



KAMARAJ IAS ACADEMY
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Viability Gap Funding

Published On: 25-12-2023

Why is in news? No plans to provide Viability Gap Funding for Pumped Storage Projects; levelized cost of storage is viable: Union Power and New & Renewable Energy Minister

The Union Minister for Power and New & Renewable Energy has informed that the **levelised cost of storage of Pumped Storage Projects** is economically viable. Therefore, there are **no plans to provide Viability Gap Funding** for Pumped Storage Projects.

Ministry of Power has notified **Guidelines to promote development of Pumped Storage Projects (PSP)** in the country on 10th April, 2023.

There is **no provision for allocation of PSPs to the private sector on nomination** basis in the aforesaid guidelines.

At present, no proposal for allocation of PSPs to private sector on nomination basis is under consideration.

About VGF:

Viability Gap Finance provides **grants to support projects that are economically justified** but are also **financially weak**.

It is designed as a Plan Scheme that is **implemented by the Ministry of Finance** and the amount for which is made in the budget on a year-to-year basis.

It is provided as a **capital subsidy to attract the private sector players** to participate in PPP projects that are otherwise financially unviable due to long gestation periods and small revenue flows in the future.

Public-Private Partnerships (PPPs) involve collaboration between a government agency and a private-sector company that can be used to finance, build, and operate projects, such as public transportation networks, parks, and convention centers.

The Viability Gap Funding (VGF) provided for **economic infrastructure will be extended to social infrastructure**.

Infrastructure projects also involve externalities that are not adequately captured in direct financial returns to the project sponsor.

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