Fund Crunch for UDAN

What is the issue?

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- The government’s flagship “UDAN aviation scheme” is facing a fund crisis.
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- This is largely because the number of participating airlines has increased manifold.
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What is the UDAN Scheme?

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- UDAN -“Ude Desh Ki Aam Nagrik” literally translates to a call for the common man to fly.
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- It is an aviation scheme to enhance air connectivity to smaller towns.
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- It focuses on previously “un-served or sub-served” destinations, and provides operating subsidies for airlines interested in operations.
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- The government gives “Viability Gap Funding” (VGF) support for three years.
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- This is to attract airlines to fly even to remote areas which may be commercially unviable.
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- Besides, other concessions like that on parking charges at airports and exempting these operations from the GST net are provided.
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- While the general central and state contributions for VGF are 80:20, it is 90:10 for the north-eastern states and union territories.
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What is the concern?

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- Two bidding rounds have been completed and the government received bid proposals in substantial numbers.
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- But the Ministry of Civil Aviation has not awarded the routes for the 2nd round.
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- This is because of lack of funds to pay the “viability gap funding” (VGF) to the operators.
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- Notably, the initial assessment for the scheme was Rs 3 billion, but the cost has escalated to over Rs 12 billion currently.
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- The paucity of funds is said to be due to the increase in the number of airlines that had bid for the routes and the criticality of VGF for the operations.
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How does the future look?

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- The aviation ministry has asked the finance ministry for more funds but the sufficient budgetary support is uncertain.
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- Considering the present fiscal constraints of the government, the sustainability of the scheme may need resources from within the sector.
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- There may hence be a requirement to increase the regional connectivity levy; but this has been contested by the airline operators.
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Source: Business Standard

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