Ministry of Housing and Urban Affairs
Government of India

# URBAN CHALLENGE FUND

## OPERATIONAL GUIDELINES

Cities as Growth Hubs | Creative Redevelopment of Cities | Water & Sanitation

April 2026

# URBAN CHALLENGE FUND

## OPERATIONAL GUIDELINES

Cities as Growth Hubs | Creative Redevelopment of Cities | Water & Sanitation

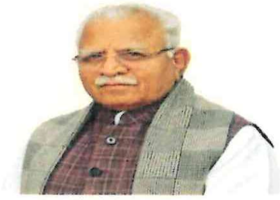
*“Urbanization also plays a very important role in India’s development journey. India’s future growth will depend on how effectively we plan and manage our cities. How our Tier-II and Tier-III cities become new growth anchors...”*

— Shri Narendra Modi, Hon’ble Prime Minister of India

*Reference: Post-Budget Webinar on Infrastructure and Investment. (3rd march 2026)*

मनोहर लाल
**MANOHAR LAL**

आवासन और शहरी कार्य मंत्री एवं
विद्युत मंत्री
भारत सरकार
**Minister of
Housing and Urban Affairs; and
Minister of Power
Government of India**



## Message

India's urban transformation has reached a pivotal stage where cities are no longer merely centres of habitation, but dynamic engines of economic growth, innovation and opportunity. Over the past decade, urban development initiatives have strengthened infrastructure, improved service delivery and empowered States and cities as equal partners in planning and implementation, reflecting the true spirit of cooperative federalism.

As India progresses towards the vision of Viksit Bharat by 2047, cities will play a defining role in shaping a New Urban India that is economically vibrant, sustainable and inclusive. In this context, the Urban Challenge Fund (UCF) represents a paradigm shift in how urban infrastructure is planned, financed and delivered. Moving beyond traditional grant-based approaches, the Fund promotes market-linked financing, policy-led reforms and the implementation of transformative projects to address emerging urban challenges.

With a Central Assistance of ₹1 lakh crore, the UCF is expected to catalyse nearly ₹4 lakh crore of investment in the urban sector over the next five years. The Fund will support transformative projects that develop cities as growth hubs, promote creative redevelopment of urban areas, and strengthen water and sanitation infrastructure, thereby enabling sustainable urbanisation.

The initiative places Urban Local Bodies (ULBs) at the centre of urban transformation and aims to strengthen their capacity to deliver better services to citizens. Cities will be encouraged to mobilise resources through municipal bonds, bank loans and public–private partnerships, while undertaking key governance and financial reforms. To ensure that Tier-II and Tier-III cities are not left behind, a Credit Repayment Guarantee Sub-Scheme has been introduced to enable smaller ULBs, including those in Northeastern and hilly States/UTs and cities with population less than one lakh in other States/UTs, to access market-based financing for critical infrastructure projects.

I am pleased that the Ministry of Housing and Urban Affairs has come up with the Operational Guidelines for the Urban Challenge Fund. I am confident that these guidelines will provide clear direction to all stakeholders for effective implementation of the UCF, leading to resilient, inclusive and globally competitive cities, and contributing significantly to India's journey towards Viksit Bharat by 2047.

**Jai Hind!**

**(Manohar Lal)**

कक्ष संख्या-716, सातवां तल, संकल्प भवन, जीपीओए-2, पं. रवि शंकर शुक्ला लेन, नई दिल्ली-110001
**Room No. 716, Seventh Floor, Sankalp Bhawan, GPOA-2, Pt. Ravi Shankar Shukla Lane, New Delhi-110001**
**दूरभाष/Telephone : 011-23783001 & 23783002 and Email : minister-mohua@nic.in**

तोखन साहू
TOKHAN SAHU

आवासन और शहरी कार्य राज्य मंत्री
भारत सरकार
Minister of State for Housing & Urban Affairs
Government of India.

**संदेश**

माननीय प्रधानमंत्री श्री नरेंद्र मोदी जी के "विकसित भारत" और सशक्त, आत्मनिर्भर शहरों के दृष्टिकोण के अनुरूप, भारत सरकार ने 13 फरवरी 2026 को केंद्रीय मंत्रिमंडल की स्वीकृति के साथ अर्बन चैलेंज फंड (UCF) की स्थापना का एक ऐतिहासिक निर्णय लिया है। यह पहल भारत के शहरी परिवर्तन को एक नए चरण में ले जाने का मार्ग प्रशस्त करती है।

हमारे शहरों को जीवंत, समावेशी और आर्थिक रूप से सशक्त बनाना सदैव से सरकार की प्राथमिकता रही है। इसी दिशा में, UCF शहरों को नवाचार, प्रतिस्पर्धा और सुधारों के लिए प्रोत्साहित करता है, ताकि वे सुदृढ़ शहरी अवसंरचना और बेहतर सेवाओं के माध्यम से भविष्य की आवश्यकताओं के अनुरूप विकसित हो सकें। यह पहल हमारे शहरों को केवल सेवा प्रदाता तक सीमित नहीं रखती, बल्कि उन्हें आर्थिक गतिशीलता के सशक्त केंद्र के रूप में स्थापित करने की दिशा में अग्रसर करती है।

केंद्रीय मंत्रिमंडल द्वारा ₹1 लाख करोड़ की केंद्रीय सहायता के साथ स्वीकृत यह पहल शहरी भारत के लिए एक महत्वपूर्ण परिवर्तनकारी कदम सिद्ध होगी। यह फंड शहरों को "चैलेंज मोड" में प्रतिस्पर्धा करने और बाजार-आधारित सुधारों को अपनाने के लिए प्रेरित करता है, जिससे अगले पाँच वर्षों में लगभग ₹4 लाख करोड़ के निवेश को प्रोत्साहन मिलेगा। इसके साथ ही, यह पहल नगर निकायों की क्षमता निर्माण, गुणवत्तापूर्ण DPR तैयार करने, विभिन्न शहरों के बीच अनुभवों के आदान-प्रदान, तथा परियोजना-आधारित दृष्टिकोण से समेकित शहरी विकास का मार्ग प्रशस्त करती है।

मुझे विश्वास है कि आवासन और शहरी कार्य मंत्रालय द्वारा जारी ये परिचालन दिशानिर्देश नगर निकायों (ULBs) के लिए एक प्रभावी मार्गदर्शिका सिद्ध होंगे। इन दिशानिर्देशों में सरल प्रक्रियाओं का समावेश और स्पष्ट रूपरेखा, परियोजनाओं के प्रभावी एवं समयबद्ध क्रियान्वयन में सहायक सिद्ध होगी तथा हमारे शहरों को अधिक सशक्त बनाते हुए नागरिकों के जीवन स्तर में सुधार लाने में महत्वपूर्ण भूमिका निभाएगी।

(तोखन साहू)

Office: Room No.- 0118, First Floor, Sankalp Bhawan, New Delhi-110001. Ph: 011-2378 3006/2378 3007/2378 3008

श्रीनिवास कटिकिथाला, भा.प्र.से.
सचिव
**Srinivas Katikithala, I.A.S.**
Secretary

सत्यमेव जयते

भारत सरकार
आवासन और शहरी कार्य मंत्रालय
संकल्प भवन, नई दिल्ली-110001
**Government of India**
**Ministry of Housing and Urban Affairs**
**Sankalp Bhawan, New Delhi-110001**

## Foreword

India's urbanisation is entering a decisive phase. Cities today account for a significant share of economic output, host the country's most dynamic clusters, and shape the quality of life for millions. At the same time, they face persistent infrastructure gaps, climate vulnerabilities, fiscal constraints and institutional fragmentation. The challenge is no longer whether India will urbanise, but whether it can urbanise well, productively, sustainably and inclusively.

The Urban Challenge Fund (UCF) represents a fundamental shift in the approach to urban development. Moving beyond traditional grant-based financing, the Fund introduces a market-linked, reform-driven and outcome-oriented framework for urban infrastructure. With Central Assistance of ₹1 lakh crore designed to catalyse nearly ₹4 lakh crore of investment, UCF seeks to align infrastructure creation with financial sustainability and institutional strengthening.

A defining feature of the UCF is the emphasis on financial discipline and project bankability, with cities mobilising a significant share of resources through municipal bonds, bank loans and public–private partnerships. This approach positions urban infrastructure as a viable investment while strengthening fiscal responsibility. The Fund is structured around three strategic verticals, Cities as Growth Hubs, Creative Redevelopment of Cities, and Water and Sanitation, to drive economic productivity, revitalise urban cores and ensure service sustainability and climate resilience. It also recognises the importance of the rural–urban continuum and peri-urban areas, promoting integrated regional planning.

The UCF places reforms at its core, linking financing to improvements in governance, planning and municipal finance. It also emphasises capacity building, digital systems and project preparation, enabling cities to develop high-quality, bankable projects. The Credit Repayment Guarantee Sub-Scheme further expands access to market finance for smaller Urban Local Bodies (ULBs).

These Operational Guidelines provide a comprehensive framework for implementation. Their success will depend on sustained collaboration and the effective execution of reforms to deliver measurable outcomes for citizens.

**(Srinivas Katikithala)**

**Office Address : Room No. 919, 9th Floor, Sankalp Bhawan, Pandit Ravi Shankar Shukla Lane, K.G. Marg, New Delhi-110001**
**Tel. : 011-23783010, 23783011; E-mail : secyurban@nic.in; Website; www.mohua.gov.in**

# Table of Content

# List of Abbreviations

| Abbreviation | Full Form |
|---|---|
| **CBD** | Central Business District |
| **CETP** | Common Effluent Treatment Plant |
| **CPHEEO** | Central Public Health and Environmental Engineering Organisation |
| **CRGSS** | Credit Repayment Guarantee Sub-Scheme |
| **DPR** | Detailed Project Report |
| **FSI** | Floor Space Index |
| **FY** | Financial Year |
| **GIS** | Geographic Information System |
| **ICCC** | Integrated Command and Control Centre |
| **IEC** | Information, Education and Communication |
| **IRMA** | Independent Review and Monitoring Agency |
| **ISBT** | Inter-State Bus Terminal |
| **KPI** | Key Performance Indicator |
| **LVC** | Land Value Capture |
| **MoHUA** | Ministry of Housing and Urban Affairs |
| **MoU** | Memorandum of Understanding |
| **NRW** | Non-Revenue Water |
| **NMT** | Non-Motorised Transport |
| **O&M** | Operation and Maintenance |
| **OBPS** | Online Building Plan Approval System |
| **PDMC** | Project Development and Management Consultant |
| **PPCBF** | Project Preparation and Capacity Building Fund |
| **RFP** | Request for Proposal |
| **RWAs** | Resident Welfare Associations |
| **SBD** | Secondary Business District |
| **SHPSC** | State High Powered Steering Committee |
| **SNA** | Single Nodal Agency |
| **STP** | Sewage Treatment Plant |
| **TOD** | Transit-Oriented Development |
| **UCF** | Urban Challenge Fund |
| **ULB** | Urban Local Body |
| **UMTA** | Unified Metropolitan Transport Authority |
| **WTP** | Water Treatment Plant |

# 1. Background

India's urban population is growing rapidly and is projected to reach nearly half of the country's total population by 2050. An estimated 11 crore additional urban households (about 44 crore people) will be added to the existing 10 crore households (around 40 crore people), placing significant pressure on cities and their infrastructure systems.

This growth will substantially increase the demand for housing, transport, water supply, sanitation, energy, and other essential urban services. At the same time, cities will be expected to function as engines of economic growth by generating employment, revitalising ageing urban cores, addressing legacy infrastructure gaps, and enabling planned greenfield and semi-greenfield development. Ensuring improved delivery of basic services, enhancing quality of life, and building resilience to climate risks will therefore be critical priorities for urban development.

Over the past decade, urban programmes have improved infrastructure and service delivery, largely through grants. The use of market-based finance such as loans, municipal bonds and private investment has remained limited. Smaller cities face additional challenges due to limited institutional and financial capacity.

In this context, the Urban Challenge Fund (UCF) has been introduced to catalyse a paradigm shift in urban development by encouraging cities to transition towards market-based financing and integrated regional development. The Fund aims to position cities as a bankable asset class through targeted reforms, strengthened institutional capacity, improved governance and planning frameworks, and the development of sustainable revenue-generating urban infrastructure.

# 2. Mission Outlay

The Urban Challenge Fund provides a total Central Assistance (CA) of ₹1,00,000 crore over the Mission period. The Central Assistance (CA) is designed as a catalytic instrument to leverage significantly larger investments from market-based sources. The CA for projects is limited to 25 percent of the cost of bankable projects with a stipulation that at least 50 percent of the project cost is funded from bonds, bank loans, and PPPs.

The Central Assistance for UCF is structured as below:

- Projects: ₹90,000 crore
- Project Preparation and Capacity Building at National, State/UT, and City levels: ₹5,000 crore and
- Credit Repayment Guarantee Sub-Scheme (CRGSS): ₹5,000 crore

# 3. Mission Period

The Mission will be implemented from Financial Year (FY) 2025–26 to FY 2030–31, extendable by three years.

# 4. Coverage

All States and UTs are eligible to participate in UCF with a specific focus on strengthening Tier II and Tier III cities. The following categories of cities shall be covered under UCF:

- All cities with a projected 2025 population of 10 lakh or more;
- Capital cities of State/UT not included in the first category; and
- Major industrial cities (Manufacturing & Services) with a projected 2025 population of 1,00,000 or more (which will, by and large, cover all the cities in this category); and
- All Urban Local Bodies (ULBs) in Hilly States/UTs, Northeastern States; and ULBs with population below 1,00,000 in other States/UTs. (These cities are also covered under Credit Repayment Guarantee Sub-Scheme)

As per above, all ULBs are eligible to participate in UCF.

# 5. Admissible Projects under UCF

Urban Challenge Fund supports urban transformation through three verticals viz. 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation'. The list of admissible projects under Urban Challenge Fund is as below:

1. **Digital Governance**
   a. Integrated Command and Control Centres (ICCC) for all districts
   b. Digitization of property records with property ID
   c. Digitization of utilities & updation
   d. Digital twin along with auto updation facility
   e. Create family ID digitization project & updation
   f. City areas mapping by drones & encroachment removal enforcement systems
2. **Development of Trunk Infrastructure**:
   a. To create trunk infrastructure in growing area of all cities
   b. To replace legacy infrastructure of the cities
   c. To create trunk infrastructure in counter magnet cities including in Hilly and North-Eastern states to decongest the existing cities
   d. Trunk support infrastructure for Saturation
   e. To create underground ducts for utilities in sizable area of cities
   f. Water management projects, sewage management projects
   g. Scada system in water distribution
3. **Circularity**
   a. Robust infrastructure for recycle and reuse of water, liquid & solid waste
   b. Reuse water grid for the cities and urban agglomeration including parallel supply line processed water
   c. Waste recycling facilities such as Material Recovery Facility (MRF)
   d. Waste conversion facilities such as waste to energy, dump site remediation including components such as bio- leachate, evacuation etc.

e. Augmentation of city-wide solid waste/ liquid waste treatment and reuse infrastructure

4. **Projects for decongestion**
   a. Multi-storey parking in congested areas for decongestion – revenue earning projects. Stack parking projects and off-street parking infrastructure including e-parking space on off-street
   b. Projects for congestion free cities
5. **Last mile connectivity infrastructure project**
   a. Connecting metro/buses with households within the city. Commissioning railway lands along railway tracks as blue green stretches & logistics spaces for last mile connectivity
   b. Transit hub upgradation. Multi modal integration projects
6. **Revitalisation of old city areas (5 sq.km. - 20 sq.km.):** Projects pertaining to
   a. Redevelopment projects of city areas, replacement of legacy infrastructure of old city area
   b. freeing areas from urban flooding
   c. reorganizing and increasing public spaces/roads
   d. public parking management infrastructure, off-street parking projects to promote seamless mobility of public and goods
   e. rejuvenation of infrastructure in heritage areas
   f. in-situ slum rehabilitation (low and middle-income housing stock)
   g. Encroachment removal & in-situ redevelopment of city area
7. **Redevelopment of old markets**:
   a. Comprehensive redevelopment of markets/ business hubs. Projects pertaining to infrastructure for parking, logistic hubs & goods offloading zones
   b. Projects pertaining to reorganization of internal circulation by promotion of vertical development to accommodate trade entities
   c. Redevelopment of legacy infrastructure & also creating more public realm through TDR & vertical built forms
8. **Non-motorised transport infrastructure – Indicative Projects**
   a. Projects for pedestrianization, cycling path & park connectors, preferably integrating with vending spaces/ infrastructure as part of urban design infrastructure, development of handicraft market
   b. Create canopy covered walkways, atleast 20 km seamlessly, with only junction breaks/ small breaks
   c. Projects for safe school zones to be created with clear plans. All schools to be mapped to create seamless walkability and cycling infrastructure.

d. Network of elevated walkways to be formulated to access transit market, institutional, high density residential zones (single, isolated, few meters' length elevated walkways are not allowed)

9. **Transit Hub upgradation**

   a. Upgrading the existing old bus depot, railway stations (metro stations, RRTS, Namo Bharat rail), existing railway lines/ infrastructure in urban & peri-urban areas and building it into commercial, economical & residential complexes through public private partnership.

10. **TOD infrastructure development – Infrastructure projects pertaining to transformation of TOD areas for planned densification.**

    a. Transforming all the important transit hubs including Bus depots, Metro etc., Bus stand as commercial hub

    b. Transforming access and egress, reorganising that space to make them the most attractive, clean & seamless public realm to walk, including footpath infrastructure around bus stops and metro facilities and connecting it to neighbourhoods.

    c. Transforming the area around it (2 to 5 km long) and mapping all the hurdles & creating a plan for implementing and improving the access along with spaces for trading, safe spaces including walkable streets for women and children

11. **Projects for prevention of urban flooding**

    Creating a city-wide projects and taking up, at least a sizable area of at least 25 sq. km. to 50 sq. km, for elimination of all the urban flooding points and implementation of strategic projects for prevention of urban flooding through a systematic drainage and sponge infrastructure.

12. **Integrated waste processing:** End to end processing of

    a. Construction and Demolition (C&D) waste to reusable construction material

    b. Liquid waste processing to bio-gas and sludge remediation

    c. Waste to energy

    d. Creation of new water - Tertiary treated water for reuse

    e. Creation of trunk infrastructure to evacuate treated water for reuse

13. **Green field/ Semi Greenfield City infrastructure:**

Core urban infrastructure (roads, water supply, sewerage, and solid waste management) in greenfield and semi-greenfield cities such as aero cities, medical cities, technology parks, tourism clusters etc.

14. **Development of road infrastructure and flyovers**

15. **Riverfront development in the city**

16. **Uncovered projects under different schemes**

17. **Projects required for implementation of reforms like land bank inventory system etc. will also be supported through UCF project fund.**
18. **Projects aimed at relocating small dairy enterprises with milch cattle from within the city limits shall be supported through UCF project fund.**

**Second level priority projects in 2 million Plus cities**

19. **Development of convention centres**
20. **Development of recreation spaces**
21. **Creating state of the art public libraries**
22. **Sports infrastructure**
    a. Water sports & lake development
    b. Wellness centres parks
    c. Sports stadium
    d. Meditation centres

The projects should be designed as a part of a comprehensive and integrated intervention with a well-structured implementation plan to deliver large-scale transformative impact and fundamentally transform the existing scenario. The approach should be transformational rather than incremental, focusing on systemic improvement rather than mere augmentation. The projects should ensure speed and quality of execution through robust planning and design, innovation, real-time monitoring systems, third-party quality assurance, timely and quick payment mechanisms, and structured contractors' and officials' capacity building to achieve sustainable and high-quality outcomes.

Signing of loan agreement for UCF project by the Urban Local Body should be publicised in public forum.

# 6. Fund Allocation

The UCF adopts a blended financing model wherein Central Assistance (CA) acts as catalytic support, while market-based finance constitutes the primary source of project funding. The objective is to ensure that projects remain financially viable and sustainable across their entire life cycle. The total CA under UCF amounts to ₹1,00,000 crore and will be allocated across the following three components:

a. Project Fund
b. Project Preparation and Capacity Building Fund (PPCBF)
c. Credit Repayment Guarantee Sub-Scheme

## 6.1. Project Fund

Out of the total CA under UCF, ₹90,000 crore have been earmarked as project fund to support approved infrastructure projects across the three UCF verticals. Project fund will serve as catalytic support to leverage market-based financing, enable structured project implementation, and ensure timely execution of financially viable and reform-linked urban infrastructure investments.

States will endeavour to take up projects equivalent to at least 25% of their allocated amount within the six months from the issuance of guidelines. The inter-se allocation of funds among States/UTs shall be broadly based on their respective population. Additional 10% projects may be considered beyond the allocated limit for States/UTs. After two years, the State/ UT wise progress of the UCF will be reviewed by the National Apex Committee (NAC). NAC may take a decision to reallocate the funds among the States/ UTs based on the performance in taking up the projects and, physical and financial progress.

## 6.2. Project Preparation and Capacity Building Fund (PPCBF)

An amount of ₹5,000 crore is earmarked as the Project Preparation and Capacity Building Fund (PPCBF) to strengthen the quality, readiness, and bankability of projects, and to build institutional and technical capacity at the national, State/UT, and city levels. Of this,

a) **₹3,000 crore** will be allocated to States/UTs and shall be distributed among States/UTs**,** to support project preparation, capacity building, and other admissible/permissible activities under this component. Following activities will be eligible for support under the Project Preparation and Capacity Building Fund allocated to the State:
   - Project preparation & monitoring support, including consultancy services
   - Workshops, training programmes, seminars, and conferences;
   - Institutional and technical capacity building;
   - Community engagement and stakeholder consultations;
   - Field visits, roadshows, exposure visits, and study tours;
   - IEC activities, webinars, and digital learning initiatives;
   - Administrative and Other Expenses (A&OE) related to planning, preparation, appraisal, and implementation of UCF projects.

The utilisation of the PPCBF will be recommended by the SHPSC and will be strictly limited to UCF-related activities and will not be used for general administrative purposes.

b) **₹1,500 crore** shall be for the following activities:
   i. Appointment of independent third-party monitoring agencies at state and city level by MoHUA.
   ii. Technology sub-missions, strengthening ICCC. The technology demonstration projects, startups and innovation projects will be evaluated on challenge mode and supported by MoHUA at state and city level.
   iii. Any other focused schemes/interventions by MoHUA at State and city level.

The contours, components, and eligible heads of expenditure under this portion shall be decided by MoHUA from time to time.

c) **₹500 crore** for Administrative and Other Expenses (A&OE) expenses of UCF division of Ministry of Housing and Urban Affairs (MoHUA).

## 6.3. Credit Repayment Guarantee Sub-Scheme (CRGSS)

Credit Repayment Guarantee Sub-Scheme for all ULBs in Northeastern and Hilly States/UTs, & smaller Urban Local Bodies (ULBs) with population below 1,00,000 in other States/UTs, along with project fund, for enabling them to access market-based finance. An amount of ₹5,000 crore is earmarked for CRGSS. The Sub-Scheme is designed as a risk-sharing and credit enhancement mechanism to assist ULBs with limited credit history or relatively weaker financial profiles, enabling their gradual transition towards sustainable and independent market financing.

Under this sub-scheme projects can be taken up in three UCF verticals namely (1) Creative Redevelopment of Cities, (2) Cities as Growth Hubs, and (3) Water and Sanitation. Credit Repayment Guarantee shall be provided for first-time loans at 70% of the loan amount or up to ₹7 crore, whichever is lower, and for second-time loans at 50% of the loan amount or up to ₹7 crore, whichever is lower. Detailed guidelines on the Credit Repayment Guarantee Sub-Scheme will be issued separately.

# 7. Project Appraisal and Challenge Framework

Projects under UCF may be implemented by ULBs, Special Purpose Vehicles (SPVs) constituted by ULBs or State/UT Governments, Development Authorities or Parastatal Agencies, agencies notified by the respective State/UT Government, or private entities endorsed by the State/UT Government. The designated implementing agency must have the requisite legal authority, institutional capacity, and financial capability to execute the project and enter financing, contractual, and risk-sharing arrangements. To ensure strategic alignment, transformative impact, and long-term sustainability, all proposals submitted under the Urban Challenge Fund (UCF) shall comply with the following mandatory requirements:

i. Clearly articulate the context, problem statement, and justification for the proposed intervention.
ii. Proposals shall demonstrate clear alignment with the thematic verticals of the Urban Challenge Fund (UCF). Cities are expected to undertake projects under at least two UCF verticals to ensure integrated and comprehensive urban transformation. However, projects may be implemented in a phased manner based on preparedness, institutional capacity, and strategic priorities.
iii. Projects should form part of a broader city or regional growth strategy or saturation plan and must cover a sizable geographic area and population, ensuring integrated and scalable urban development outcomes.
iv. Projects shall aim for service saturation, with measurable improvements in service quality, coverage, efficiency, and reliability.
v. Projects shall be transformative in scale and approach, delivering city-wide, area-wide, or service-wide impact that contributes to economic growth and spatial transformation.
vi. Projects shall demonstrate long-term financial sustainability, including viable revenue models and lifecycle cost considerations.
vii. Financial structuring of the project should be substantially completed/ in-principle approved from lender at the proposal stage.
viii. Establish clear implementation arrangements, defined institutional responsibilities, and appropriate risk allocation mechanisms.
ix. Cities/ implementing agencies shall establish a dedicated project implementation team along with a capacity-building plan to ensure effective project preparation, execution, and long-term operations.
x. Projects shall establish an ESCROW mechanism with appropriate ring-fencing of project revenues to ensure financial discipline, repayment security, and sustainability of operations.
xi. Integrate with the city's Integrated Command and Control Centre (ICCC), or propose its establishment, to enable real-time monitoring and data-driven governance.

xii. Projects shall incorporate reform-oriented and innovative approaches where relevant. Cities shall adopt project-specific reforms aligned with the objectives of the UCF. A reform roadmap shall be submitted within three months of project approval, and progress on reform implementation shall be reported on the centralised reform portal of MoHUA.

xiii. State are advised to broadly distribute the fund equitably among the ULBs having bankable projects/ Projects on PPP Mode.

xiv. State are advised that projects with an identified revenue stream should preferably be implemented through the PPP model to minimize contingent liabilities on the ULB/ State and to ensure greater efficiency

The above criteria shall be considered while appraising projects submitted under the Urban Challenge Fund.

## 7.1.Overall Project Flow

Projects will follow the sequence below:

Project preparation by ULB / Implementing Agency

↓

State-level shortlisting of proposals

↓

In Principle Approval by Financial Institutions

↓

State High Powered Steering Committee (SHPSC) Approval

↓

Evaluation and approval by National Apex Committee (NAC), MoHUA

↓

Commencement of fund release

## 7.2.Evaluation of Projects

All projects submitted to the National Apex Committee (NAC) shall be assessed under a structured Challenge Framework to ensure that only high-impact, financially sound, and implementation-ready proposals are supported. Evaluation will be undertaken across three core pillars:

**A. Vision, Mission & Capacity**

This pillar assesses the strategic intent, preparedness, and delivery capability of the proposing city and implementing agency.

a) **Implementing Capacity & Delivery Readiness**
- Availability of land and statutory clearances
- Demonstrated capability and track record of the implementing agency
- Institutional arrangements for time-bound execution
- Dedicated project team with clear roles
- Quality of DPR, phasing & readiness to award

b) **Sector Performance Targets**
- Commitment to water and sanitation service saturation
- Integration of reuse, recycling, and circular economy initiatives
- Adoption of innovative and technology-enabled solutions

c) **Strategic Alignment & Planning Integration**
- Alignment with approved Regional Plans, Master Plans, and Town Planning Schemes (TPS)
- Convergence with ongoing Central/State schemes and urban growth strategies
- Integration within broader city and regional development frameworks.

**B. Transformative & Impact Outcomes**

This pillar evaluates the scale and measurable impact of the proposed intervention.

- **Area Transformation:** Extent of spatial and service-level transformation.
- **Economic Rejuvenation:** Potential for job creation, productivity enhancement, increased footfall, and crowding-in of private investment.
- **Climate Resilience:** Contribution to urban flood mitigation, heat island reduction, and environmental sustainability.
- **Social Outcomes:** Improvements in safety, accessibility, inclusiveness, and equitable service delivery.

Projects must demonstrate quantifiable outcomes aligned with economic growth and long-term urban resilience.

**C. Sustainability**

This pillar ensures financial robustness and long-term operational viability.

**Financial Sustainability**
- Market-based financing plan with minimum 50% capital mobilisation through loans, municipal bonds, PPPs, or other instruments
- Escrow-backed revenue streams and ring-fenced cash flows
- Demonstrated bankability (tariffs/ user charges, revenue enhancement) and risk allocation

**O&M Sustainability**
- Clearly defined O&M funding arrangements
- Adoption of performance-based O&M models
- Asset management systems, service benchmarking, and lifecycle costing
- Utility efficiency improvements (NRW reduction, energy efficiency, smart metering)

Projects demonstrating strong performance across all three pillars shall qualify for final approval and fund release under UCF

# 8. Reforms

Reform implementation is a key feature of the UCF. States/UTs shall submit baseline information to establish the reform threshold and a roadmap for implementation of applicable reforms. The reforms are categorised as follows:

**8.1. Market & Financial Reforms** – Mobilisation of a minimum of 50% of the total project cost from market sources (loans/bonds/PPPs) and undertaking bankability measures to achieve financial closure. These may include preparation of asset registers, land bank inventory system, enhancement of tax and non-tax revenues, year on year increase in property tax collection efficiency-led savings (energy and water), and improved project structuring (including risk allocation and exit mechanisms) to crowd in private capital.

**8.2. Governance & Digital Reforms** – These reforms will focus on strengthening staffing, accountability, and service delivery, including end-to-end digitisation of select municipal functions and adoption of system-based monitoring mechanisms to enhance transparency and operational efficiency.

**8.3. Operational & Capacity Reforms** – These reforms will focus on ensuring project readiness, quality execution and sustainable O&M, including clearly defined institutional roles, standardised processes, capacity-building initiatives and performance monitoring arrangements.

**8.4. Urban Planning & Spatial Reforms** – These reforms will focus on integrating land use, mobility, climate resilience and economic growth considerations, and ensuring alignment of UCF-supported investments with applicable statutory plans and approved planning frameworks.

**8.5. Project-Specific Reforms (UCF-linked)** – These reforms will focus on incorporating service-level KPIs, safety-by-design provisions, O&M readiness and outcome monitoring mechanisms within projects, supported by periodic reporting and verification.

**8.6. Credit Repayment Guarantee Sub-Scheme** – These reforms will focus on transforming infrastructure financing in smaller cities by fostering a culture of borrowing and responsible repayment through a Credit Repayment Guarantee Sub-Scheme for all ULBs in Hilly and North-Eastern States and ULBs in other States/UTs with population below 1,00,000.

A detailed toolkit covering the reforms and their monitoring will be issued separately.

# 9. Fund Release

Central Assistance under UCF will be released in three instalments in the ratio of **30:50:20**.

Fund transfers to the implementing agency or project-specific escrow accounts will strictly follow:

- the approved fund-flow structure; and
- tranche-linked conditions;

Funds under UCF will not be diverted, re-appropriated, or used for purposes other than the approved project components

### 9.1. First Tranche (30%)

The first instalment, equivalent to 30% of the Central Assistance (based on the approved project cost or tendered project cost, whichever is lower), will be released upon approval of the project by the NAC, MoHUA and SHPSC.

### 9.2. Second Tranche (50%)

The second instalment, equivalent to 50% of the Central Assistance (based on the approved project cost or tendered project cost, whichever is lower), will be released upon achievement of at least 40% physical progress, supported by geo-tagged evidence and third-party or independent verification. The second instalment will be released after submission of UCs of atleast 75% of the fund earlier released from all stakeholders, i.e. GoI, Market based financing and State/ULB share.

### 9.3. Third Tranche (20%)

The third instalment, equivalent to 20% of the Central Assistance (based on the approved project cost or tendered project cost, whichever is lower), will be released upon achievement of at least 75% physical progress, supported by geo-tagged evidence and independent verification. The third instalment will be released after submission of UCs of at least 75% of the fund earlier released from all stakeholders, i.e. GoI, Market based financing and State/ULB share.

## 10. Programme Management and Monitoring Framework

### 10.1. National level

### a. National Apex Committee (NAC)

A National Apex Committee (NAC), chaired by the Secretary, MoHUA, will monitor the implementation of UCF and be empowered to take decisions necessary for its effective execution. The Committee may co-opt representatives from any Government Department or organisation as members and may invite experts to participate in its deliberations.

**Composition of the National Apex Committee (NAC)**

| S.No. | Designation | Role |
|---|---|---|
| **1.** | Secretary, MoHUA | Chairperson |
| **2.** | Additional Secretary/ Joint Secretary (UCF), MoHUA | Member Secretary |
| **3.** | Joint Secretary & Financial Advisor, MoHUA | Member |
| **4.** | Joint Secretary, Department of Expenditure | Member |
| **5.** | Joint Secretary, Department of Economic Affairs | Member |
| **6.** | Advisor, NITI Aayog | Member |
| **7.** | Chief Planner, TCPO | Member |
| **8.** | Advisor, CPHEEO | Member |
| **9.** | Director, NIUA | Member |

**Functions of the National Apex Committee**

1. Accept and approve the project proposals received from the States/UTs through the State High Powered Steering Committee, including the Annual Comprehensive Action Plan for Capacity Building of States/ UTs and the Reform roadmap

2. Allocate and recommend for release of admissible CA funds under the UCF to the States/ UTs/ State Mission Directorate
3. Overall monitoring and supervision of the Mission.
4. Advise the State/ UT/ implementing agencies on innovative ways for resource mobilization, private financing, and land leveraging.
5. Confirm appointment of organisations, institutions, or agencies for third party monitoring (IRMA).
6. The NAC may delegate, as it considers appropriate, some of the functions within prescribed limits to the Additional Secretary/Joint Secretary (UCF), MoHUA to ensure speedy implementation of the Mission.
7. Formulate the threshold of physical progress of project at which to release funds to the States.

The NAC will meet according to requirements, but at least once in three months. The NAC will take support from subject matter experts and such staff, as considered necessary.

### b. National Project Management Unit

Under UCF, Project Management Units (PMUs) may be established at the national level, as required, to support the NAC and Additional Secretary/ Joint Secretary (UCF) in programme implementation. The National PMUs will provide technical, financial, and operational support across identified UCF verticals and will assist in appraisal, monitoring, and coordination functions.

### c. Independent Review and Monitoring Agencies (IRMA)

IRMAs shall be selected for a State/ UT or cluster of States/ UTs by MoHUA through bidding process. Payments to IRMAs will be made by MoHUA. States/ UTs will facilitate IRMAs in undertaking reviews and feedbacks etc. Periodic reports and other documents will be submitted by IRMA to MoHUA with copy to States/ UTs.

## 10.2. State/ UT level

### a. State High Powered Steering Committee (SHPSC)

A State level High Powered Steering Committee (SHPSC) chaired by the State Chief Secretary, shall steer the Mission Programme in its entirety. An indicative composition of the SHPSC is given below:

| S.No. | Designation | Role |
|---|---|---|
| **1.** | Chief Secretary | Chairman |
| **2.** | Principal Secretary (Finance) | Member |
| **3.** | Principal Secretary (Urban Development) | Member Secretary |
| **4.** | Principal Secretary (Housing & Urban Planning) | Member |
| **5.** | Principal Secretary (Industries/Economic Development) | Member |
| **6.** | Principal Secretary (Rural Development) | Member |
| **7.** | Mission Director (if different from above) | Member |
| **8.** | Chief Town Planner (Town & Country Planning) | Member |
| **9.** | Chief Engineer (Public Health Engineering/WSS) | Member |

The SHPSC may co-opt member(s) from other State Government Departments/ Government organisations and may also invite experts in the field to participate in its deliberations. There would be a State Mission Director who will be an officer not below the rank of Secretary to the State Government, nominated by the State Government, with a Project Development and Management Consultant (PDMC)/ Project Preparation and Support Unit.

Functions of SHPSC will be as under:

1. Approve projects and accord administrative approval of Detailed Project Reports (DPRs).
2. Monitor Mission including progress of projects, capacity building, IEC campaign and reform implementation, etc.
3. Recommend proposals for release of instalment of funds for projects to the Centre.
4. Finalize State and ULB share of funds for project implementation.
5. Allocate and release of Central and State share of funds to ULBs in time.
6. Encourage and facilitate start-ups and private entrepreneurs, PPP to participate for technology demonstration projects.
7. Approve plans for capacity building, issue notifications, etc. for speedy implementation of reforms.
8. Advise State Mission Director on Operations & Maintenance of urban infrastructure projects under Mission.

## b. State Level Technical Committee (SLTC)

States/ UTs shall appoint SLTC which will be primarily responsible for technical appraisal of DPRs and tender documents. Before giving approval, SLTC will ensure availability of undisputed land for projects, inclusion of O&M/ Asset management for at least five years.

**Indicative composition of the SLTC:**

| S. No. | Designation | Role |
|---|---|---|
| **1** | Principal Secretary (UD)/ Secretary (UD) | Chairman |
| **2** | Representative, Water Resources | Member |
| **3** | Representative, Public Health Department | Member |
| **4** | Representative, Electricity Department | Member |
| **5** | Representative, Finance Department | Member |
| | Representative, Planning Department | Member |
| **6** | State Mission Director | Member |
| **7** | Technical Head (e.g., Engineer-in-Chief), Urban Water Supply & Sewerage Board | Member Secretary |
| **8** | Managing Director of Parastatal/ SPV | Member |

## c. Project Development and Management Consultant (PDMC)/ Project Preparation and Support Unit

The PDMCs may be procured by the States/ UTs through a contract. Smart City SPVs may be used for implementation of UCF projects, if city/state so desires. The scope of PDMCs will broadly cover prefeasibility, planning, design, supervision and management of projects. They will carry out investigation, design, procurement, and implementation using PMIS / latest IT tools and techniques. They will help in monitoring physical & financial progress of projects and updating Mission portal. They will also help States/ UTs in conducting capacity building activities.

### d. ULB/ Implementing Agency

At the City level, the ULB/ Implementing Agency (IA) will be responsible for implementation of the UCF Mission. The ULBs/ IAs will develop DPRs and bid documents for approved projects, market lenders engagement, implement reform measures. The ULBs/ IAs will ensure city level of approvals of DPRs and bid documents and forward these to the SLTC/ SHPSC for approvals. The ULB will also develop a road map for Reform implementation and capacity building for city. The ULB will also be responsible for building coordination and collaboration among stakeholders for timely completion of projects without escalation of project cost.

## 11. Private Sector Participation and Safeguards

States/ UTs may endorse bankable projects undertaken by private developers, with CA released under the scheme into a dedicated State/ UT escrow account and disbursed based on defined milestones. No additional VGF support will be provided. Projects must be self-sustaining through revenue streams, user charges, or land monetisation. However, States/ UTs can also utilize CA as deferred payment support for Hybrid Annuity Model (HAM) projects through an escrow mechanism.

**a. Sustainable Exit & Regulatory Shift**

Promoters, PPP entities, or States/ UTs may exit after a lock-in period mentioned in agreement, subject to achievement of project's financial viability.

**b. Redefining Roles in Development Zones**

ULB, in its administrative jurisdiction, can designate the private entities as "*Special Purpose Urban Infrastructure Manager (SPUIM*)" for integrated delivery of housing, infrastructure, and O&M in large-scale development. For functioning of SPUIM, ULBs can notify simplified byelaws and outcome-based regulatory frameworks, with clearly defined accountability mechanisms to ensure adherence to service benchmarks, quality standards, and implementation timelines.

**c. Community-Led Private Investment Mobilisation**

To strengthen citizen ownership in urban service delivery, communities including ward-level foundations, Resident Welfare Associations (RWAs), and citizen-led organisations are allowed to mobilize private investment for local urban utilities.

## 12. Role of Financial Institutions under UCF

States/UTs may engage financial institutions such as commercial banks, infrastructure funds, bond investors, and multilateral agencies for:

- Appraisal, structuring, and financing of eligible UCF projects
- Structuring of debt and blended finance instruments
- Due diligence on project viability and risk allocation
- Supporting financial discipline and repayment frameworks

## 13. Capacity Building

Capacity Building under the UCF shall serve as a foundational pillar for strengthening ULBs to effectively plan, execute, manage and sustain large-scale urban infrastructure projects while delivering improved services to citizens.

It will be positioned as a strategic investment in building strong institutions, skilled manpower and accountable governance systems. The objective is to create a competent and professionally trained municipal ecosystem comprising elected representatives, municipal officials, engineers, finance personnel, project managers, contractors, plumbers, operators and frontline workers capable of delivering projects within timelines, adhering to quality standards and ensuring sustainable operations.

Capacity building under UCF shall not be treated as a routine training exercise. It will be context-specific and shall be structured, outcome-driven and directly linked to improvements in project execution, governance practices, service reliability, and institutional performance.

The framework shall focus on strengthening competencies in project planning, procurement, contract and financial management, leadership, coordination, citizen engagement, and grievance redressal. Equal emphasis shall be placed on robust Operation & Maintenance (O&M) systems, asset management, revenue mobilisation, cost recovery, and performance monitoring to ensure long-term sustainability of infrastructure assets.

Capacity building shall also function as a mechanism to ensure the long-term maintenance and sustainability of urban infrastructure and services. It will be carried out through tailored training modules focused on governance, technology adoption, financial management and quality control. Both national and international training partners may be engaged to bring global best practices and domain expertise.

Special attention shall be given to the skill development of field-level personnel including plumbers, technicians, pump operators, supervisors, and contractor staff with emphasis on workmanship quality, safety compliance, service benchmarks and timely completion of works.

States shall undertake a structured Capacity Gap Assessment and submit a Comprehensive Capacity Building Plan as part of their UCF proposal. The plan shall clearly define annual training targets, institutional strengthening measures, mentoring mechanisms and measurable outcomes.

Capacity building interventions may include modular training programmes, field-based demonstrations, exposure visits, peer learning networks, mentoring support, development of standard operating procedures and use of digital monitoring tools. The emphasis shall remain on applied learning and real-time problem solving.

The expected outcome is the development of well-governed, professionally managed and technically capable ULBs equipped to implement high-value projects efficiently, maintain assets sustainably and consistently deliver quality services to citizens. The plan will have two components: individual and institutional capacity building.

**Individual capacity building:**

The key features are demand-driven periodic training, recognition of practices and functionaries, independent assessment of training outcomes and mentoring and peer networking. Individual capacity building will include the following type of activities.

- Strategic training plan based on Training Needs Assessment (TNA)
- Exposure visits
- Workshops, seminars, research studies and documentation
- Individual capacity building focusing on coaching and task-related assistance from peers and mentors
- Visibility, including the preparation of Information Education and Communication (IEC) materials

**Institutional capacity building:**

The focus will be on building the institutional capacity of ULBs by using Consulting Firms and other entities.

## 14. Monitoring Framework

The Ministry of Housing & Urban Affairs has issued guidelines for the constitution of a District-Level Advisory and Monitoring Committee (DLAMC) under the chairpersonship of the District Magistrate (DM) to oversee urban sector programmes, including the Urban Challenge Fund (UCF).

The DLAMC shall:

- Review and monitor the implementation of UCF projects in accordance with approved guidelines.
- Track project execution, reform milestones, contractor performance, and payment status.
- Identify bottlenecks and facilitate inter-departmental coordination for timely resolution.
- Oversee context-specific capacity building and training of contractors and officials.
- Ensure participation of elected representatives, Urban Local Bodies (ULBs), and Gram Panchayat representatives within the district.

At the State level, the Principal Secretary (Urban Development) shall review UCF project progress on a fortnightly basis (every 15 days), focusing on physical and financial progress, reform implementation, context-specific trainings for contractors and officials, timely payment to contractors and compliance with timelines.

Additionally, a quarterly review shall be conducted with elected representatives at city/ local level to ensure transparency, accountability, and alignment with local development priorities.

## 15. Audit and Litigation Matters

State Mission Directorate shall be responsible for all matters connected with C&AG audit and litigation including cases before Courts/Tribunals and Arbitrators. State Mission Directorate shall be responsible for defending the Central Government's interests on behalf of MoHUA.

*****