URBAN CHALLENGE FUND - WILL IT OR WILL IT NOT DELIVER?

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Centre for Public Policy Research
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UCF is ambitious and necessary, but UCF will only deliver on its transformative promise if reforms are front-loaded, municipal funding sources are strengthened, and climate resilience is embedded as a cross-cutting norm.

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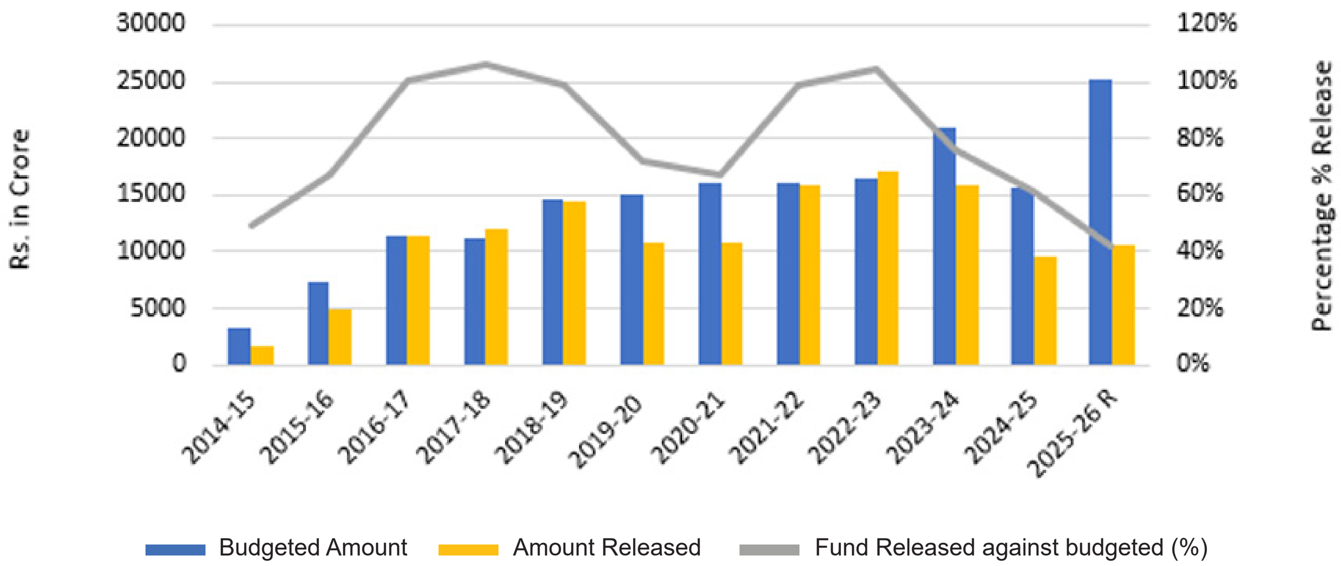
Abstract

The Urban Challenge Fund (UCF), launched in April 2026 with a ₹1,00,000 crore outlay, seeks to catalyze market-based financing, broaden implementation beyond ULBs, and promote transformative, financially sustainable urban projects. While ambitious, UCF faces critical challenges: weak municipal and parastatal finances, political reluctance to strengthen funding sources, conditionalities that risk delaying reforms, absence of climate resilience norms, and unrealistic reliance on loans/PPP for 50% of project costs. The paper argues that without front-loaded reforms, strengthened funding autonomy, and transparent monitoring, UCF risks replicating past schemes' shortcomings. It calls for embedding climate resilience as a cross-cutting norm and positioning cities as financially viable, climate-ready growth hubs to realize UCF's transformative promise.

Context

The much awaited and delayed operational guidelines for Urban Challenge Fund (UCF) which finally got released by GOI on 15th April, 2026. The Scheme was very much needed as Smart Cities Mission ended in 2024 and as UCF scheme announced in the last year budget did not get off to start, consequently the investment in urban infrastructure has suffered as it is evident from reduction in budgetary allocations and more importantly reduction in actual release of funds to ULBs[1] by GOI. (see Graph 1)

Graph 1 – Amount Budgeted and Actual Released (Rs. Crore) for Basic Urban Services Schemes by GOI (SCM + AMRUT + SBM)



Learning from the past shortcomings, UCF has tried to chart different ways like broad basing implementation of the scheme, encouraging market-based financing and various reforms to improve financial sustainability of ULBs/other agencies, emphasis on transformative projects, flexibility to reallocate funds to performing cities / states from the cities and states which may not be able to use UCF funds etc.

While welcoming UCF studded with new features, it is necessary to look in to the challenges it may encounter in implementation to ensure its success. Also, it is necessary to look in to climate adaptation and mitigation aspects in design and implementation of UCF as most of the urban services are cause and solution to climate change.

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[1]*Based on Annual Budgets of GOI for the years shown in the Graphs*

The UCF Scheme

Scheme Outlay - A catalytic total Central Assistance (CA) of ₹1,00,000 crore during scheme period 2025 to 2030 extendable by three years of which Rs. 90000 crores will be for project funding, Rs. 5000 crores for project preparation and capacity building and Rs. 5000 for Credit Repayment Guarantee Scheme available to all Tier II and Tier III cities.

Eligible Projects and Agencies - The eligible projects' list provided under three themes – 'Cities as Growth Hubs', 'Creative Redevelopment of Cities' and 'Water and Sanitation cover each and every conceivable urban infrastructure project except Metro and Public Housing. Similarly, 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.

Funding Structure - Central Assistance will be available at the rate 25% only of approved project cost on the condition that 50% of the project cost to be funded through bonds/bank loans and /or public private partnership and 25% of project cost to be put in by the city (implementing agency) from its own funds.

Fund Allocation - 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.

Salient Aspects

Compare to various earlier central assistance schemes in past two decades, UCF has following desirable and much needed aspects.

Catalysing Market Based Financing – Acknowledging the fact that in the past decade urban programmes (Smart Cities Mission, AMRUT, SBM,) have funded urban infrastructure but the use of market-based finance such as loans, municipal bonds and private investment has remained limited. So, UCF aims to catalyse market-based financing.

Broad basing Implementation – urban infrastructure and services in India are delivered by multiple agencies but earlier schemes were ULB centric. All kinds of agencies involved in delivering developing and delivering urban services are eligible for accessing funding under UCF.

Insistence on comprehensive, integrated intervention for transformative impact – instead of focus on stand-alone project, UCF guideline insist that the projects submitted for central assistance should be transformational rather than incremental, focusing on systemic improvement rather than mere augmentation.

Financial Sustainability Conditionality – Projects need to demonstrate long-term financial sustainability, including viable revenue model and lifecycle cost considerations.

Project preparation and capacity building fund (PPCBF) – Rs. 3000 crores will be distributed to States/UTs for project preparation & monitoring support including consulting services and institutional – technical capacity building. Also, for other activities like workshops, stakeholder consultation, field visits, IEC activities.

Credit Repayment Guarantee Scheme – recognising the fact that north eastern, hilly state cities and smaller cities with less than 100000 population will have weaker financial profiles and limited credit history, Rs. 5000 crores have been provided under this scheme. 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.

Issues /Weaknesses

There is an urgent need for developing climate resilient urban infrastructure to address climate change issues and for improving urban services delivery to improve quality of urban life in each and every city of India and for that development schemes like UCF are necessary but more importantly successful, timely implementation of such schemes is absolutely critical. UCF is likely to face following challenges / issues in implementation which if not addressed adequately could undermine the effectiveness, success of the scheme.

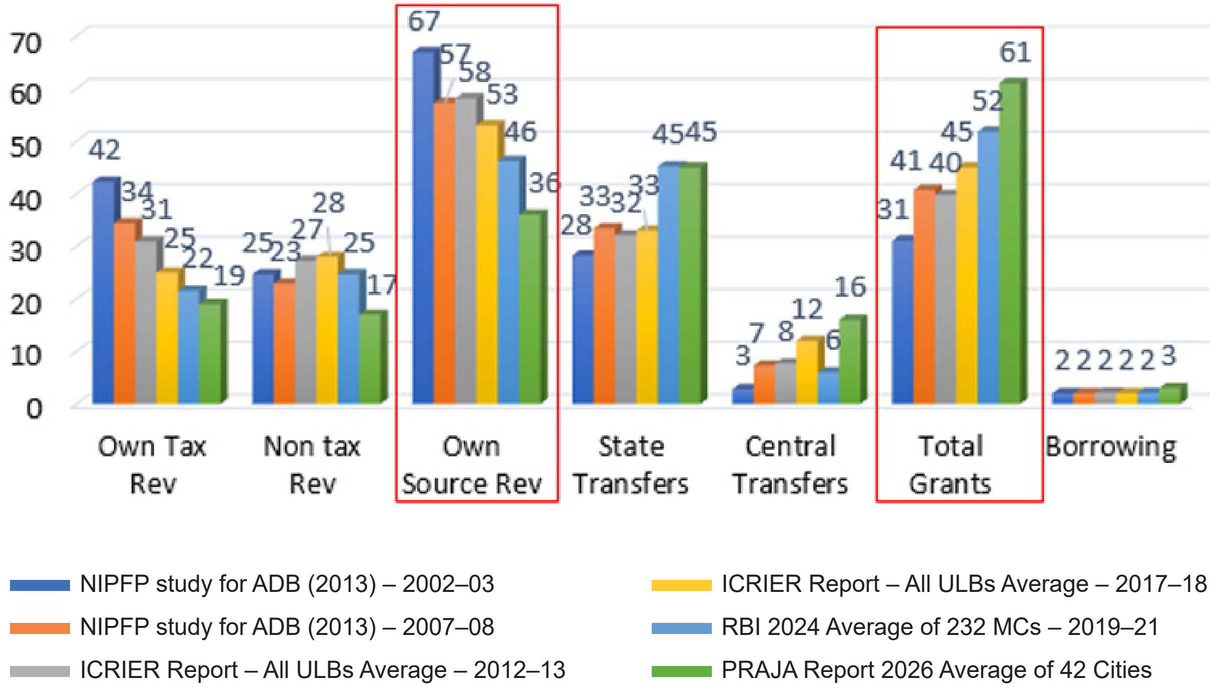
Weak and Deteriorating Financial Health of ULBs

This is going to be first and foremost impediment in timely and successful implementation of UCF. Various studies[2] [3] [4] have indicated that ULBs own source revenue constitute only 32% to 46% of the total revenue and their dependence on grants from higher level governments is increasing over the years from 45% to 68% as ULBs have not undertaken enough efforts to optimise their own resources.

CAG Report on implementation of 74th Constitutional Amendment Act state that on average, ULSGs **generate** only **32 per cent of their funds** from their own sources, leaving them highly dependent on Union and State Government grants[5].

[2] *ICRIER (2019), State of Municipal Finances in India – A Study prepared for the Fifteenth Finance Commission*
[3] *RBI (2024), Report on Municipal Finances*
[4] *PRAJA (May 2026), Fiscal Empowerment of City Governments*
[5] *CAG (2024), Compendium of Performance Audits on the implementation of 74th CAA, 1992*

Graph 2 – Municipal Resource Structure over the years (% share)



As ULBs are hardly able to save in their revenue account (revenue surplus constitutes overall 10% to 15%) 85% of their CAPEX is dependent on capital grants[6]. In earlier schemes ULBs were required to put in 25% to 30% of the project cost but found incapable and so received capital grants at the rate of 75% to 100% of the project cost still there were time and cost overruns[7]. Again, in UCF like Smart Cities Mission, ULBs are required to put in 25% from their own funds which most of the ULBs will not have. Over and above ULBs are required to raise 50% from market-based sources which seems a daunting task as ULBs do not have adequate revenue (operating) surplus/creditworthiness.

Weak Financial Health of Other agencies (parastatals)

The parastatal agencies other than ULBs developing and delivering urban services also suffer from weak financial profile. In fact, such agencies cannot have a general tax source and are dependant on project or service user charges which cannot be levied on full cost or cost-plus pricing basis as services delivered are public services. Thus, these agencies are fundamentally and practically weaker than efficient urban local body. Also, not much information is available about finances of such parastatal agencies delivering urban services in place of municipal bodies.

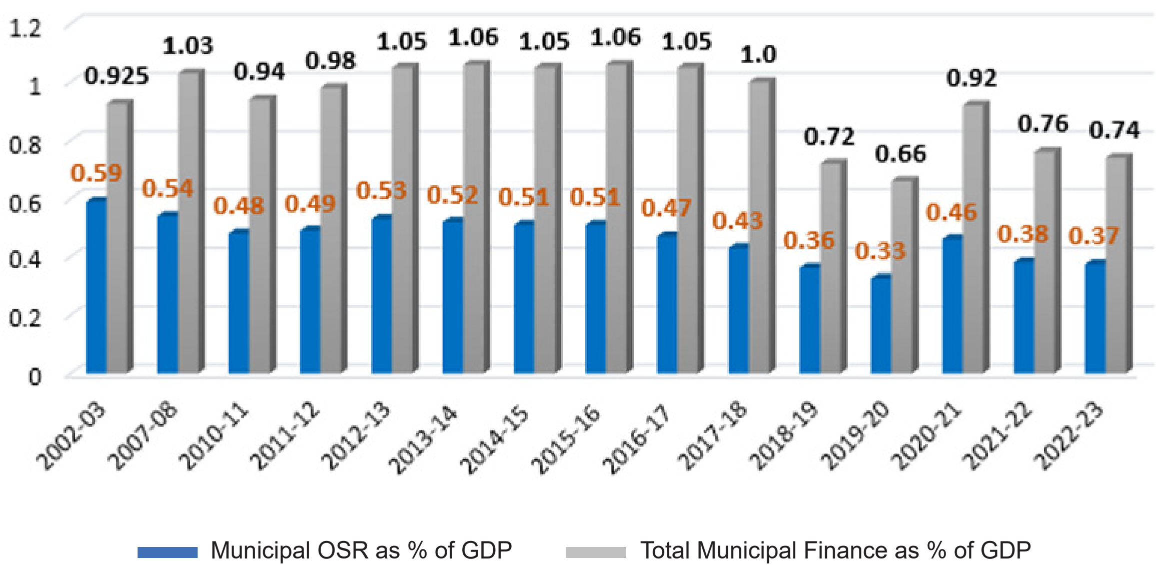
[6]The World Bank (2022), Financing India's Urban Infrastructure Needs (page no. 10)

[7]In Smart Cities Mission less than 15 cities out of 100 cities could contribute their 25% shares as per scheme guidelines, in case of rest of smart cities their respective States put in ULB's share of 25% in the Scheme.

Miniscule and Declining Share of Municipal OSR and Total Revenue in GDP

This is the another of dimension of weakened finances of municipal bodies which going to be second major impediment in the implementation of UCF. It can be observed from the Graph 3[8] that Total Municipal Finance Universe has remained miniscule, stagnant over the years and in recent years less than 1% of GDP as since 2021 it is declining.

Graph 3 - Own Source Revenue and Total Revenue of Municipal Bodies as % of GDP Data



Lack of Political Willingness for solving funding problem

Miniscule, stagnant share of OSR and municipal revenue in GDP and declining share of OSR in total municipal revenue (Graph 2 and Graph 3) clearly indicate that problem of funding sources has not been addressed in past 20 years and therefore various financing options have remained under or non-utilised by the municipal bodies.

UCF is structured to overcome the problem of non-adoption of financing options like loans, municipal bonds, PPP etc. and hence it is mandating ULBs to raise 50% funds from the market based sources – municipal bonds, commercial finance and PPP, but it is not addressing fundamental problem of funding sources without which municipal bodies will not be in position to access financing options.

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[8] *% share Figures in Graph 3 for the year 2002-03 and 2007-08 based on NIPFP Study (2013) for ADB; for the years 2010-17 based on ICRIER Study (2019) for XV Finance Commission and for the years 2018-22 as report in XVI Finance Commission Report.*

Municipal bonds, commercial bank loans or PPP are financing options and not the funding sources or options. Funding Sources are primary sources of finance for any organisation while financing sources/options are secondary sources of finance and contingent on funding availability with an organisation. (See Figure 1).

Figure 1 – Difference between Funding and Financing

Funding and Financing

Funding: Funds without the expectation of repayment

- Revenue surplus
- Tax and non-tax incomes, user charges
- Tied grants from State & Central Governments (AMRUT, SBM, JJM, CFC, SFC)
- Untied grants from Central Finance Commission
- CSR, crowd funding

Financing: Money with obligation to repay

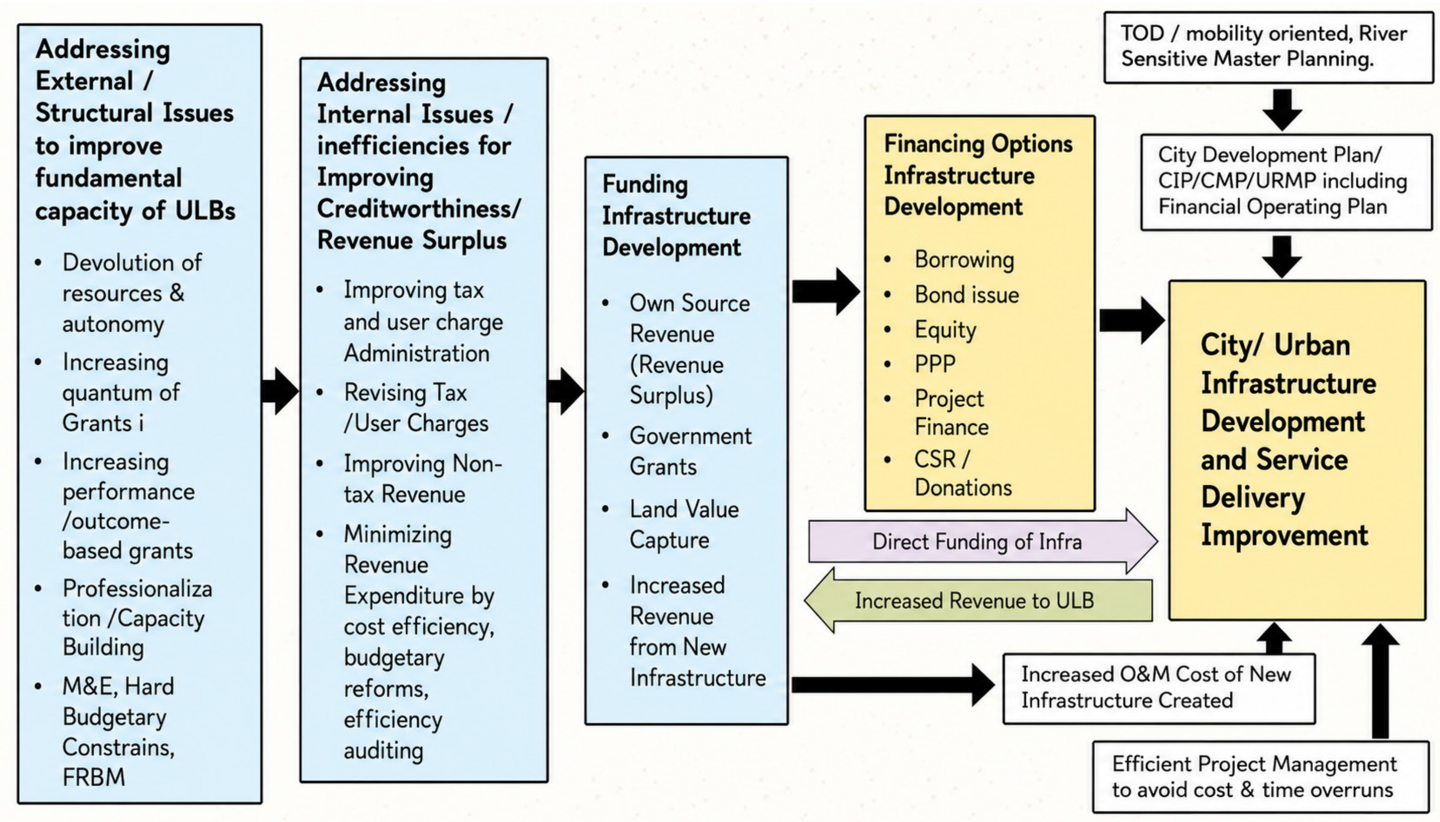
- Market borrowing (banks, financial intermediary, pooled funds)
- Loans from multilateral & donor agencies
- Municipal bonds
- Lease financing

Aspect	Funding	Financing
Repayment	x Not required	✓ Required
Ownership impact	May dilute equity	No equity dilution
Financial risk	Lower	Higher

Financing options carry financial cost and need to be repaid with interest in case borrowings and powers to charge beneficiary or annuity need to be given to the private player under PPP option. For paying interest & loan repayment or for paying annuity or powers to charge beneficiaries for service provided to the Private Operation a ULB or any other parastatal agency needs to have sound funding sources with them. In this sense financing options are dependent on the funding sources with the ULBs/parastatals and their potential cum actual performance.

The funding sources of ULBs are Taxes and user charges, government grants etc. (See Figure - 2) while with respect to other parastatals user charges is the only funding source. At present ULBs have limited funding sources which they have failed to optimise due to operational inefficiency and political economy as a result their dependence on grants have been increasing. Improving tax and user charge revenue (funding solutions) to mitigate increased financing cost and operations and maintenance cost will require political willingness to address external and internal issues/constraints associated with municipal finances (See Figure 2).

Figure 2 – Relationship between Funding and Financing of Urban Infrastructure and issues associated with Funding Sources



Lack of political willingness to address funding of municipal bodies in the form new resources in the hand of municipal bodies and increasing tax rates and user charges to fund UCF and to pay cost of financing options (loans, PPP etc) can be one of the potential and most important obstacles/stumbling blocks. Unless funding issues are not solved ULBs and other parastatals will not be able to raise 50% funds envisaged under UCF Scheme.

Low Project Management and Capital Absorption capacity

The difference between budgetary allocations and actual fund released by Government of India (See Graph 1) clearly indicate that ULBs were not able to draw funds made available. ULBs fail to draw funds made available as they are not able to submit funds utilisation certificates for funds due to low project implementation capacity.

Project Relating Conditionalities Creating Catch 22 Situation

UCF has introduced well intended mandatory project related following conditionalities to achieve larger systemic reforms but they themselves are likely to create implementation challenges for UCF. These conditionalities though desirable are going to create Catch 22 situation that is if these conditionalities are mandated in true sense then ULBs/other agencies will require lot of preparatory time, shading inefficiency at every level and political economy solutions resulting into sizeable delay in UCF implementation; on other hand if these conditions are not mandated in real sense then UCF will get implemented without systemic or transformative reforms and without achieving outcomes prescribed in the scheme in real terms.

Revenue Model conditionality

The conditionality that projects shall demonstrate long-term financial sustainability, including viable revenue models and lifecycle cost considerations is a fundamental, much needed and feasible also but will require political willingness to charge beneficiaries adequately and executive willingness to improve operational efficiency. To ensure fulfilment of this conditionality revenue and other reforms will have to be front loaded/ qualifying conditionality and having achieved results the projects should be approved. If reforms are not front-loaded and projects are approved on proposal basis, financial sustainability will not get ensured. At present there is no such effort to front load reform conditionalities and if such initiative is undertaken then UCF implementation can start only after considerable time.

Part of City or regional growth Strategy conditionality

This conditionality states that 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. Unfortunately, cities do not strategy or saturation plan or any of other aspect to provide context or base to projects proposed. Again, growth strategy/saturation plan can be formulated but it will require capacity, time and consensus.

Conditionality of Service Saturation and Transformative

This conditionality states that project shall aim for service saturation and shall be transformative in scale and approach, delivering city-wide, area-wide, or service-wide impact that contributes to economic growth and spatial transformation. The decision makers of cities will require capacity building for conceiving transformative projects.

Absence of Climate Resilience Conditionality

No doubt Indian cities need development of urban infrastructure but more importantly India needs climate resilient urban infrastructure development and service delivery to achieve its promised Net Zero Target. This is because Cities are one of the important causes of climate change and therefore one of the important solutions for addressing climate change. Indian cities have already stated facing negative impact of climate change. Climate actions (climate adaptation and climate mitigation) by Indian Cities are urgently necessary for combating negative impacts of climate change in short term and in long term for India's Net Zero Promise by 2070.

Climate resilient infrastructure development should have been cross cutting theme for all the projects to be approved under UCF and for that technical / engineering norms of climate resilience should have been mandated under UCF. In present for UCF guideline is silent regarding this. If such norms and conditionality not prescribed then urban infrastructure will get created with UCF assistance but may not be climate resilient.

Financing (Loans / PPP) related conditionalities lacked ground truthing

The UCF scheme will be providing Rs. 90000 crore grant or financial support @ rate of 25% of the project cost in which ULBs/Parastatal agency will have to put in its own share @ rate of 25% of the project cost and will have to raise 50% through loans or PPP. Thus, ULBs will have put in Rs. 90000 crores from as own share and will have to raise Rs. 180000 crores either through loans and /or borrowings. Thus, ULBs will be required to augment in all Rs. 270000 crores to get Rs. 90000 crores in grant under UCF. Table 1 shows five-years financial plan of UCF scheme implementation.

Table 1 – Illustrative Financial Implementation Plan of UCF

Particulars	2026-27	2027-28	2028-29	2029-30	2030-31	Total
UCF Grant	10000	20000	20000	20000	20000	90000
ULB Share	10000	20000	20000	20000	20000	90000
Borrowings/PPF	20000	40000	40000	40000	40000	180000
Total CAPEX	40000	80000	80000	80000	80000	360000

For ascertaining financial feasibility of ULBs able to mobilise Rs. 180000 crores, cost of the funds and revenue surplus or revenue growth which ULBs need to achieve is required to be calculated. The working is present in Table 2 assuming that UCF will get implemented in five years period. The are two options prescribed for raising Rs. 180000 by UCF guidelines are loans and PPP, but as the cost of mobilising Rs. 180000 crores from loans or PPP individually or in combination will be substantially different and complex. Also, the cost of funds under PPP option will be much higher, so, only loan option has been used to ascertain cost of funds in Table 2.

Table 2 – Additional Revenue / Revenue Surplus required for mitigating increase interest cost, loan repayment, increased OPEX and ULB own contribution to UCF Projects (Rs. in Crore)

Particulars/Rs. Crore	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
ULB Share @ 25%	10000	20000	20000	20000	20000	0	0
Addl Interest @ 8% on reducing balance	800	3200	6400	9440	12160	12960	11840
Loan Repayment, 10-year loan with two years moratorium	0	0	2000	6000	10000	14000	18000
Addl OPEX @ 3% of CAPEX	600	2400	4800	7200	9600	10800	10800
Rev Surplus/Addl revenue required	**11400**	**25600**	**33200**	**42640**	**51760**	**37760**	**40640**

The additional revenue required for implementing UCF by ULBs starts with Rs. 11400 in 2026-27 and reaches peak of Rs. 51760 crores in 2030-31, in subsequent years it starts declining as ULBs repay loan and will not require to put in own share. These year-wise figures need to compared with the own source revenue or revenue surplus available with the ULBs to ascertain financial feasibility. Unfortunately, no data is available about how much revenue surplus ULBs had in recent years[9]. Recent XVI Finance Commission Report has provided only own source revenue data of ULBs for the years 2018-19 to 2022-23. Projecting this data with the CAGR of 10.1% observed for the period 2018-22, annual feasible revenue growth can be ascertained. (See Table 3)

Particulars / Rs. in Crore	2018-19	2019-20	2020-21	2021-22	2022-23	CAGR %
Own Source Revenue of ULBs as per XVI Finance Commission	68342	65478	91482	89872	100504	10.12%

Table 3 – Projecting Additional Revenue availability using recent CAGR of OSR of ULB

Particulars / Rs. in Crore	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	CAGR %
Own Source Revenue of ULBs as per XVI Finance Commission	110555	121610	133771	147148	161863	178049	195854	215440	10%
Additional Revenue Available				13377	14715	16186	17805	19585	

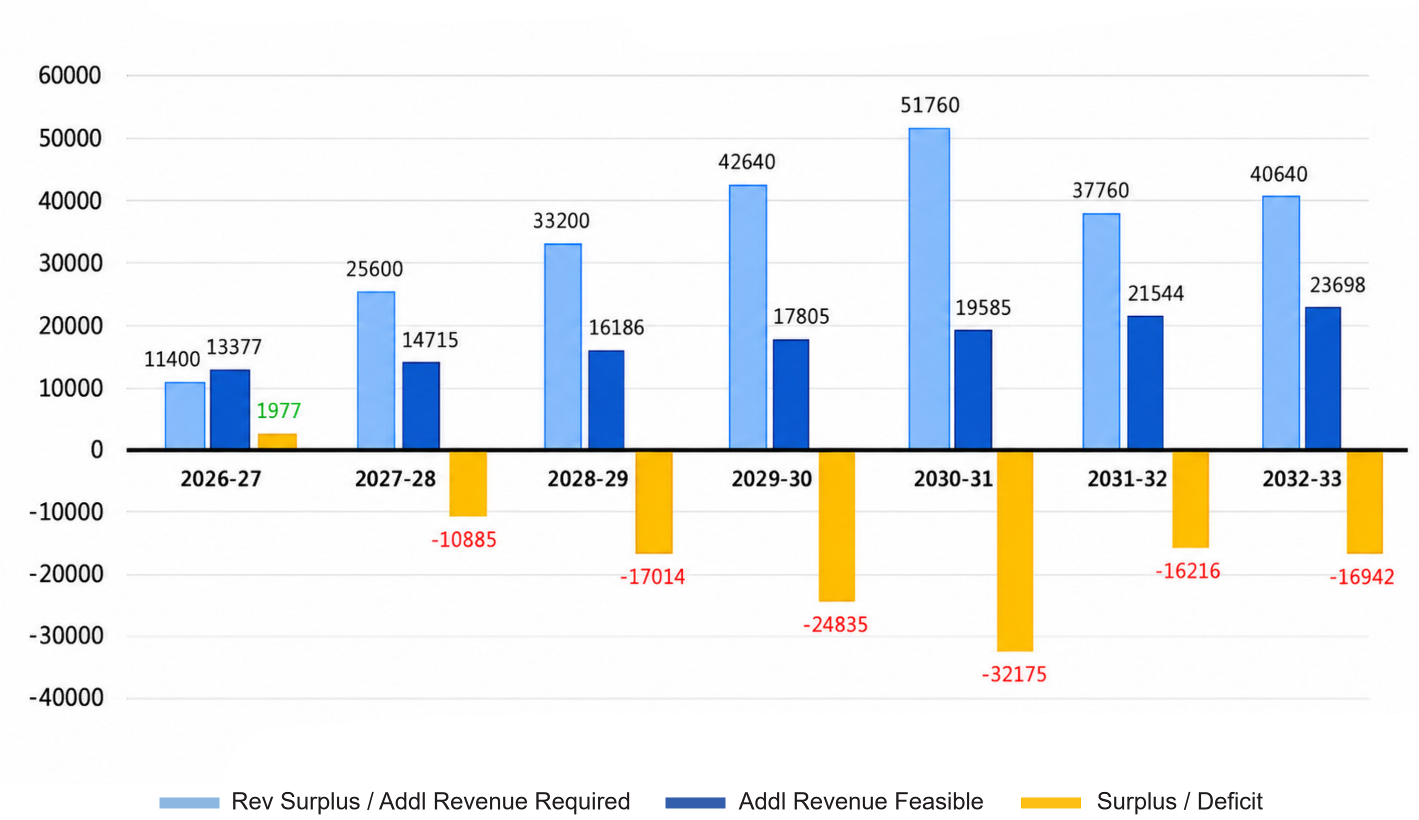
Table 4–Additional Revenue Required Projected funds availability for UCF Implementation

Particulars / Rs. in Crores	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Rev Surplus/Addl revenue required	11400	25600	33200	42640	51760	37760	40640
Addl Reve Feasible	13377	14715	16186	17805	19585	21544	23698
Surplus /Deficit	1977	-10885	-17014	-24835	-32175	-16216	-16942

Putting together additional revenue required by ULBs for implementing UCF with resource mobilisation through loans (Table 2) and additional revenue which can be available projected based on OSR of ULBs in recent years and CAGR registered (Table 3) provides financial feasibility of UCF implementation by ULBs which is provided in Table 4 and Graph 4. It can be observed that necessary financial feasibility is lacking from the year 2027-28 and will continue even after need for putting own share in UCF comes to end in 2030-31.

[9]*Such data was available for the period 2010-17 in ICRIER Study on Status of Municipal Finance for Fifteenth Finance Commission.*

Graph 4 - Revenue Surplus Required and Feasible for UCF Implementation (INR Crores)



If ULBs are required to increase their own source revenue to fund UCF, then in coming years their revenue need to increase at the unprecedented CAGR of 14.42% during the period 2025-26 to 2030-31 that is at a rate higher than the national GDP growth rate.

Cost of mobilising finance through PPP not examined

ULBs do need partnership with private sector through PPP mechanism to improve efficiency in designing, building, operating, maintaining urban infrastructure and delivering urban services but harnessing private capital / finance or transferring financial risk to private player through PPP is not worthwhile due paradoxical situation exists in India. The paradox is a municipal body with good financial standing or health can raise loans at 8% to 9% interest cost, but private sector with good financial health cannot get loan less than 11% to 12%. Added to this risk perception regarding doing PPP with ULBs and margin of profit, a private player would expect minimum return of 15% to 16% on the capital/money investment by him in PPP with ULBs. Thus, cost of funds will be very high for a ULB under PPP if private sector is required to bring in capital or if private sector is required to take financial risk. Getting private capital or transferring of finance risk to private player in PPP will be at most suitable for economic/commercial/real estate infrastructure projects having full cost recovery potential but for social and general infrastructure of ULB, PPP option will be costly affair for the ULB as citizens will have to pay higher charges if Private Player is given rights to levy charges to recover his cost, or if such revenue model is not given and if ULBs has to pay annuity then it will have high financial cost when it does not have capacity to serve loans with 8-9% interest cost. In simple term for ULBs Design-Build-Operate-Transfer (DBOT) is useful but Design-Build-Finance-Operate-Transfer (DBFOT) or Build-Own-Operate-Transfer (BOOT) are not so useful.

As getting private finance through PPP mode to fund UCF projects is costly and not so advisable then option remains for ULBs/Parastatals is to borrows funds from commercial bank, financial institutions and through municipal bonds which in turn means ULBs/Parastatals with good credit rating or with adequate revenue surplus (acceptable debt service coverage ratio) only will be able to raise funds for UCF implementation.

Way Forward

The intention of this article is not to criticize or reject UCF but to flag ground level realities and some of the challenges UCF might face in implementation so that the important improvements which UCF wish to bring in should not get lost or diluted. GOI, State Governments and implementing ULB/Parastatal agencies should ensure following way forward for successful implementation of UCF.

Address Issue of weak financial health and funding sources

There is an urgent need to address funding issue which has been pending for ages. Non before 74th CAA but even after 74th CAA no new funding source has been given to ULBs. As discussed, ULBs will be able to use market-based financing options only when their funding issue is solved. There is need to provide additional funding sources in the hands of the ULBs with adequate autonomy and accountability to optimise revenue from the resources given to them. Lack of accountability to optimise resource mobilisation will lead to non-optimisation of funding sources given.

It is also a fact that ULBs are not optimising resource mobilisation from what funding sources they have e.g. property tax, various user charges due to operational efficiency, political economy and lack of accountability. Consequently

Rigorous financial assessment of proposals, front loading of reforms, mandatory requirements

UCF has prescribed various mandatory requirements to ensure strategic alignment, transformative impact, and long-term sustainability like – 1. cities shall adopt project specific reforms aligned with the objectives of UCF; 2. Projects shall demonstrate long-term financial sustainability, including viable revenue models and lifecycle cost considerations; 3. Projects should form part of a broader city or regional growth strategy or saturation plan with measurable improvements in service quality, coverage, efficiency, and reliability etc. (In all 14 conditions have been rightly prescribed)

All the mandatory requirements prescribed under UCF and addressing optimisation of existing funding sources by ULBs to improve their financial health should be made pre-condition or eligibility condition. Earlier schemes also prescribed reform conditionalities but projects proposals were approved with post facto implementation of reforms. As a results reforms did not happen.

Front loading reforms will certainly delay project implementation but that is at most necessary requirement if UCF wish to achieve systemic and transformative improvements. Proposal approval should be in two parts – 1. In principle approval to reform and financial sustainability plan for project and the technical-physical aspects of project; 2. Final approval only after financial sustainability/eligibility reform conditions met and Key Performance Indicators (KPI) achieved.

Continuous, independent, transparent outcome-based monitoring of projects

UCF aims 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.

The ambitious endeavour of UCF will require political economy free independent, continuous, outcome-based monitoring of the projects and putting all the information right from project approval, mandatory conditionalities met, funds released, outcome achieved in transparent manner in public domain. Earlier schemes suffered from absence of such system, some information about progress of schemes were put in public domain but lacked crucial independent verification of outcome achieved and information about the same.

Convert Urban Challenge Fund to Urban Climate Fund in letter and spirit

Though heading puts this way there is no need to literally change the title of the fund but in essence and in its implementation, it should become an urban challenge fund in its essence, in letter and spirit and outcomes to be achieved because at present except CITIIS 2.0 working with 18 selected cities, there is no dedicated line of grant or credit for climate action for ULBs. UCF provides greatest opportunity to imbed climate resilience in urban infrastructure projects it will be funding.

Climate resilient infrastructure development should made cross cutting theme and norm for all the projects to be approved under UCF and for that technical / engineering norms of climate resilience should have been mandated under UCF. Each and every project proposal approved and funded under UCF should be evaluated from climate resilience norms and it should be contributing to Net Zero Target of India.

Summing Up

The Urban Challenge Fund (UCF) represents India's most ambitious attempt yet to reposition cities as financially viable and transformative growth hubs. With its ₹1,00,000 crore outlay and emphasis on market-based financing, integrated development, and systemic reforms, UCF seeks to fill the vacuum left by the Smart Cities Mission. Yet, the scheme's success hinges on overcoming entrenched structural weaknesses: fragile municipal finances, political reluctance to strengthen funding sources, conditionalities that risk either delaying implementation or diluting reforms, and the absence of climate resilience norms.

Unless reforms are front-loaded, municipal funding autonomy is strengthened, and climate resilience is embedded as a cross-cutting requirement, UCF risks repeating the shortcomings of past urban schemes. To truly deliver, UCF must evolve into an **Urban Climate Fund in spirit,** ensuring that every project contributes not only to infrastructure growth but also to India's Net Zero commitments. Only then can UCF achieve its transformative promise of sustainable, resilient, and financially sound urban development.

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