented infrastructure creation.

The whole idea is that urban infrastructure cannot be funded by public finance alone. It has to access market through bankable projects. Under UCF, cities will be supported to do projects under three verticals, ‘creative development of cities’, ‘cities as growth hubs’, and ‘water and sanitation’. Cities will be expected to take reforms in urban governance, urban finance, and urban planning.

Rejuvenation of city cores with refurbishment of legacy infrastructure will be focused upon. Greenfield, Semi Greenfield cities, which have strong economic anchors, will be promoted as growth hubs. The thrust will be on garbage free cities and sanitation in order to ensure clean cities. Integrated command and control centre, dump sites and legacy waste remediation will be specially focused on. 25% funding for projects will be given from this fund on the condition that 50% has to be raised from the market and 25% can be funded by State/Union Territories (UTs) or Urban Local Bodies (ULB) or can be raised from market. Private players can also come in as partners with both financial and managerial capability to build and manage the City infrastructure.

₹5000 crore corpus has been created for credit repayment guarantee so that cities with population less than one lakh and all cities of Hilly & northeastern States/UTs will be eligible for taking repayment guarantee in order to raise money from the market.

This is the first time, small Urban Local bodies with a population below one lakh along with all the cities of Hilly States and northeastern States/UTs will be supported through credit repayment guarantee scheme where 70% of their loan shall be guaranteed for repayment up to 7 crores, which would mean a small ULB will be able to access market finance.

2. Describe the Credit Repayment Guarantee Scheme?

In order to facilitate first-time access to market finance for all Cities/ULBs in Northeastern & Hilly States/UTs and smaller ULBs (<1,00,000 population) in other States/UTs, a Credit Repayment Guarantee Scheme of ₹5,000 crore has been approved. The scheme will provide a Central guarantee of up to ₹7 crore or 70 per cent of the loan amount (whichever is lower) for first-time loans. On successful repayment of first loan, central guarantee of ₹7 crore or 50 per cent of the loan amount (whichever is lower) will be provided. This will effectively support projects of ₹20 crore for the first time and ₹28 crore for subsequent projects in smaller cities.

3. How is it different from other missions of Ministry of Housing and Urban Affairs?

In order to be eligible for 25% Central Assistance, at least 50% of the project cost needs to be mobilised through market finance such as loans/ bonds/ PPPs. Projects will be selected on challenge-mode. Reforms on urban governance, urban finance, and urban planning are part of the design of the scheme.

4. What type of projects are eligible for this fund?

UCF supports bankable, transformative projects aligned to the three verticals namely, 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation', with clear outcomes, readiness, and a credible market-finance plan. Projects already funded under AMRUT 2.0/ SBM 2.0/ other CSS are not eligible under UCF.

5. Describe the different verticals under Urban Challenge Fund?

- Creative Redevelopment of Cities: focuses on revitalising congested CBDs and historic cores, upgrading legacy infrastructure, improving public spaces, mobility, flood resilience, and enabling land value capture to make redevelopment viable.
- Cities as Growth Hubs: strengthens city regions as economic engines by connecting economic nodes and improving competitiveness infrastructure.

- Water & Sanitation: tackles legacy gaps and vulnerable areas and moves cities toward service saturation with sustainability and reuse/circularity.

6. Examples of projects/ activities under UCF?

- Creative Redevelopment: delineation of cores, upgrading legacy infra (drainage, water, sewerage, public spaces), and enabling land value capture, rearranging public land and redevelopment models. Cultural/ heritage revitalisation through placemaking and historic core renewal as part of comprehensive redevelopment and application of traditional architecture.
- Growth hubs: projects around strong economic anchors (industrial/defence/tourism/ports/medi-cities etc.), trunk infrastructure, connectivity, and integrated spatial, economic, transit plans.
- Water & sanitation: legacy infrastructure upgrades, NRW reduction, metering, reuse of treated water, flood mitigation, urban water/resource processing grids, focus on swachhata.

7. Which cities are eligible?

- All cities across the country are eligible under Urban Challenge Fund

8. Describe the reforms under Urban Challenge Fund?

UCF has a strong reform thrust.

- Market & municipal finance reforms (creditworthiness, asset registers, revenue enhancement, market leverage)
- Governance & digital reforms (staffing, digitised services, project monitoring)
- Operational & capacity reforms (readiness, quality, O&M sustainability)
- Urban planning & spatial reforms (integrated land use–mobility–economic planning, climate resilience)
- Project-specific reforms (KPIs, safety-by-design, monitoring, independent verification).

9. How will UCF encourage private sector participation

UCF is designed to crowd-in private capital by making projects bankable and reducing risks for lenders and private partners. It will do this through:

- Mandatory market financing: UCF supports up to 25% of project cost, while at least 50% financing must be mobilised from market sources (bank loans, bonds, PPPs), creating a clear pathway for private participation.
- PPP-friendly structuring: cities are encouraged to structure

projects with credible revenue/repayment mechanisms and risk-sharing arrangements to attract private partnerships developers/operators as zone administrator (especially in redevelopment, economic nodes, and service delivery).

- Project preparation support: dedicated funding for DPRs preparation, transaction advisory, financial modelling, and packaging
- Credit Repayment Guarantee for smaller ULBs: improves confidence of banks/financiers in smaller cities by de-risking loan to smaller ULBs.

10. How will the Central Government support the States/UTs in capacity development

Under the Urban Challenge Fund (UCF), dedicated provision has been made for Project Preparation & Capacity Building at the National, State/UT and City levels.