

India's urban shift: From funding to financing

The shift towards City Economic Regions (CERs), the Urban Challenge Fund (UCF), and the push for municipal bonds signal a move from funding to financing cities. Financing demands repayment capacity, risk pricing, transparent accounting, and predictable revenues. As the World Bank report, Financing India's Urban Infrastructure Needs (2022), notes, commercial finance has played only a minor role in India's urban infrastructure development, with non-guaranteed borrowing contributing barely 5 per cent of capital expenditure.

The table summarises the three pillars of this urban reset. CERs provide the right scale, UCF aligns private participation, and municipal bonds introduce market discipline. Together, they fix a basic mismatch: Projects span metropolitan regions, but governance, projects and balance sheets remain fragmented. Implemented as a package, they can build a steady pipeline of bankable, maintainable infrastructure. Treated separately, they risk sliding back into grant dependence.

At its core, India's urban rejuvenation challenge is institutional. Long-life assets need long-term capital, but municipal revenues and investor confidence remain limited. A study for the 15th Finance Commission found "own revenue" of municipalities at just 0.43 per cent of gross domestic product in 2017-18, with property tax accounting for about 60 per cent of municipal tax revenues. Even here, the study cites outdated valuations and poor enforcement as the main reasons for low collection, while recommending digitisation, Geographic Information System mapping, and satellite-based systems to expand the base and strengthen administration.

The gap between city needs and spending is longstanding. A committee constituted by the Ministry of Housing and Urban Affairs (Report on Urban Infrastructure and Services, 2011) underscored the need for lifecycle financing rather than one-time asset creation. The World Bank estimates \$840 billion in urban infrastructure investments needs through 2036 (roughly \$55 billion annually). With property tax at just 0.15 per cent of gross domestic product (GDP), repayment capacity remains weak. Urban capex averaged only about 0.6 per cent of GDP during 2011-18, with non-guaranteed commercial finance contributing barely 5 per cent. Closing the deficit requires urban capex to rise to about 1.1 to 1.2 per cent of GDP annually.

CERs drive a scale strategy: The 2026-27 Budget proposed mapping CERs based on growth drivers and allocating ₹5,000 crore per CER over five years through

a reform-cum-results-linked financing mechanism. The focus is on Tier-2 and Tier-3 cities. The strategic shift is to finance infrastructure where agglomeration benefits extend beyond municipal boundaries, while linking funds to delivery capability and outcomes.

The NITI Aayog conceived this Growth Hubs initiative in 2023 to plan "city regions going beyond urban boundaries". Four pilot sites — Mumbai Metropolitan Region, Varanasi, Surat, and Visakhapatnam were selected, and a structured five-stage process from diagnostics to implementation frameworks was outlined. Economic plans for Mumbai and Surat were launched in September 2024. The financing implication is clear: CERs will succeed only if they function as coordinated investable platform that prioritise trunk and utility projects cutting across existing jurisdictions, and convert plans into bankable, operations-ready portfolios rather than siloed municipal wishlists.

UCF and market-linked discipline:

On February 14, the Cabinet approved the UCF with ₹1 trillion in central support. It has a clear mandate: The Centre will fund 25 per cent of a project, cities must raise at least 50 per cent from the market, and funds will be released against reforms and results. UCF prioritises three core areas: Cities as growth hubs — supporting economic clustering, transit-oriented development, and commercial urban nodes; creative redevelopment of cities — regeneration, repurposing underutilised land, and large-scale urban renewal; and water,

sanitation and essential infrastructure including sewerage, drainage, water supply, and climate-resilient systems. India's real urban test is whether cities can prepare bankable projects, and repay investors through credible revenues and governance.

Financial resilience with municipal bonds: They are not a shortcut to capital. Issuing bonds signals institutional discipline through audited accounts, standardised reporting, ring-fenced cash flows, and transparent performance disclosure. The Securities and Exchange Board of India enforces these requirements under its 2023 Municipal Debt Regulations, strengthening investor confidence in urban local bodies. In this Budget, the government has further promoted municipal bond issuance by offering a ₹100 crore incentive for cities undertaking a single bond issue exceeding ₹1,000 crore. Smaller bond issuances continue to receive support under the Atal Mission for Rejuvenation and Urban Transformation. This signals a broader effort to deepen India's municipal bond market and promote public-private partnerships. The 21st Report of the Standing Com-

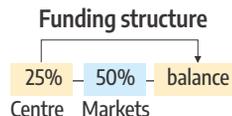
Three pillars of the urban reset

City Economic Regions

- ₹5,000 crore per CER (5 years)
 - Focus: Economic scale utilities
 - Reform-cum-result-linked financing solutions
 - 4 pilot regions (Mumbai Metropolitan Region, Surat, Varanasi and Visakhapatnam)
- CER goes beyond established city limits**

Urban Challenge Fund

- ₹1 trillion central kitty
- Centre funds 25%
- Cities must raise ≥50 % from markets
- ₹5,000 crore credit guarantee



Crowding-in of private capital

Municipal Bonds

- Governed by 2023 Sebi regulations
 - Strict disclosure and ring-fenced usage
 - Growing multi-year issuances
 - Constraint: Weak own revenues
- Audit
 - Disclosure
 - Ring-fencing
- Bonds introduce market discipline**

mittee on Housing and Urban Affairs (February 8, 2024) reviewing the Smart Cities Mission found that only 6 per cent of projects used PPPs.

The messaging is clear: CERs can deliver the right scale, the UCF can enforce discipline, and municipal bonds can mobilise long-term capital. But none will succeed without stronger municipal revenues, credible accounts, and assured operations & maintenance funding that investors trust. India's urban future depends on building civic institutions that are financially credible, capital market-friendly and capable of sustaining growth at scale. Then only will they truly become engines of sustainable growth.

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