From Capital to Construction: *Why Zimbabwe Struggles to Convert Capital into Infrastructure*

A 30Process Consulting Whitepaper

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Executive Summary

From Capital to Construction: Financing Development in Zimbabwe

Zimbabwe's development challenge is often described as a shortage of money. This paper argues that the more fundamental constraint is conversion: the country struggles to transform available capital into durable, bankable infrastructure at scale.

Over the past decade, Zimbabwe has not been devoid of funding. Official development assistance has remained material. Remittance inflows are resilient. Foreign direct investment has reached extractive industries. Climate finance has expanded regionally. Yet the country's binding constraints – unreliable electricity, deteriorating transport networks, strained urban infrastructure, and limited industrial capacity – persist.

The paradox is straightforward: capital exists, but development outcomes lag.

The Scale of the Requirement

Zimbabwe's infrastructure needs are substantial. Based on regional benchmarks and national planning documents, annual development financing requirements are conservatively estimated at US$2.5–3.5 billion over the coming decade. Energy reliability alone – encompassing rehabilitation, expansion, and grid strengthening – requires sustained capital investment. Transport restoration, water and sanitation upgrades, and industrial-enabling infrastructure add further pressure.

This is not an abstract ambition gap. It is a multi-billion-dollar annual financing requirement relative to a GDP in the US$35-40 billion range.

Capital Flows: Present but Misaligned

External inflows have continued, but their composition reveals structural mismatch:

- Aid supports humanitarian and social sectors but rarely scales complex infrastructure.
- FDI concentrates in mining and export-linked sectors with hard-currency revenues.
- Climate finance gravitates toward renewable generation, while transmission and baseload reliability remain underfunded.
- Concessional sovereign lending is constrained by arrears.

- Domestic capital markets remain shallow and currency-fragmented.

Capital flows toward sectors insulated from domestic risk. Binding constraints lie in sectors exposed to tariff politics, currency volatility, and institutional fragility. The issue is both volume and alignment.

Bankability as the Central Constraint

Projects in Zimbabwe often fail not because they are economically unjustified, but because they are not bankable. Bankability depends on credible demand, enforceable contracts, predictable tariffs, manageable currency risk, competent counterparties, and credible institutions. Where these conditions are incomplete, risk premiums rise and projects stall before financial close.

Offtake fragility, tariff uncertainty, currency mismatch, and limited refinancing pathways amplify perceived risk. Investors frequently bundle these risks into a broad "country premium," elevating hurdle rates beyond what domestically oriented infrastructure can sustain. High cost of capital is therefore both symptom and cause.

Fiscal Limits

The sovereign cannot fill the gap alone. Arrears to multilateral institutions limit access to concessional finance. Fiscal space is constrained by debt service, current expenditure pressures, and macroeconomic volatility. Public–private partnerships, while useful, generate contingent liabilities rather than eliminate fiscal exposure.

Zimbabwe's development financing gap exceeds what the public balance sheet can sustainably absorb without structural reform.

What Must Change

The solution is not indiscriminate fundraising. It is systemic alignment – changing the mechanics by which capital is prepared, structured, de-risked, and converted into operational assets.

Nine structural shifts are required:

1. **Institutionalised project preparation** rather than announcement-driven pipelines – with dedicated transaction units, standardised PPP templates, and early-stage financial structuring aligned to financing pathways.
2. **Concessional finance deployed as de-risking capital**, not fragmented project funding – using partial risk guarantees, first-loss tranches, and political risk insurance to crowd in commercial capital at lower hurdle rates.

3. **Disaggregated risk allocation**, replacing broad country premiums with targeted mitigation. Risk-mitigation instruments exist on paper but lack credibility in practice; four enhancements could shift this: ring-fenced offshore escrow accounts anchored to creditworthy private offtakers, partial risk guarantees from DFIs such as Afreximbank, dedicated legislation establishing statutory payment waterfalls for critical infrastructure, and – most fundamentally – sovereign debt resolution to rehabilitate the credibility that underpins all other instruments.
4. **Transparent and predictable tariff frameworks** aligned with cost recovery, supported by regulatory independence, predictable indexation, and clear social protection offsets.
5. **Macroeconomic and policy credibility** to recalibrate risk perception over time – recognising that arrears clearance, currency stabilisation, and policy consistency have outsized effects on the cost of capital.
6. **Strategic sequencing of infrastructure investments**, prioritising projects with strong economic multipliers and clearer revenue models to build demonstration effects and refinancing precedents.
7. **Conversion of diaspora remittances into investable capital.** Remittances exceed US$2 billion annually yet finance consumption, not capital formation. A workable instrument requires project-specific ring-fencing, offshore listing and governing law, a layered investor structure with DFI anchor tranches, equity exit pathways via domestic exchanges, and political reciprocity for non-resident citizens. A single well-structured issue of US$100–200 million for one bankable project would demonstrate the model more credibly than further policy announcements.
8. **Expansion of domestic long-term capital pools**, enabling pension funds and insurers to participate in infrastructure financing through reforms that stabilise valuation frameworks and strengthen governance.
9. **Explicit acceptance of trade-offs** – between decarbonisation and reliability, social affordability and cost recovery, fiscal prudence and growth multipliers. The absence of explicit trade-off management leads to implicit distortions.

Infrastructure finance is ultimately a coordination problem. Aid, private capital, development funding, domestic institutions, diaspora capital, and public policy must align around sequenced, bankable projects.

The Core Insight

Zimbabwe does not face a binary choice between aid and markets, nor between public and private financing. It faces a conversion problem.

Improving the conversion rate – the proportion of available capital that becomes operational infrastructure – matters more than increasing

headline inflows. Each successfully delivered project reduces perceived risk and compounds credibility whilst each stalled initiative reinforces perceived risk.

The question for Zimbabwe is not whether capital exists. It is whether the system can effectively convert currently available capital.

1. The Financing Paradox

Zimbabwe's development problem is often framed as a shortage of money. In practice, it is a problem of conversion: turning available capital into functioning assets at scale.

Over the past decade, Zimbabwe has not been entirely starved of external finance. Aid continues to flow, with official development assistance reaching approximately US$792 million in 2023. Remittances remain resilient too – exceeding US$2 billion in both 2023 and 2025. Yet the country's most binding constraints are largely unchanged. Electricity remains unreliable, transport infrastructure is inadequate, urban housing shortages deepen and industrial capacity is thin. Further, government's capacity is largely constrained and private capital remains hesitant.

The paradox is straightforward. Capital exists, but development outcomes lag.

This paper argues that the gap is explained by misalignment – between the type of capital Zimbabwe receives and the type it needs; between how risk is perceived and how it materialises; and between development plans and the institutional machinery required to execute them.

From fundraising to functionality

Development debates in Zimbabwe often focus on mobilisation: how to attract more funding, reopen multilateral taps, or secure new pledges. These questions matter, but they are increasingly secondary. The more difficult problem is functionality – whether existing and potential capital can be structured, priced, and governed in a way that produces durable economic assets.

Aid and concessional finance are effective at supporting consumption smoothing, humanitarian response, and social services. They are far less effective at delivering complex, scalable and capital-intensive infrastructure – particularly where long tenors, currency risk, and politically sensitive tariffs are involved. Commercial capital, meanwhile, is available globally but demands clarity on risk, returns, and enforceability that Zimbabwe has struggled to provide consistently.

The result is a persistent imbalance. Zimbabwe receives funding that is relatively easy to deploy but hard to scale, while the capital required for significant economic development including power plants, transport corridors, water systems, and urban infrastructure remains scarce.

A bankability problem, not an ambition problem

Zimbabwe's development strategies are not short of ambition. National plans routinely identify infrastructure, industrialisation, and urban development as priorities. The constraint lies elsewhere: in the bankability of projects.

Bankability is not a slogan. It is the outcome of a specific set of conditions: credible demand, enforceable contracts, predictable tariffs, manageable currency risk, competent counterparties, and institutions capable of carrying projects from concept to operation. Where these conditions are absent or inconsistent, capital either demands prohibitive premiums or stays away altogether.

In Zimbabwe, many projects fail well before financial close – not because they are unnecessary, but because structuring is vague, risks are poorly allocated, feasibility work is incomplete, or fiscal and regulatory uncertainties overwhelm projected returns. The pipeline narrows rapidly from concept to execution.

Whilst this is not unique to Zimbabwe, the effects are amplified by a history of macroeconomic instability, arrears to multilaterals, and policy discontinuities that heighten investor caution and constrains public co-financing.

Why more money is not the answer

It is tempting to conclude that Zimbabwe's development gap could be closed with sufficient funding. The evidence suggests otherwise.

Where capital has been abundant but poorly structured – fragmented across small projects, insulated from commercial discipline, or misaligned with operational realities – outcomes have disappointed. The attempted recapitalisation of the National Railways of Zimbabwe illustrates this pattern in infrastructure specifically. In 2017, a US$400 million tender was awarded to a consortium of South Africa's Transnet and the Diaspora Infrastructure Development Group (DIDG) to rehabilitate NRZ's rolling stock, track, signalling and telecommunications infrastructure. The deal carried apparent credibility: regional banks including Afreximbank, Nedbank, Standard Bank, CBZ and TDB, alongside Old Mutual, NSSA and the Harith Pan African Infrastructure Fund, were reported to have mobilised over US$1 billion in potential financing, and an interim delivery of 13 locomotives, 200 wagons and six passenger coaches was made under a Framework Agreement pending financial close. Yet the structure unravelled. The Transnet board was dismissed by the South African presidency amid concerns the deal had been concluded without proper authorisation, and the successor board declined to ratify it; DIDG subsequently

proposed a funding structure that excluded Transnet, which the Zimbabwean government judged to be a material departure from the consortium bid. The tender was formally cancelled in July 2020, leaving NRZ without a recapitalisation partner. The scale of capital mobilised on paper was not the constraint; the procurement process, counterparty due diligence, governance on both sides of the border, and the absence of a structure that could survive a partner exit were. Capital arrived – but without the institutional scaffolding to convert it into track, rolling stock, and running freight.

Where capital has been deployed through disciplined structures – clear ring-fencing, commercial counterparties, and alignment with operational realities – results have been more durable. The Hwange Units 7 & 8 expansion is instructive: a US$1.5 billion project financed primarily through a China Eximbank loan and executed by Sinohydro as EPC contractor, structured through a special-purpose vehicle (HESCO) jointly owned by Zimbabwe Power Company and Sinohydro, with a power purchase agreement anchoring revenues. The expansion added 600 MW to the national grid and materially reducing load shedding at commissioning. Debt service remains strained – a reminder that even well-structured deals face macroeconomic headwinds – but the asset was built, commissioned, and is generating.

The challenge, therefore, is not to increase flows indiscriminately, but to improve the conversion rate, that is, the proportion of available capital that becomes productive infrastructure.

This requires confronting uncomfortable trade-offs; reliable power may require financing solutions that do not align neatly with prevailing climate narratives, user-pay infrastructure may demand tariff structures that are politically sensitive and currency risk cannot be eliminated, only allocated. Lastly, not all projects can or should be financed off the public balance sheet.

What this paper does – and does not do

This paper does not argue against aid, climate finance, or concessional lending nor does it propose a wholesale shift to market fundamentalism. Instead, it examines how different forms of capital perform against Zimbabwe's actual constraints, and why certain funding models fail to deliver scale.

Specifically, it asks:

- How much development capital Zimbabwe requires, and in which sectors?

- What capital has actually flowed over the past decade, and in what form?
- Where funding priorities diverge from binding economic constraints?
- Why large projects struggle to reach financial close?
- How risk is priced relative to outcomes?
- Why fiscal realities limit the state's ability to close the gap?

The analysis is empirical rather than ideological. It distinguishes between capital availability and capital usability, and between stated priorities and revealed behaviour.

Who this paper is for

This paper is written for decision-makers who shape Zimbabwe's development trajectory:

- Policymakers and regulators designing frameworks for investment and PPPs.
- Development finance institutions seeking to crowd in private capital.
- Investors and sponsors assessing risk, returns, and timing.
- Local corporates whose balance sheets and operations intersect with infrastructure delivery.

Its purpose is not to prescribe, but to clarify where the system breaks, why it breaks, and what must change structurally for development finance to translate into outcomes.

The sections that follow quantify the gap, diagnose its causes, and outline a more realistic path from capital to construction.

2. How Much Capital Zimbabwe Needs

Estimates from the African Development Bank and World Bank suggest that infrastructure investment needs across Sub-Saharan Africa amount to between 6–8% of GDP annually.[1] For countries with ageing infrastructure and significant service deficits, the figure can be materially higher. Zimbabwe falls squarely into this category.

Based on regional benchmarks, national development plans, sector master plans, and infrastructure gap assessments, Zimbabwe's annual development financing requirement is conservatively estimated at US$2.5–3.5 billion per year over the coming decade.[2] This figure reflects capital formation required to close structural gaps, excluding social expenditure and routine maintenance. This includes energy rehabilitation and expansion, transport network restoration, water and sanitation upgrades, urban housing and municipal services, and industrial-enabling infrastructure.

Energy: reliability before transition

Energy represents the most binding constraint – but not in the way it is often characterised. Zimbabwe's installed generation capacity, at approximately 2,540 MW, nominally exceeds peak demand of roughly 2,200 MW. The deficit arises not from a shortage of built capacity, but from a persistent gap between installed and effective available capacity. Actual generation typically averages between 1,200 MW and 1,400 MW, depending on seasonal hydrological conditions at Kariba and maintenance status at Hwange, leaving a structural shortfall of 600–800 MW at peak.

The drivers are well understood: plant ageing at Hwange Units 1–6, maintenance backlogs, coal supply disruptions, and hydrological variability at Kariba – where Zambezi River Authority have at times capped water allocations. The deficit is covered through costly imports from Mozambique's EDM, Zambia's ZESCO, and South Africa's Eskom, and firms increasingly rely on diesel generation – internalising infrastructure failure at materially elevated operating cost. The implication matters for financing: the problem is not primarily a greenfield capacity gap but a rehabilitation, maintenance, and reliability-of-dispatch problem, which calls for

[1] African Development Bank (AfDB) (2018) *African Economic Outlook 2018*. Abidjan: AfDB; World Bank (2019) *Infrastructure Financing Trends in Sub-Saharan Africa*. Washington, DC: World Bank.
[2] Government of Zimbabwe (2020) *National Development Strategy 1 (2021–2025)*. Harare: Government of Zimbabwe; AfDB (2023) *Zimbabwe Country Diagnostic Note*.

different capital structures than headline "new megawatts" narratives suggest. Energy investment needs fall into two categories:

- Rehabilitation and life extension of existing baseload assets.
- Expansion of generation capacity and, critically, transmission infrastructure.

Over the next decade, restoring reliability and expanding supply could require US$1–1.5 billion, depending on project sequencing and technology mix.[3] Renewable energy can contribute meaningfully, but without grid strengthening and storage solutions, it cannot alone resolve baseload shortfalls. The issue is not decarbonisation versus development. It is sequencing and system design.

Transport: restoring economic arteries

Zimbabwe's road and rail networks once underpinned regional trade. Today, both require substantial reinvestment.

Road rehabilitation and expansion – particularly trunk corridors – are capital intensive but economically catalytic. Rail modernisation, if executed credibly, could reduce logistics costs for mining and agriculture while easing road deterioration.

Conservative estimates suggest US$1–1.5 billion may be required over the next decade to restore and upgrade priority corridors. These figures depend heavily on design standards, traffic assumptions, and financing models.

Transport investments are typically large-scale and long-tenor, making them especially sensitive to risk pricing and institutional credibility.

Water, sanitation, and urban infrastructure

Urbanisation continues despite economic volatility. Harare and Bulawayo face persistent water supply constraints and sanitation backlogs whilst smaller municipalities struggle with infrastructure maintenance and revenue collection.

Water and sanitation upgrades, specifically treatment plants, distribution networks and wastewater systems, require steady capital injection and competent municipal management. Housing shortages further compounds pressure on urban infrastructure.

Estimated capital needs in water, sanitation, and urban services could approach US$500–800 million over the next decade, excluding housing finance mechanisms.

[3] AfDB (2023) *Zimbabwe Country Diagnostic Note*.

Industrial-enabling infrastructure

Whilst industrialisation remains a key facet of government's national development agenda it requires an enabling ecosystem, namely :

- Reliable electricity.
- Efficient logistics.
- Serviced industrial land.
- Digital connectivity.

Digital infrastructure has improved through private telecom investment, but industrial parks, cold-chain facilities, and logistics hubs remain underdeveloped. While harder to quantify precisely, enabling infrastructure gaps likely require several hundred million dollars in coordinated investment to meaningfully shift industrial output.

Time horizons: 2030 and beyond

Most national development plans articulate medium-term horizons to 2030. At current investment rates, closing major infrastructure gaps within that timeframe appears unlikely.

If Zimbabwe was to invest at the lower bound of US$2.5 billion annually over the next decade, cumulative capital formation would exceed US$25 billion. Current levels fall materially short of this benchmark.

Delays have compounding effects; deferred rehabilitation raises future capital costs. Further, energy deficits deter industrial investment, whilst urban infrastructure strain reduces productivity and increases operating costs across sectors.

The scale problem

The magnitude of required capital relative to Zimbabwe's GDP underscores the scale challenge. Annual development needs may represent a high single-digit percentage of GDP – ambitious but not unprecedented in emerging markets. Whilst there is a constraint on available funding, the more critical challenge is institutional capacity and capital structure.

Whilst Zimbabwe requires a consistent quantifiable commitment to development, the more urgent need is the ability to convert multi-billion-dollar annual needs into bankable, sequenced, financeable projects.

The next section turns to the other side of the ledger: the actual flow of capital.

3. What Capital Actually Flows

If Zimbabwe requires between US$2.5–3.5 billion annually to close its development gaps, the next logical questions are: how much capital has actually flowed – and in what form?

Over the past decade, Zimbabwe's external financing landscape has been shaped less by abundance than by composition. The country has received capital, but not in forms easily convertible into large-scale infrastructure.

Aid: steady but limited in scope

Official Development Assistance (ODA) has remained a consistent component of Zimbabwe's external inflows. Annual ODA has typically ranged between US$800 million and US$1.2 billion, fluctuating with humanitarian needs and donor priorities.

This funding has largely supported:

- Health and education.
- Food security.
- Social protection.
- Governance and capacity-building programmes.

Aid has been essential in stabilising social outcomes during periods of macroeconomic stress. Consequently, it has not been structured primarily to finance capital-intensive infrastructure or long-term economic outcomes.

Donor-funded infrastructure projects do occur, but they are typically:

- Small in scale.
- Highly earmarked.
- Dependent on donor procurement frameworks.
- Fragmented across pilot initiatives.

The result is that while aid remains sizeable relative to Zimbabwe's GDP, its impact on closing large-scale infrastructure deficits is structurally limited.

Concessional lending: constrained by arrears

Zimbabwe's arrears to multilateral institutions have materially constrained access to concessional lending. Unlike several regional peers, Zimbabwe has not enjoyed full access to long-tenor, low-cost sovereign financing from multilateral development banks.

This constraint has two effects:

1. It limits sovereign borrowing capacity for infrastructure.
2. It reduces the availability of multilateral co-financing that could otherwise crowd in private capital.

Occasional re-engagement efforts have generated technical support and small project windows, but the absence of full multilateral financing channels remains a structural handicap.

Foreign Direct Investment: concentrated and volatile

Foreign Direct Investment (FDI) inflows have fluctuated significantly over the past decade, generally ranging between US$300–600 million annually, with episodic spikes linked to mining projects.

FDI has been heavily concentrated in:

- Platinum and gold mining.
- Energy projects linked to extractive activity.
- Select manufacturing and telecom investments.

This concentration reflects Zimbabwe's comparative advantage in mineral resources, but it also underscores a broader pattern: capital flows to projects with:

- Export revenues in hard currency.
- Clearly identifiable offtake markets.
- Limited exposure to domestic tariff politics.

Infrastructure projects serving domestic users – particularly in water, urban services, and public transport – have attracted far less sustained FDI.

Climate finance: growing but narrowly targeted

Climate finance has become increasingly visible in the capital mix, particularly for renewable energy and adaptation initiatives. These flows, however, are often:

- Structured around specific emissions or resilience metrics.
- Smaller in ticket size.
- Focused on generation rather than transmission or system integration.

In the energy sector, funding has gravitated toward solar projects and off-grid solutions. While beneficial, these initiatives have not resolved systemic reliability

challenges, particularly in transmission and baseload generation, areas which are critical to support and expand industrial capacity.

Climate finance is expanding, but its allocation criteria do not always align, and in many cases diverge from Zimbabwe's immediate energy reliability needs.

Remittances: vital but not infrastructure capital

Remittances from the diaspora have consistently exceeded many formal capital flows, often reaching US$1 billion or more annually. They provide critical foreign exchange and household support.

However, remittances:

- Primarily fund consumption, housing construction, and small-scale business activity.
- Are not structured as pooled, long-tenor infrastructure capital.
- Do not substitute for project finance.

They stabilise the economy, but they do not finance key infrastructure.

The aggregate picture

When aggregated, Zimbabwe's annual external inflows appear significant. Yet the composition reveals a structural mismatch.

A simplified comparison illustrates the gap; estimated annual development needs of US$2.5–3.5 billion against a materially lower available infrastructure-targeted, scalable capital.

Aid supports social services, FDI supports extractives and climate finance supports selected renewable projects. Concessional lending remains constrained and domestic capital markets are shallow. The capital required for long-tenor, large-scale infrastructure – particularly projects serving domestic users and priced in local currency – remains scarce.

Aid vs investment: a functional distinction

It is useful to distinguish between capital that:

- Spends, and capital that earns.
- Supports services, and builds assets.
- Absorbs risk, and prices risk.

Aid is designed to deploy funds against social outcomes. Investment capital seeks risk-adjusted returns over time. Infrastructure financing requires a blend of both, but with clear risk allocation and repayment mechanisms.

Zimbabwe's challenge lies in ensuring commercially viable structures and enhancing risk mitigation to counter prohibitive risk premiums. Solving for these complexities ensures projects can scale and predictability in project outcomes.

Capital availability vs bankability

The existence of capital pools globally does not imply automatic access. Investors evaluate:

- Contract enforceability.
- Currency convertibility.
- Political stability.
- Counterparty strength.
- Revenue predictability.

Where these factors remain uncertain, capital either demands elevated returns or bypasses the market altogether. Zimbabwe's experience over the past decade reflects this logic. Capital flows toward sectors insulated from domestic risk, notably mining. It avoids sectors where revenues depend on politically sensitive tariffs or unstable currency regimes.

The problem, therefore, is not simply insufficient flows. It is that flows gravitate toward structures that are bankable under prevailing conditions.

The next section examines where this misalignment is most visible – and why funding often misses Zimbabwe's most binding constraints.

4. Where Capital Is Misaligned

The gap between Zimbabwe's development needs and its financing reality is not merely quantitative, it is structural. Capital does not simply fall short; it flows in directions that do not consistently address binding constraints and nowhere is this more visible than in energy.

The Energy Reliability Paradox

Zimbabwe's electricity deficit is well documented. Peak national demand is estimated at approximately 1,800–2,200 MW, while effective available generation capacity has often fallen materially below this level due to ageing thermal units, hydrological variability at Kariba, and maintenance backlogs.[4]

Installed capacity nominally exceeds 2,000 MW, but dependable available capacity is frequently closer to 1,200–1,400 MW during stress periods.[5] The shortfall is bridged through imports and, increasingly, private diesel generation.

The International Energy Agency estimates that over 40% of Zimbabwean firms identify electricity as a major constraint to operations.[6] Load shedding has become a structural feature rather than a cyclical anomaly.

At the same time, climate-aligned financing has increasingly targeted solar generation and small-scale renewable projects across Sub-Saharan Africa, including Zimbabwe.[7] These flows are not trivial. Climate Policy Initiative estimates that Africa received approximately US$29 billion in climate finance in 2020, up from US$20 billion in 2016. Zimbabwe has participated in this trend, particularly in solar IPP proposals and adaptation funding, yet the financing pattern reveals a tension.

Renewable energy funding often supports generation assets. Firstly, the scale of renewable funding has not been sufficient to materially scale national generation capacity. Secondly, Zimbabwe's binding constraint, lies equally – if not more critically – in transmission, grid stability, and system reliability.[8] Without adequate grid reinforcement, storage, and dispatchable baseload capacity, intermittent

[4] Zimbabwe Electricity Supply Authority (ZESA) (2022) *Annual Report 2022*. Harare: ZESA; African Development Bank (AfDB) (2023) *Zimbabwe Country Diagnostic Note*. Abidjan: AfDB.
[5] African Development Bank (AfDB) (2023) *Zimbabwe Country Diagnostic Note*. Abidjan: AfDB; International Energy Agency (IEA) (2022) *Africa Energy Outlook 2022*. Paris: IEA.
[6] World Bank (2016) *Enterprise Surveys: Zimbabwe Country Profile*. Washington, DC: World Bank.
[7] Climate Policy Initiative (CPI) (2022) *Global Landscape of Climate Finance 2022*. San Francisco: CPI.
[8] International Energy Agency (IEA) (2022) *Africa Energy Outlook 2022*. Paris: IEA; Energy Sector Management Assistance Program (ESMAP) (2021) *Energy Sector Assessments*. Washington, DC: World Bank.

generation cannot resolve industrial reliability needs. Whilst financing flows toward globally prioritised assets, Zimbabwe's infrastructure constraints persist.

Diesel as Revealed Preference

When public infrastructure underperforms, private actors improvise. Zimbabwean firms have invested heavily in diesel generation capacity to offset grid unreliability.[9] Diesel power, however, can cost two to three times of grid electricity tariffs when fuel and maintenance are included.[10]

This represents a reallocation of capital; private balance sheets absorbing infrastructure deficits at high marginal cost. It is also a signal; firms are willing to pay for reliability when they lack access to bankable, grid-scale solutions.

Small Projects Thrive; Big Projects Stall

A second misalignment lies in project scale. Over the past decade, numerous infrastructure announcements have been made – roads, power plants, water schemes, industrial parks. Yet the number of projects reaching financial close has been limited.

According to the World Bank's Private Participation in Infrastructure (PPI) Database, Zimbabwe has recorded relatively few large-scale PPP transactions reaching financial close in the past ten years compared to regional peers.[11] Where transactions have occurred, they have often been modest in size or concentrated in telecoms and mining-linked energy.

Smaller projects – solar mini-grids, donor-funded water upgrades, pilot initiatives – move more easily through the system. They require less complex risk allocation, smaller capital commitments, and limited sovereign guarantees.

Large, capital-intensive projects require:

- Long-tenor debt.
- Tariff certainty.
- Offtake credibility.
- Clear FX conversion mechanisms.

[9] World Bank (2016) *Enterprise Surveys: Zimbabwe Country Profile*. Washington, DC: World Bank; Confederation of Zimbabwe Industries (CZI) (2022) *Manufacturing Sector Survey*. Harare: CZI.
[10] International Energy Agency (IEA) (2022) *Africa Energy Outlook 2022*. Paris: IEA.
[11] World Bank (2023) *Private Participation in Infrastructure (PPI) Database*. Washington, DC: World Bank.

- Political tolerance for cost recovery.

These conditions are harder to assemble. Whilst the bias toward smaller, fragmented projects is rational under uncertainty, it is insufficient for closing systemic gaps.

Sector Allocation vs Binding Constraints

A review of Zimbabwe's capital inflows over the past decade reveals a concentration in sectors with export revenue streams – most notably mining.[12] These projects are structured around hard-currency earnings, reducing exposure to domestic tariff and currency risk.

By contrast, urban water systems, public transport, municipal infrastructure, and national grid reinforcement depend on local revenue bases. These sectors attract less FDI and limited commercial capital.

The result is predictable:

- Mining production expands where prices and geology support it.
- Urban infrastructure deteriorates where revenue models are weak.
- Industrial growth is constrained by power and logistics bottlenecks.

Capital follows cash flow visibility. Binding constraints often sit where cash flow visibility is lowest.

The Planning–Financing Disconnect

National development plans frequently identify infrastructure priorities aligned with growth objectives. Yet the financing architecture required to deliver these assets; project preparation facilities, standardised PPP contracts, sovereign risk frameworks, and FX clarity remains incomplete.

In practice, planning exercises and financing mechanisms operate in parallel rather than in sequence. Projects are announced before they are structured, feasibility studies are commissioned without clear downstream financing pathways and risk is discussed abstractly rather than allocated contractually. This disconnect inflates perceived risk and raises hurdle rates.

[12] United Nations Conference on Trade and Development (UNCTAD) (2023) *World Investment Report 2023*. Geneva: UNCTAD.

The Structural Nature of Misalignment

Zimbabwe's financing misalignment is the predictable outcome of prevailing risk and incentives structures resulting in:

- Donors funding areas aligned with global priorities.
- Investors seeking hard-currency revenues and enforceable contracts.
- Governments cautiously prioritising politically sensitive tariffs.
- Institutions struggling to move projects from concept to close.

Until these incentives are better aligned, through risk-sharing mechanisms, clearer regulatory frameworks, and credible project preparation, capital will continue to flow, but not necessarily where it is most needed.

The next section examines why so many large-scale projects struggle to reach financial close, even when headline funding appears available.

5. Why Projects Fail to Reach Financial Close

The constraint for development projects in Zimbabwe lies not only in mobilisation, but in execution. The journey from project concept to financial close includes several key stages. At each stage, Zimbabwe's pipeline narrows due to inadequate bankability .

The Project Pipeline: From Concept to Close

Infrastructure development typically follows a predictable arc:

- Project identification and pre-feasibility.
- Full feasibility studies (technical, legal, financial).
- Risk allocation and contractual structuring.
- Financing negotiations.
- Financial close.
- Construction and commissioning.

In Zimbabwe, attrition rates between stages remain high. Where projects do reach close, they are often:

- Mining-linked power projects.
- Telecom investments.
- Smaller independent power producers (IPPs) with private offtake.

National-scale infrastructure, particularly where revenue depends on public utilities or domestic tariffs, remains structurally more difficult to finance.

Feasibility Without Financing Pathways

Feasibility studies are frequently commissioned, often with donor support. However, technical feasibility does not equate to financial viability. A recurring issue is the absence of a clearly defined financing pathway at the feasibility stage. Projects may demonstrate economic rate-of-return benefits, but fail to specify:

- Tariff indexation mechanisms.
- Foreign exchange convertibility guarantees.
- Credit enhancement structures.
- Sovereign support commitments.

Without clarity on these elements, commercial lenders cannot price risk.

The World Bank's *Public-Private Partnerships Reference Guide* emphasises that early-stage project preparation and transaction structuring are decisive determinants of financial close[13]. Where preparation is under-resourced, projects stall regardless of strategic importance.

Offtake Risk and Utility Fragility

Infrastructure projects frequently depend on public-sector offtakes – particularly in energy and water.

Zimbabwe's state-owned enterprises, including ZESA Holdings and municipal utilities are operating under financial stress. ZESA has faced recurring operational and liquidity challenges in recent years[14]. Payment delays, tariff adjustments subject to regulatory lag, and exposure to currency volatility weaken offtaker creditworthiness. From a lender's perspective, offtaker risk becomes sovereign risk by extension.

In environments where utilities lack strong balance sheets or explicit government guarantees, lenders demand:

- Higher equity contributions.
- Political risk insurance.
- Multilateral co-financing.
- Shorter tenors.

Projects struggle to achieve bankable terms in the absence of these mitigants..

Currency Risk and Convertibility Constraints

Zimbabwe's macroeconomic history weighs heavily on project finance. Currency redenomination (2009, 2019, 2024), episodes of hyperinflation, and exchange rate volatility have reinforced investor caution[15]. Infrastructure projects typically require long-tenor debt and stable revenue streams. Where revenues are denominated in local currency but debt is denominated in hard currency, mismatch risk becomes acute.

[13] World Bank (2017) *Public-Private Partnerships Reference Guide, Version 3*. Washington, DC: World Bank.
[14] Zimbabwe Electricity Supply Authority (ZESA) (2022) *Annual Report 2022*. Harare: ZESA.
[15] IMF (2023) *Zimbabwe Article IV Consultation – Staff Report*. Washington, DC: International Monetary Fund.

Investors therefore seek:

- USD-indexed tariffs.
- Escrow mechanisms.
- Offshore accounts.
- Explicit convertibility guarantees.

Where such mechanisms are uncertain or politically sensitive, risk premiums rise. The IMF has repeatedly highlighted exchange rate instability and currency risk as core macroeconomic vulnerabilities affecting investment confidence[16].

Tariff Politics and Cost Recovery

Infrastructure finance depends on predictable cost recovery. User-pay models – whether for electricity, toll roads, or water – require tariffs that reflect capital and operating costs. In politically sensitive environments, tariff adjustments are often delayed or capped.

The result is a familiar cycle:

- Tariffs remain below cost-recovery levels.
- Utilities accumulate losses.
- Maintenance is deferred.
- Infrastructure quality deteriorates.
- Investors demand higher returns to compensate.

Zimbabwe's electricity tariff adjustments have historically lagged cost movements, particularly during periods of currency depreciation[17]. For investors, this introduces regulatory risk that is difficult to hedge.

Institutional Capacity and Transaction Time

Project finance is administratively intensive. It requires:

- Skilled transaction advisors.
- Clear PPP legislation.
- Transparent procurement processes.
- Inter-ministerial coordination.
- Timely decision-making.

[16] IMF (2023) *Zimbabwe Article IV Consultation – Staff Report*. Washington, DC: International Monetary Fund.
[17] Zimbabwe Energy Regulatory Authority (ZERA) (2022) *Tariff Determination Reports*. Harare: ZERA.

Zimbabwe has developed PPP frameworks and institutional mechanisms in recent years. However, execution capacity remains uneven[18]. Lengthy procurement cycles, regulatory uncertainty, and contract renegotiations increase transaction costs. For smaller markets, these costs can render projects uneconomic relative to larger regional opportunities.

According to AfDB assessments, weak project preparation capacity is a major constraint to infrastructure delivery across several African states, including Zimbabwe[19].

The Sovereign Constraint

Zimbabwe's arrears to international financial institutions have limited access to concessional sovereign lending and guarantees[20]. In many frontier markets, multilateral guarantees play a catalytic role in crowding in private capital.

Without full multilateral engagement, Zimbabwe faces higher standalone risk assessments. This affects:

- Pricing.
- Tenor.
- Availability of political risk insurance.
- Appetite of institutional investors.

The constraint is embedded in credit ratings and risk models.

Development Risk vs Operational Risk

A final structural issue lies in how risk is sequenced.

Infrastructure risk is front-loaded. Development and construction phases carry higher uncertainty than operational phases. However, in Zimbabwe, refinancing markets are shallow. Even if a project survives development risk, long-term refinancing options remain limited. This discourages risk-taking at early stages.

[18] Government of Zimbabwe (2020) *Public-Private Partnership Framework and Policy Updates*. Harare: Government of Zimbabwe.
[19] African Development Bank (AfDB) (2023) *Zimbabwe Country Diagnostic Note*. Abidjan: AfDB.
[20] World Bank (2023) *Zimbabwe Overview – Arrears and Engagement Status*. Washington, DC: World Bank.

In more developed markets, projects often refinance at lower spreads once operational performance is demonstrated. Zimbabwe lacks the depth of capital markets required for this model to function consistently.

The Narrowing Funnel

The cumulative effect of these constraints is a narrowing funnel where:

- Many projects are announced.
- A limited number reach feasibility.
- Fewer still achieve bankable structuring.
- Only a small number reach financial close.

This reflects a conversion bottleneck. Until project preparation, risk allocation, institutional credibility, and macroeconomic stability improve, capital will continue to hesitate at the threshold of financial commitment.

The next section examines how risk is priced in Zimbabwean infrastructure – and whether those premiums reflect fundamentals or perception.

6. Risk Premiums and Cost of Capital

If projects struggle to reach financial close in Zimbabwe, it is not solely because risk exists. It is because risk is priced at levels that frequently render projects unviable.

The cost of capital in infrastructure finance is the cumulative expression of perceived political, currency, regulatory, construction, and liquidity risks. In Zimbabwe, these risks are rarely separated cleanly. They are often bundled together under a broad "country risk" premium. The result is hurdle rates that few domestically oriented projects can meet.

Equity Expectations and IRR Thresholds

In more stable emerging markets, operational infrastructure equity may price closer to 12–15%. In frontier markets, equity investors in infrastructure typically target internal rates of return (IRRs) ranging between 15–25%, depending on sector, currency exposure, and stage of development[21]. Zimbabwe sits at the higher end of this spectrum.

Investors often demand elevated returns to compensate for:

- Exchange rate volatility.
- Policy unpredictability.
- Contract enforcement concerns.
- Exit uncertainty.

For projects with domestic revenue streams, particularly those denominated in local currency – these required returns may exceed what tariff structures can sustainably support. Consequently, even economically beneficial projects may not meet commercial return thresholds under prevailing risk perceptions.

Debt Pricing and Tenor Constraints

Debt markets reflect similar caution. Commercial debt for infrastructure in stable emerging markets may carry tenors of 10–15 years with spreads reflecting moderate sovereign risk. In Zimbabwe, access to long-tenor commercial debt is limited. When available, tenors are shorter and pricing is materially higher.

[21] IJGlobal (2022) *Global Infrastructure Investment Trends Report*. London: IJGlobal; Moody's Investors Service (2021) *Infrastructure Default and Recovery Rates*. New York: Moody's.

Zimbabwe's sovereign credit profile remains constrained, reflecting arrears and macroeconomic volatility[22]. Sovereign ratings influence project finance pricing directly and indirectly through risk models and institutional investor mandates.

In practice, project sponsors often face:

- Shorter debt tenors (5–7 years rather than 15–20).
- Higher margins.
- Greater equity contribution requirements.
- Demands for political risk insurance or multilateral involvement.

Short tenors are particularly problematic for infrastructure, where asset lives extend 20–30 years.

The Currency Risk Premium

Currency risk is perhaps the most decisive component of Zimbabwe's risk premium. Episodes of hyperinflation (2008–09), local currency reintroductions (2019, 2024), exchange rate volatility, and periodic regulatory shifts have left a durable imprint on investor expectations. Where project revenues are denominated in Zimbabwean dollars or partially indexed, lenders price substantial devaluation risk.

This generates three structural consequences:

- Preference for hard-currency revenue streams (e.g. mining exports).
- Pressure for USD-indexed tariffs in infrastructure contracts.
- Elevated return expectations for local-currency projects.

Where tariffs cannot be fully dollarised for political or social reasons, financing gaps emerge. The IMF has consistently identified exchange rate instability and currency fragmentation as core macroeconomic vulnerabilities affecting investment sentiment.

Political and Regulatory Risk

Political risk is frequently treated as binary: either tolerable or prohibitive when in practice, it is layered.

[22] IMF (2023) *Zimbabwe Article IV Consultation – Staff Report*. Washington, DC: International Monetary Fund.

Investors differentiate between:

- Expropriation risk.
- Contract renegotiation risk.
- Tariff intervention risk.
- Policy reversal risk.

Zimbabwe's history of indigenisation policy shifts, currency reforms, and regulatory adjustments contributes to perceived regulatory uncertainty. Even where the current policy framework is more stable, historical memory shapes risk models.

Political risk insurance and multilateral guarantees can mitigate these concerns, but they add cost and complexity.

Perceived vs Realised Risk

An important question is whether Zimbabwe's risk premium reflects realised default experience or hinges primarily on perception. Across emerging markets, infrastructure assets – once operational – often demonstrate relatively stable cash flows and lower default rates compared to other asset classes[23]. Construction and development stages carry higher risk; operational phases tend to be more predictable.

Zimbabwe, however, lacks a deep track record of operational PPPs and refinancings that could recalibrate risk perception downward. Limited precedent reinforces caution. In more mature markets, projects may refinance at lower spreads once operational performance is demonstrated whilst Zimbabwe's shallow domestic capital markets constrain this pathway.

The Bundling Problem

One of the most significant distortions in Zimbabwe's infrastructure pricing is the bundling of risks.

Instead of isolating and pricing:

- Construction risk.
- Offtaker risk.
- Currency risk.
- Political risk.
- Liquidity risk.

[23] Moody's Investors Service (2021) *Infrastructure Default and Recovery Rates*. New York: Moody's.

Investors frequently apply a consolidated country premium. This bundling inflates hurdle rates beyond what would be required if risks were disaggregated and partially mitigated through structured instruments such as:

- Partial risk guarantees.
- First-loss tranches.
- Currency hedging facilities.
- Multilateral co-financing.

The absence of consistent de-risking architecture amplifies perceived exposure.

Development Risk vs Operational Risk

Infrastructure risk is heavily front-loaded. Feasibility uncertainty, permitting delays, land acquisition, and construction overruns dominate early stages. Once assets reach commercial operation date (COD), risk profiles typically stabilise.

In Zimbabwe, limited exit and refinancing pathways mean that early-stage risk cannot easily be recycled to lower-risk investors post-COD. Pension funds and insurance companies, which might otherwise provide long-term operational capital, face their own currency and regulatory constraints.

The result is a structural mismatch between the type of capital available and the risk profile of projects at each stage.

The Cost of High Risk Premiums

High risk premiums have measurable effects:

- Fewer projects meet return thresholds.
- Tariffs must rise to sustain financial viability.
- Governments are pressured to provide guarantees.
- Equity contributions increase, raising upfront capital requirements.

Ultimately, elevated cost of capital reduces the universe of viable projects. Infrastructure that could be economically transformative becomes financially marginal.

The paradox re-emerges; capital exists globally, but at prices that render domestic infrastructure difficult to finance under current conditions.

The next section examines whether Zimbabwe's public balance sheet can compensate for this gap – and the fiscal limits that constrain such an approach.

7. Fiscal Reality and State Constraints

If private capital prices Zimbabwe at a premium, it is reasonable to ask whether the state can compensate.

Historically, large-scale infrastructure in developing economies has relied heavily on sovereign balance sheets – through direct capital expenditure, guarantees, or concessional borrowing. In Zimbabwe, however, fiscal constraints sharply limit this pathway. The issue is not willingness, it is capacity.

Debt, Arrears, and Access to Concessional Finance

Zimbabwe remains in arrears to several international financial institutions, including the World Bank and the African Development Bank[24,25]. These arrears have materially constrained access to concessional sovereign lending and policy-based financing.

In many African economies, multilateral development banks provide:

- Long-tenor debt (20–40 years).
- Grace periods.
- Low interest rates.
- Partial risk guarantees.

These instruments reduce sovereign financing costs and crowd in private capital. Zimbabwe's arrears status has restricted full participation in this system. Without concessional buffers, Zimbabwe must either rely on domestic financing, more expensive bilateral arrangements, or private capital priced at higher risk-adjusted returns.

Revenue Mobilisation and Fiscal Space

Zimbabwe's fiscal position has improved episodically in recent years, but structural constraints remain.

Government revenue performance has been affected by:

- Currency volatility.
- Informalisation of economic activity.

[24] World Bank (2023) *Zimbabwe Overview – Arrears and Engagement Status*. Washington, DC: World Bank;
[25] African Development Bank (AfDB) (2023) *Zimbabwe Country Diagnostic Note*. Abidjan: AfDB.

- Narrow tax bases.
- Inflation-induced distortions in real revenue collection.

Debt service absorbs a significant portion of fiscal resources, and the IMF has highlighted ongoing fiscal pressures and limited space for large-scale public investment.

Capital expenditure as a share of total expenditure has fluctuated, often constrained by:

- Wage bill pressures.
- Subsidy demands.
- Quasi-fiscal obligations.

In practical terms, this limits the ability of the sovereign to self-finance multi-billion-dollar infrastructure programmes.

Capital Expenditure vs Current Expenditure

Infrastructure investment requires sustained capital expenditure. In many developing economies, capital budgets are the first to be cut when fiscal stress emerges and Zimbabwe is no exception. Periods of macroeconomic instability have seen shifts toward current expenditure to maintain administrative continuity and social services.

The World Bank has noted that constrained fiscal space reduces the state's ability to undertake large capital projects without external financing support. When capital expenditure is volatile, long-term infrastructure planning becomes inconsistent. Projects are announced, then deferred, contractors face payment uncertainty and investor confidence erodes.

Contingent Liabilities and PPP Limits

Public–private partnerships are often presented as a way to bypass fiscal constraints. In practice, PPPs reallocate, not eliminate, risk.

Even where infrastructure is privately financed, governments often provide:

- Minimum revenue guarantees.
- Exchange rate guarantees.
- Offtaker commitments.
- Termination compensation clauses.

These create contingent liabilities. The IMF has warned that poorly structured PPPs can accumulate hidden fiscal risks if contingent obligations are not transparently accounted for[26]. For countries with limited fiscal buffers, excessive guarantee issuance can jeopardise macro stability.

Zimbabwe therefore faces a delicate balance; too few guarantees, and projects remain unbankable, too many and fiscal sustainability deteriorates.

Domestic Capital Markets: Limited Absorption Capacity

In more developed economies, domestic pension funds and insurance companies play a critical role in financing long-term infrastructure.

Zimbabwe's financial sector has faced repeated balance-sheet shocks due to inflation, currency reforms, and valuation distortions. While pension and insurance assets remain significant in nominal terms, currency instability complicates long-tenor asset allocation.

Institutional investors are cautious about:

- Local-currency exposure.
- Regulatory changes affecting asset valuation.
- Illiquid long-term infrastructure assets.

As a result, domestic capital markets cannot yet substitute for constrained sovereign borrowing.

Off-Balance-Sheet Illusions

A recurring temptation in fiscally constrained environments is to treat infrastructure financed through state-owned enterprises (SOEs) or special-purpose vehicles as separate from sovereign risk. In practice, investors price these entities in close relation to sovereign credibility.

ZESA, NRZ, and other SOEs operate with varying degrees of fiscal dependence[27]. Where implicit guarantees are assumed, investors consider them part of the sovereign risk envelope, especially given the historical debt assumption activities by the state of distressed SOEs liabilities.

[26] IMF (2020) *Public–Private Partnerships: Fiscal Risk Assessment Model (PFRAM) Guide*. Washington, DC: International Monetary Fund.
[27] NRZ (2022) *Annual Report*. Bulawayo: National Railways of Zimbabwe.

The Political Economy Constraint

Infrastructure financing decisions are not purely technical. They are embedded in political economy realities.

Raising tariffs to cost-recovery levels may be economically rational but politically sensitive. Increasing fuel levies to fund roads may stabilise capital budgets but burden consumers. Reducing subsidies may improve fiscal sustainability but provoke social resistance.

The IMF and World Bank have both emphasised that durable infrastructure reform requires alignment between fiscal policy, tariff policy, and social protection mechanisms. Absent such alignment, reforms are partial and reversible.

The Sovereign Cannot Carry the Gap Alone

Zimbabwe's development financing requirement – estimated at US$2.5–3.5 billion annually – represents approximately 5% - 7% of GDP. Even if the sovereign were to allocate annually an additional 3–5% of its financial resources to capital expenditure, this would require either:

- Significant revenue mobilisation gains.
- Substantial concessional financing.
- Material expenditure reprioritisation.

Under current fiscal constraints, none of these are easily achievable at scale. This has structural implications;: the state cannot single-handedly finance Zimbabwe's development gap nor can it withdraw entirely. The solution lies in credible co-financing models, disciplined fiscal management, and risk allocation frameworks that avoid overburdening either side.

The next section turns from diagnosis to prescription: what must change structurally for Zimbabwe to convert capital into infrastructure at scale.

8. What Must Change

The preceding sections have illustrated Zimbabwe's structural development finance challenges. Whilst capital exists both globally and domestically, what is missing is a system capable of converting that capital into sequenced, bankable, and scalable infrastructure. Reform, therefore, is not about attracting money in the abstract, it is about changing the mechanics of conversion.

Three shifts are required in project preparation, risk allocation, and institutional credibility.

1. From Announcements to Preparation

Infrastructure delivery begins with preparation, long before financing negotiations. Across emerging markets, well-prepared projects; those with completed feasibility studies, environmental clearances, land acquisition plans, and structured risk matrices are significantly more likely to reach financial close[28]. Weak preparation increases transaction costs and widens risk premiums.

Zimbabwe has articulated infrastructure priorities through national strategies, including the National Development Strategy 1 (2021–2025) and National Development Strategy 2 (2026-2030)[29]. The constraint lies in preparation capacity.

Strengthening project preparation requires:

- Dedicated, technically staffed transaction units.
- Standardised PPP templates.
- Transparent procurement frameworks.
- Early-stage financial structuring aligned to financing pathways

Multilateral institutions have repeatedly emphasised that upstream preparation determines downstream success. Without credible pipelines, capital will remain episodic. Preparation is the invisible infrastructure that drives project outcomes.

2. Reframing Aid as De-Risking Capital

Aid and concessional finance will remain part of Zimbabwe's financing mix. The question is how they are deployed. Rather than funding isolated capital projects,

[28] World Bank (2017) *Public-Private Partnerships Reference Guide, Version 3*. Washington, DC: World Bank.
[29] Government of Zimbabwe (2020) *National Development Strategy 1 (2021–2025)*. Harare: Government of Zimbabwe.

concessional resources can be structured to de-risk commercially viable assets. Instruments include:

- Partial risk guarantees.
- Political risk insurance.
- First-loss equity tranches.
- Currency hedging facilities.

The World Bank and AfDB have used such instruments to crowd in private capital in comparable markets[30]. Where concessional finance absorbs early-stage or political risk, commercial capital can enter at lower required returns. The objective is not subsidy, it is risk-sharing. Fragmented pilot projects may demonstrate proof of concept, however they rarely transition to achieve scale.

3. Disaggregating Risk Instead of Pricing "Country Risk"

Zimbabwe's infrastructure pricing currently reflects bundled risk perceptions. A more efficient model would separate risk types and apply targeted mitigation tools – but the constraint is not absence of such tools on paper. It is credibility in practice.

Most of these instruments already exist in the Zimbabwean market in some form. The government has issued sovereign guarantees to IPPs, formalised a Government Implementation Agreement (GIA) framework in 2022 covering 27 solar projects totalling ~1 GW of capacity and approximately US$1 billion in investment, and introduced a standardised Government Project Support Agreement (GPSA) in 2024 offering cost-reflective tariffs, take-or-pay offtake, and RBZ undertakings for offshore repatriation of funds. EPC contracts with performance bonds are standard in major projects. Yet dozens of licensed IPPs have for years struggled to reach financial close, citing concerns over currency convertibility and enforcement of sovereign commitments, and domestic IPPs currently contribute only around 1.5% of Zimbabwe's electricity supply, compared with roughly 30% of imports sourced from IPPs in neighbouring countries. The problem is not the tools; it is their bankability.

A more honest diagnosis reframes each risk category:

- Construction risk can be managed through EPC contracts and performance bonds, though contract enforcement and dispute-resolution channels remain a concern.

[30] World Bank (2022) *Guarantees and Risk Mitigation Instruments Overview*. Washington, DC: World Bank;

- Offtaker risk can be reduced through escrow structures and sovereign backstops, but escrow accessibility is limited and the creditworthiness of both ZESA and the sovereign is strained.
- Currency risk can be partially hedged or indexed, yet hedging instruments are shallow in the local market and indexing arrangements face political sensitivity around tariffs.
- Regulatory risk can be mitigated through independent regulators and contractual clarity, but de facto regulatory independence is not always assured.

The practical implication is that investors continue to price a uniform country-risk premium on top of formally available mitigants – because the mitigants themselves carry implementation risk. Four enhancements could meaningfully shift this.

First, ring-fenced offshore escrow accounts holding a portion of offtaker revenues (e.g., from large mining energy users) can provide lenders with payment security that sits outside the domestic convertibility constraint. This is already being piloted in the Green Hybrid Power 1 GW Lake Kariba floating solar project, which is structured around a 20-year take-or-pay PPA with the Intensive Energy Users Group of blue-chip mining and industrial off takers, backed by Afreximbank project preparation financing – a structure that effectively substitutes private offtaker creditworthiness for sovereign risk.

Second, partial risk guarantees from DFIs – particularly Afreximbank, which already has US$11 billion in cumulative funding commitments to Zimbabwe and significant country-limit headroom, with a current infrastructure pipeline of around US$1 billion – can de-risk specific layers (political risk, offtaker default, convertibility) rather than the whole project. This crowds in private capital and builds a track record.

Third, dedicated legislation for critical infrastructure projects establishing statutory payment waterfalls from SOE revenues, with ring-fenced debt service and escrow maintenance obligations, would give creditors legal priority that sits above discretionary political allocation of scarce foreign currency.

Fourth, and most fundamentally, sovereign creditworthiness itself requires rehabilitation. As long as Zimbabwe carries external arrears of over US$6 billion to international financial institutions and bilateral creditors, sovereign guarantees will carry a discount that no contractual structure can fully offset. Debt resolution – through the ongoing Structured Dialogue Platform or a comparable arrears-clearance framework – is therefore not a separate track from infrastructure financing. It is a precondition for it.

Risk disaggregation, in other words, is necessary but insufficient. It reduces the uniform premium that investors apply today, but the ceiling on how much it can reduce that premium is set by sovereign credibility. Addressing both together is what would move Zimbabwe from announced projects to financial close.

4. Aligning Tariff Policy with Investment Reality

Infrastructure cannot be financed sustainably without credible cost recovery. This does not imply abrupt tariff shocks.

It implies:

- Predictable indexation mechanisms.
- Transparent subsidy frameworks.
- Clear social protection offsets for vulnerable households.

Regulatory credibility matters as much as tariff levels. Investors require assurance that pricing frameworks will not be revised arbitrarily once capital is committed. In energy and water, delayed tariff adjustments have historically weakened utility balance sheets[6]. Durable reform requires regulatory independence and transparent tariff-setting processes. Whilst user-pay models are politically difficult, they are also foundational to bankability.

5. Rebuilding Sovereign Credibility

Zimbabwe's arrears and macroeconomic volatility remain central to risk perception. Progress in arrears clearance, policy consistency, and currency stabilisation would have outsized effects on cost of capital. Sovereign credibility affects:

- Access to concessional finance.
- Multilateral guarantees.
- Political risk insurance pricing.
- Institutional investor mandates.

The IMF has consistently identified macro stability and policy predictability as prerequisites for durable investment recovery. This is not a short-term lever, it is a medium-term credibility strategy.

6. Sequencing Infrastructure Strategically

Not all infrastructure gaps must be closed simultaneously. Strategic sequencing, prioritising projects with strong economic multipliers and clearer revenue models,

can build credibility. Successfully delivered projects reduce perceived risk and create refinancing precedents.

For example:

- Export-linked energy projects may anchor confidence.
- Industrial logistics corridors can crowd in manufacturing.
- Targeted urban infrastructure improvements can improve municipal revenue bases.

Sequencing creates demonstration effects, which impacts premium levels.

7. Converting Remittances into Investable Capital

Diaspora remittances are Zimbabwe's largest external financial flow after exports – approximately US$2.5 billion in 2024, or 7–8% of GDP, materially exceeding ODA and FDI combined. Yet these flows currently finance household consumption, not capital formation. The country captures the inflow but not its investment potential.

The gap is not one of willingness. Comparative analysis suggests Zimbabwe's diaspora could deploy an additional US$3.8–5.7 billion annually in investment capital under appropriate frameworks, against current informal investment of US$200–300 million. The constraint is the absence of credible investable instruments.

International evidence illustrates the design question. Nigeria's 2017 US$300 million diaspora bond was oversubscribed by 130%, aided by SEC registration and international listing. Ethiopia's 2008 and 2011 diaspora bond issues saw limited success. Israel and India have raised billions through comparable structures. The differentiator is not patriotic appeal; it is legal structure, listing venue, and use-of-proceeds discipline.

Zimbabwe's own history with diaspora instruments – RBZ-issued Tobacco and Gold Production Financing Bonds in 2009, the Diaspora Remittances Incentive Scheme from 2017, and a 2015 sovereign diaspora bond proposal – has produced modest uptake. Instruments issued on general sovereign credit, without ring-fencing, offshore listing, or political reciprocity, have not cleared.

A workable instrument requires five features:

- **Project-specific ring-fencing** tied to a single identifiable asset – a defined water treatment plant, a specific energy rehabilitation, a named housing estate – with escrowed cashflows dedicated to debt service.

- **Offshore listing and governing law**, providing legal predictability that domestic paper cannot currently offer.
- **A layered investor structure**, with DFI anchor investors (Afreximbank, AfDB, TDB) taking the senior tranche under partial risk guarantees, institutional investors absorbing mezzanine exposure, and a retail tranche accessible in small denominations through mobile money and licensed MTOs.
- **An equity exit pathway**, via listing of the underlying project company on the Victoria Falls Stock Exchange or ZSE once the asset is operational – allowing early investors to recover capital and deepening the domestic equity market.
- **Political reciprocity**, including diaspora voting rights, simplified investment-approval processes for non-resident citizens, and transparent reporting on proceeds.

A successful issue achieves more than capital raising. It imposes market discipline on SOEs, which must perform to service debt held by their own citizens. It deepens domestic capital markets by creating investable assets for pension funds, insurers, and retail savers. And it builds, issuance by issuance, the track record that rehabilitates sovereign credibility.

A single well-structured issue of US$100–200 million for one bankable project would demonstrate the model more credibly than further policy announcements.

8. Expanding Domestic Long-Term Capital Pools

Domestic pension and insurance funds are natural long-term infrastructure investors. However, currency instability and regulatory shifts have constrained their role. Reforms that stabilise valuation frameworks, improve asset-liability matching, and strengthen governance can gradually expand domestic participation.

In more mature African markets, domestic institutional investors finance significant portions of infrastructure bonds and operational assets[31]. Zimbabwe's financial sector can play a similar role if macro and regulatory stability improves. Infrastructure finance need not be entirely external.

9. Accepting Trade-Offs Explicitly

Development finance requires trade-offs.

- Decarbonisation must be sequenced with reliability.
- Social affordability must be balanced against cost recovery.
- Fiscal prudence must be weighed against growth multipliers.

[31] AfDB (2022) *African Financial Markets Initiative Report*. Abidjan: AfDB.

- Risk cannot be entirely eliminated, residual risk can only be allocated.

The absence of explicit trade-off management leads to implicit distortions. Zimbabwe does not lack ambition, it lacks a stable alignment between political economy, fiscal realism, and financial structuring.

From Capital Attraction to Capital Conversion

Ultimately, what must change is the focus. The conversation must shift from:

"How much funding can Zimbabwe attract?" to *"How can Zimbabwe improve the conversion rate of available capital into operational infrastructure?"*

This requires institutional strengthening more than new pledges as capital is not absent, it is conditional. The final section translates these structural shifts into concrete implications for policymakers, investors, DFIs, and corporates.

9. Implications for Decision-Makers

The preceding analysis suggests that Zimbabwe's development financing gap is not simply a question of scale. It is a question of alignment, sequencing, and credibility. Different actors within the system face different constraints. The implications therefore vary. What follows is not a prescription list, but a set of structural considerations for four key constituencies.

For Policymakers and Regulators: Credibility as Capital

For government, credibility is a form of capital as investors price uncertainty. Where policy frameworks and actions are stable and predictable, risk premiums fall. Where tariffs, exchange rules, or contractual frameworks shift unpredictably, risk premiums rise. Three implications follow:

- First, tariff policy must align with cost recovery in a transparent, rule-based manner. Delayed adjustments weaken utilities and discourage investment.
- Second, project preparation capacity must be strengthened institutionally rather than episodically. Dedicated PPP units, standardised documentation, and credible procurement processes materially improve bankability.
- Third, macroeconomic stability remains foundational. Exchange rate fragmentation, currency volatility, and arrears to international financial institutions continue to influence investor risk models.

Infrastructure reform is not only a technical exercise, it is a signalling exercise.

For Development Finance Institutions: From Funding to Structuring

DFIs face a strategic choice in Zimbabwe: fund projects directly, or restructure risk to crowd in capital. The evidence suggests that catalytic instruments – guarantees, blended finance, first-loss tranches – are often more powerful than direct project lending in high-risk environments[4].

Where concessional capital absorbs development-stage risk, commercial investors can enter at lower hurdle rates. Where DFIs focus solely on financing individual projects without systemic de-risking, scale remains limited. DFIs must also align climate objectives with reliability constraints. Renewable generation funding without transmission strengthening may not resolve systemic bottlenecks. The opportunity lies in architecture, not volume.

For Private Investors and Sponsors: Pricing Risk with Precision

For investors, Zimbabwe represents a market of potential but also volatility. The analysis suggests three considerations:

- **Risk Disaggregation:** Investors who distinguish between construction, offtaker, currency, and regulatory risks may identify opportunities obscured by broad country risk premiums.
- **Sequencing Strategy:** Projects linked to hard-currency revenue streams – exports, mining, industrial clusters – may provide more durable entry points.
- **Refinancing Pathways:** Structuring projects with potential operational refinancing options can reduce long-term exposure to development risk.

Infrastructure default studies across emerging markets indicate that operational assets often exhibit more stable performance than perceived during development phases[32]. Sponsors able to bridge early-stage risk may find long-term returns more predictable than headline risk indicators suggest.

For Domestic Corporates: Infrastructure as Balance-Sheet Strategy

Zimbabwean corporates are not passive observers. Many already internalise infrastructure deficits – through diesel generation, logistics improvisation, and self-financed water systems.

This internalisation has cost implications. Where firms collectively require reliable energy, logistics, or industrial infrastructure, structured co-investment models may offer more durable solutions than isolated private fixes.

Corporate participation in:

- Independent power projects.
- Industrial park development.
- Logistics hubs.

can align infrastructure provision with operational needs. The constraint remains financing structure, not demand.

For Institutional Investors: Rebuilding Long-Term Capital

Pension funds and insurers are natural holders of long-duration assets. However, currency instability and regulatory shifts have constrained long-term infrastructure allocation. If macroeconomic stability improves and regulatory consistency

[32] Moody's Investors Service (2021) *Infrastructure Default and Recovery Rates*. New York: Moody's.

strengthens, domestic institutional investors could play a larger role in financing operational infrastructure assets. This would reduce reliance on external capital and create refinancing pathways for development-stage investors. Infrastructure finance is not exclusively foreign capital. It can become part of domestic asset allocation strategy.

A Shared Constraint

Across these constituencies, one constraint is shared: risk pricing. Zimbabwe's cost of capital reflects cumulative perceptions – historical volatility, arrears, regulatory shifts. Recalibrating those perceptions requires consistent policy, transparent institutions, and demonstrated project success. Each successfully delivered project reduces perceived risk whilst each stalled or renegotiated contract reinforces it. Development finance is iterative.

The Central Implication

Zimbabwe does not face a binary choice between aid and markets, nor between public and private financing, it faces a coordination problem. Capital is available globally and concessional instruments exist. Domestic demand for infrastructure is clear, yet the machinery required to align these elements remains incomplete. The implication for decision-makers is not to seek more money, but to improve conversion. Infrastructure financing is ultimately a systems problem. Systems change more slowly than announcements – but they compound more reliably.