



KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

Viability Gap Funding

Published On: 07-09-2023

Why is in news? Cabinet approves the Scheme titled Viability Gap Funding for development of Battery Energy Storage Systems (BESS)

The Union Cabinet, chaired by the Hon'ble Prime Minister approves the Scheme for Viability Gap Funding (VGF) for development of Battery Energy Storage Systems (BESS).

The approved scheme **envisages development of 4,000 MWh of BESS projects by 2030-31**, with a financial support of up to 40% of the capital cost as budgetary support in the form of Viability Gap Funding (VGF).

A watershed moment in the long list of pro-environment measures taken by the Government, the move is expected to bring down the cost of battery storage systems increasing their viability.

Designed to harness the potential of renewable energy sources such as solar and wind power, the scheme aims to provide clean, reliable, and affordable electricity to the citizens.

The VGF for development of BESS Scheme, with an initial outlay of Rs.9,400 crore, including a budgetary support of Rs.3,760 crore, signifies the government's commitment to sustainable energy solutions.

To ensure that the benefits of the scheme reach the consumers, **a minimum of 85% of the BESS project capacity will be made available to Distribution Companies** (Discoms). This will not only enhance the integration of renewable energy into the electricity grid but also minimize wastage while optimizing the utilization of transmission networks. Consequently, this will reduce the need for costly infrastructure upgrades.

The selection of BESS developers for VGF grants will be carried out through a transparent competitive bidding process, promoting a level playing field for both public and private sector entities.

This approach will foster healthy competition and encourage the growth of a robust ecosystem for BESS, attracting significant investments and generating opportunities for associated industries.

The Government of India remains committed to promoting clean and green energy solutions, and the BESS Scheme is a significant step towards achieving this vision. By harnessing the power of renewable energy and encouraging the adoption of battery storage, the government aims to create a brighter and greener future for all citizens.

Viability Gap Funding:

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.

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthy Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

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.