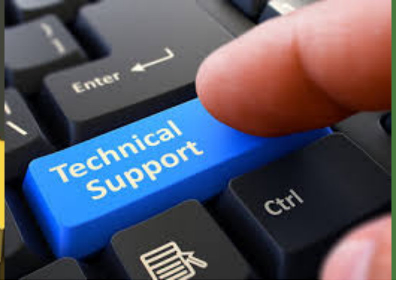


IDBZ Experiences in Facilitating Infrastructure Investments

NECF Infrastructure Summit, Vic Falls

Willing Zvirevo
Director – Resource Mobilisation & Climate Finance

8 September 2022

Infrastructure Development Bank of Zimbabwe

Role of IDBZ in Infrastructure Development

- The IDBZ is a national **Development Finance Institution** (DFI) created through an Act of Parliament to spearhead **infrastructure development and financing** in Zimbabwe.

- Bank fulfills its mandate through various **interventions** including:

  a) **Providing Technical Support towards project preparation and packaging**, **contract negotiations** and **project implementation monitoring** (*to ensure successful delivery*)

  b) **Mobilising resources** from domestic and foreign sources to finance project development and implementation (a major part of our mandate)

  a) Providing **Capacity Building and Knowledge Sharing** within the Bank's core mandate area.

- In recent times the IDBZ was **involved in monitoring the implementation of public sector projects funded from the National Budget.** The role included regular project visits, validation of payment claims by contractors, and processing project disbursements.

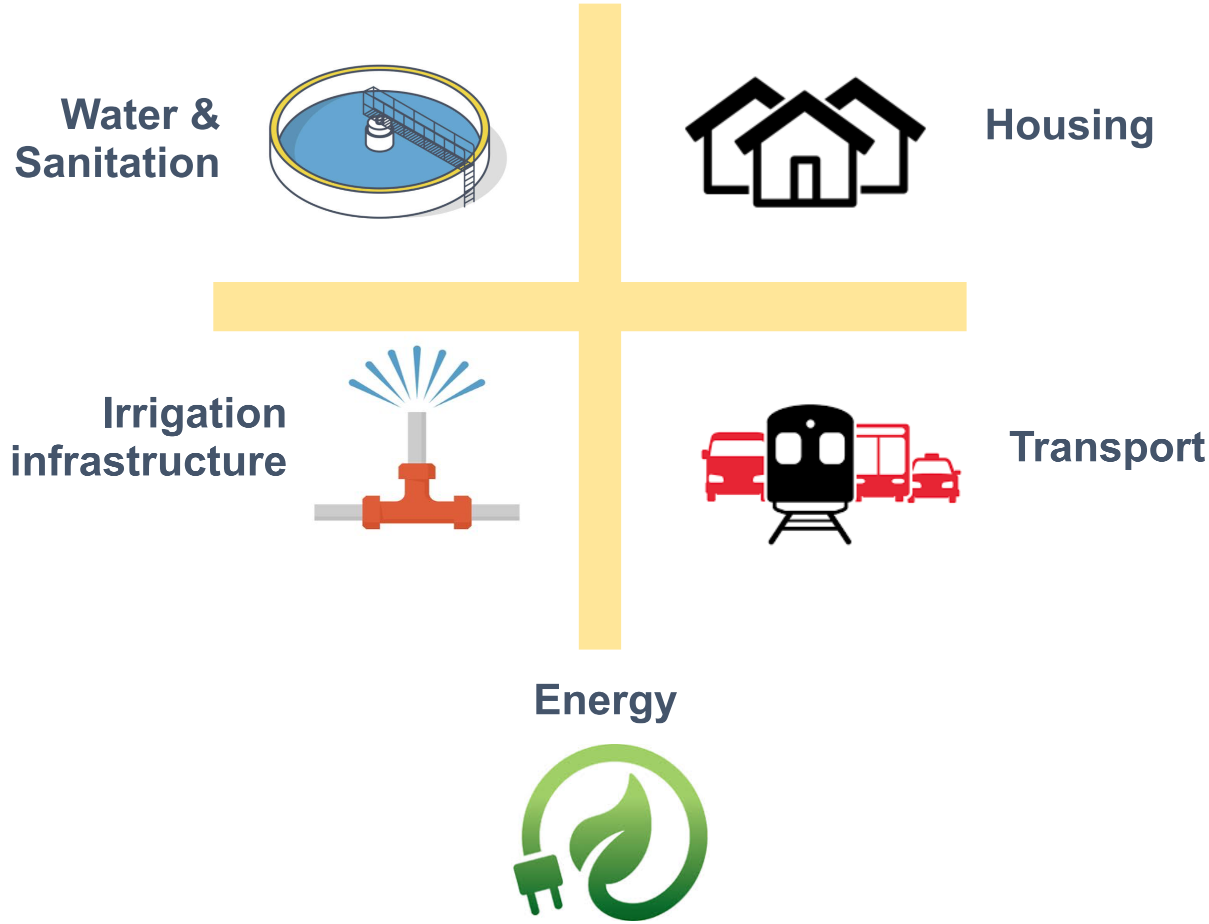
IDBZ's Offering on Projects

idbz
Infrastructure Development Bank of Zimbabwe

Our Services

- **Coordinating project preparation activities** (feasibility & design studies, ESIA studies, application for regulatory permits/approvals, etc)
- **Procurement of project enhancements** (Tax exemptions, Prescribed Asset status, National Project Status, Exchange control approvals, etc)
- **Providing technical capacity in PPP procurement processes & evaluation of proposals from Investors**
- **Coordinating resource mobilization efforts** and negotiations with Investors and other Funding Partners
- **Monitoring of project implementation** to ensure cost-effective delivery of projects

Primary Areas of Focus – W.H.I.T.E



Secondary sectors: Tourism, Education, Health, and ICT

Broadening Funding Sources for Infrastructure

- **Globally, institutional investors such as insurance companies, pension & provided funds, and sovereign wealth funds have more than US$100 trillion in assets under management**.

- A small fraction of the excess global savings and low-yield resources would be enough to plug Africa's financing gap and finance productive and profitable infrastructure.

- **Attracting resources from the Private Sector and Development Finance Institutions to support undertaking of priority infrastructure projects requires new approaches to public infrastructure investments.**

- **As demonstrated in other markets**, putting in place enabling regulatory & policy frameworks that promote the use of Public-Private Partnerships (PPPs) as a funding mechanism can help to accelerate infrastructure investments across sectors.

Best Practice in Infrastructure Investments

- Investment in major infrastructure programmes and projects can play an important role in stimulating national/regional economic growth, employment creation and improving quality of life.

- **Mishandling of a large infrastructure projects can come with huge consequences** in terms of financial burden on the fiscus, poor quality & high cost of services to the citizenry, and negative environmental and social impacts which may exceed project benefits.

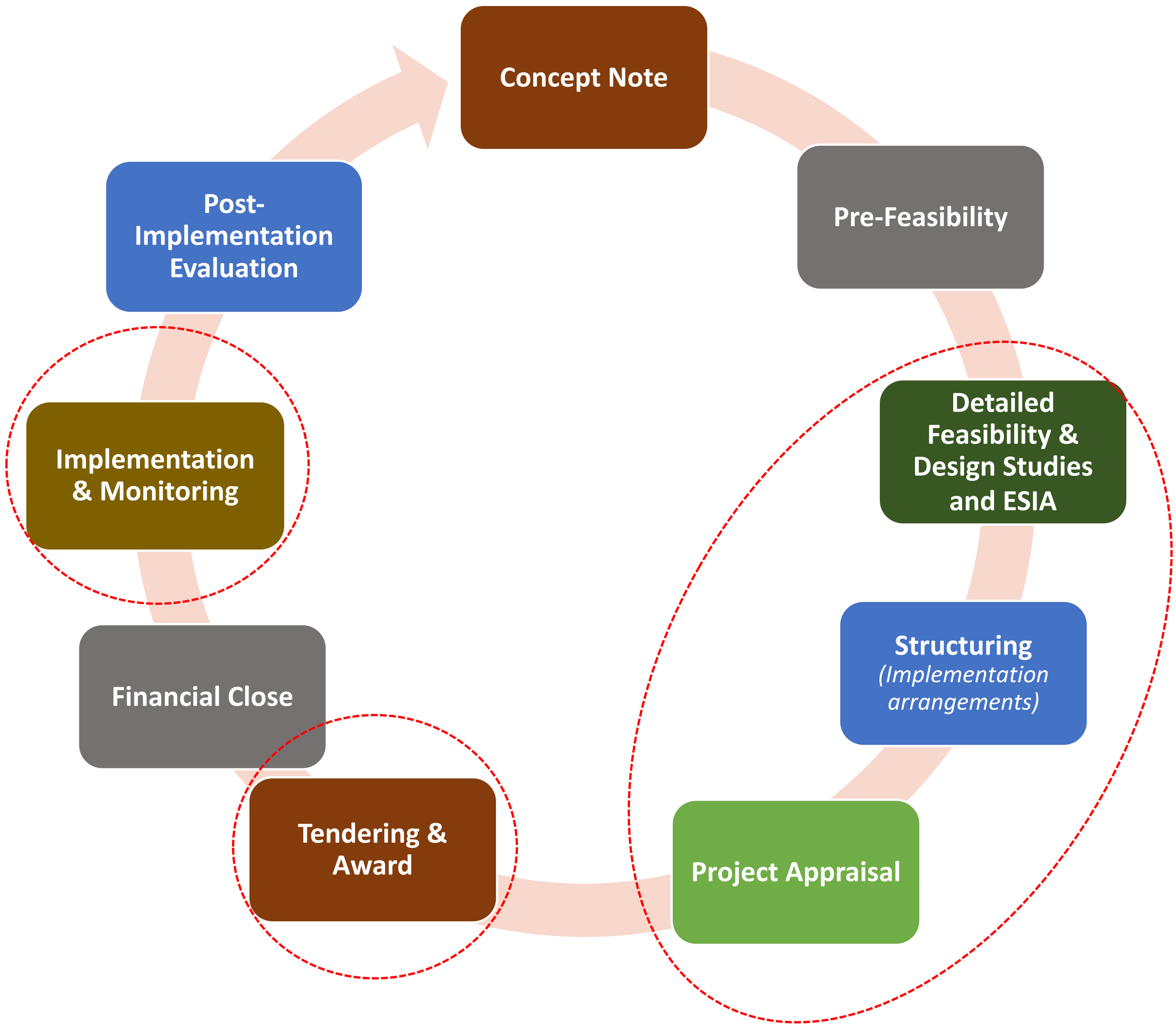
- To ensure projects achieve desired outcomes, **DFIs and Governments the world over have adopted best practice in infrastructure investments**. Zimbabwe has adopted these practices through the Public Investment Management Guidelines ("PIMG"/"Guidelines") which came into effect in January 2018.

- The PIMG **provides a framework for standardised processes in selection, preparation, appraisal, procurement and implementation of public sector projects.**

- The Guidelines are intended to ensure project bankability, transparency, success in attracting investment, and ensuring cost-effective delivery of projects.

The Guidelines are applicable to Government-financed projects and those implemented through PPPs.

Overview of Infrastructure Project Cycle



- The **3 hotspots** are:

  1. Project preparation
  2. Tendering
  3. Implementation monitoring

- **If any of the 3 are not done properly**, the result can be a poor quality, high cost & unsustainable project

- **Transaction Advisor is required early in the project cycle** to provide technical guidance throughout the project cycle

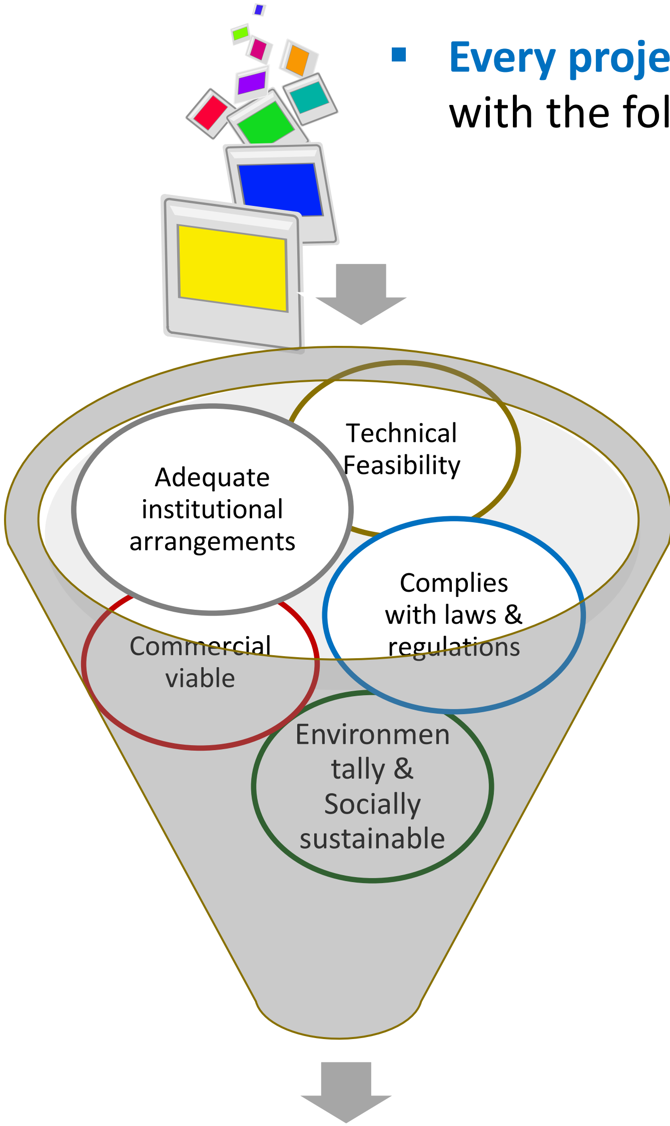
Synopsis of Challenges to Infrastructure Development

Project Cycle Challenges

Project Identification	Project Preparation & Financing	Project Implementation
• **Lack of long-term integrated infrastructure development Master Plans** in some sectors or Local Authorities (to inform investment programmes). • **Lack of capacity within Public Agencies** to drive project development activities (Move slowly or do nothing!) • **Vested interests** – promoting unviable/unsustainable projects or Blocking good projects • **PIGM frameworks for screening projects not being fully applied** across Government Ministries, Departments and Agencies	• **Inadequately prepared projects being tendered or promoted for investment** (i.e. no Bankable Feasibility Studies and Detailed designs). • **Poor turnaround on regulatory & Governmental approvals.** • **Unsustainable financing structures** (project financial viability not adequately assessed). • **Poor risk sharing arrangements** in PPPs (most project risks lumped with Govt, e.g. Govt as guarantor of project revenues). • **Stakeholder resistance** (projects that cut across multiple Ministries/Agencies)	• **Inadequate institutional arrangements**, resulting in poor operational performance of the project. • **Financial leakages** through unjustified cost escalations (due to poor implementation monitoring) • **Rushed procurement**, resulting in over-priced solutions (Inadequate Value-for-Money assessments).

*A good number of these challenges/bottlenecks can be addressed if **best practice** as provided in the Public Investment Management Guidelines (PIGM) is enforced…..*

Bankable Feasibility Study



- **Every project requires a detailed feasibility study** which assists with the following:

  - ✓ **Technical feasibility** assessment (including assessment of technology options)
  - ✓ **Preparation of detailed project designs, engineering drawings and cost-estimates**
  - ✓ Assessment of **financial viability and socio-economic returns of the pro**ject, including an **assessment of affordability**
  - ✓ **Detailed Environmental and Social Impact Assessment (ESIA)** and development of Impact Management Plan
  - ✓ **Developing an optimal Project Implementation Plan** encompassing project management structure, Procurement plan, and M&E plan
  - ✓ **Analysis of key Project Risks**
  - ✓ Analysis of **Options for public investment modality** (financing through the National Budget, PPP arrangement, Other)
  - ✓ **Reliable cost estimates for use as a benchmark** in evaluating proposals from prospective investors

A Bankable Feasibility Study provides adequate information for decision making for both the Project Promoter and prospective investors/funders

IDBZ Experiences - The Big Five

- **Securing land for the project**
- **Project bankability**
- **Stakeholder alignment**
- **Administrative barriers**
- **Understanding what investors/funders want**

*The **Big Five** are the things that, if done properly, **can accelerate infrastructure development**, and **also facilitate increased private sector participation** in infrastructure investments.*

IDBZ's Experiences

1. Land acquisition for the project is overly bureaucratic and costly

- Our experience has shown that **securing land or land use rights for a project can be a major bottleneck**.
- E.g. Housing development – the land **delivery process is rather complicated and protracted**, and can weigh down efforts to accelerate housing provision.
- **Land is a key component/input for any infrastructure project**, and the value attached to the land can have a significant bearing on the project cost, commercial attractiveness of the project, and affordability of the end product/service.
- **Key message** – There is need to consider the larger developmental benefits of the project. Therefore, **land should be availed at a reasonable cost and in the most expeditious manner**.
- The current thrust on devolution and inclusive development – important to appreciate that **capital goes where it is both less costly and easier to invest**.

IDBZ's Experiences

2. Project bankability remains a major challenge

- There is **a dearth of bankable and investment-ready projects** across sectors. Most projects are at Concept stage or early design stage and don't have bankable feasibility studies to facilitate successful investment promotion.

- There is **need for prioritisation of national projects, scaling up the National PPDF envelop, and optimal/efficient deployment of project preparation funding**. This will help build a growing pipeline of fundable infrastructure investment opportunities.

- **Major risks**:
  - ***Projects tendered before bankable feasibility studies & detailed designs*** – *absence of reliable cost estimates and other information for use in evaluating proposals from investors/bidders*
  - ***Unsustainable financing structures*** *– due to lack of adequate financial viability assessments to inform structuring of project financing arrangements*
  - ***Poor risk sharing arrangements*** *with private sector investors in PPP transactions – most project risks lumped with Govt. (e.g. Govt as guarantor of project revenues)*
  - ***Over-priced solutions*** *due to lack of Value-for-Money assessments*

IDBZ's Experiences

3. Alignment of Project Stakeholders a major challenge

- **Most large public sector projects involve multiple Government Line Ministries, Departments & Agencies** – this requires that all concerned should be around the table and be aligned in terms of what needs to be done, what role they must play and within what timeframes, towards the successful realisation of the project.
- *E.g. A large **irrigated agricultural venture** being promoted by the Ministry of Lands to utilise water from a Dam will require **electricity to power irrigation systems** and storage facilities. **Reliable road infrastructure** linking the project to the markets and sources of inputs will also be key.*
- *However, unless the Ministries of Lands, Energy and Transport are aligned, the project will take longer to deliver, or may not be successfully delivered. **Other stakeholders like the relevant Local Authority and Regulatory Agencies** (EMA, ZERA, ZIMWA, etc) also play a key role. All stakeholders need to work in tandem and support the project.*
- Key observation - **sometimes there is not adequate cohesion amongst stakeholders and this manifests in poor turnaround on key project processes or approvals**, to the detriment of the project.
- **A capacitated ZIDA could play a key role in leveraging its convening powers to bring all stakeholders together and secure commitment on project milestones & timelines.**

IDBZ's Experiences

4. Administrative Barriers - Cost & Turnaround on Regulatory Approvals

- **Procurement of regulatory approvals/permits is a very lengthy process** – poor turnaround by most Regulatory Authorities due to capacity issues and other reasons.

- **Fee structures by Regulatory Agencies a major obstacle** to infrastructure development – fees too high and in some cases are linked to project values and not work done.

- Similarly, **fee schedules used by Associations of various Project Consultants (Civil/Structural/Electrical Engineers, Architects, Surveyors & Project Managers) which are based on a percentage of the project value are also an obstacle**. This is a major challenge for Private Sector project promoters. For Public Entities, such industry fee regulations are superseded by the Public Procurement and Disposal of Public Assets Act [*Section 3(4)*]which allows for negotiated fees based on value of services as opposed to value of the project.

- **Implications** - Many good projects remain at Concept or pre-feasibility stage due to high project preparation costs, thus slowing down infrastructure investments.

IDBZ's Experiences

5. Private Sector & Foreign Capital is Needed

- **Local funding sources on their own are not adequate to meet the scale of investment required to address our infrastructure gaps** across sectors – from energy, transport networks, and irrigation development to housing, health and educational facilities. **Local capital from institutional investors is too expensive and not long enough**.
- **At a policy level, Government is desirous to scale up private sector participation in infrastructure investments and also bring in foreign capital**.
- **What is it that will help attract the private sector and foreign capital** – the key ingredients are **Project Bankability** and an **Enabling Regulatory & Policy environment**. Bankability is what makes private sector capital converge with project investment opportunities.
- **Key observation** - **we tend to rush to promoting projects for investment before they are fully packaged for investment** (i.e. no bankable feasibility & design studies and key regulatory permits/approvals).
- **Enabling environment –** covers issues such as:

(i) transparent & robust regulatory frameworks; (ii) capacitated, ethical & effective institutions; (iii) cost-reflective user charges; (iv) fiscal incentives; (v) addressing administrative barriers (fee structures of Regulatory Bodies & turnaround on regulatory/Governmental approvals);
(vi) predictable/consistent foreign exchange policy (affects project returns and Convertibility);
(v) compliance with PPP regulations; etc.

How Do We Accelerate Infrastructure Investments?

Addressing Project Bankability	• ***Insistence on adequate project preparation*** *(i.e. Bankable Feasibility & Design Studies) for all projects prior to Tendering – facilitates successful financing and cost-effective implementation.*
Availability of Project Preparation Funding	• ***Allocate more resources towards project preparation*** *through the National PPDF facility.* • *Streamlined processes for accessing PPDF funding by Implementing Agencies.*
Pricing Regime for Infrastructure Services	• ***Allow cost reflective tariffs or user charges*** *for projects to achieve returns that attract private sector investors & commercial DFI capital (find other mechanisms to cushion the vulnerable).*
Address Administrative Bottlenecks	• ***Introduce Service Level Agreements for key Regulatory Bodies.*** • ***Further downward review of permitting/licencing fees by various Regulatory Agencies.***
Promote Public-Private Partnerships (PPPs)	• *Scale up* ***use of PPPs on commercially viable infrastructure projects*** *in order to leverage private sector capital & expertise and free public resources for social infrastructure.* • ***Strengthen PPP Unit for efficient procession of project proposals.***
Government Co-Financing	• *Government should* ***co-finance alongside private sector to de-risk projects*** *and address viability gaps on social infrastructure (e.g. on-campus student accommodation; etc).*
Improve Institutional Arrangements	• ***Create Project Steering Committees for effective coordination of project activities and cross-sectoral interactions.*** • *Leverage ZIDA's convening powers & IDBZ's technical capacity.*

THANK YOU. TATENDA. SIYABONGA

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