Alternatives

FOR FINANCING URBAN INFRASTRUCTURE IN ZIMBABWE: FOCUSING ON WATER, SANITATION, HOUSING AND ROAD INFRASTRUCTURE

AFRODAD

Zimbabwe Coalition on Debt and Development
ZIMCODD

Alternatives for Financing Urban Infrastructure in Zimbabwe: Focusing on Water, Sanitation, Housing and Road Infrastructure.

ISBN 978-1-77924-905-0.

African Forum and Network on Debt and Development (AFRODAD)
31 Atkinson Drive
Hillside, Harare, Zimbabwe
Telephone: +263242778531
Website: www.afrodad.org

contents

Acronyms

ACET	Africa Center for Economic Transformation
AfDB	African Development Bank
AG	Auditor General
BOO	Built Operate and Own
BOT	Built Operate and Transfer
CABS	Central Africa Building Society
CBZ	Commercial Bank of Zimbabwe
CHRA	Combined Harare Residents Association
CoH	City of Harare
FBC	First Banking Corporation
GDP	Gross Domestic Product
GIZ	German Development Agency
HRT	Harare Residents Trust
IADB	Inter-American Development Bank
IDBZ	Infrastructure Development Bank of Zimbabwe
IGFTs	Intergovernmental Fiscal Transfers
IMM	Istanbul Metropolitan Municipality
IPEC	Insurance and Pensions Commission
LAM	Land Asset Management
LAs	Local Authorities
MDTF	Multi-Donor Trust Fund
MMRDA	Mumbai Metropolitan Regional Development Authority
MoFED	Ministry of Finance and Economic Development

NBS	National Building Society
NDS1	National Development Strategy 1
NSSA	National Social Security Authority
ODA	Overseas development Assistance
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
PSIP	Public Sector Investment Programme
RBZ	Reserve Bank of Zimbabwe
SI	Statutory Instrument
SLB	Service Level Benchmarking
TSP	Transitional Stabilisation Programme
UCAZ	Urban Councils Association of Zimbabwe
UNICEF	United Nations International Children's Emergency Fund
UWSSRP	Urgent Water Supply and Sanitation Rehabilitation Project
WASH	Water Sanitation and Hygiene
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZIMREF	Zimbabwe reconstruction Fund
ZINARA	Zimbabwe National Road Authority
ZWL	Zimbabwe Local Currency

Acknowledgements

AFRODAD would like to express deep and sincere gratitude to the Lead Researcher, Dr Tawanda Zinyama, who worked tirelessly to put this publication together.

Special thanks goes to ZIMCODD Staff ***(John Maketo & Eustinah Tarisayi)*** and AFRODAD Staff ***(Tirivangani Mutazu and Reginald Chaoneka)*** for reviewing and providing guidance throughout the entire process.

AFRODAD also extend appreciation to the various stakeholders that provided information and feedback on the report.

Executive

SUMMARY

The study examines the alternatives for financing urban infrastructure in Zimbabwe. The motivation of this study is based on the understanding that inadequate infrastructure funding has resulted in widening infrastructure gap in the local government sector and has depressed the functionality of existing infrastructure due to low maintenance budgets. The overarching objective of the study is to contribute towards understanding and providing input into formulation of strategies towards the mobilisation of both public and private resources to finance urban infrastructure in Zimbabwe. The study provides a synopsis of the global trends on the evolution of land-based and private sector resources and infrastructure investment funds in cities like New York, Chinese, Egypt, India and South Africa. The study findings revealed that non-revenue water ranges between 50% and 60%. Non-revenue water is water that was distributed but not billed due to leakages or theft and metering inaccuracies (Baghirathan and Parker, 2017). It was interesting to observe that City of Harare has experimented with land value capture and public-private sector participation models in the provision of housing and water (proposed prepaid water project). While there were indications of willingness by institutional investors to participate in these projects, the most common financing mechanism which they are willing to consider are infrastructure bonds for projects that are assigned prescribed asset status. The Zimbabwean Constitution has very specific provisions that are aimed at protecting economic rights, including property rights, which are fundamental in the attraction of both short term and long-term investments. Effective enforcement is the missing link. Private investors are also worried about the delays caused by the public procurement processes given that in the private sector decision making is quicker due to limited bureaucratic red tape. Strengthening institutional enablers will play a key role in the mobilisation of infrastructure finance. It was also observed that there is lack of confidence among the private sector, with regards to the capacity within local authorities to manage the design and implementation of complex infrastructure projects.

The study makes a number of recommendations which focus on the need for prudent macroeconomic policy management to support stability and predictability in foreign exchange management. The following need to be addressed: legal environment and institutional issues; public procurement; reforming local government management and finance; land value capture, public-private partnerships and borrowing are alternatives for financing urban infrastructure. The mobilisation of adequate finance requires the proactive involvement and partnership of all the stakeholders and the integration of a number of sources of finance involving the central government, the private sector, international partners, residents and the diaspora. Non-revenue water can be addressed through pipeline and asset management such as selection, installation, maintenance, renewal and replacement.

Introduction and Background

01

By 2050 Africa's cities and towns will house nearly 1.5 billion people, 60% of the region's projected population (CD/ACET, 2020). This urban population will be relatively young. These demographic shifts can lead to higher productivity and per capita incomes or to unmanageable social tensions, violence, and conflict. The 2011/2012 Arab Spring demonstrated how youth disillusionment can promptly gain momentum, particularly in urban areas where access to services and opportunities has lagged.

Zimbabwe's state of infrastructure, especially water, wastewater and roads, generally reflects that the capacity of local authorities is depressed to adequately perform to expectations. For instance, the government in March 2021 declared all roads a State of Disaster in order to mobilise funds for maintenance and repair works. The declaration was done through the Statutory Instrument 47 of 2021.

The total government allocations for infrastructure projects between 2010 and 2018 as a percentage of total expenditure averaged only 7.6% (Dube, 2019). As a percentage of gross domestic product (GDP), the development budget constituted only about 1.8% on average over the period, falling short of the target of 25% of GDP that was envisaged under the Transitional Stabilisation Programme (TSP). This has culminated in very poor state of infrastructure in urban local authorities. About US$582.6 million worth of investment is needed to replace and rehabilitate water infrastructure for urban water supply alone (African Development Bank, 2011, 2019). Non-revenue water is very high at about between 50% and 60% (City of Harare, 2020, City of Bulawayo, 2019; Infrastructure Development Bank of Zimbabwe, 2019) which means that about only 50% of the treated water is billed and is inadequate to enable the recovery of water related cost build ups. Urban local authorities also a poor revenue collection record, as only 44.3% of the charges related to water supply is collected (City of Harare, 2020; Governing, 2017). Only 4.2% of all expenses incurred in water supply are utilised as maintenance related expenses, subjecting the existing infrastructure to accelerated wear and tear.

In addition to these challenges, local authorities (LAs) in Zimbabwe have serious governance, mismanagement of public resources, transparency and accountability challenges attested by various Auditor-General (AG) reports. The following have emerged from AG's reports the absence of risk management policies as cited in the 2019 report. Local authorities are negotiating huge PPP contracts with private investors without risk management policies. They end up with poorly negotiated contract that transfers huge risks to councils. It is key to ensure that all council policies are subjected to a risk test in order to ascertain the total burden associated with any policy decision

The LAs are failing to discharge their mandate clearly stated in Section 265 General Principles of Provincial and Local Government of the Constitution of Zimbabwe of ensuring good governance by being transparent, accountable and institutionally coherent. Despite annual findings of gross public resources mismanagement exposed by the AG, it is worrying to note that the recommendations from the previous reports are not implemented. In fact, the malpractices have worsened and reached fatal levels. For instance, the

majority of LAs have not been submitting their financial statements for auditing purposes. AG (2019) reports reveal that out of the 92 LAs, only Bindura, Goromonzi and Marondera submitted their 2018 financial statements in 2019 for auditing. Another serious governance challenge is borrowing for consumptive expenditures that do not generate resources for repayment of the loans. In 2019, City of Harare, for example, borrowed US$32.5 million from CABS bank to fund salaries and terminal benefits of employees without ministerial approval as required by the Urban Councils Act [Chapter 29:15]. Cities of Gweru and Mutare were also implicated in borrowing for recurrent expenditure and diverting resources from Estate accounts to recurrent expenditure marginalising and crowding-out capital expenditures. This was done in violation of Section 300 of the Urban Councils Act. Though AG made practical recommendations, the extant capacities within councils to implement the recommendations is depleted due to massive brain drain. There are certain recommendations that may require capacity development as a building block to implementation

All these governance issues have led to poor public service delivery characterised by repeated outbreaks of cholera and typhoid, poor revenue collection, clean water shortage, non-collection of refuse and deplorable roads among others (We Pay You Deliver Consortium, 2018; World Bank, 2015). Bad governance is a violation of human rights because it undermines realisation of justice, equity and accessibility to rights enshrined in the Constitution of Zimbabwe Chapter 4. Good governance is central in infrastructural financing and the achievement of Vision 2030 and National Development Strategies 1 (2021-2025) (NDS1) objectives is premised on building resilient infrastructure. Inadequate infrastructure funding has not only resulted in widening infrastructure gap but also jeopardised the functionality of existing infrastructure due to low maintenance budgets. A number of infrastructure projects in the energy, housing, transport, water, information communication and technology sectors have been stalled due to lack of funding.

The issue of dilapidating infrastructure is a cause of concern in most local authorities. Lack of adequate central government support on capital project has left the local level constrained to bank roll capital projects, coupled with the delay of operationalisation of section 301 of the constitution resulted in a back log in terms of infrastructural development. The main contention in this study is that councils are not prioritising infrastructural development for instance consumptive borrowing has no benefits to residents but it only increases burden on rate payers. The other issue that urban councils need to do is to craft robust transparency and accountability framework, complemented by effective internal financial controls. Local authorities need to put loans to good use show the

operational efficiency, allocative efficiency and financial discipline by councillors and management. On other sources of finance such as built-operate-transfer (BOT), and the built operate and own (BOO) councils need to do a cost benefit analysis, as some of these arrangements have short changed ratepayers. Central and local tiers need to complement each other in mobilising resources for infrastructural development. In this regard, the need for innovative alternative financing arrangements in local urban authorities cannot be overemphasised.

1.1 OBJECTIVES OF THE STUDY

The study examines the processes and challenges of the alternatives for financing urban infrastructure in Zimbabwe. The specific objectives of the study are:

- *Explore factors that hinder investment in infrastructure by local authorities that include regulatory frameworks, political factors and revenue collection tools;*
- *Examining ways of enhancing revenue collection from residents by focusing on transparency issues and sound financial management;*
- *Assessing the necessary institutional and legal reforms that can enhance efficiency of local authorities;*
- *Identifying the ideal properties of intergovernmental fiscal transfers that can facilitate revenue autonomy and financial adequacy of local authorities;*
- *Examining the mechanisms available for local authorities to access private sector capital and other external sources of finance, to allow implementation of their urban development and infrastructure plans; and*
- *Proffer policy recommendations for financing urban infrastructure in Zimbabwe.*

1.2 METHODOLOGICAL PERSPECTIVES

An applied qualitative research approach was used for the study and drew evidence from three main sources: literature, expert interviews and databases. The study selected City of Harare for in-depth study and Cities of Bulawayo and Mutare for triangulation covering the post-2000 period. Harare's infrastructure provides a useful lens through which to view the challenges facing physical infrastructure in Harare, and Zimbabwe more widely.

Interviews with experts have been an important source of evidence-gathering and objective critique. Interviews were conducted with City of Harare and Bulawayo officials (elected and appointed), Ministry of Local Government Officials, Minister of Provincial Affairs and Devolution, Provincial Development Coordinator, Urban Councils Association of Zimbabwe (UCAZ), IDBZ official, IPEC officials and residents associations.

Literature Review

02

The population growth throughout the developing world has created a challenge for financing infrastructure (Peterson, 2009: ix). Investment in infrastructure is needed to provide basic services for urban areas. It is needed to meet the demand for a safer and more reliable water supply, higher standards for removal and treatment of wastewater and solid waste and the transportation requirements. Infrastructure investment is indispensable to the economic productivity of cities.

Traditionally, urban infrastructure has been financed from three sources: the operating savings of local governments (own receipts, such as property taxes, watercharges,licencefees)(Development Initiatives, 2018), grants from higher levels of government (intergovernmental fiscal transfers) (Convergence, 2018) and borrowing (Gassner, Popov and Pushak, 2009; Buettner and Wildasin, 2006). Each of these financing sources now faces constraints. Local budgets are hard pressed to finance basic operating services including adequate maintenance of extant infrastructure (IDBZ, 2019). As decentralisation and devolution policies have transferred service responsibilities downward, local governments must finance more of the urban capital budget from their own resources. Local borrowing has helped finance growth in urban infrastructure investment, but the local government revenue base is often insufficient to service a significant expansion of local government debt.

The literature reviewed indicates that additional alternatives for local infrastructure finance are needed such as capturing land values and public-private participation in the provision of urban infrastructure. Many cities in Zimbabwe have underused public lands that would be more valuable if sold and converted into infrastructure assets. This could be due to land corruption, lack of good governance and political toxicity of local government systems in Zimbabwe. Tapping land values was a large part of the investment strategy of Western countries in financing urban infrastructure during the 19th century, when cities were growing most rapidly (OECD, 2020). Most land infrastructure finance generate revenues upfront (Peterson, 2009), making it easier to finance lumpy investment projects and rationalise the urban development pattern. Land-based financing is becoming an important source of urban infrastructure finance in developing countries (IADB, 2016). The cases examined and discuses below generated upfront revenues in the range of US$1 billion to US$3 billion, figure that are very large compared with total investment budgets and other sources of urban capital finance such as borrowing. The cases below illustrate the practical workings of land-based financing and public-private partnerships (PPPs) in many different country settings.

2.1 MECHANISMS FOR LOCAL AUTHORITIES TO ACCESS PRIVATE FINANCE: GLOBAL EXPERIENCES

2.1.1. Land Value Capture

One of the literature review findings of the study is the magnitude of revenue that is being raised from land sales in other jurisdictions. China has financed a large part of its urban infrastructure investment in this manner. The land value capture requires an urban local authority that borrows against the land as collateral, finances infrastructure

construction and then repays debt and obtains a profit by selling land after its value has been enhanced by infrastructural access. In this way, the municipality is able to realise major infrastructure projects at no out-of-pocket costs. The following cases buttress this finding.

Mumbai Metropolitan Regional Development Authority (MMRDA), India

In 2006 and 2007, MMRDA sold 13 hectares at auction two medium-sized land in Mumbai and raised US$1.2 billion. Revenue generated was more than 5 times the annual investment budget of the Mumbai Municipal Corporation and about 3.5 times the total value of municipal bonds that had been issued in all of India over the past 12 years (Peterson, 2009).

Egypt

In May 2007, a two-day auction for new city development outside Cairo generated US$3.12 billion in receipts. This was roughly 10% of the annual budget of the national government of the Arabic Republic of Egypt and more than 100 times the annual property tax revenues of all local governments in Egypt (El Kovedia and Madbourly, 2007).

World Trade Centre and Infrastructure Investment, Port Authority of New York and New Jersey

This is a classic example of critical land development by an infrastructure agency extracting profits from the sale of property to reinforce its primary mission of urban infrastructure investments. Table 2 below summarises the World Trade Centre infrastructure investment.

Table 1: Summary of World Trade Center Project in New York

Executing Authority	Port Authority of New York and New Jersey
Scope of Project	Developed 16 acres of land in lower Manhattan into the World Trade Center, consisting of seven office buildings containing 1.24 square meters of office space
Sale agreement and proceeds	Sold to Silverstein Properties in 2001 in the form of a 99-year lease, for a present value of US$3.2 billion
Use of funds	To finance urban transportation projects throughout the New York metropolitan area. Sale proceeds of US$3.2 billion compare to US$1.3 billion of total infrastructure capital spending by the Port Authority in 2005 and total infrastructure assets held at year-end 2004 of US$12 billion

Source: Peterson (2009), Doig (2001)

CASE 4

Urban Highway Construction in China

In China, the land-value gains are central to financing urban infrastructure projects, both directly and through public-private partnerships. A classic example is the construction of the outer Ring Road encircling the region around Changsha, the capital of Hunan Province in Central China. The total cost of the six-lane highway was US$730 million (Godfrey and Zhao, 2016). The municipality turned to the Ring Road Corporation, a public-private joint venture company listed on the Shanghai Stock Exchange, but majority controlled by the Hunan Provincial Government (Peterson, 2007).

Changsha financed the highway at no out-of-pocket cost. The Ring Road Corporation borrowed from China Development Bank and commercial banks about US$350 million against the future anticipated value of the improved land, pledging to repay the loans from revenues that would be received when land parcels were leased after highway construction was completed. Municipal governments in China are prohibited from direct borrowing. In this case, the municipal government provided banks with a 'comfort letter' stating that it would take steps to ensure that the Ring Road Corporation would repay its debt. The comfort letter pledged that the municipal government would transfer to the Ring Road Corporation additional land, suitable for immediate development and leasing, in the event that there was a revenue shortfall in meeting debt service.

2.1.2. Land Asset Management (LAM)

The balance sheets of public enterprises are top heavy with urban land and property assets but the cities where the property is located suffer acute shortages of infrastructure (Halimi, 2016). Under these conditions, it makes sense for local authorities to exchange land assets for infrastructure assets by selling or leasing publicly owned land and using the proceeds to finance infrastructure investment. LAM generates substantial revenues for infrastructure investment (Global Infrastructure Hub, 2020). Classic examples are World Trade Center in New York, Cape Town Waterfront in South Africa and old municipal bus terminus station in Istanbul in Turkey. These cases generated revenues ranging from US$1 billion to more than US$3 billion dedicated to infrastructure investment. The cases below demonstrate how this model works.

CASE 1 **Land Sales in Istanbul, Turkey**

The Istanbul Metropolitan Municipality (IMM) in the 1990s borrowed extensively on international markets in foreign currency and failed to repay its debts (World Bank, 2008). National government intervened and paid debts on behalf of IMM and subtracted the payments from intergovernmental fiscal transfer to which IMM was entitled. Thereafter IMM sought to reduce reliance on borrowing and restoring the IMM's credit rating. IMM managed to reduce borrowing by 7% of consolidated cash receipts in 2006 and to improve its international credit rating from B+ to BB- (Development Initiatives, 2018, Peterson, 2009). Borrowing as a source of capital finance was replaced by income from land and property sales (Global Infrastructure Hub, 2020).

CASE 2

Transnet: Sale of the Victoria and Albert Waterfront in South Africa

Table 3 below summaries the application of land asset management in South Africa.

Table 2: Summary of the project to Sell Victoria and Albert Waterfront in South Africa

Executing Authority	Transnet is the South African national parastatal responsible for managing and investing in transportation infrastructure.
Project scope	Sale of Victoria and Albert Waterfront in Cape Town, which Transnet developed from old docklands. The property contained 300 000 square meters of developed land and 250 000 square meters of land available for future development, all on the Cape Town waterfront.
Sale agreement and proceeds	Property was sold as freehold via international bidding. The sale to an international consortium was completed in September 2006 for R7.04 billion (US$1 billion)
Use of funds for infrastructure	Government authorities announced the proceeds would be used to help finance Transnet's R40.8 billion five-year capital investment programme, with particular emphasis on modernisation of rail freight and urban seaports. Part of the sale proceeds were received by Transnet's pension fund. The transaction strengthened Transnet's balance sheet for future borrowing by reducing net pension liabilities.

Source: Peterson: 2009, Transnet Annual Reports at www.transnet.co.za

These cases demonstrated the practical application of LAM and private participation in infrastructure finance via property development. The cases revealed that land sales by local municipalities have the potential to generate colossal revenue for infrastructure investment and accelerated socio-economic development. For this reason, access to private capital can speed up the delivery of public infrastructure.

However, the comparative analysis is fantastic but the difference in the levels of development between developed and developing is beyond comprehending. Rostow's stages of development show that Zimbabwe is still far away to comprehend the systems and levels of discipline to accommodate such strategies of financing due to weak mechanism of stewardships of the few resources that councils have. All land-financed deals seem to benefit private land developments and nothing much has find its way in council coffers. Land barons and the capture of council by land developers. While the examples are good, Zimbabwe's local authorities, there is inflexibility of the policy systems to operationalise the good practices.

Findings

3.1 URBAN INFRASTRUCTURE: CITY OF HARARE

3.1.1. Water and Sanitation

The City of Harare faces challenges in supplying portable water to its residents owing to lack of long-term investments in new water sources. An official with City of Harare informed the study that freshwater resources have been dwindling owing to rising and competing demands, climate change, contamination and pollution of water bodies and population growth. All these factors have resulted in erratic and intermittent water supply exacerbated by extant aged infrastructure and poor water loss management (City of Harare Budget Statements, 2017, 2018, 2019, 2020).

The City of Harare also faces challenges with waste management. Officials with Harare Residents Trust (HRT), Combined Harare Residents Association (CHRA) and Bulawayo Progressive Residents Association raised concerns with non-collection of refuse, non-attendance to sewer blockages and burst water pipes. In response, City of Harare public relations and communications official did not deny the existence of issues raised by residents' associations but attributed them to the run-down refuse fleet and erratic fuel supplies, making it impossible to have regular and timeous refuse collection. The study observed that the provision of water and maintenance of water and sewage infrastructure has faced mismanagement and lack of resources. By August 2021 Harare's water problems were worse with an estimated 58 percent of water being lost to non-revenue water.

The Harare municipal water challenges described above represent a stark and compelling example of local authority failure because access to water is a daily problem for urban residents in the absence of a reliable municipal supply. But this service delivery failure is just one example of Harare's larger challenges – potholes, street lights, storm drains, sewage systems, healthcare and schools all also suffer from the city's service delivery failures.

Despite its relatively strong infrastructural base Harare has struggled to finance meaningful infrastructural development especially in the last two decades. It was interesting to observe that City of Harare experimenting to finance its infrastructure through a land value capture technique that imposes a 'prescribed percentage' on all subdivisions of properties within Harare. Table 4 below gives the capital expenditure profile for City of Harare.

Table 3: Capital expenditure profile for Harare for 2020 financial year

Financing mechanism	Application in Harare
City internal surpluses	The level of revenue raised by the City is too low to fund infrastructure at a significant level. No surpluses.
City debt finance/State guaranteed loan	Harare has been able to raise a Chinese loan of US$144 million guaranteed by the State.
Land-based financing– in kind contributions	Developers are providing limited bulk and connector infrastructure by way of in-kind contributions.

Land-based financing - fee or charge	The existence of the endowment fee is there in City of Harare but the money is not used for infrastructure.
Funding from national fiscus	Major roads in Harare are funded by ZINARA.
PPPs	Private developers, Infrastructural Development Bank of Zimbabwe, financial institutional: FBC Bank, Central African Building Society; CBZ Bank.

Source: Various City of Harare Council minutes

Those interviewed especially institutional investors informed the study that political considerations are outweighing the needs for sound infrastructure governance. One official with IPEC remarked:

The challenge facing the developers as expressed in interviews with representatives of the sector, is the growing trend of 'fly by night' developers, operating in the peri-urban areas, who are able to access land and land development permissions through unorthodox routes and helped by their political connections powered by corrupt practices. The genuine developers face competition from those operating outside the formal system and are able to offer residential stands at low prices that reflect the weaker legal claims enjoyed by the persons obtaining the land.

"THE INSURANCE SECTOR IS MORE THAN PREPARED TO FIANCÉ URBAN INFRASTRUCTURE BUT EXCESSIVE POLITICAL CONSTIPATION SCARES US AWAY. LOOK TO HOW NSSA WAS SOLD FOR A DUMMY BY PHILIP CHIYANGWA IN KADOMA LAND DEAL".

The study observed that in 2019, the investment gap to meet the national targets for water supply was US$582.6 million needed to replace and rehabilitate existing water infrastructure for urban and rural water supply (African Development Bank, 2019). About US$504.6 million was needed to expand access to improved sanitation facilities (Ibid.). In 2018, it was indicated that local authorities would need about US$304.1 million to finance infrastructure for water supply (Urban Councils Association of Zimbabwe, 2018). The results from the Service Level Benchmarking (SLB) surveys have reflected many challenges which local authorities face in providing water supply, solid waste disposal, and sewage treatment. These challenges include: limited revenue inflows; increased demand for services due to a growing population; low levels of investment in local government infrastructure maintenance; aging infrastructure and equipment; inadequate treatment capacity; inadequate metering; inadequate policies; and

vandalism of infrastructure (Service Level Benchmarking Coordination Committee, 2019).

The interviews with officials of Cities of Bulawayo and Harare showed that failure by residents to pay for the services rendered resulted in huge debts. The failure to pay is both due to unwillingness and inability. Unwillingness is mainly due to the fact that local authorities are failing to deliver services; hence ratepayers are less motivated to pay for non-existent services. Inability to pay is due to job losses and general economic hardships. An interview with one banker revealed that:

"URBAN LOCAL AUTHORITIES HAVE INSUFFICIENT HUMAN AND FINANCIAL CAPACITY TO DELIVER DUE TO WEAK OVERSIGHT, INADEQUATE SUPERVISION AND SUPPORT, POLITICAL CONFLICTS BETWEEN COUNCILS AND THE LINE MINISTER, BETWEEN COUNCILLORS AND MANAGERS, RESULTING IN A DYSFUNCTIONAL SYSTEM CHARACTERISED BY SUSPENSIONS, DISMISSALS AND DISCIPLINARY PROCEDURES."

The study observed that water and sanitation infrastructure projects have been funded by government, local authorities, the private sector and donors. For instance, UNICEF supported 12 small towns in response to the 2008/2009 cholera outbreak. Donors also pooled funds to establish Multi-Donor Trust Funds (MDTFs) and Zimbabwe Multi Donor Trust Fund (ZimFund) to support provision of infrastructure in response to the economic crisis in Zimbabwe characterised by hyperinflation, underperformance of the economy and constrained fiscal space. These MDTFs demonstrate a source of concessional funding that can be leveraged on to mobilise finance for urban infrastructure projects. The model of pooling donor funds within the context of ZimFund and ZIMREF can be replicated to create a fund to crowd-in funds from the DFIs, private sector, public sector to mobilise more funds for infrastructure development.

3.1.2. Housing

Regarding development of residential property, the study observed that developers are required by the City of Harare to install both on-site and off-site infrastructure for the approval of their land development application. Such off-site infrastructure includes water and road infrastructure development. Private developers, the IDBZ and financial institutions all confirmed that Harare imposes exactions on them in the form of off-site infrastructure development.

On financing property developments, due to economic challenges since the

early 2000, investment into Zimbabwe's urban infrastructure has been negligible. Limited access to capital for infrastructure development was a major constraint to developers. Lending within Zimbabwe occurs largely on a short-term time scale. Mortgage lending is dominated by the Central African Building Society (CABS), followed by CBZ Bank. Interest rates on borrowed money are high, averaging approximately 15% per annum (CAHF, 2019). Access to long-term finance and offshore lines of credit is practically non-existent.

Another issue facing developers is the shortage of adequate sources of funding for private operators. A participant from the Zimbabwe Real Estate Institute complained that developers are often only willing to borrow funds from banks for 1 to 2 years because of high interest rates. This limits the scale of the projects they develop and acts as a constraint to their development of long-term projects as these become too expensive. Borrowing for such short periods adds extra pressure to the developer as he or she has to sell the final product as quickly as possible, to avoid paying more interest and these cuts into the developers' anticipated profits.

Examples of property developments within Harare include:

Budiriro Housing Project: where City of Harare provided CABS with unserviced land in Harare on the condition that the bank would provide on-site and off-site infrastructure and construct low-cost housing on it. CABS would then provide mortgages to the homeowners repaying over 10 years (subsequently increased to 20 years). CABS committed to deliver 15 000 housing units by 2013. The HRT official informed the study that the project failed for various reasons. First, the units were extortionate for low-income and middle-income earners. However, an official at CABS in the property and mortgage department attributed the low-uptake of housing units to costs of infrastructure provision having that went higher than anticipated and the mandatory building and planning standards escalated the development costs. Second, CHRA official noted that the deposit required (initially 25%, subsequently dropped to 10%) was unreasonable and unaffordable by majority who needed the houses.

Caledonia: is an example of a development on peri-urban land. Caledonia was incorporated into Harare in 2012. Stands were not properly allocated resulting in local authorities taking the money directly and illegally. This increased the likelihood of people paying money to quasi-legal peri-urban developers and to unregistered people who claim ownership of land and properties. Quasi-legal peri-urban developers earn large amounts of revenue from this illegal activity, and because of the poor regulation of this peri-urban land, it often results in the stands lacking official registration and ownership, and remain unserviced.

Caledonia is officially considered under the jurisdiction of Goromonzi, but it falls in ward 46 of Harare's city council. The issue in Caledonia is that Harare provides services to Caledonia, whose residents then pay rates to Goromonzi.

3.2 LAND-BASED FINANCING: PRACTICE IN HARARE

A precondition to getting subdivision approval in Zimbabwe is the payment of a prescribed percentage. This payment to the local authority can be up to 20% of a property's total value made either with cash or a contribution of land of equivalent value, or a combination of the two. Without this payment, reflected in a certificate of compliance, the properties may not be registered. According to the Regional and Town Planning Act (1996) the 'prescribed percentage' is reserved specifically to finance infrastructure and/or encourage the provision of services for public purposes (such as roads) within the relevant district.

This is a land-value-capture mechanism put in place specifically to fund infrastructure development. The funds are meant to be ring-fenced for the particular areas in which the developments have occurred. The total revenue that accrues to the endowment fund annually is reflected separately in the city's budget. However, the actual uses of this fund were questioned by a number of interviewees. It was consistently claimed by the people interviewed that the endowment fund is used by the city to cover operating costs. The use of the endowment fee for operating, instead of capital costs arises from the severe financial difficulties that the city has faced for a number of years. Developers also complained that this payment, in addition to the 14% Value Added Tax, 5% Capital Gains Tax and 25% Income Tax, contributes to making property development commercially challenging. Ultimately, they claimed, these taxes raise the price of the final product, which must be met by the customer. The failure to use the payment for its intended purpose inevitably increases this sense of frustration.

3.3 PRIVATE SECTOR PARTICIPATION IN HARARE INFRASTRUCTURAL DEVELOPMENT

The City of Harare (CoH) has also signed a number of Memoranda of Agreements with the private sector for strategic partnerships in housing developments under PPPs to speed up the provision of low-cost houses to low-income earners. For instance, City of Harare has partnered with two local financial institutions, National Building Society (NBS) and FBC Group (Pvt) Ltd to develop residential stands for low-income earners. The CoH also partnered Pure Gold Housing Trust in June 2017 for servicing of 2,500 unserviced residential stands in Mabvuku high density. Progress of the servicing of the residential stands has been going at

a slow pace with actual progress on the servicing at 25 percent with indications that at the expiry of the duration of the partnership, less than 50 percent of the required work would have been done. A partnership with Shelter Zimbabwe is expected to develop 1,500 high density stands. However, the project faced challenges around offsite trunk sewer services. Another partnership with Homelink Private Limited was entered into for the development of flats in Crowborough. The project started in 2019.

3.4 INTERGOVERNMENTAL FISCAL TRANSFER (IGFTS)

There was convergence amongst those interviewed and documentary evidence that intergovernmental fiscal transfer (IGFTs) are key in facilitating urban infrastructure development. However, IGFTs might have a crowding-out effect by reducing the incentives for local authorities to explore other revenue enhancing efforts resulting in low tax collection efficiencies (Masaki, 2018). It is instructive to note that IGFTs have also a crowding-in effect where the grants capacitate the local authorities to pursue other revenue heads (Caldeira and Rota-Graziosi, 2014). One City of Harare official observed that:

This view is consistent with Masaki (2018) who argues that IGFTs actually improve the local authority revenue mobilisation in Tanzania.

Section 301 of the Constitution of Zimbabwe provides for intergovernmental fiscal transfers from central government of not less than 5% of the national revenues raised in any financial year. The Government of Zimbabwe commenced implementation of this provision with a budget allocation of US$34.8 million (ZWL$703 million) equivalent to 5% of the revenues in 2019. For 2020, US$136.4 million (ZWL$2.9 billion) equitable grant shared among the 92 Local Authorities and 8 Provincial and 2 Metropolitan Councils. Priorities for these funds remain discretion of the local authority. IGFT for 2021 was ZW$19.5 billion. Table 5 provides details of the 2020 fiscal transfers for the 92 local authorities.

"THE ADMINISTRATIVE AND INSTITUTIONAL CAPACITY IN THE CITY TO COLLECT REVENUE IS SEVERELY LIMITED. INTERGOVERNMENTAL TRANSFERS MUST BE INCREASED AND DISBURSED TIMEOUSLY TO CAPACITATE THE CITY IN INFRASTRUCTURE DEVELOPMENT."

Table 4: Intergovernmental Fiscal Transfers

Item	2020 Budget Allocation	% of Total
Conditional Grant	14,465,116	11.7%
Rural District Council	2,358,140	16.3%
Other	208,372	8.8%
Roads	116,279	4.9%
WASH	2,033,488	86.2%
Urban Council	12,106,977	83.7%
Roads	348,837	2.9%
WASH	11,758,140	97.1%
IGFTs	109,069,256	88.3%
Rural District Council	90,932,186	83.4%
Education	10,984,762	12.1%
Health	13,000,841	14.3%
Operational Grant	5,686,186	6.3%
Other	7,801,051	8.6%
Roads	28,105,087	30.9%
WASH	25,354,260	27.9%
Urban Council	18,137,070	16.6%
Education	761,209	4.2%
Health	117,279	0.6%
Operational Grant	1,132,419	6.2%
Other	809,814	4.5%
Roads	21.1%	21.1%
WASH	11,492,233	63.4%

Item	2020 Budget Allocation	% of Total
Grand Total	123,534,372	100.0%

Source: MoFED, 2020 Estimates Book of Expenditure and author calculation

Urban based local tiers of government accounted for 25.7% and 16.5% of the constitutional allocation for 2019 and 2020 respectively. A simple equity analysis based on per capita allocation shows that the current allocation formula is ad hoc biased against urban authorities. The allocations for urban based Bulawayo and Harare Metropolitan Provinces which are the only ones below the mean per capita allocation of ZWL$181.5, reflect the infrastructure deficit bias brought in by the current formula. However, with regards to alignment of higher allocations to high poverty prevalence areas, the formula to a larger extent compensates for poverty with the exception of Matabeleland South province which has the largest per capita allocation despite having only 5.7% of total poor in the country as shown in Table 6.

Table 5: Equity dimension of transfers to local tiers of government (% of total)

Province	Percent Poor People	2020 Per Capita Allocation (ZWL$)	Proportion of Allocation
Bulawayo Metropolitan	2.2	124.0	3.2%
Manicaland	16.4	193.4	13.5%
Mashonaland Central	12.0	181.8	9.1%
Mashonaland East	12.2	193.6	11.0%
Mashonaland West	12.6	208.0	13.3%
Matabeleland North	6.5	205.3	6.3%
Matabeleland South	5.7	360.9	10.1%
Midlands	11.8	194.4	13.2%
Masvingo	13.3	198.2	12.2%
Harare Metropolitan	7.3	83.4	8.0%
Sub total	100.0	181.5	100%

Source: Author's Computations (Field Data)

Huge variances in per capita allocations to provinces call for a review of the IGFT formula to avoid inequities in public spending. Unless addressed, delays in transfers to provinces and other local authorities have far reaching consequences on the delivery of quality social services.

3.5 REVENUE COLLECTION AND BASE

Urban local authorities in Zimbabwe have numerous sources of revenues as shown in Table 7.

Table 6: Sources of revenue collection

Revenue Sources	Examples
Property Tax	• Section 272 of the Urban Councils Act. • households and businesses: land, residential constructions and industrial constructions
User Charges	• Section 219 of the Urban Councils Act • Vehicle registration fees, parking fees, marriage licence fees, refuse collection, water, health and education
License Fees	• Section 219 of the Urban Councils Act, Liquor Act [Chapter 14:14], the Traditional Beer Act [Chapter 14:26] and the Shop Licences Act [Chapter 14:19]
Income Generating Projects	• Section 221 of the Urban Councils Act allows local authorities to engage in income generating projects, subject to approval by the Minister
Intergovernmental Transfers	• Section 301 (3) of Constitution of Zimbabwe provides for not less than 5% of the national revenues raised in any financial year to be allocated to the provinces and local authorities • PSIP provision of key services such as basic roads, water and wastewater management
Borrowing	• Section 291 of the Urban Councils Act: bank overdrafts and short term loans, stocks, bonds, debentures or bills • Section 291 of the Urban Councils Act: penalties for illegal borrowing • Devolution and Decentralisation Policy of 2020, paragraph 166
Overseas Development Assistance (ODA)	• Grant or a soft loan • ODA financing humanitarian work: natural disasters, disease outbreaks such as cholera and typhoid • Zimbabwe Multi-Donor Trust Fund
Public-Private Partnerships	• Concessions, and build-operate-transfer operations and their variants, revolve around revenue-generating infrastructure and facilities, airports, railways, toll-ways, etc. • Joint Ventures Act [Chapter 22:22]

It emerged from the study that urban local authorities have a poor revenue collection record due to dysfunctional billing system, corruption exemplified by multiple bank accounts and ecocash biller codes. The average collection capacity for local authorities is about 52%. Uncollected revenues among the local authorities would cover about 35% of their estimated total infrastructure requirements. There is generally a high dependence on user fees (40%) as the main source of revenues, which is affected by willingness to pay and capacity to pay. Property tax constitutes about 29% of total revenue for City of Harare. To address the problem of poor revenue collection, city authorities proposed to install prepaid meters for water but the project failed to kick off. City of Harare enacted Harare Smart Water Meters by-law regulates the application, installation, use and maintenance of smart water meters.

This proposal was supported by the government. For instance, speaking after a tour of Morton Jaffray and Warren Control Pump station, Minister of State for Presidential Affairs, Jorum Gumbo said:

"IT IS MY HUMBLE SUBMISSION THAT THE CITY FATHERS SHOULD EXPEDITE THE FOLLOWING, CARRY OUT A DOMESTIC WATER METER REPLACEMENT PROGRAMME, INSTALLATION OF PREPAID WATER METERS, ATTEND TO ILLEGAL WATER CONNECTIONS AND REPLACE OBSOLETE PRIMARY AND SECONDARY WATER NETWORKS."

JORUM GUMBO

Some stakeholders, such as the Combined Harare Residents Association (CHRA), are arguing that Harare is not ready to install the meters, as residents do not receive a constant water supply and the city is without the economic and infrastructure frameworks to support a roll out. According to CHRA:

"AT THE MOMENT PEOPLE ARE STRUGGLING TO EVEN BUY PREPAID ELECTRICITY AND WHEN THAT IS INTRODUCED FOR WATER, IT WILL MEAN THAT PEOPLE WILL ALSO NOT HAVE ACCESS TO THE LIQUID."

CHRA

Likewise, German based GIZ released a report in 2015, Assessment and opportunities of prepaid metering systems in Zimbabwean Municipalities, which demonstrated local authorities' lack of readiness for a wide scale roll out. One official with City of Harare's City Treasurer Department argues that smart meters would improve revenue collection and recover US$200 million in water debts alone. However, residents' associations have different views. For instance, Bulawayo Progressive Residents' Association official, making referencing to City of Bulawayo, informed the study that:

"IF ANYTHING, THE COUNCIL IS BARKING UP THE WRONG TREE, THE NON-PAYMENT OF WATER SERVICES IS NOT THE BIGGEST CHALLENGE THE COUNCIL IS FACING. NON-REVENUE WATER WHICH STANDS AT 69% OF WATER PRODUCED IS THE PROBLEM. COUNCILS ARE JUST LOSING MILLIONS OF DOLLARS THROUGH LEAKAGES".

BULAWAYO PROGRESSIVE RESIDENTS' ASSOCIATION

These views were consistent with CHRA and HRT representatives who argued that the prepaid water meter policy in Harare is a threat to public health and affordability of portable clean water as enshrined in section 77 of the Constitution of Zimbabwe.

Minutes of the City of Harare Environment Committee revealed that the Harare council thinks that pre-paid water meters would promote efficiency in revenue collection. This is a wrong and incorrect assumption because if about 60% of treated water is not billed due to leakages, and council employees connect water to settlements not approved by councils. Given these problems, how then can local authorities improve revenue collection by installing pre-paid meters? To show commitment with the implementation of the pre-paid meter project, in 2020, City of Harare partnered ZB Bank to install prepaid meters. Pre-paid meter project can only succeed if non-revenue water is reduced to less than 0%. Prepaid meters have their limitations (Heymans, Eales and Franceys, 2014).

Addressing non-revenue water is important. Failure to control non-revenue water is a result of about five different reasons (Baghirathan and Parker, 2017) which include: failure to understand the problem (magnitude, sources, costs); lack of capacity (insufficient trained staff); inadequate funding to replace infrastructure (e.g. pipes, meters); lack of management commitment; and weak enabling environment and performance incentives.

Results from the engagements with local authorities and the Service Level Benchmarking (SLB) Coordination Committee surveys (2016, 2017, 2019) indicate that inadequate funding to replace infrastructure is the primary reason for non-revenue water. In 2013 a government guaranteed US$144 million loan from China was meant to put to rest Harare water problems including replacement of pipes. Other reasons cited are lack of capacity due to the macroeconomic challenges induced brain drain which saw engineers leaving could explain why non-revenue water continues to be a problem.

3.6 INNOVATIVE METHODS OF PARTNERING WITH THE PRIVATE SECTOR IN INFRASTRUCTURE PROJECTS

There are successful cases of private participation in infrastructural development in local authorities. A good example is Ruwa Town council which has used innovative mechanisms to attract Damafalls, a private developer, into a partnership involving the construction of Damafalls Water Augmentation Plant in 2012 and ZIMRE Company in 2008 for the construction of Zimre Properties Water and Sewer Treatment Plant. Chiredzi Town Council was also able to partner with Hippo Valley Estates to rehabilitate the water treatment plant and construct 700m of the Chigarapasi pumping water mainway, before connecting the main to the rehabilitation pump (ZEPARU, 2016). Different urban councils in Zimbabwe are attracting private developers to develop land for residential stands.

Other examples are given below.

Mutare Sakubva Case Study 1

The Sakubva Urban Renewal project, launched in 2020, is a good case of the public-private partnership to attain superb development effectiveness, in line with Vision 2030. The City of Mutare is working with Plan Infrastructure Development and BancABC in this project. Table 8 summaries the main infrastructure projects the underpin Mutare Urban Renewal and the attendant benefits.

Table 7: Mutare Urban Renewal Infrastructural Activities

Infrastructure Activity	Benefits of Mutare Urban renewal
• 264 hectares of Sakubva redeveloped. • Sakubva Stadium/sports complex. • Sakubva Beit Hall. • Sakubva Musika long distance bus terminus. • Sakubva Vegetable Market. • Sakubva Flea market. • High rise flats.	• To provide employment for over 10 000 people. • Enhanced land utilisation. • Improved service delivery. • Improvement in local economic development. • Provides a crime free environment. • Integrates residential, commercial, cultural, institutional and home industry uses.

Chitungwiza Case Study 2

The Government of Zimbabwe and the African Development Bank (AfDB), on 11 June 2021 signed a US$1.8 million ZimFund grant for the procurement of materials for the rehabilitation, repair, maintenance and improvements of sewerage systems infrastructure in Chitungwiza Municipality. The grant is funded from the Zimbabwe Multi-Donor Trust Fund earnings and interests. Chitungwiza Municipality is also a beneficiary of ZimFund's Urgent Water Supply and Sanitation Rehabilitation project (UWSSRP) Phase I and Phase II. Under the first phase of UWSSRP the intervention included rehabilitation of Zengeza's Conventional Sewage Treatment Works that has a capacity of 35 million litres a day with four sets of sewage treatment ponds and five trickling filters installed. Both phases 1 and II have already been completed.

Despite these opportunities, local authorities face challenges in attracting private investment. First, there is a feeling among investors that council properties are undervalued, hence partnerships with local authorities could see their assets being ascribed a low value by the market. Second, local authorities struggle to establish business cases for private sector investment by identifying bankable projects. The lack of capacity in demonstrating project bankability affects investment attraction. Third, partnerships with local authorities would be affected by the inability to quickly adjust tariffs in response to rising costs, which private investors would find compromising profitability. Local authority tariff adjustment mainly takes place through a budget review process that has to involve residents and the Minister would need to approve any tariff adjustments. This process is cumbersome and affects returns, especially where the private sector would have partnered local authorities. Thus, investment attraction into service delivery needs to be complimented by a reform of the tariff approval policy.

3.7 SOURCES OF FINANCE AND INVESTMENT

The scale of the urban infrastructure investment gap raises the question of where urban local authorities can access the additional finances to deliver the required level of sustainable urban infrastructure. While local authorities are well placed to lead and manage urban infrastructure programmes, they often have limited powers and institutional capacity to raise finance. The study observed that there are many sources of finance for infrastructure investment as Table 9 illustrates.

Table 8: Sources Finance Available for Local Authorities

Source of Finance	How It Works
Private & institutional finance	• Reduces the infrastructure investment gap and be incentivised to finance sustainable infrastructure in cities. • Bankability and creditworthiness are prerequisites to attract private finance. • Private investors need sufficient return on investment based on income flows, to repay investors, or where governments can provide low-risk debt repayments based on wider municipal revenue sources.
Commercial banks and investment companies	• Developers and infrastructure operators privately held, listed, or state-owned companies invest their balance sheet capital in infrastructure projects. • Institutional Investors such as pension funds and insurance companies.
National development banks	• Government-sponsored financial institutions with specific public policy mandates, for example, extending credit on favourable terms or take long-term equity stakes • Infrastructure Development Bank of Zimbabwe.
International Public Finance	• Mobilising capital for infrastructure investments • Render their expertise, technical assistance, and structuring abilities • Create the perception of lower risk, lending credibility to a project to leverage additional finance from other financial institutions • Direct debt and equity finance provide loan guarantees; offer in-house project preparation and technical project appraisal; undertake deal structuring • Critical in the success of large infrastructure projects
Bilateral and plulateral donors	• potential sources of finance for cities • deep knowledge of local markets and socio-economic and politico-economic conditions • convening and collaborative role between national and local governments, international financial institutions, and international private and commercial investors
Sovereign wealth funds	• Developmental and infrastructure mandates
Ministry of Finance & Economic Development	• Provides more effective fiscal transfers to complement municipal sources of funds.

There are convergences amongst the residents' associations (Harare Residents Trust, Combined Harare Residents Association) on the ability of local authorities in tapping on intergovernmental fiscal transfers (IGFTs), private and institutional finance as well as Commercial banks and investment companies. The IGFTs were deemed to be very viable in mobilising infrastructure finance. Urban Council Association of Zimbabwe (UCAZ) official noted that the alternative sources of financing infrastructure are viable in Zimbabwe. He emphatically said:

"THERE IS NO DOUBT THAT LAND VALUE CAPTURE, PRIVATE AND INSTITUTIONAL FINANCE, LOANS OR WHATEVER SOURCES WORK IN ZIMBABWE. THE PROBLEM IS LACK OF GOOD GOVERNANCE, TRANSPARENCY, ACCOUNTABILITY AND CITIZEN PARTICIPATION IN THE USE OF INFRASTRUCTURAL RESOURCES."

These views were also held by the participants interviewed who pointed out that corruption, mismanagement and inefficiency have deleterious effects on infrastructure development. There is ample evidence and documentation, which describe the negative impact of inefficient infrastructure on the lives of local communities, women, children, disabled, elderly and so on. In order to mitigate such risks, a robust policy framework is needed to act as a bulwark against such failings from governance slippages. Some participants were of the view that strengthening the means of participation with civil society is key. Civil society forms an important pillar for inputting citizen-centric concerns into infrastructure decisions. Because of its strategic position of working at the ground and grassroots, civil society is informed on the lacunae in delivery systems and can amplify issues that are most often overlooked by investors.

3.8 BARRIERS TO URBAN INFRASTRUCTURE INVESTMENT

It emerged that there is incongruity between supply and demand of investment in urban infrastructure due to institutional, governance failures, mismanagement, non-production of

audited financial statements and price distortions in the wider economy. This reflects both human skills and systems capacity challenges within the local authorities. Based on evidence from the literature and interviews with finance experts, the challenges noted are broadly summarised in Table 10.

Table 9: Urban Infrastructure Investment Challenges

Barrier	Definition	Examples
Lack of upfront public capital	Urban authorities lack the upfront capital to fund their investment priorities	Lack borrowing capacity due to low creditworthiness: limited revenue sources and restricted revenue-raising powers, insufficient or inaccessible collateral, etc.
Institutional inertia	difficulty of changing investment patterns due to institutional, governance, and contractual/financial features present in the market	Portfolio or resource allocation mandates within funds or investment organisations that prohibit infrastructure finance
Institutional capacity	Urban authorities cannot initiate projects or act as bankable counterparties due to structural, technical, and skills limitation	• Lack of institutional knowledge and skills • Inadequate budgeting and accounting skills and resources • Lack of long-range targets or infrastructure planning, resulting in lack of signals to market participants about investment needs and intent.
Risk	Investors perceive a significant risk of losing their investment due to a variety of risk factors	• Asset performance uncertainties • Political risk/conflict • Foreign exchange risk • Limited additional capital sources for pooling, sharing risks

Interviews with the Zimbabwe Association of Pension Funds and the Life Offices Association of Zimbabwe (insurance companies) were very revealing with respect to the ability to raise resources from pension funds and insurance companies (institutional investors) to financing road transport infrastructure. Pension funds and insurance companies can be persuaded to finance any local urban infrastructure projects if revenue is ring-fenced to facilitate repayment of loans to mitigate default risk. The difficulty mainly lies in failure of urban projects to be self-financing, for instance, the water and sanitation as discussed below.

3.8.1. Currency and Exchange Rate Risks

Although PPPs reduce risk and help catalyse concessional funding, there is still need for the investors to be

assured that they have the ability to repatriate their proceeds and to predict the exchange rate. The study observed that currency risk is a key consideration in negotiation of urban infrastructure financing contracts. One interviewee with CABS observed that:

"THERE IS NEED FOR IMPROVEMENT IN MANAGEMENT AND PREDICTABILITY OF CURRENCY REGIME IN ANY COUNTRY. CURRENCY RISK ALSO OCCURS WHEN THERE ARE UNFAVOURABLE CURRENCY FLUCTUATIONS FOR PROJECTS FINANCED IN FOREIGN CURRENCY AND RETURNS EARNED IN LOCAL CURRENCY. THIS ALSO INCLUDES THE AVAILABILITY OF FOREIGN CURRENCY TO PAY BACK INVESTORS."

Documentary evidence revealed that Reserve Bank of Zimbabwe (RBZ) statistics show that in October 2018, total deposits were about US$10 billion while foreign notes in circulation were only at US$70.4 million with balances available in nostro accounts being US$305.5 million. The ratio of foreign currency to total deposits was only about 4% (RBZ, 2019; Ministry of Finance and Economic Development, 2019). The introduction of the foreign exchange auction system marginally managed to reduce the exchange risk. Thus, the fear that investors would be stuck with RTGS dollars and be unable to convert it into foreign currency is a risk that does not promote infrastructure financing. This is also worsened by the fact that finance for infrastructure development is mainly acquired in foreign currency from foreign investors due to the fact that domestic capital markets cannot meet the required quantum of resources or term financing.

3.8.2. Tariffs and Costing Challenges

The study observed that the extant tariff levels, especially for water borne sewerage, would not recover costs even with 100% collection rates and high physical efficiency levels. Some of the key consequences of this problem of below cost recovery tariffs are shown in the table below.

Table 10: Tariffs and Costing Challenges

Below Cost Recovery Tariffs	
Underinvestment	Low Value Signals
• Shortage of water supply • Low service coverage • Inadequate wastewater treatment	• Water wastage • No incentive to pre-treatment

Local authorities are unable to finance urgent investments in water abstraction, treatment and distribution, as well as wastewater collection and treatment. This underinvestment has a negative impact on the continuity of supply, coverage and level of waste water treatment. There was unanimous from those interviewed that real tariff increases are important to capacitate local authorities. One banker informed the study that tariff reform is exclusively relevant for industrial consumers to attract foreign investment. Reluctance of the Government of Zimbabwe to adjust tariffs is explained in part by:

- *Real policy conflict between competitive pricing to attract foreign direct investment and sustainability for the water sector;*
- *Concern that the magnitude of the required tariff increase will have a major financial impact on both domestic and industrial consumers; and*
- *High non-revenue water which makes a tariff increase difficult to justify before such inefficiency is addressed.*

Another aspect of tariff reform is the present subsidy structure. Low tariffs applied to all consumers regardless of income category are actually disguised subsidies for wealthier households. Subsidies must be targeted to specific household. This analysis suggests that tariff increases and targeted subsidies are an essential prerequisite to the subsidy of the water and sanitation in Zimbabwe.

Recommendations

4.1 LEGAL ENVIRONMENT AND INSTITUTIONAL ISSUES

A comprehensive and effective legal system; adequate protection of property and creditor rights; and a reliable, efficient and independent justice system are essential for the participation of the private sector in infrastructure development. Section 72(3) of the Constitution of Zimbabwe provides for protection of economic rights and property rights fundamental for both short-term and long-term private infrastructure investments. Zimbabwe has a window of opportunity to address the identified flaws in the legislative framework through engagement of all players in the infrastructure delivery value chain within the context of easy of doing business reforms.

4.2 LAND VALUE CAPTURE

This is an opportunity for national policy to support more efficient design and implementation. This requests through establishment of explicit guidelines for public land auctions. The financial amounts at stake in land auctions are huge and the difference between an efficient auction and an ad hoc auction, or no auction at all large (Peterson, 2009). The World Bank's (2008) assessment of urbanisation in Ethiopia, for example, found that land based at auction commanded prices 2 to 80 times highest than land sold through administrative negotiations. The global experiences discussed earlier buttress this point.

There is need to prepare land asset management strategies before selling land. The urban local authorities must:

Carry out an inventory that identifies all publicly held land in an urban area;

- *Establish the market value of all significant parcels; and*
- *Make strategic decisions about whether parcels should be retained in current use by the government, sold to the private sector, jointly developed by public and private partners or converted to other public use. Egypt and South Africa have established a track record for conducting this type of strategic land asset management.*

The sacrosanct rule is that local authorities' use of land sales and leasing revenues should be restricted to investing in the asset and not be spent on consumptive expenditures. This way, Zimbabwean cities would adopt 'the city financing the city' model. As with any other public policy, land value capture operations carry their share of risk for corruption, abuses of power, and rent-seeking behavior (Peterson 2009). Considering the current rate of urbanisation and the scale of needed investment, urban local authorities certainly have much room to consider this option.

4.3 PUBLIC PROCUREMENT

Corruption and bribes erode the integrity and transparency of the public procurement system. Successful procurement systems are those that provide bidders a legal basis to challenge the actions of public procurement officials when they breach rules. Furthermore, even where this provision is available the key issue that guarantees the integrity of the system is enforceability and precedence in dealing with those who breached the rules.

It is imperative for government to strengthen the legal framework governing unsolicited bids. Clarity of the legal provisions on unsolicited bids will promote private sector initiated proposals to partner with local authorities in the delivery of infrastructure

projects. The procurement law does not provide for blacklisting of corrupt bidders and it seems bidders who are accused of and have been proved guilty of bribery can potentially remain eligible to participate in the procurement.

4.4 CAPACITY INFRASTRUCTURE PERFORMANCE

It also emerged that the limited number of projects with updated feasibility studies is due to lack of capacity among the project promoters/owners to develop the projects from project concept to a bankable project. The central government must assist local authorities to adequately finance feasibility studies for its solicited projects, and then invite bidders who would use government funded feasibility studies. It emerged from interviews that some projects where feasibility studies were done a long time ago have not been updated due to capacity issues. Furthermore, institutions like IDBZ should have a well-resourced Project Preparation/Development Fund to develop a pipeline of well packaged bankable projects that will be used to mobilise funding and facilitate project implementation.

Their capacity to raise funding to complement private investors is compromised by a number of factors: the inability of local authorities to raise loans in the international and domestic market, due to the high-country risk, failure to get government guarantees, less appealing balance sheets and a general poor macroeconomic environment which compromises viability (ZEPARU, 2019). There is a need to ensure that these binding constraints are addressed to enable the investment opportunities that currently exist to be easily exploitable.

4.5 BORROWING

Borrowing to do what? Borrowing means anticipating receipts. Borrowing requires local authorities to have the ability to plan for the future: if they cannot plan, they are at risk. This raises questions about the nature of the investment and its appropriateness for the real debt-servicing capacity. A loan forms an integral part of a financing plan that presents debt-carrying costs and incurs operating costs compared with direct or indirect receipts to cover these costs. Section 290 of the Urban Councils Act provides that urban local authorities can borrow to finance capital projects not consumptive expenditure.

Three things must take precedence over all other considerations: the quality of the investment, its feasibility relative to local economic circumstances and its appropriateness for the locality's needs and possibilities. In particular, local authorities that lack the internal expertise needed to perform strategic planning and feasibility studies for each investment must always call on professional advice.

4.6 REFORMING LOCAL GOVERNMENT MANAGEMENT AND FINANCE

This is crucial in the fight against corruption, as opportunistic and incentives for corruption are very much deeply rooted in local government management. The internal management of public resources and the administration should be reformed. It is therefore important that steps should be taken to reform financial management processes in the local authorities by updating the legal and institutional framework, updating, simplifying, standardising and automating local government business process and strengthening internal controls and internal audits. This would help improve the way local government manage public resources.

4.7 POLITICAL ENVIRONMENT

The political environment must be less toxic to foster confidence, trust and predictable policy environment for infrastructural investors to come on board and partner with local authorities. Such a socio-economic-political environment improves investor confidence. The condition of infrastructure in Zimbabwe is curtailing the ability of the private sector to assist the economic recovery. A natural step is to work on encouraging the private sector to take part of the responsibility of investing in infrastructure. The private sector is unlikely to participate unless investors perceive a positive investment climate.

Urban Infrastructure Outlook for 2030: Which Road Map?

05

It is the submission of this study that national policies lack a strategic vision of local government. Urbanisation remains widely perceived as a source of expenditures rather than as a potential vehicle for sustainable socio-economic growth. Transforming local government vision is an essential first step in encouraging local capital investment and the virtuous process of optimising urban productivity.

Urban local authorities in Zimbabwe lack the knowledge, experience and required legal and regulatory infrastructure necessary to ensure balanced operation between demand and supply. A total paradigm shift in the vision of local government and the way to finance it transcends technical and financial issues. There is need for a reformulated economic model in which local government becomes a productive factor and financing rests principally on local endogenous solutions. There are two fundamental issues to be addressed first:

- *An assessment of capital investment needs and funding deficits: local authorities need to significantly increase their relative share of local investment financing, for at least two reasons. First, central government does not easily increase intergovernmental fiscal transfers to local governments in proportion to local investment needs. Second, much evidence suggests that official development aid may not rise to meet the needs of the urban sector. It remains focused on other equally essential matters, such as major pandemics and natural disasters.*
- *Strengthening the devolution process: local authorities' greater involvement in financing local capital investment appears inevitable in the long term. This greater involvement is desirable but the share of financing and implementing local investment must be considered a corollary of economic development. Also, local authorities, as economic engines for construction, manufacturing, trade, commerce, and services, must generate their own capacity to make investments - the concrete manifestation of a successful devolution process. In this regard, much remains to be done in Zimbabwe.*

In conjunction with efforts on intergovernmental fiscal transfers, and alongside continued increases in local authorities' own internally generated revenues, other methods and other sources of funding for local capital investment have become increasingly necessary. These methods and sources include borrowing funds, using the private sector, levying user fees in the context of partnerships, and financing through land development and land value capture.

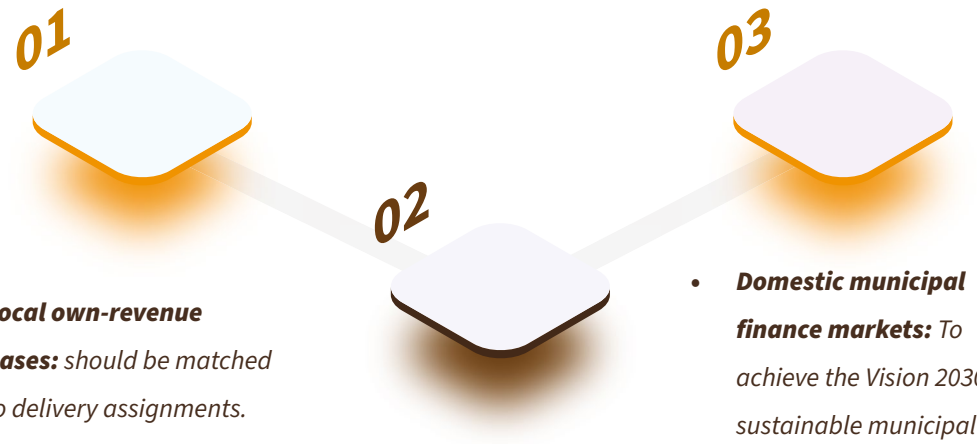
Encouraging endogenous financing: future local investment finance should rely on endogenous sources, that is, those produced by urban growth's own mechanisms. Such solutions are not new; they have financed local investment worldwide and will continue to do so.

Investor involvement requires first-rate governance and accountability to investors and citizens. The same applies to land value capture financing methods. Such systems can work only where transparency in transactions and public information eliminates corrupt practices by making them impossible. The list of institutional, attitudinal, and behaviour changes these endogenous solutions require go beyond urban issues to touch on socio-economic-political changes in Zimbabwe.

Concluding Remarks

The study has demonstrated that urban local government revenues are not enough to develop and provide adequate urban services to the fast-growing urban populations. This is reflected in the poor physical state and operational inefficiencies characterising many of the services, especially water and sanitation, waste management, roads and education. Given that the future of Zimbabwe will be urban and that economic growth will ultimately depend on how urban productivity can be sustained, more resources have to be mobilised and directed towards urban infrastructure and services. Apart from searching for new sources of revenue, local authorities need to institute better measures of collection of funds from current sources. The money that comes from 'own sources' has to be increased if sustainable financing of municipalities is to be achieved.

The key step to achieving the Vision 2030 is to address financing issues. This involves implementation of coherent, predictable intergovernmental fiscal and financial systems consisting of three elements that work together in a unified approach:



- ***Local own-revenue bases:*** *should be matched to delivery assignments. As urban cities grow in population and economic importance, policy-makers must transition to supportive rather than command roles, allowing cities sufficient autonomy to charge and collect rates, tariffs and fees adequate to sustain services and infrastructure required for growth. As Zimbabwe seeks to achieve Vision 2030 there is need to finance the infrastructure required to support urban growth.*

- ***Intergovernmental fiscal arrangements:*** *Ministry of Finance must be assisted to make choices on intergovernmental transfer systems including sources and formula. Allocation formulae should be transparent as well as conditions for disbursement of funds. The provision of funding should reward good performance by local governments.*

- ***Domestic municipal finance markets:*** *To achieve the Vision 2030, sustainable municipal finance must be based on the emergence of creditworthiness of capable borrowers.*

Donors continue to play a preponderant role in the financing of capital investments in Zimbabwe. In general, access to borrowing remains very limited in Zimbabwe, primarily because most local urban authorities are insolvent or have too weak repayment capacities. Commercial lenders see no market or a too-risky market to service. The option of gaining financing through land development remains to be exploited. Local capital investments must be financed by PPPs. However, results of infrastructure PPPs are mostly disappointing.

References

- *African Development Bank, (2019). Zimbabwe Infrastructure Report 2019. Abidjan: African Development Bank.*
- *African Development Bank, (2018). Blended Finance and Local Currency Financing as Drivers for Infrastructure Development, Issue Number 03. https://www.afida-africa.org/files/AfIDA%20Newsletter%20June%20-%20August%202018%20.pdf. Accessed on 28 August 2021.*
- *African Development Bank, (2011). Zimbabwe Country Brief 2011-2013. https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Zimbabwe%20Country%20Brief%20June%202011.pdf. Accessed on 20 July 2021.*
- *Auditor-General. (2018). Report of the Auditor General for the Financial Year Ended December 31, 2017 on Local Authorities. Harare: Office of the Auditor General Zimbabwe.*
- *Baghirathan, B., and Parker, J. (2017). A Guide To Non-Revenue Water Reduction: How to Limit Losses, Strengthening Commercial Viability and Improve Services. Water and Sanitation for the Urban Poor.*
- *Buettner, T., and Wildasin, D. E., (2006). The Dynamics of Municipal Fiscal Adjustment. Public Economics, 90: 1115-1132.*
- *Bulawayo City Counci,l (2017). Bulawayo Water and Sewerage Services Improvement Project, Publication of Award of Contract for Goods, Advert No: 5802. http://www.citybyo.co.zw/AZServices/TenderAwardSuppyandDeliveryofPipes. Accessed on 17 July 2021.*
- *Caldeira, E., and Rota-Graziosi, G., (2014). The Crowding-in Effect of Simple Unconditional Central Grants on Local Own-Source Revenue: The Case of Benin. African Economies: 23(3), 361–387.*
- *CD/ACET, (2020). Quality Infrastructure in 21st Century Africa: Prioritising, Accelerating and Scaling up in the Context of PIDA (2021-30), http://www.oecd.org/dev/Africa-Quality-infrastructure-21st-century.pdf. Accessed on 28 June 2021.*
- *City of Bulawayo, (Various years). Council Annual Budgets. Bulawayo: City of Bulawayo.*
- *City of Harare, (Various years). Council Annual Budgets. Harare: City of Harare.*
- *City of Harare Department of Health Services, 2018 Annual Report. Harare, Zimbabwe.*
- *City of Harare Department of Housing and Community Services, 2018 Annual Report. Harare, Zimbabwe.*
- *Convergence, (2018). The State of Blended Finance. https://downloads.ctfassets.net/4cgqlwde6qy0/6KN2rOUXAsceawYYywic86/154577e7f96ed6511ef1048bc79ee978/State_of_Blended_Finance_2018_FINAL.pdf. Accessed on 17 July 2021.*

- *CHRA (2020). ZB Bank Reignites Pre-Paid Water Metering Agenda during COVID-19 in Harare. https://kubatana.net/2020/06/24/zb-bank-re-ignites-pre-paid-water-metering-agenda-during-covid-19-in-harare. Accessed on 220 August 2021.*
- *Development Initiatives, (2018). The Enabling Environment for Private Sector Development Donor Spending and Links to Other Catalytic Uses of Aid, Discussion paper, Available at http://devinit.org/wp-content/uploads/2018/03/the-enabling-environment-forprivate-sector-development_discussion-paper.pdf. Accessed on 19 July 2021.*
- *Doig, J. W., (2001). Empire on the Hudson: Entrepreneurial Vision and Public Power: The Port Authority of New York. New York: Columbia University Press.*
- *Dube, C., (2019). Main Bottlenecks at the Local Authority Level that could pose Challenges for Growth and Sustainability. Harare: Zimbabwe economic Policy Analysis and Research Unit.*
- *EI Kovedia, H. and Madbourly, M., (2007). "Tackling the Shelter Challenge of Cities: Cairo, Egypt." Washington, DC: World Bank.*
- *Gassner, K., Popov, A. and Pushak, N, (2009). Does Private Sector Participation Improve Performance in Electricity and Water Distribution? Washington, DC: World Bank.*
- *Global Infrastructure Hub, (2020). Leading Practices in Governmental Process Facilitating Infrastructure Project Preparation, https://cdn.gihub.org/umbraco/media/2344/gih_project-preparation_full-document_final_art_web.pdf. Accessed on 10 July 2021.*
- *Godfrey, N. and Zhao, X., (2016). Financing the Urban Transition for Sustainable Development: Better Finance for Better Cities. Contributing paper for The Sustainable Infrastructure Imperative: Financing for Better Growth and Development. London and Washington, DC: New Climate Economy. http://newclimateeconomy.report/workingpapers. Accessed on 10 July 2021,*
- *Governing, (2017). Bankrupt Cities, Municipalities List and Map. Available at: http://governing.com/gov-data/municipal-cities-counties-bankruptcies-and-defaults.html. Accessed on 15 July 2021.*
- *Government of Zimbabwe, (2020). Zimbabwe National Development Strategy 1 (2021-2025). Harare: Government Printers.*
- *Government of Zimbabwe, (2013). Constitution of Zimbabwe Amendment (No.20) Act. Harare: Government Printers.*
- *Government of Zimbabwe, (2017). Urban Councils Act [Chapter 29:15]. Harare: Government Printers.*
- *Halimi, H., (2016). Untapped Finance for African cities: Municipal bonds. UrbanAfrica.net http://www.urbanafrica.net/urban-voices/untapped-finance-for-african-cities-municipal-bonds. Accessed on 9 July 2021.*
- *Heymans, C., Eales, K., and Franceys, R., (2014). The Limits and Possibilities of Prepaid Water in Urban Africa: Lessons from the Field. Washington DC: Water and Sanitation Programme, World Bank Group.*
- *IADB, (2016). Financing Urban Infrastructure in Emerging Cities: Municipal Bonds. http://blogs.iadb.org/ciudades-sostenibles/2016/02/19/municipal-bonds. Accessed 20 July 2021.*
- *Infrastructure Development Bank of Zimbabwe, (2019). Opportunities for Blending Public and Private Sector Resources Towards Infrastructure Funding in Zimbabwe: Policy Options. Harare. file:///C:/Users/USER/AppData/Local/Temp/MWA074704%20IDBZ%20Blending%20Finance-%20Revised%20Final%20Report%202_0_0-1.pdf. Accessed on 22 June 2021.*

- *Masaki, T., (2018). The impact of Intergovernmental Transfers on Local Revenue Generation in Sub-Saharan Africa: Evidence from Tanzania. World Development, 106: 173-186.*
- *Ministry of Finance and Economic Development, (2018). 2019 Infrastructure Investment Plan. Harare: Ministry of Finance and Economic Development.*
- *OECD, (2020). OECD Compendium of Policy Good Practices for Quality Infrastructure, http://www.oecd.org/finance/oecd-compendium-of-policy-good-practices-forquality-infrastructure-investment.htm. Accessed 15 July 2021.*
- *OECD, (2007). Infrastructure to 2030. Volume 2: Mapping Policy for Electricity, Water and Transport. https://www.oecd.org/futures/infrastructureto2030/40953164.pdf. Accessed 22 July 2021.*
- *Peterson, G.E., (2009). Unlocking land values to finance urban infrastructure. Washington, DC :World Bank.*
- *Peterson, G. E., (2007). Land Leasing and Land Sale as an Infrastructure Financing Option. In Financing Cities: Fiscal Responsibility and Urban Infrastructure in Brazil, China, India, Poland and South Africa, (George E. Peterson and Patricia Clarke Annez (ed.)). London: World Bank and Sage Publication.*
- *Service Level Benchmarking Coordination Committee, (2016). Service Level Benchmarking for Urban Water Supply, Sanitation and Solid Waste Management in Zimbabwe: Peer Review Annual Report – 2015. Harare: The World Bank.*
- *Service Level Benchmarking Coordination Committee, (2019). 2017 Results Dissemination Workshop for Partners. Harare: Workshop Presentation at Mandel Training Centre 6 March 2019.*
- *Urban Councils Association of Zimbabwe, (2018). Local Government Investment Conference 2018 Report. Harare: UCAZ.*
- *We Pay You Deliver Consortium, (2018). Cities in Distress: Municipal Budgeting and Financial Management Survey Report. Harare: Danish Church Aid.*
- *World Bank, (2015). Zimbabwe Technical Assistance to City of Harare for the Greater Harare Water and Sanitation Strategic Plan. https://documents1.worldbank.org/curated/en/141881467995053722/pdf/106246-WP-Harare-Strategy-Plan-Summary-Report-January-2015-PUBLIC.pdf HYPERLINK "https://documents1.worldbank.org/curated/en/141881467995053722/pdf/106246-WP-Harare-Strategy-Plan-Summary-Report-January-2015-PUBLIC.pdf.%20Accessed%2014%20July%202021". Accessed 14 July 2021.*
- *World Bank, (2009). Attracting Investors to African Public-Private Partnerships; A Project Preparation Guide. Washington, DC: World Bank.*
- *World Bank. (2008). Turkey: Istanbul Financial Note. Washington, Dc: World Bank.*
- *World Bank, (2007). Ethiopia Urbanisation Study. Draft. Washington, DC: World Bank.*
- *Zimbabwe Coalition on Debt and Development, (2020). Impact of Public Debt on Service Delivery in Local Authorities. Harare: ZIMCODD.*

9 781779 249050

Published By

AFRODAD

African Forum and Network on Debt and Development
31 Atkinson Drive, Hillside
PO Box CY1517, Causeway
Harare, Zimbabwe
Tel: +263 242 778531/6
Fax: +263 242 747878
Website: www.afrodad.org

In Partneship with

Zimbabwe Coalition on Debt and Development
9 Bargate Road, Mt Pleasant
Harare, Zimbabwe
Tel: +263 242 776830
Email: zimcodd@zimcodd.co.zw