

UNION BUDGET 2026-27: IS THE URBAN SECTOR LOSING PRIORITY?

Paradox of increasing needs for urban infrastructure and declining budgetary allocations and spending

Dr Ravikant Joshi



Centre for Public Policy Research
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Abstract

India's rapid urbanisation has created an urgent demand for infrastructure investment, yet recent budgetary trends reveal a paradox of rising needs but declining allocations. This paper examines the Union Budget 2026–27 in the context of twelve years of Government of India (GoI) data on urban sector schemes, highlighting phases of growth, stagnation, and decline in both allocations and actual fund releases. While initiatives such as the Urban Infrastructure Development Fund, Urban Challenge Fund, and the newly announced City Economic Regions (CERs) signal recognition of cities as engines of growth, the overall budgetary allocation for 2026–27 has fallen by 25% compared to the previous year, marking the first negative growth in urban sector funding. The analysis shows widening gaps between allocations and actual expenditure, with basic infrastructure services and housing schemes particularly affected, while metro projects remain comparatively protected. By situating these trends against projected urbanisation and global benchmarks, the study raises critical questions about whether the urban sector is losing priority in national policy and explores the underlying demand- and supply-side constraints that contribute to the paradox of rising needs but declining allocations.

Context

Come the end of a financial year, and two important policy documents, economic triggers unfold – one, the Economic Survey and two, the Government of India's (GoI) annual budget for the next financial year. The economic survey report provides a detailed account of the various sectors of the economy and the overall economic picture of the country in the past years, and a possible outline for the future. It presents ground realities, the causes underlying it and remedies for the future. It is a crucial tool for policymakers in preparing budgets and making decisions.

A budget is a multi-dimensional document – it is, in the first place, a complex financial plan to allocate resources to various competing sectors balancing their needs and potential and a tool of fiscal management. But it is far larger than a mere financial plan and fiscal management tool. It is a policy document manifesting thinking, intentions, approaches, ambitions, etc. Further, it is a legal authorisation and operational guidebook. Finally, as it conveys policies, plans, resource allocations, operational guidance, etc., it is a multifaceted communication device through which the government reaches various stakeholders, more importantly, citizens at large.

Budget, being a financial plan, has to be built on the basis of past allocations and actual receipts and expenditures, but it does not confine itself to past trends strictly and tries to break out or create new directions, new pathways. Though the economic survey is an important tool for budgeting, it may or may not follow the outline provided for the future.

Recently, the Economic Survey for 2025-26 and the budget for the year 2026-27 have been presented, and various aspects of them are being discussed in the context of future impact. This research article tries to take a look at the budget allocations and the actual funds released to various urban sector schemes by the GOI in the past 12 years against the background of urbanisation growth and the need for urban infrastructure investment.

Urbanisation Growth, Urban Infrastructure Investment Needed and the Gap

As per population projections by the Census of India, in 2031 India's population will be 555 million, which will be 37.52% of the total population of India (1,478.77 million)¹ and every year the urban population is increasing by 8.6 million. This is a minimum estimate, as various study reports indicate that India is far more urbanised and the urban population is increasing at a higher rate².

As urbanisation increases, the need for urban infrastructure investment is growing progressively. The World Bank Report (2022) Financing India's Urban Infrastructure Needs stated the following:

“India's cities require an estimated capital investment of USD 840 billion in urban infrastructure and municipal services in the 15 years till 2036 (in 2020 prices), equivalent to 1.18% of estimated Gross Domestic Product (GDP) over this period. This value is equivalent to USD 108 per capita per year. These needs are significantly higher than current levels of investment. Total capital expenditure in urban infrastructure averaged only 0.6% of GDP in roughly the past decade (2011-18) or USD 26 in per capita terms, which, while growing steadily recently, is still four times less than the per capita estimated needs (see Figure 1)³.”

- Financing India's Urban Infrastructure Needs (2022) World Bank

On similar lines, information about investment in urban infrastructure in recent years is not available, so in this paper, the investment support proposed and actually provided by GOI through urban schemes is examined.

In the context of urbanisation growth and projected urban infrastructure investment needs ideally resources mobilisation-allocation and actual spending on urban infrastructure at Centre, State and Urban Local Governments should be taken into consideration to analyse whether adequate investment in urban infrastructure is taking place or not but data at the state and local levels are not available consequently budgetary allocations and actual fund release by

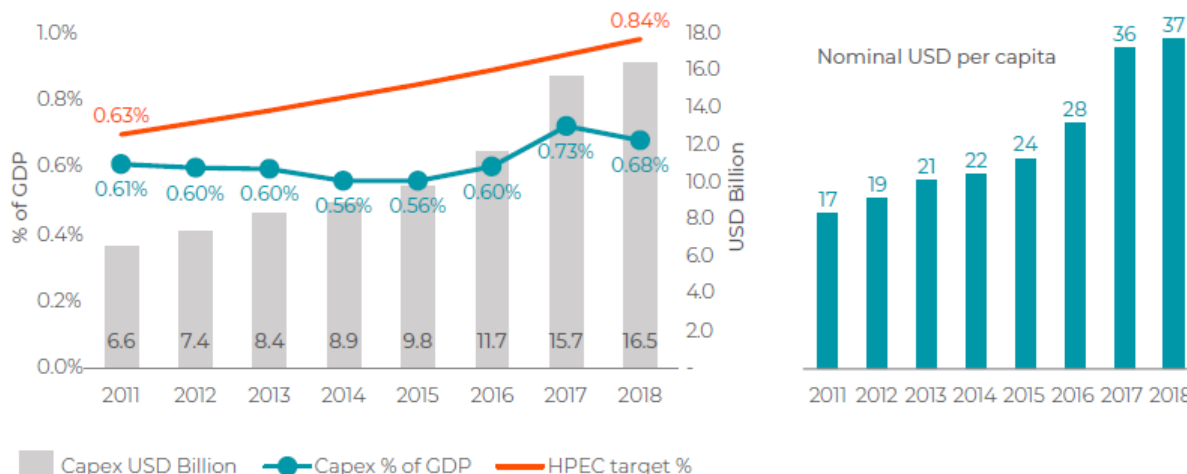
¹ Ministry of Health and Family Welfare. 2020. “Report Of The Technical Group On Population Projections – July 2020”

² Refer Janaagraha Foundation. 2023. *Annual Survey of India's City Systems*; UNDESA World Urbanisation Prospects. 2025. *India Country Profile*.

³ Sohaib Athar, Roland White and Harsh Goyal. 2022. “Financing India's urban infrastructure needs: Constraints to commercial financing and prospects for policy action.” Washington, D.C.: World Bank.

the GOI for urban sector schemes have been taken. Though limited, it will certainly give indications about how things are in reality.

Figure 1: Investment in Urban Infrastructure versus Required Needs⁴



Note: Investment in urban infrastructure in India has grown in nominal terms but is well below the required needs. Graph to the left shows the investment in urban infrastructure and the graph to the right shows the required investment as percentages of GDP.

Source: Financing India’s Urban Infrastructure Needs (2022) World Bank

Economic Survey 2025-26 on Urbanisation, Urban Local Governments

The economic survey has provided a comprehensive discussion about the tangible and intangible issues at present associated with the cities and urban governance, and outlines what needs to be done so that cities (Urban Local Governments (ULG)) can play the role of engine of growth in attaining the dream of Viksit Bharat. Most of the issues constraining cities / ULGs need to be addressed at the State and local levels.

With respect to budget allocations and actual release of funds for urban sector schemes by GOI, the economic survey has not provided any data; it has only discussed some of the initiatives of GOI, like the Urban Infrastructure Development Fund (UIDF) and the Urban

⁴ Sohaib Athar, Roland White and Harsh Goyal. 2022. “Financing India’s urban infrastructure needs: Constraints to commercial financing and prospects for policy action.” Washington, D.C.: World Bank.

Challenge Fund Scheme, without progress data but has, in general, noted the following about the inadequacy of urban infrastructure investment and resultant issues –

“In India, urban infrastructure investment in domains such as transport, housing, water, sanitation, or governance capacity has lagged behind the economic importance of cities. This has led to high population density manifesting as congestion, informalisation, and infrastructure stress, diluting potential productivity gains.” – Economic Survey 2025

GOI Budget 2026-27: What is New for the Urban Sector

As discussed above, a budget is not only numbers, but it also provides new directions and policies. In the 2023-24 budget, the GOI created the UIDF with a corpus of Rs 10,000 to be managed by the National Housing Bank. Last year's budget announced a ₹1,00,000 crore Urban Challenge Fund with an earmarked provision of ₹10,000 crores for the year 2025-26.

This year for the first time, while recognising the economic role of cities and providing funding of City Economic Regions (CER) to enhance cities' economic role, Finance Minister Nirmala Sitaraman stated, “Cities are India’s engines of growth, innovation, and opportunities. We shall now focus on Tier II and Tier III cities and even temple towns, which need modern infrastructure and basic amenities. This Budget aims to further amplify the potential of cities to deliver the economic power of agglomerations by mapping CERs based on their specific growth drivers. An allocation of ₹5,000 crore per CER over 5 years is proposed for implementing their plans through a challenge mode with a 'reform-cum-results-based financing mechanism’.

The seven CERs are: 1. Bengaluru, 2. Bhubaneswar-Puri-Cuttack: three cities together, 3. Coimbatore, Erode and Tirupur: three cities together 4. Pune, 5. Surat, 6. Varanasi, and 7. Visakhapatnam.

GOI Budget 2026-27 Allocations for Urban Sector Schemes.

For the year 2026-27, a budgetary allocation of ₹66,387 crores has been provided for various urban schemes, which is 25% less compared to the year 2025-26 budgetary allocation of ₹88,784 crores. This year's budgetary allocation is even less than the budgetary allocation for 2023-24. This is unprecedented because it can be observed from Table 1 that in the past 12 years, annual growth in budgetary allocation has been minuscule for several allocations, but

it was positive. It is the first time budgetary allocation for urban sector schemes has registered a negative growth rate.

Reduction or increase in original budget allocations in revised budget estimates is a usual fact, but reduction of budgetary allocation in the 2025-26 revised budget is 45% (₹48,792 crore revised allocation against original allocation of ₹88,784 crore), which clearly indicates a lack of uptake or drawing of funds by ULGs due to low-level infrastructure development in the year.

As urbanisation in India is increasing every year and historically it has been underserved, in this context, expecting a commensurate increase in the allocation for urban infrastructure development at all levels – Central, State and Local Level is not only logical but also most critical. But substantially reduced budget allocations for urban sector schemes in the revised budget for the year 2025-26 and in the draft budget for the year 2026-27 raise a question: Is the urban sector losing priority?

It will not be appropriate to examine such a question based on one or two years' data. Consequently, an attempt is made to take into account the past 12 years' data regarding budgetary allocation and actual release of funds for the urban sector schemes by the GOI, overall financial and physical progress of major urban schemes and other allied developments to answer the question, 'Is the urban sector losing priority?' And if yes, then what are the underlying causes and constraints?

Share of Urban Sector in Budget Allocations and Actual Expenditure of GOI

Analysis of past 12 years' data regarding budgetary allocations to and actual amount released for the urban sector (Ministry of Housing and Urban Affairs) shows three phases of sizeable growth, stagnation and finally decline. The data clearly indicate (*see Table 1*) that in recent years, the urban sector has lost priority in terms of allocation of funds in the budget and in terms of share in actual expenditure of the GOI. It can be observed from Table 1 and graphs A, B, C, and D that after a sizeable increase in terms of budget allocations and actual release of funds in the initial years 2014-15 to 2017-18, budget allocation and actual release remained stable between 1.4% and 1.6% with regard to share in budget allocation and 0.9% to 1.0% share in actual expenditure of GOI during 2018 to 2022, with the exception of the Covid-affected year 2021-22, in which one can see wide volatility – a reduction in budget allocation but a huge increase in actual expenditure.

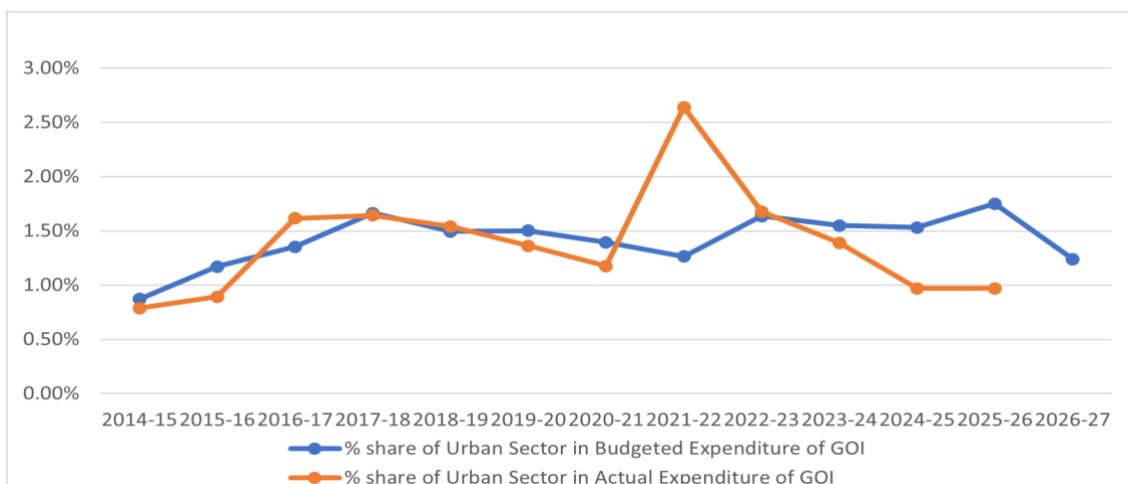
**Table 1: Budget Allocated and Actual Fund Released for Urban Sector Scheme by GOI
(₹ in Crore)**

Year	Budget provided for Urban Sector Schemes (₹ Crore)	GOI Total Budgeted Expenditure (₹ Crore)	% share of urban sector in GOIs Budgeted Expenditure	Actual Expenditure on Urban Sector Schemes (₹ Crore)	GOI Total Actual Expenditure (₹ Crore)	% share of urban sector in GOI's Actual Exp	Urban Sector Schemes Actual Exp as % of Budgeted Exp.
2014-15	15,641	17,94,892	0.87%	9,453	12,01,029	0.79%	75%
2015-16	20,825	17,77,477	1.17%	15,983	17,90,783	0.89%	80%
2016-17	26,755	19,78,060	1.35%	31,912	19,75,194	1.62%	119%
2017-18	35,692	21,46,735	1.66%	35,169	21,41,973	1.64%	99%
2018-19	36,484	24,42,213	1.49%	35,650	23,14,000	1.54%	98%
2019-20	41,805	27,86,349	1.50%	36,597	26,87,000	1.36%	88%
2020-21	42,441	30,42,230	1.40%	41,241	35,09,000	1.18%	97%
2021-22	44,034	34,83,236	1.26%	1,00,138	37,93,801	2.64%	227%
2022-23	64,580	39,44,909	1.64%	70,288	41,93,157	1.68%	109%
2023-24	69,747	45,03,097	1.55%	61,698	44,43,447	1.39%	88%
2024-25	73,814	48,20,512	1.53%	45,168	46,52,867	0.97%	61%
2025-26	88,784	50,65,345	1.75%	48,972 [#]	49,64,842 [#]	0.97%	55%
2026-27	66,387	53,47,315	1.24%	-	-	-	-
CAGR %	12.8%	9.52%	-	16.13%	13.77%	-	-

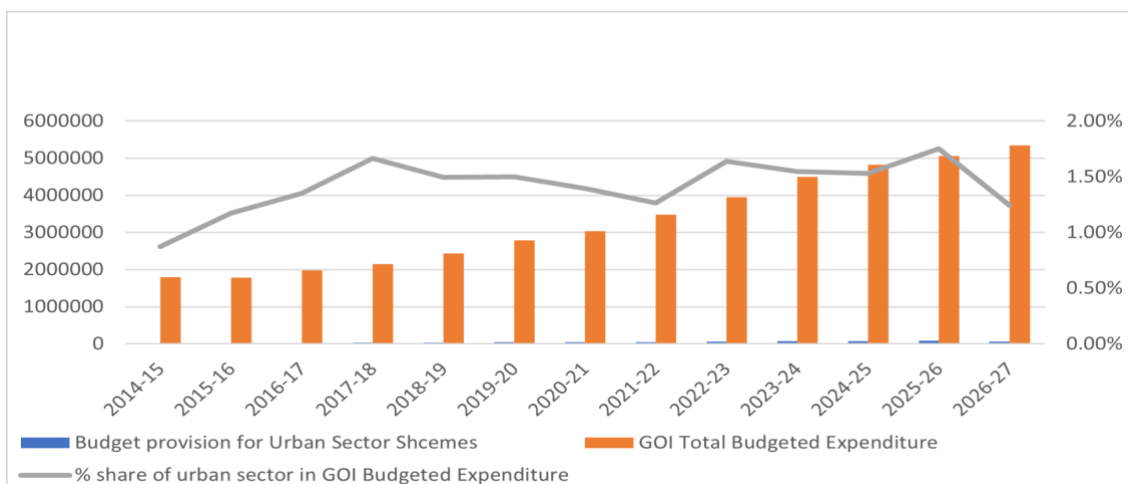
Note: # - Revised Budget Figures

Source: Budget Documents of Government of India

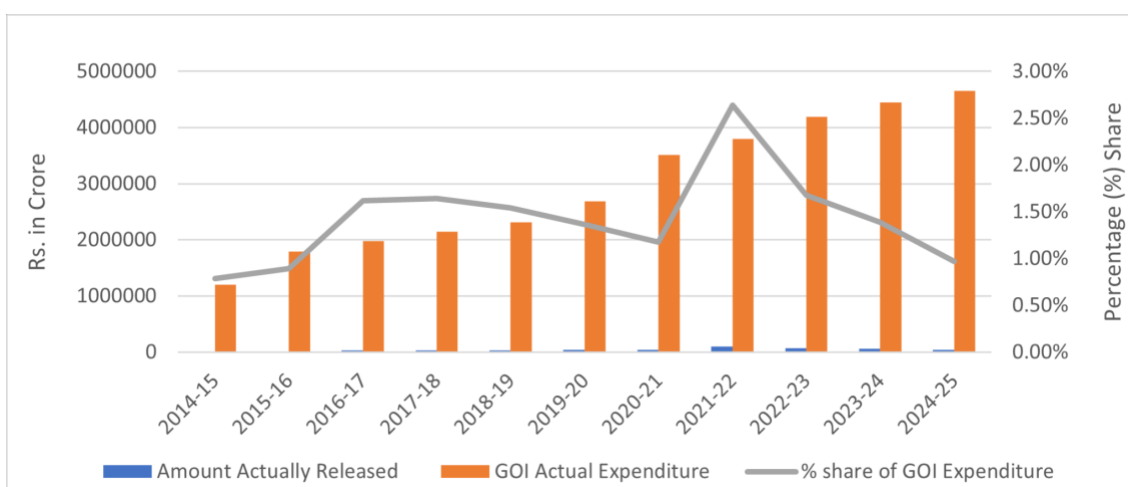
Graph A: % Share of Urban Sector in GOI Budgeted & Actual Expenditure



Graph B: Budget Provisions for Urban Sector Schemes (₹Crore & % share of GOI Budget)



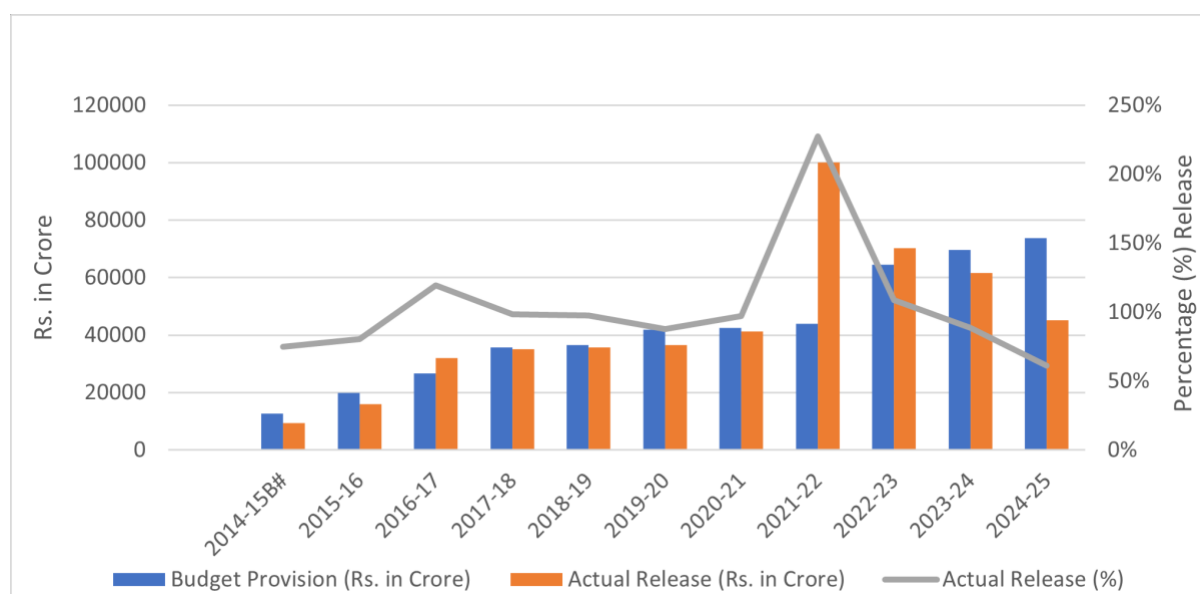
Graph C: Urban Schemes - Amount Released & % Share of GOI Expenditure



Now, in recent years, 2023-24 onwards, the % share of urban sector schemes in budget allocations and actual expenditure has started declining. The decline is more prominent in terms of % share of actual expenditure. Probably for the year 2025-26, the % share in actual expenditure may be just 0.9%, which will be equal to the year 2015-16. Thus, one can notice phases of growth, stagnation and decline clearly.

The decline in actual release or spending of funds for urban sector schemes is more than the decline in budgetary allocation made for urban sector schemes, because recently the gap between budgetary allocation and actual release of funds has widened (See Graph D). Till 2022-23, even if you do not take the 2021-22 exceptional figure, the actual spending or release of funds was close to 100% compared to the budgetary provisions made. But this proportion has come down drastically in the past two years to 61% in 2024-25 and to 55% as per revised estimates for 2025-26.

Graph D: Budget Provisions & Actual Release for Urban Sector Schemes



Major Urban Sector Scheme-wise Budgetary Allocation and Actual Spending

As noted, overall allocation to and actual spending for the urban sector have gone down, but it is important to analyse which scheme or schemes have been affected more or which got affected less. As there are several urban sector schemes, they have been clubbed for presenting data in Tables 2 and 3.

It can be observed from Table 2 and Graphs E, F, and G that the actual release of funds for basic infrastructure services has been lower than the budgetary allocation, while in the case of another scheme, it has usually exceeded it. In the past two years, even the housing sector scheme received much less actual release of funds compared to the budgetary allocations made.

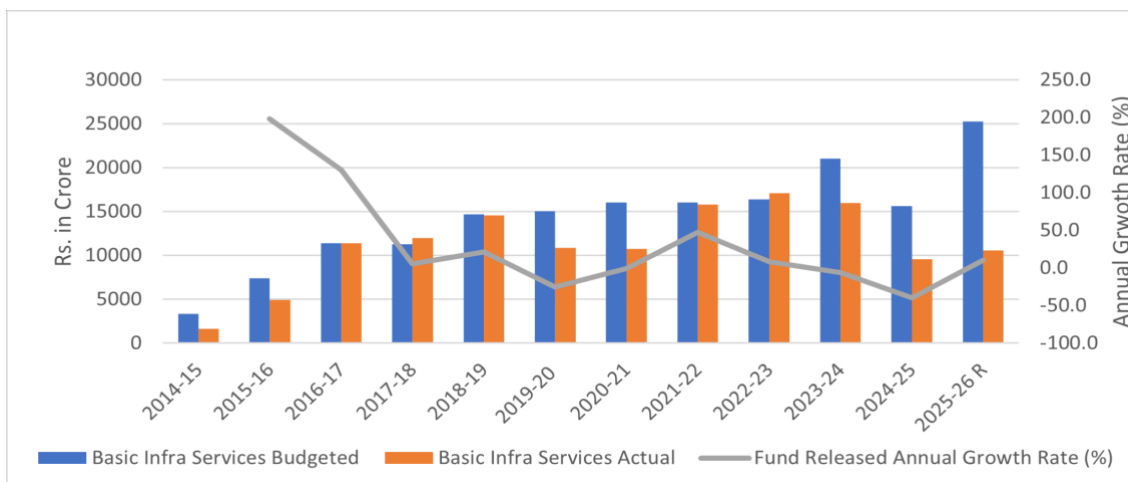
Table 2: Urban Sector Scheme-Wise Budgetary Allocations & Actual Spending by GOI (Rs, in Crore)

Year / ₹ in Crore	Basic Infra Services Budgeted#	Basic Infra Services Actual#	Metro Budgeted	Metro Actual	PMAY Budgeted	PMAY Actual	Urban Livelihood Budgeted	Urban Livelihood Actual	Total Amount Budgeted	Amount Actually Released
2014-15	3,355	1,660	8,026	5,998	3,257	1,106	1,003	703	15,641	9467
2015-16	7,407	4,952	8,260	9,300	4,648	1,487	510	269	20,825	16,008
2016-17	11,380	11,411	10,000	15,327	5,075	4,881	300	293	26,755	31,912
2017-18	11,300	12,001	18,000	13,978	6,043	8,591	349	599	35,692	35,169
2018-19	14,669	14,547	15,000	14,470	6,505	6,135	310	498	36,484	35,650
2019-20	15,050	10,855	19,152	18,162	6,853	6,848	750	732	41,805	36,597
2020-21	16,050	10,748	17,482	8,573	8,000	20,990	909	930	42,441	41,241
2021-22	16,050	15,820	18,989	23,262	8,000	59,963	995	1,093	44,034	1,00,138
2022-23	16,400	17,079	19,130	23,603	28,000	28,653	1,050	953	64,580	70,288
2023-24	21,000	15,965	23,175	23,102	25,103	21,684	469	946	69,747	61,698
2024-25	15,625	9,576	26,242	28,611	30,171	5,815	626	505	72,664	44,507
2025-26 R	25,250	10,550	36,117	29,850	25,794	7,800	373	772	87,534	48,972

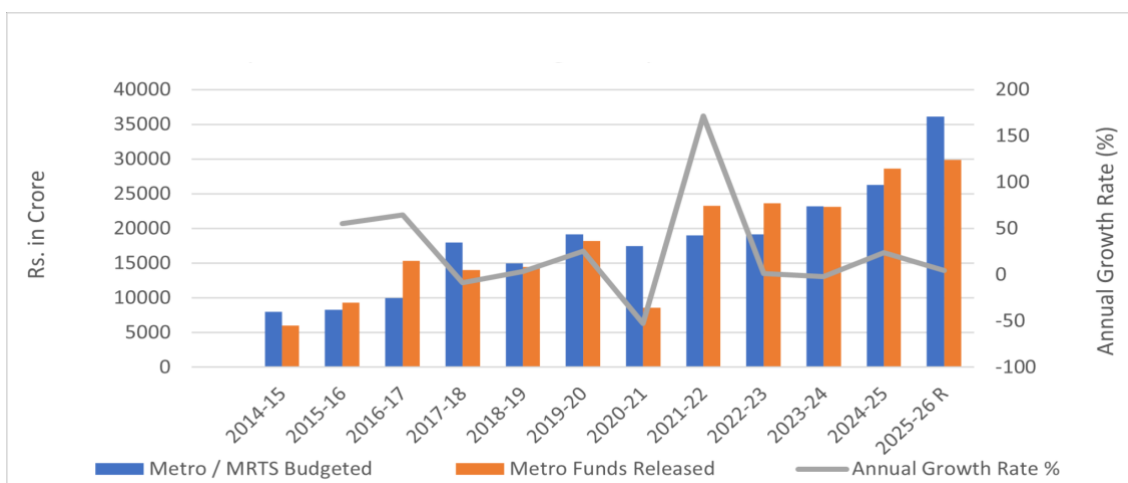
Note: # - Basic Infrastructure Services head includes Smart Cities Mission (SCM), Atal Mission for Rejuvenation and Urban Transformation (AMRUT 1.0 & 2.0), Swachh Bharat Mission (SBM), Urban Challenge Fund & Cities Program; R - revised budget estimates

Source: Budget Documents of Government of India and Author's calculations

Graph E: Basic Urban Services Schemes (SCM+AMRUT+SBM) - Budget Allocated & Released



Graph F: Metro/MRTS - Budget Allocation & Fund Released



Graph G: PMAY - Budget Allocation & Fund Released

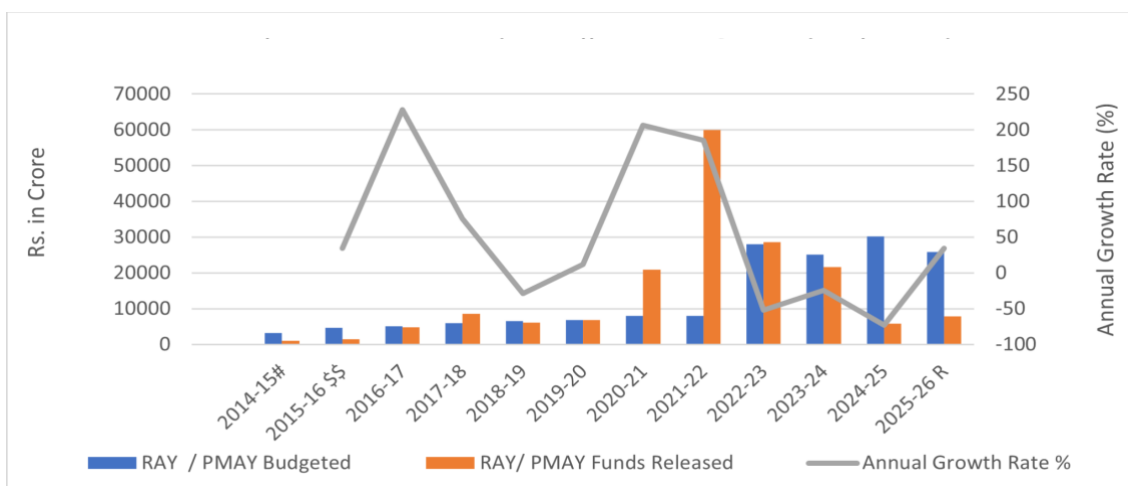


Table 3 and Graph H provide information about the percentage share of urban sector schemes in actual GOI spending. It can be observed from Table 3 that metro railway infrastructure has received the lion's share and has not declined. After coming to an end, the PMAY 1.0 share of public urban housing has reduced sharply in the past two years, even though PMAY 2.0 has started. Furthermore, public urban housing has seen volatile changes in its share during the study period. Basic infrastructure services, which grouped urban schemes like SCM, SBM, and AMRUT, which provided funds for basic services like water, sewerage, solid waste, roads, stormwater drains, etc., barring the three-year period 2016-2018, have received a comparatively small share and have been declining since 2022 onwards in % terms as SCM and AMRUT 1.0 came to an end.

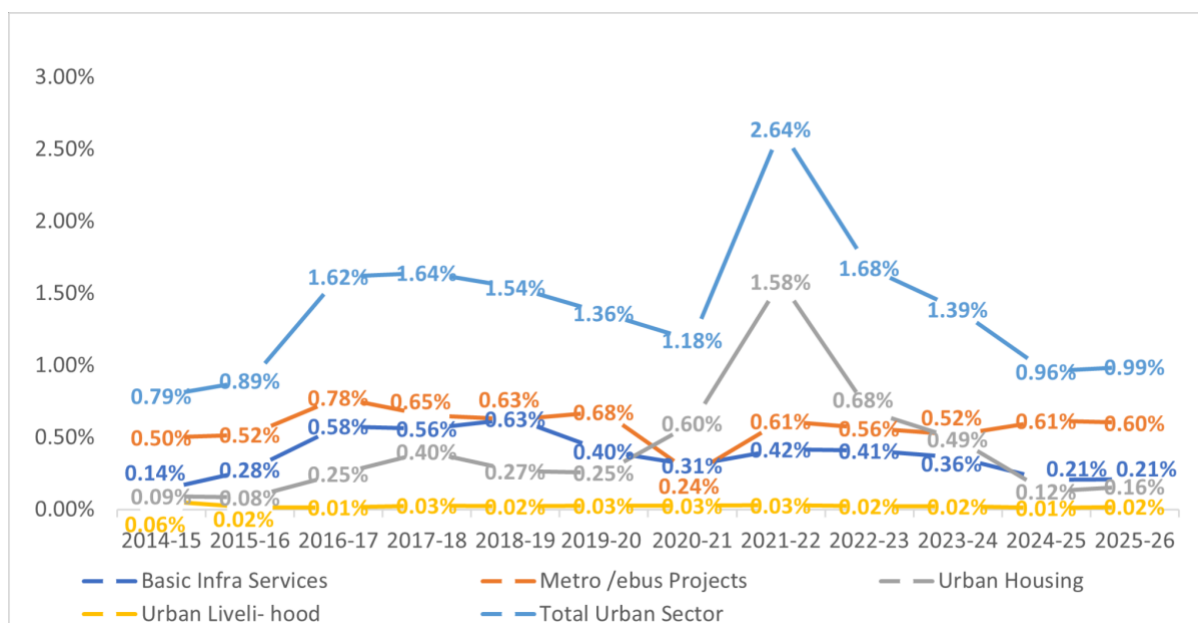
Table 3: Urban Sector Schemes as % Share in Actual Rpenditure of GOI

Year	Basic Infra Services	Metro /e-bus Projects	Urban Housing	Urban Livelihood	Urban Sector Schemes Total
2014-15	0.14%	0.50%	0.09%	0.06%	0.79%
2015-16	0.28%	0.52%	0.08%	0.02%	0.89%
2016-17	0.58%	0.78%	0.25%	0.01%	1.62%
2017-18	0.56%	0.65%	0.40%	0.03%	1.64%
2018-19	0.63%	0.63%	0.27%	0.02%	1.54%
2019-20	0.40%	0.68%	0.25%	0.03%	1.36%
2020-21	0.31%	0.24%	0.60%	0.03%	1.18%
2021-22	0.42%	0.61%	1.58%	0.03%	2.64%
2022-23	0.41%	0.56%	0.68%	0.02%	1.68%
2023-24	0.36%	0.52%	0.49%	0.02%	1.39%
2024-25	0.21%	0.61%	0.12%	0.01%	0.96%
2025-26 R	0.21%	0.60%	0.16%	0.02%	0.99%
Average	0.35%	0.53%	0.38%	0.02%	1.28%

Note: R – revised budget estimates

Source: Author's calculations based on Budget Documents of Government of India

Graph H: % Share Of Major Urban Schemes in GoI Expenditure



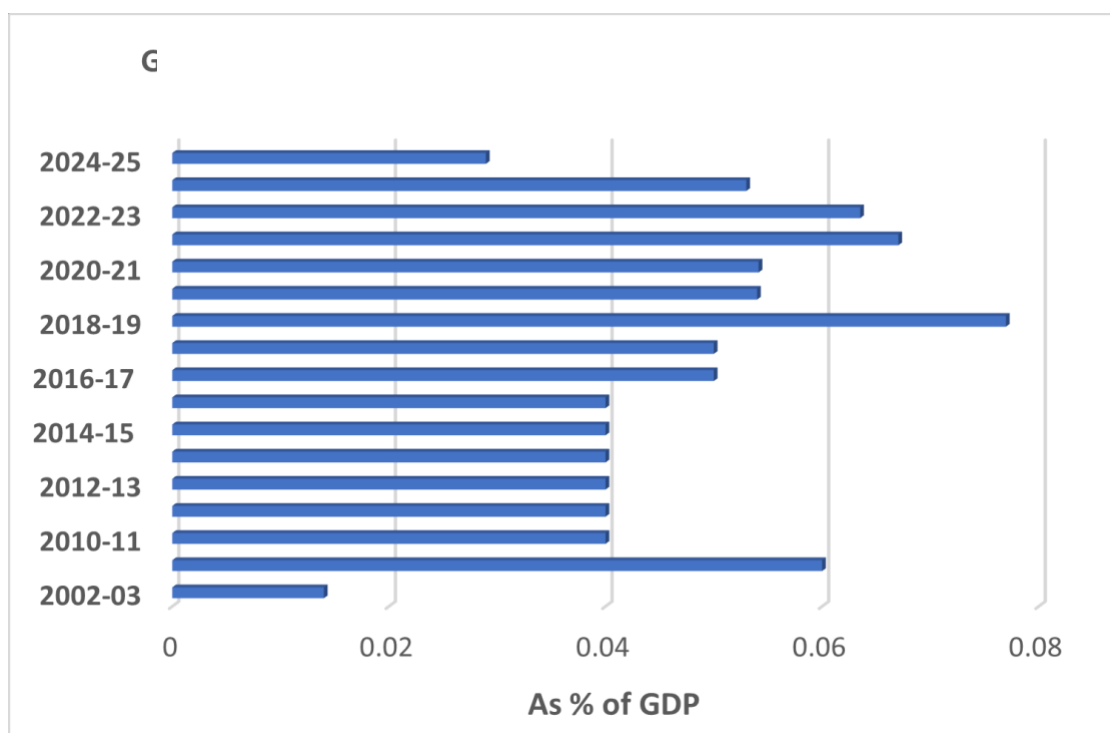
Comparison of actual spending by GOI on urban sector schemes as a % of GDP for the period 2014-24 with earlier period similar data indicates stagnancy and decline (See Table 4 and Graph - I).

Table 4: GDP Share (in %)

Year	GOI Funding for Urban Sector Schemes as (%) of GDP	Year	GOI Funding for Urban Sector Schemes as (%) of GDP
2002-03 [#]	0.014	2017-18 [*]	0.05
2007-08 [#]	0.06	2018-19 [^]	0.08
2010-11 [*]	0.04	2019-20 [^]	0.05
2011-12 [*]	0.04	2020-21 [^]	0.05
2012-13 [*]	0.04	2021-22 [^]	0.07
2013-14 [*]	0.04	2022-23 [^]	0.06
2014-15 [*]	0.04	2023-24 [^]	0.05
2015-16 [*]	0.04	2024-25 [^]	0.03
2016-17 [*]	0.05		

Source: [#] ADB - India Municipal Finance Study, February 2013 by NIPFP – Delhi; ^{*} Status of Municipal Finance in India. ICRIER. 2019 prepared for the 15th Central Finance Commission; [^] Working by the Author

Graph I: GOI Funding for Urban Sector Schemes as % of GDP



Issues Underlying the Decline in Budget Allocations/Fund Release for the Urban Sector

The data clearly indicates that after an increase in budgetary allocation and actual release of funds and its respective share in the total budget or actual expenditure of GOI in the initial years, its share becomes stagnant (even though allocations/fund release increased in absolute terms and in recent years, there is a decline in absolute as well as percentage share terms). Reduction in budgetary allocations/actual fund release seems paradoxical in the light of ever-increasing urbanisation and policy pronouncements of the GOI; various reports of apex institutions underline the need for increased funding for the urban sector.

There are two broad sides (Demand and Supply) to this paradox of increasing need for urban infrastructure financing but declining budgetary allocations / actual funding. These supply and demand sides comprise various issues and constraints that are plaguing urban local governments and the entire urban infrastructure sector.

The main demand-side issue responsible for the paradox is the lack of capital absorption capacity or project planning and implementation capacity of ULGs. Capital grants from GOI and the state governments are provided to ULGs on submission of a utilisation certificate –

that is, ULGs get funds released only after utilisation/spending of the funds released earlier with their matching share or attaining performance conditions, if any, prescribed under the scheme/grant guidelines. It can be observed from Table 1 that GOI has reduced budgetary allocations in revised estimates as ULGs failed to demand/uptake funds provided in the budget; as a result, GOI reduced allocations in the revised budget. Similarly, scheme-wise reduced actual release of funds against budget allocations can be observed from Table 3 and Graphs E, F, and G, clearly indicating failure (demand side) of ULGs to draw funds provided by the GOI.

The lack of project implementation capacity of ULGs is also clearly evident from the performance in physical / output terms. For example, [SCM](#), a five-year scheme against a planned outlay of ₹2,050 billion, spent ₹1,514 billion (74% against the planned outlay) at the end of the 10th year of the scheme in June 2025.

[AMRUT 1.0](#) launched in June 2015 with an indicative outlay of ₹1,000 billion (₹500 billion by GOI and ₹500 billion by States) against which an expenditure of ₹794 billion (79.4% against outlay) was incurred at the end of 10 years of the scheme (June 2025). [AMRUT 2.0](#) was announced in October 2021 with an indicative outlay of ₹2,990 billion, against which projects of ₹1,931 billion (65% against the indicative outlay) have been approved, but have registered expenditure of ₹415 billion (21% against projects approved) at the end of February 2026. AMRUT 1.0 and 2.0 also clearly indicate a lack of project implementation capacity of ULGs.

PMAY (Urban) launched in June 2015 with a five-year scheme period with an indicative target of 1.12 crore affordable housing units, and did well and achieved the target of sanctioning 1.12 crore housing units, but the scheme took ten years (double the period) against the original scheme period of ten years. [PMAY 2.0](#) was announced in 2024-25 for the period of five years with an indicative target of 1.0 crore affordable housing units. To date, it has approved 13.64 lacs houses in one year, 2025-26. It is likely that PMAY 2.0 will also have time and cost overruns if the present rate of progress continues. Thus, like SCM and AMRUT, PMAY progress also clearly indicates a demand-side issue of a lack of project implementation capacity.

The failure of ULGs to draw funds, which is due to low absorption capacity and non-compliance with performance conditions, is also evident in relation to the Central Finance Commission grants. (See *Table 5*). This demand-side failure due to inadequate capital absorption (lack of project planning and implementation capacity) has not changed in spite of

the urgent need to create urban infrastructure. This failure is evident from cost and time overruns associated with JnNURM, SCM, AMRUT, PMAY and other schemes⁵.

Table 5: Previous FCs Grants Recommended versus Actual Releases (₹ crore)

Finance Commission	Grant Recommended	Grant Actual Released	Release (%)
10th	1000	834	83.4%
11th	2000	1752	87.6%
12th	5000	4470	89.4%
13th	23111	18980	82.1%
14th	87144	74259	85.2%
15th	121055	75718 ^{##}	70 to 75% ^{##}

Note: ^{##} up to July 2025, with this year's fund release, which may reach 70 to 75%

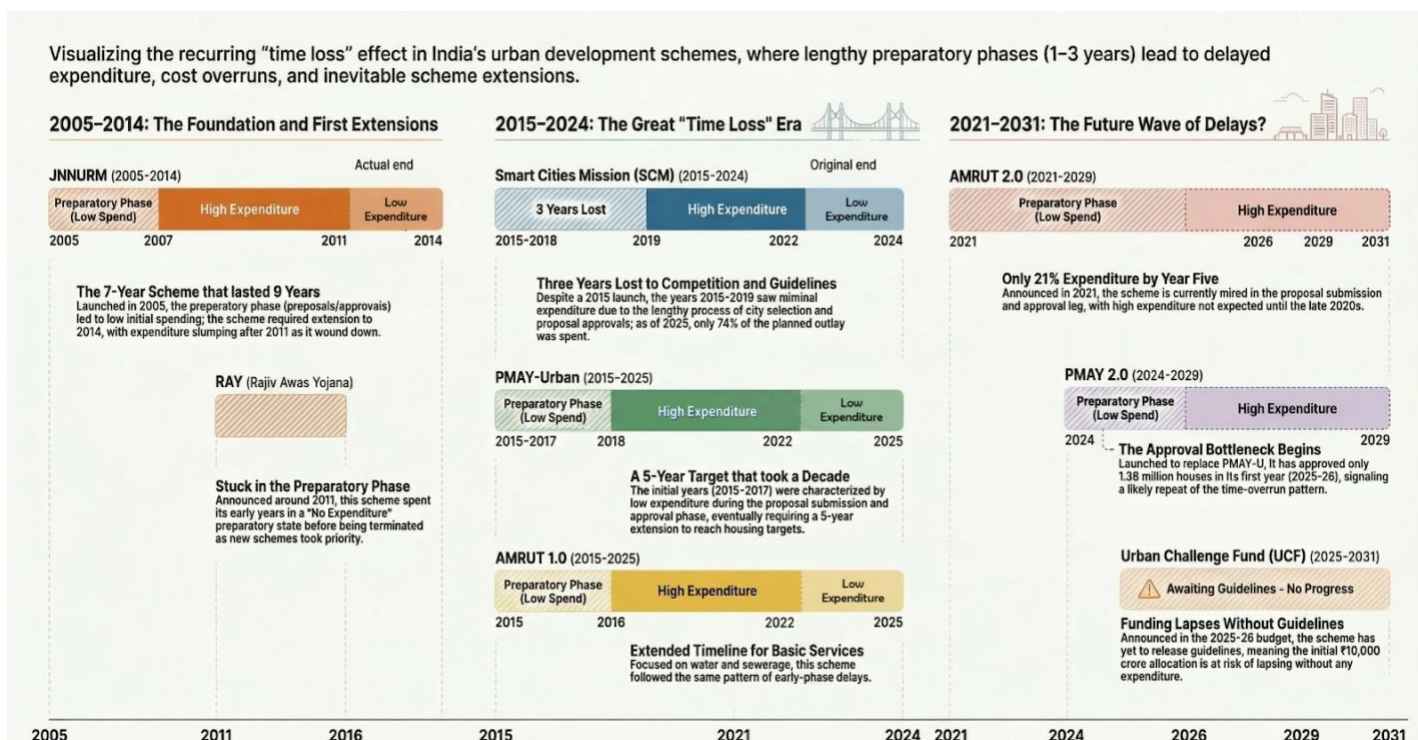
Source: 16th Finance Commission Report. Volume 1. Page No. 195

The main supply-side issue underlying the paradox is passivity. Simply making budget allocations and leaving their utilisation to ULGs without providing adequate powers, autonomy, professionalisation, capacity building, and, most importantly, a performance monitoring system and accountability mechanism is insufficient.

Another important supply-side issue is the lack of proactiveness or time lag between the end of a major scheme and the announcement of the next scheme to replace the earlier one or a new scheme giving new directions, covering new aspects. With the capacity constraints at the local government level, the preparatory period is long. It takes a minimum of one to three years to prepare and submit proposals under the new scheme for funding to the GOI, as can be noted from the discussion below. This time lag of one to three years between the old and new schemes and then a preparatory time lag of one to two years derails project implementation momentum and stepping up of investment in urban infrastructure (See Figure 2).

⁵ Same is true with State Government Schemes but no data is available the way data is available with respect to urban sector schemes of GOI.

Figure 2: Timeline Analysis of Urban Sector Schemes' Implementation Phases



Source: Created by the Author.

The JNNURM scheme, announced in 2005, was for seven years and was to end in 2012. Efforts to extend the scheme or to create a new one should have started in 2010; however, no such proactive measures were taken, and it was only extended until 2014. As JNNURM was coming to an end, expenditures under the scheme slumped from 2011 onwards.

The Smart Cities Mission was announced in 2015 for the period of five years but lost three years in coming out with guidelines and selecting beneficiary cities; as a result, expenditure under the scheme was minimal during 2015 to 2019. The scheme ended in 2024. Here also, in the ending years of the scheme, budgetary allocations and funding release went down substantially. In place of SCM, a different new kind of scheme, the Urban Challenged Fund, was announced in the 2025-26 budget, but to date, the scheme guideline has not come out; as a result, the budgetary allocation of ₹10,000 crores in the 2025-26 budget is lapsing without any expenditure.

AMRUT and PMAY also suffered time overruns. PMAY (Urban), announced in 2015 for a five-year period, was officially ended partially in 2022 and in 20246, but expenditure was allowed to be booked for sanctioned projects until 31 December 2025. PMAY 2.0 was announced in 2024-25 for a five-year period and came into effect from 1st September, which is after two years of closure of PMAY (Urban).

This clearly indicates that once scheme guidelines are released, a period of more than one year to two years gets lost in the preparation and submission of project proposals by the ULGs through their respective state governments, as they lack a shelf of projects or a robust project pipeline.

In addition to the main demand and supply-side issues mentioned above, other factors contribute to the paradoxical situation where the need for urban infrastructure is increasing while budgetary allocations and actual spending are either decreasing or remaining stagnant.

Way Forward

Urbanisation is increasing and will gain more momentum in the coming year; consequently, investment needs for urban infrastructure are growing. Data indicates that investment of GOI in urban infrastructure through urban sector schemes has not increased; rather, it is stagnant in % terms to GDP and other indices. This issue should not be viewed as confined to the GOI's budget allocations and fund release for urban infrastructure investment; even if state and local-level data are not available⁷, it clearly indicates a larger nationwide paradox of stagnant-falling investment in urban infrastructure, though urbanisation is increasing. As discussed, there are demand and supply issues, as well as constraints, that are responsible for the stagnation or decline in urban infrastructure investment.

Demand-side constraints/issues need to be addressed on a war footing because whatever inadequate funds are made available, cities / ULGs are not able to utilise. To address demand-side constraints, ULGs' capacity (governance, project planning and implementation, and service delivery) needs to be improved in all terms. ULGs need to be provided with adequate powers, autonomy, and resources, and they also need to be staffed professionally. Finally, their performance needs to be monitored and evaluated regularly, neutrally, and independently, and they should be held accountable for it.

Supply-side constraints need to be addressed proactively. Revised or new grant schemes should be announced well in advance before the existing scheme comes to an end (at least two years before it comes into effect) so that ULGs get adequate time to prepare and submit proposals. There is a need to avoid passivity and aphorism. Budgetary allocations for the urban sector by the centre and state governments should be worked out and provided on the basis of time-bound planned improvements necessary in urban infrastructure to achieve normative standards. Simply making budgetary allocations will not be sufficient; it is essential

to address demand-side constraints at the ULGs' level and to implement regular monitoring, evaluation, and a thorough accountability framework to ensure that the budgetary allocations are fully utilised by ULGs and that the planned outcomes are achieved.

The Economic Survey of India 2017 and 2025 have echoed a similar way forward and concluded as follows:

“Cities that are entrusted with responsibilities, empowered with resources, and encumbered by accountability can become effective vehicles for unleashing dynamism so that to competitive federalism India can add, and rely on, competitive sub-federalism.”

– Economic Survey 2017

Similarly, the Economic Survey of India 2025 has rightly concluded, saying,

“The physical investments will deliver their full dividend only if accompanied by stronger metropolitan governance, predictable enforcement, and a credible civic compact that aligns incentives between citizens and the state. Cities will also need to be empowered with better finances and performance-oriented accountability. Ultimately, the promise of building India's urban future lies in making our cities economically dynamic, socially inclusive, environmentally sustainable and institutionally capable. They must work for the everyday lives of their citizens. When cities are planned, financed, and governed around this purpose, urbanisation can become a source of shared prosperity and a better quality of life for all citizens.”

– Economic Survey 2025



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