Financial Support to Public Private Partnerships in Infrastructure

Why in News

Recently, the **Cabinet Committee on Economic Affairs** has approved **continuation and revamping** of the **Viability Gap Funding (VGF) Scheme** under the **Public Private Partnership (PPP) model** till **2024-25** with a total outlay of **Rs. 8,100 crore.**

- **Viability Gap Funding (VGF)** means a grant one-time or deferred, provided to support infrastructure projects that are economically justified but fall short of financial viability.
- **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.**

Key Points

- **Background:**
  - The **Department of Economic Affairs, Ministry of Finance** introduced the **Scheme for Financial Support to PPPs in Infrastructure (Viability Gap Funding Scheme) in 2006** with a view to support infrastructure projects undertaken through PPP mode.
    - Projects that are economically justified but commercially unviable due to large capital investment requirements, long gestation periods and the inability to increase user charges to commercial levels.
  - **VGF up to 40%** of the Total Project Cost (TPC) is provided by the **Government of India (GoI) and the sponsoring authority** in the form of capital grant at the stage of project construction (20%+20%).

- **Extension of the Scheme to Social Infrastructure:**
  - **Sub Scheme -1:**
    - **Objective:** To cater Social Sectors such as **Waste Water Treatment, Water Supply, Solid Waste Management, Health and Education sectors** etc.

      These projects face **bankability issues and poor revenue streams** to cater fully to capital costs.
    - **Eligibility:** The projects eligible under this category should have at least **100% Operational Cost recovery.**
    - **Contribution:** The **Central Government** will provide a maximum of **30%** of Total Project Cost (TPC) as VGF and **State Government/Sponsoring Central Ministry/Statutory Entity** may provide additional support up to 30% of TPC and the remaining project cost will come through private participation.
  - **Sub Scheme -2:**
    - **Objective:** To support **pilot social sectors projects.**

      The projects may be from **Health and Education** sectors where there is at least **50% Operational Cost recovery.**
    - **Contribution:** In such projects, the **Central Government and the State Governments together will provide up to 80%** of capital expenditure and **upto 50%** of Operation & Maintenance (O&M) costs for the **first five years.**

      The **Central Government** will provide a maximum of **40%** of the TPC. In addition, it may provide a maximum of **25% of Operational Costs** of the project in the first five years of commercial operations.

- **Benefits:**
  - The scheme will promote **PPPs in social and economic infrastructure** leading to efficient creation of assets and ensuring their proper operation and maintenance and make the **economically/socially essential projects commercially viable.**
    - **Economic Infrastructure** refers to the elements of economic change that aid in the process of production and distribution such as energy, transportation, communication, banking and financial institutions etc.
    - **Social Infrastructure** refers to all those facilities and institutions that enhance the quality of human capital such as educational institutions, hospitals, nursing homes, housing facilities etc.
  - Revamping of the VGF Scheme will **attract more PPP projects** and **facilitate private investment** in the **social sectors.**

    Creation of new hospitals, schools will create many **opportunities** to boost **employment generation.**
  - The Scheme will encourage private investment in infrastructure on the lines suggested by the **Kelkar Committee.**

Source:PIB