# Government Support

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By definition, there is always a public component to a PPP. The form this takes depends on the country and the project. In this section, you will find resources on government support and the role of the public sector throughout the various stages of the PPP process.

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### Government Support in PPP Projects

PPPs inherently require public sector involvement.  The type and extent of government support differ by context - varying across countries, sectors, and project types - but typically encompass direct financial contributions, in-kind support (such as provision of land or equipment), contingent liabilities, and broader risk mitigation tools and institutional frameworks. These support mechanisms are critical to improving project bankability, managing risks, and ensuring service delivery, especially in developing economies where private capital is most needed.

### Government Financing

Government financing in PPPs refers to situations where the public sector raises funds, typically through borrowing or budget allocations, and injects them into PPP projects via grants, loans, equity investments, or guarantees. Given constraints on fiscal space and debt capacity, such financing must be used judiciously, focusing on projects that are economically beneficial but lack commercial viability.

Governments often step in with direct financial support when projects face challenges in achieving bankability or when specific risks cannot be effectively managed by private parties alone. This is especially true in developing economies, where capital markets are less mature and risk perceptions are higher.

Key forms of government financial support include:

- Cash or in-kind contributions to reduce upfront capital costs, such as construction expenses, land provision, or procurement of essential assets.
- Fee and tax waivers, including exemptions or deferrals to ease the financial burden on the project company (e.g., tax holidays).
- Loans or equity contributions, including mezzanine debt or Viability Gap Funding (VGF), to address funding shortfalls.
- Tariff enhancements, such as shadow tolls or subsidies to ensure affordability and reduce demand risk—particularly in water, electricity, and transport sectors.

Most PPPs require some form of government backing to become viable. When properly targeted, this support ensures that risks are shared effectively and that high-priority projects move forward where private investment alone would not suffice.

### Categories of Government Support Mechanisms

Government support mechanisms for PPPs can be grouped into five broad categories:

#### 1. Grants and Subsidies

Governments may provide direct financial assistance to reduce the cost burden on the private sector or end users through:

- Operating Subsidies: regular payments to cover part of the operating costs, especially in sectors like public transport or water supply.
- User-fee Subsidies: compensation when tariffs are set below cost-recovery levels to ensure affordability.
- Output-Based Aid (OBA): performance-linked subsidies disbursed upon delivery or verified outputs, often used in health, education, and rural infrastructure. For example, the Global Partnership for Result-Based Approaches (GPRBA) supports such mechanisms.

#### 2. Availability Payments

Availability payments are periodic government payments to the private partner based on the availability and performance of the infrastructure, independent of usage levels. These payments:

- Provide predictable revenue streams.
- Are common in social infrastructure (e.g., schools, hospitals) and transport (e.g., roads, rail).
- Incentivize high service quality through performance-linked metrics.

#### 3. Capital Contributions or Viability Gap Funding (VGF)

Capital support mechanisms help bridge the gap between project costs and expected private returns. These may include:

- Viability Gap Funding (VGF): One-time capital grants provided during construction to make economically justified but financially unviable projects attractive to private investors.
- Equity Contributions: Government may take a minority equity stake to share risks and demonstrate commitment.
- In-Kind Contributions: Provision of land, existing assets, or infrastructure to reduce upfront costs.

#### 4. Project Development Funds

Governments may consider establishing a semi-autonomous or independent Project Development Fund (PDF) to support the preparation of PPP projects by financing advisory services and other development-related activities. A PDF can play a central role in promoting the standardization of methodologies and documentation, disseminating good practices, and monitoring their implementation across sectors.

Its primary function is to support early-stage project preparation, including project identification, feasibility studies, and the design of financial and commercial structures, through to financial close and potentially beyond, to ensure effective implementation. While a PDF may target specific sectors, regions, or project types, it should be flexible enough to accommodate various PPP models and sectoral needs.

The PDF can offer different forms of support, such as:

- Grants for project development;
- Reimbursable funding, recovered from the winning bidder at financial close (with or without interest); or

- Equity stakes in the project, creating a revolving fund model.

These compensation mechanisms can be tailored to incentivize support for priority projects or underserved sectors. Given that high-quality preparation is critical to PPP success, and that the cost of advisory services often poses a barrier, PDFs provide an essential solution by:

- Financing upstream project preparation (e.g., feasibility studies, legal and financial structuring, transaction advisory);
- Being managed by dedicated PPP units or independent bodies; and
- Recycling resources through grants, repayable contributions, or equity investments to support future pipelines.

A well-structured PDF not only helps mobilize private investment but also contributes to institutional capacity building and the adoption of best practices across sectors. For further guidance, see the World Bank Group's primer: Project Development Funds – Supporting Project Preparation to Structure Successful PPPs.

#### 5. Public Infrastructure Funds

Public Infrastructure Funds (PIF) are a specific type of infrastructure financing fund that uses public resources to leverage much larger amount of private financing for infrastructure development. The design and objectives of PIFs can vary depending on the country context and the specific market failures the PIF is trying to solve.

PIFs can serve a range of distinct purposes. Some are designed to support structured financial instruments—such as risk mitigation mechanisms or credit enhancements like partial credit and partial risk guarantees—while others focus exclusively on providing debt financing. Despite these differences, four overarching and often overlapping categories of objectives can be identified:

1. **Optimizing Public Support:** Streamlining the use of public resources—such as subsidies, grants, and contingent support—by consolidating them into a unified platform for more effective deployment.
2. **Managing Fiscal Commitments:** Enabling centralized oversight to manage and contain financial commitments and contingent liabilities (FCCL), particularly those associated with public-private partnerships (PPPs).
3. **Addressing Market Failures**: Supplying financing or financial products to help well-structured projects secure private investment in contexts where market gaps exist.
4. **Addressing Government Failures:** Creating a specialized entity, independent of the civil service, with the institutional capacity to implement infrastructure projects and overcome administrative limitations.

The performance of PIFs varies across case studies, revealing a mixed track record. However, several key design features consistently emerged as critical to their effectiveness:

- **Transparent and Autonomous Governance:** Ensuring financial and decision-making independence is essential for enabling sound investment decisions.
- **Capitalization and Funding Strategy:** A well-structured approach to capitalization—regardless of the funding source—supports financial autonomy and efficient use of resources.
- **Product-Market Fit:** The financial instruments offered by a PIF should be tailored to address the specific market failures it aims to resolve.
- **Project Preparation and Technical Expertise:** High-quality project development depends on skilled in-house teams and a reliable funding stream for project preparation activities.

For a comprehensive review of Public Infrastructure Funds (PIFs), please refer to the following reports: PIF Global Review – Volume I and PIF Global Review – Volume II (Case Studies)

**6. Fiscal Risk Management and Contingent Support**

Effective management of fiscal risks - particularly those arising from contingent liabilities in PPPs - requires governments to address several challenges. These include collecting relevant data, facilitating inter-agency dialogue, analyzing fiscal exposures, setting clear policies, and establishing appropriate incentive structures. Given the complexity of these tasks, many governments, especially ministries of finance, have established specialized units - often within debt management departments - to oversee and manage these risks which already possess expertise in risk analysis.

To further strengthen oversight, governments may also establish dedicated guarantee funds. These allow for more transparent management of contingent liabilities and help ring-fence fiscal exposure. (See: Management of Government Risk for more detail.)

Contingent support mechanisms allow governments to absorb specific project risks without immediate fiscal outlay. These instruments include:

- **Guarantees:** Covering risks such as debt repayment, exchange rate volatility, tariff adjustments, and demand shortfalls.
- **Indemnities and Insurance:** Protecting against non-performance by public entities or unexpected cost overruns.
- **Contingent Debt Instruments:** Such as take-out financing (where the government commits to providing refinancing at a future date) or revenue support arrangements (where the government lends to the project company to ensure debt obligations are met in times of revenue shortfall).
- **Hedging instruments:** To mitigate risks related to interest rates, exchange rates, or commodity prices.
- **Fiscal Risk Assessment Tools:** Such as the World Bank's Debt and Fiscal Risks Toolkit, including the PPP Fiscal Risk Assessment Model (PFRAM), which help quantify and disclose fiscal exposures.

Effective management of fiscal support instruments is critical. Governments must carefully balance the need to attract private investment with the imperative of maintaining fiscal responsibility. Excessive reliance on public guarantees can expose governments to hidden fiscal risks, particularly when such backing reduces the incentive for lenders to conduct thorough due diligence. As such, robust project assessment and prudent risk allocation are essential to ensure that public support is justified, well-designed, and fiscally sound.

The publication Managing the Fiscal Implications of Public-Private Partnerships in a Sustainable and Resilient Manner: A Compendium of Good Practices and Lessons Learned from the COVID-19 Pandemic provides detailed guidance on applying the Fiscal Commitments and Contingent Liabilities (FCCL) Framework. This framework supports governments in systematically identifying, evaluating, managing, and reporting the fiscal risks associated with PPPs. By embedding these practices within broader public financial management systems, the FCCL Framework strengthens institutional resilience. The compendium draws from real-world experiences during the COVID-19 pandemic, when fiscal pressures were especially acute, to illustrate how countries have effectively mitigated PPP-related fiscal risks. It highlights how sound governance structures, analytical tools, and transparency can enhance long-term sustainability and accountability in infrastructure financing.

Strategic deployment of financial and contingent support mechanisms is critical for attracting private investment in infrastructure while preserving fiscal sustainability. Most PPP projects require some level of government involvement—whether to enhance bankability, appropriately allocate risks, or address market gaps in underserved sectors. A carefully balanced approach enables governments to drive impactful infrastructure development without compromising long-term fiscal responsibility. By leveraging these tools effectively, governments can reduce investor risk, mobilize capital, and ensure that PPPs deliver lasting value for money.

# Explore the following sections in PPPRC

Explore the sections below to understand the government’s role in PPPs

Government Objectives: Benefits and Risks of PPPs: Electric Cables Network

**Government Objectives: Benefits and Risks of PPPs**

Government Risk Management: Government Office

**Government Guarantees**

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Project Development Funds

**Project Development Funds**

infrastructure, river

**Public-Private Partnerships Fiscal Risk Assessment Model (PFRAM) (2019) : Version 2.0**

building

**Managing the Fiscal Implications of Public-Private Partnerships in a Sustainable and Resilient Manner: A Compendium of Good Practices and Lessons Learned from the COVID-19 Pandemic**

Modern buildings

**Global Review of Public Infrastructure Funds - Volume I - IDENTIFYING KEY DESIGN FEATURES AND SUCCESS FACTORS FOR PUBLIC INFRASTRUCTURE FUNDS**

architecture

**Global Review of Public Infrastructure Funds - Volume II**

architecture

**Contingent Government Liabilities: A Hidden Risk For Fiscal Stability**

financing

**Public–Private Partnership Funds - Observations from International Experience (VGF, Lending Facilities and Guarantee Fund)**

# Research and Publications in PPPRC

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