



KAMARAJ IAS ACADEMY
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Urban Challenge Fund (UCF) Approved by Union Cabinet

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The Union Cabinet, chaired by Narendra Modi, approved the launch of the Urban Challenge Fund (UCF) with a total central assistance of ₹1 lakh crore to transform urban infrastructure in India.

What is the Urban Challenge Fund (UCF)?

A centrally sponsored initiative aimed at market-led and reform-driven urban infrastructure development.

Central Assistance (CA): ₹1 lakh crore will be provided, covering up to 25% of project cost, provided at least 50% is raised from market sources like bank loans, municipal bonds, or public-private partnerships (PPP).

Expected to leverage total investments of around ₹4 lakh crore in the urban sector over the next five years.

The fund will be operational from FY 2025-26 to FY 2030-31, with implementation extendable up to FY 2033-34

Objectives of the Urban Challenge Fund

Market-Linked Financing: Shift from grant-based financing to market-linked, outcome-oriented models.

Resilient and Inclusive Cities: Support climate-responsive, productive, and inclusive urban development.

Creative Redevelopment: Redevelop legacy city infrastructure, central business districts, heritage cores, and brownfield areas.

Growth Hubs and Water Systems: Develop cities as economic hubs and strengthen water, sanitation, and stormwater infrastructure.

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Encourage public and private sector participation in urban projects.

Coverage and Eligibility

All cities with a population above 10 lakh and all state/UT capitals.

Major industrial cities with population above 1 lakh.

Smaller urban local bodies (ULBs), including those in hilly and North-Eastern states, will be supported under a Credit Repayment Guarantee Scheme with a ₹5,000 crore corpus to enable access to market finance.

Significance:

Urban Development Policy Shift

UCF marks a paradigm shift in India's urban strategy, transitioning from traditional grant-based funding to market-linked, reform-oriented financing—encouraging innovation and sustainability in infrastructure planning.

Economic Growth & Urbanisation

By unlocking investment, the Fund aims to propel economic growth, job creation, and modernisation of urban spaces across India.

Focus on resilience and climate response aligns UCF with broader goals of sustainable development.

Municipal Financial Strengthening: Cities will be incentivised to mobilise market finance, boosting their creditworthiness and fiscal sustainability.

Governance and Reform: Funding will be tied to reform milestones such as improved urban governance, digitisation, and project monitoring.

Important Terms to Remember

Market-Linked Financing: Leveraging private sector capital and financial markets to fund infrastructure.

Public-Private Partnership (PPP): Collaboration between government and private firms to deliver public services or infrastructure.

Urban Local Bodies (ULBs): Civic administrative units responsible for municipal functions in urban areas