



An Investigation of the Risks in Financing Infrastructure in Zimbabwe

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Abstract

Perceived sovereign risk in the country by potential investors has had the effect of increasing the cost of doing business in Zimbabwe. This has resulted in investors looking to other markets to deploy their capital. While other countries in the region like Mozambique have seen an upsurge in foreign direct investment, Zimbabwe has witnessed a relative decline in foreign direct investment due to perceived sovereign risk. Therefore, the main motivation of the study was to investigate the main risks in infrastructure in Zimbabwe and ways of mitigating these risks to leverage private capital into infrastructure finance in the country. The study adopted a qualitative approach where data were collected using semi-structured interviews from various stakeholders (infrastructure finance experts, government officials, private sector players, and contractors, as well as financing institutions). The study noted that the major risks in infrastructure financing in Zimbabwe are: currency, policy/regulatory, political, and demand, as well as credit and finance. Exchange rate risk was cited as one of the major infrastructure financing risks in Zimbabwe. The exchange rate poses challenges from two fronts, namely, availability and volatility. The scarcity of foreign currency in the country and the existing stringent exchange control regulations make it difficult for investors to import critical equipment and repatriate dividends and profits to their home countries. These challenges have the effect of discouraging investors from investing in the infrastructure sector. The study noted that risks increase the cost of implementing projects, hence risk management is key to ensuring projects are successfully implemented. In terms of the risk mitigation measures, government interventions through policy consistency and provision of guarantees, can do more in terms of insulating investors from risks in infrastructure finance in Zimbabwe. The author recommends government interventions, such as providing guarantees, ensuring policy consistency, and allowing central bank independence, to create a more stable investment environment.

Subject Areas

Business Analysis

Keywords

Risk, Infrastructure, Zimbabwe, Private Capital

1. Introduction

[1] defines risk as the measurable probability that the actual outcome will deviate from the expected outcome. In infrastructure finance, economic losses can occur when expected cash flows do not materialise or when a project counterparty fails to meet obligations. In such situations, risk mitigants will be required to reduce the impact of the event. Risk mitigation tools such as government guarantees may safeguard or enhance returns on a project (ibid).

[2] note that to fund infrastructure in line with the projected rates of growth, the world will need to invest an average of US\$3.7 trillion annually until 2035. With current global infrastructure investments of about US\$2.5 trillion annually [3], there is marked underinvestment in infrastructure and if this scenario persists, annual global infrastructure invest will fall short by about 11%, or US\$350 billion. When the additional investment needed to accomplish the new United Nations Sustainable Development Goals is considered, the gap triples in size [4]. Despite the availability of several risks in infrastructure projects, [5] argues that there is sufficient money available to meet global infrastructure requirements.

As the demand for infrastructure investment increases, the private sector is expected to play a significant role in infrastructure provision [6]. Private investors have different risk profiles; therefore, the way the risk-return profile is structured will determine the level of appetite from private players. The coming in of the private sector into infrastructure provision will entail that certain risks will be allocated to the private sector. However, it is important that the risks are appropriately allocated to ensure long-term viability (ibid).

The infrastructure project risks both at the project and country level, will determine the amount of resources deployed to infrastructure projects especially by private investors. Projects may be in less creditworthy countries or facing difficult to quantify and mitigate market risks. Predictable project returns and a robust legal and regulatory environment are key in attracting private capital. [7] notes the major risks confronting investors in developing countries include construction, currency and changes in laws.

Risk allocation, risk assessment, and risk identification have been the main topics of research on the risk involved with PPP projects. However, there has not been much research on the main causes of risks in infrastructure projects, notably in Zimbabwe, even though the risks associated with PPP projects do not happen in isolation and have specific ties and relationships with one another. Therefore, this

study explores the following research question: What are the major risks in infrastructure finance in Zimbabwe?

2. Review of Related Literature

An infrastructure asset is highly susceptible to political, regulatory, and execution risks. The successful delivery of infrastructure assets may be hampered by unpredictable events that could occur and pose risks to project execution. Legal, political and cultural impediments may hamper the successful implementation of PPP projects [8]. For instance, the Channel Tunnel Project started in 1987 but due to increases in construction costs and project delays, the contractor went into voluntary bankruptcy in 2006 due to financial burden. Additionally, the Toll Road Project in Mexico which was implemented from 1989 to 1994 failed because of a lack of capacity on the part of the government and the risk sharing framework that was adopted [9]. Furthermore, the poor risk allocation framework, the lack of capacity and experience by the Philippine National Power Company resulted in the failure of the Philippine Power Supply Project in 2002 (ibid).

This study has reviewed several studies on infrastructure financing and some of the reviewed studies form part of the literature review. [10] reviews literature to compare the challenges being experienced in implementing PPP projects across the world. The objective of the study was to determine cross-cutting challenges and make recommendations for developing countries. The study reviewed literature on empirical studies focusing on construction projects. The author's approach was to review the studies by analysing the methodology used and conclusions made. The review was also meant to identify the study's geographical area, project financing model, emerging challenges, and recommendation for future project management. The findings of the study indicated that most risk factors affecting project execution can be categorised as human and organisational factors and unknown geotechnical conditions not known beforehand.

[11] conducted a study to assess current knowledge and practices and provide a framework for project risk management. The study looked at the different frameworks, norms, and policies that are in place around the world for risk management. Results indicate that organizations do not always follow the principles and procedures of different risk management standards, frameworks, and guidelines. To record the existing risk management methods, semi-structured interviews with managers involved in the management of project risks were done using an "aide-memoire."

[12] conducted an empirical comparison of PPP project risk factors in Ghana and Hong Kong SAR. In a structured questionnaire survey, PPP practitioners from Ghana ranked country risk factors higher, whereas participants from Hong Kong SAR ranked project-specific risks higher. The top five major risks in Ghana include corruption, changes in inflation, exchange rates, delays in project completion, and changes in interest rates. The top five main risk factors in Hong Kong SAR were cited as political intervention, operating cost overruns, construction

cost overruns, delays in project completion, and delays in land acquisition.

[13] investigated several methods used in Sweden to reduce risks in the procurement of infrastructure projects. The study utilised data collected through questionnaires and interviews from nine construction firms as well as from consultants, contractors, and project owners. Findings from the study revealed that none of the study's participating organizations used an iterative approach to risk management. [14] defined three dimensions which are time, money, and operational performance as the risk attributes related to the PPP procurement model. [15] presented a literature review of PPP usage in Australia and identified four main categories of factors (procurement, stakeholder, risk, and finance).

In Malaysia, [16] applied quantitative methods to examine the relationship between risk management and project performance. The result revealed that practising risk management improves the performance of infrastructure projects significantly. A study for the ASEAN countries by [17] was conducted to fathom the critical risk factors behind the project finance loan pricing differential across four ASEAN countries namely Indonesia, Malaysia, Philippines, and Thailand. The study adopted an OLS regression methodology in collecting data from the four ASEAN countries. The study finds that the loan amount, interest rate and inflation in the four ASEAN countries influence the loan spread in project finance.

[18] identified 42 significant risk factors that affected the delivery of PPP projects in Singapore and these factors were attributable to both the public and private sectors. Based on interviews and literature reviews, [19] identified 18 risk factors relating to the requirements of stakeholders in Hong Kong SAR PPP projects. [20] found 29 residual value risk factors related to road PPP projects in China. [21] found out that force majeure as a risk category needs careful management because it can result in enormous losses to the private party.

Through literature reviews, case studies, and structured interviews, [9] investigated the risk aspects of infrastructure projects in China and identified 24 risk categories related to infrastructure projects. [22] on their study on risk factors in infrastructure projects in China identified the major dangers associated with large-scale infrastructure projects in the country. The authors identified 75 risk factors and 22 sustainability elements from an expanded perspective on sustainable development. Following the identification, a conceptual model of mega infrastructure project risk was then proposed. The key risk factors were determined using interview responses and fuzzy set theory. Study findings indicate that land acquisition and resettling costs, building and installation cost overruns, and information sharing with the public are the three main critical risk factors.

In a separate study conducted in China [23], the study used literature reviews to identify the social risks associated with large-scale transportation infrastructure projects in the country. The study also stressed that the impact of social and environmental change on sustainability could result in rising social risks. [24] analysed water supply mega infrastructure projects in China using expert meetings and interviews, and their study identified 12 crucial social risk factors associated with

the project in terms of its legality and rationality, land acquisition and housing demolition, as well as the construction phase.

[25] identified 10 key environmental hazards affecting PPPs through case studies. The identified risks included factors related to government decision-making, government credit, legal and policy issues, as well as technical concerns. [26] used literature reviews to identify the risks impacting the sustainable growth of PPP in China from five perspectives: politics and policy, ecology and environment, project and organization, cost and economy, and culture and society. The findings indicate that the sustainability risks were varied for each project.

[27] conducted a review of previous studies on financial management of PPPs from 1995 to 2019, which determined interest rate risk, construction risk and market risk are some of the key risks hampering the successful implementation of infrastructure projects.

In their study on Ghana's management of water supply projects, [28] categorized PPP risks into eight categories, including relationship risks, project and private consortium selection risks, social risks, and third-party risks. These categories included political and regulatory risks, operational risks, market/revenue risks, and financial risks. In general, the PPP model can be extended to other sectors that have a direct impact on people's everyday lives, such as power, water supply, gas, and sewage treatment, along with roads and others [29].

[30] assessed strategies used in China to distribute risks among Chinese PPP projects. The three most significant risk types in those projects were organizational and coordination, exclusive right, and change in law. The study used comparative techniques of analysis. Risks were identified in another study from China by [25]. The authors conducted interviews, surveys, and visits to some selected PPP projects to investigate the key risks of PPP waste-to-energy incineration projects in China. The study identified 10 risks and thereafter performed a detailed analysis of these risks, which mainly included risks associated with government decision-making, government credit, legal and policy issues, technical aspects, contract changes, public opposition, payment, and revenue. In a later study of PPP water supply infrastructure projects in China, [30] derived a risk factor list. The authors ranked the factors and noted that the most critical risk factors were poor contract design, water pricing, tariff review uncertainty, political interference, public resistance to the PPP, construction time and cost overruns, defaults on bill payments, lack of PPP experience, financing risk, poor demand forecasting, high operational costs and conflict between partners.

Using a survey approach, [31] assessed the factors responsible for delays in construction projects in Jordan. The study found that labour efficiency among contractors was the main cause of delays, closely followed by a lack of experience among contractors and consultants. Furthermore, delays were sometimes a result of the project owners' intervention in project execution.

With data gathered from 61 construction projects in Nigeria, [32] conducted a study on delay factors in those projects for the purpose of identifying, evaluating,

and comparing the risk impact of those projects. They found that delays had a big impact on how projects were carried out in the country.

[33] carried out a study in Sudan using a quantitative design to identify the reasons behind delays in construction projects in the country. The primary data collecting, and measurement instrument was a questionnaire distributed to beneficiaries, consultants, and contractors that included a list of factors that caused projects to be delayed. Findings from the study indicated that a variety of factors contributed to project delays and these included price fluctuations for building materials, incorrect time and cost estimates, negative social repercussions, a lack of materials, and litigation.

[34] sought to identify the influence of index score rating of main risks on the performance of Nigerian construction projects by determining the possibility of delays occurring and risk factors for the projects. The study used questionnaires that participants self-administered to gather information from experts in the building sector. The study found differences in the frequency of incidence between the various categories. However, risks associated with time and money were found to be more likely to materialize than other types of risks and even have an impact on project completion.

3. Research Methodology

To assess the risks in infrastructure in Zimbabwe, the study adopted a qualitative design. Data were collected using semi-structured interviews from various stakeholders, (infrastructure finance experts, government officials, private sector players, and contractors, as well as financing institutions) who had been involved in project implementation and financing in Zimbabwe. Purposive and snowball sampling which are the two sampling procedures commonly employed in qualitative investigations, were used in the study to choose study participants. The study initial interviewed Chief Executive Companies of identified companies who fit the criteria of the study. After interviewing the initial targeted participants, the interviewer asked participants to refer others who could also be willing to participate. The study interviewed 24 participants from the identified institutions. Participants were drawn from the following public and private institutions: Ministry of Finance and Economic Development, Ministry of Transport and Infrastructural Development, Infrastructure Development Bank of Zimbabwe (IDBZ), and Zimbabwe Power Company (ZPC), as well as Zimbabwe Investment Development Agency (ZIDA), ZINARA, Department of Roads (DoR), and ZINWA, along with the Insurance and Pensions Commission (IPEC), ZIMBOARDERS, Old Mutual, and Econet Wireless Limited, in addition to Masimba Construction, the Commercial Bank of Zimbabwe, Exodus Company and the Public Private Partnership Unit (PPU).

Those who participated were asked a few questions regarding their experience with infrastructure funding and implementation to ensure they met the sample's inclusion requirements. Interviews were conducted with six participants repre-

senting finance experts (FE), seven participants from financial institutions (FI), four participants from the private sector (PS) and seven participants from government and state-owned enterprises (GSO), making a total of 24. For confidentiality purposes, participants were identified as FE, FI, PS and GSO.

Participants had varied work experiences in the infrastructure sector in Zimbabwe. More than 20 percent of the participants indicated they have been involved in the financing and implementation of projects for a period ranging from 6-10 years, while 25 percent revealed they have been in the sector for between 11 and 15 years. The study also noted that 45 percent of participants had been involved in infrastructure projects for between 16 to 20 years, while the remaining 20 percent showed their experience in infrastructure finance spanned more than 20 years in Zimbabwe. This indicates that the interviews were conducted with participants who had experience in the infrastructure sector, hence the opinions they expressed were based on their many years of experience in the sector and, therefore, the information they provided is considered credible.

After critical data analysis, significant statements were extracted, themes and content identified from the data and ranked according to frequencies used to produce a report. To extract meaning from the qualitative data, the study quantified the qualitative data by interpreting the data using quasi-statistics. Accordingly, participant responses were presented in graphs and meaning extracted by way of statistics.

4. Discussion of Results

The researcher sought to explore the major risks in infrastructure finance in Zimbabwe. The private sector, of course, is not often risk-averse and will take the chance to make risky investments, provided the risks are manageable, and it is assumed the expected rewards are proportionate to the level of risk. When risk premiums are considerable, investors expect sizable returns; however, when those expectations do not materialise, no private capital will be attracted to the proposed initiatives [35].

Figure 1 highlights the major risks in infrastructure in Zimbabwe, as well as the percentage of participants that mentioned the respective risk. Results of the interviews indicate 19 percent of participants believed exchange risk is the major risk inherent in infrastructure financing in Zimbabwe. Demand risk and political risk, both with a rating of 13 percent, were second in terms of the risks investors face when they invest in infrastructure in Zimbabwe. Credit risk (ten percent), regulatory risk (nine percent), finance risk (nine percent) and expropriation risk (eight percent) were also highlighted by participants as some of the major risks in infrastructure in Zimbabwe.

Sentiments from participants seem to indicate that when these risks are not properly addressed, private sector capital will shy the infrastructure sector. The sentiments by participants resonate well with [36], who note infrastructure projects have inherent risks, often magnified by political, legal and currency volatility

in developing countries. In this regard, investors often require a minimum return to assume such risks. Investment returns in many infrastructure projects in developing countries are, nevertheless, relatively low [36].

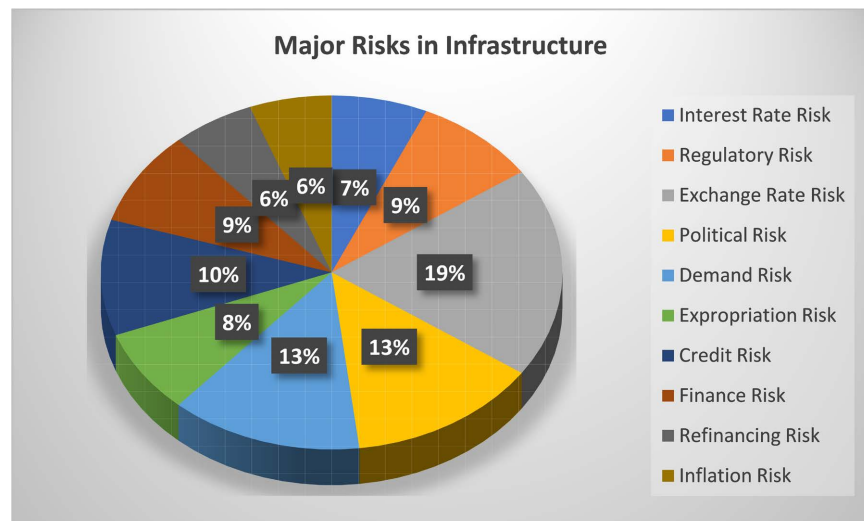


Figure 1. Major risks in infrastructure in Zimbabwe. Source: Author's own compilation.

[37] also posits investors usually lack the resources to safeguard their investments emanating from the risks inherent in infrastructure projects. Infrastructure projects involve many risks defined by the nature of the industry sector and location of the infrastructure projects, as well as the project's financing structure. Institutional investors have a greater preference for revenue visibility and certainty, hence would want to invest in the operation phase, where revenues are predictable and stable (ibid).

4.1. Currency/Exchange Rate Risk in Zimbabwe

Findings of the study reveal that currency or exchange rate risk was highlighted as the major infrastructure financing risk in Zimbabwe with approximately 19 percent of the participants concurring. Study participants argued the country's financial and capital markets are underdeveloped. Resultantly, these markets may not avail all the funding required for implementation of infrastructure projects. In this regard, there will be need to attract foreign investors to finance such projects.

Foreign currency denominated loans can, however, create a currency risk when project revenues are in local currency. For example, an Independent Power Producer can construct a power plant in Zimbabwe mainly financed in hard currency, but when electricity tariffs are in Zimbabwean dollars, this creates an asset-liability currency mismatch. When the Zimbabwean dollar depreciates against the dollar by 10 percent, revenues remain unchanged, but the liabilities are now 10 percent higher. This assertion is confirmed by [38], who highlight one of the key challenges in PPPs in developing countries is to determine who should assume the

currency risk. A typical private sector developer has no influence over the exchange rate.

[39] points out that while the government may have minimal real control over the currency rate, the central bank does have considerable influence over it through its monetary policies. For the reasons listed above, unhedged currency risk is largely unmanageable for the private sector and might also be out of the government agency's control when it comes to infrastructure development, therefore it might not be easily acceptable for either party [38]. The asset-liability mismatch resulting from foreign currency financing was highlighted by participant FI3, who intimated;

Participant FI3

“The major risk for international investors in Zimbabwe is that of currency mismatch on the investment currency and revenue currency. Investors deploy their capital in foreign currency thereby incurring costs in hard currency. However, revenues will be in local currency. As a result, businesses will declare exchange rate losses. The effect of such mismatch is to discourage foreign investment into the country”.

As highlighted by [38], the explicit challenge of harnessing foreign capital is the general preference of international investors to invest in hard currency. However, in most developing countries, the project revenues are in local currencies. The mismatch between project costs and revenues usually signals a huge risk for investors. Since infrastructure projects are long-term, hedging is usually not a viable option. One way to deal with the situation is to involve export credit guarantee companies. For example, countries such as China can invest in projects and would accept payments in the local currency, on condition the contracts for the project be awarded to Chinese firms. In such cases, the cost of the project will increase, hence may not be the best option.

Participants also intimated there are capital controls in the country. This means bringing capital into the country is easy, however, repatriating dividends or profits out of the country is difficult due to exchange controls. In other words, the investment opportunities for the cash flow generated in the country are also limited. Limited options translate into lower returns from such investments and result in discouraging foreign investors.

From the above, it can be inferred a significant number of the participants indicated currency risk was discouraging international investors, particularly from investing their capital into infrastructure in Zimbabwe. For example, participants PS4 and PS3 stated the following:

Participant PS4

“International investors have been discouraged to invest in the country `because of the failure to repatriate profits and dividends. Exchange rate controls by the RBZ are so stringent thereby discouraging investors to bring their capital into the country”.

Participant PS3

“As long as the country continues to face currency volatility, we might kiss goodbye to investment in infrastructure in Zimbabwe”.

It is clear from the above comments, most participants regard the currency crisis in the country as the major risk discouraging investment into infrastructure in Zimbabwe.

4.2. Political Risk in Zimbabwe

Political risk refers to a country’s political choices that might impact on the performance of investors. It may also be referred to as a country’s willingness to settle debts or preserve an environment favourable to foreign investment [40]. Evidence from the interviews, indicate 13 percent of participants cited political risk as a major risk to investing in Zimbabwe. This is consistent with the [35] report, which indicated political risk is one of the highest-ranked risk factors that represent a major constraint on investment decisions. From the report, approximately 20 percent of executives interviewed regarded political risk as the greatest disincentive for any investments into developing countries. The study further notes that even when rewarding investment opportunities are availed to private investors in emerging and developing countries, investors may be reluctant to take these opportunities due to political risk [35].

Responses from the participants indicated political violence, disputed elections, absence of rule of law and a dented human rights record, have amplified the sovereign risk for Zimbabwe. Sentiments from participants indicated political risk shall be present in most infrastructure projects in Zimbabwe, until the political environment improves. Participants noted sovereign risk has the effect of increasing the cost of doing business, thereby discouraging investors to deploy their capital in the country.

The participants’ sentiments are complimented by [41], who notes political risk is one of the biggest deterrents for investors in infrastructure in developing countries. Accordingly, many investors do not invest because of this. **Figure 2** shows where there is perceived political risk, 45 percent of the investors will choose not to invest, while 30 percent will resort to portfolio strategies, with the remaining 25 percent that will take out risk insurance.

It was further highlighted by participants that in Zimbabwe, businesspeople seen not to support the ruling part are in perpetual fear of having their businesses expropriated and are, at times, coerced to pay bribes as protection fee. The participants’ views are supported by the [7], which argues governments in many developing countries have a high propensity to interrupt the implementation of several projects through, for instance, failure to grant the necessary regulatory approvals or outright expropriation. Some corrupt governments in developing countries may extort from investors fully aware once a project has been established, the stakes are high, since the project cannot simply be uprooted and moved to another location (ibid).

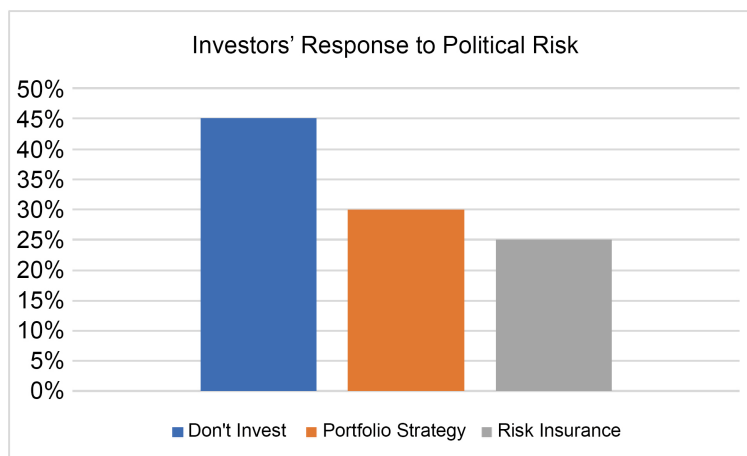


Figure 2. Investors' Response to Political Risk. Source: Tyson (2018: 11).

The sentiments echoed by most participants thus seem to indicate political risk in Zimbabwe has negatively impacted investments in the infrastructure sector. For example, participants PS3, FE5 and PS1 stated the following:

Participant PS3

“The political environment in Zimbabwe discourages serious investors to deploy their capital into infrastructure projects. It is very difficult to get a business license if you are not politically connected. Licenses are issued to businesspeople who are deemed to be supportive of the ruling party”.

Participant FE5

“The failure by the ruling party to respect the rule of law and its tendency to perpetuate political violence has discouraged investors in making long-term investment decisions in the country”.

Participant PS1

“The perceived political risk in the country has the tendency of increasing the cost of doing business in the country. When one wants to borrow from international financiers, the financiers will factor the country's risk premium in pricing their capital”.

It is evident from the above comments that a significant number of participants believe political risk is inherent in infrastructure projects in Zimbabwe.

4.3. Demand Risks

Evidence from the interviews indicated that participants highlighted the lack of credible off takers/ demand risks as one of the factors discouraging private capital deployment especially into the energy sector. This assertion resonates well with Climate Policy Initiative (2018) who argues that the failure by state-owned utilities to make contractual payments to Independent Power Producers (IPPs) is one of the biggest threats to the energy sector. This risk raises the cost of finance for re-

newable energy projects by up to 1.07% and restricts the amount of available capital. Systematic inefficiencies in the public sector energy utilities are the major reason why power utilities fail to pay IPPs. The main power off taker in Zimbabwe's energy industry is state-owned and acquire power from IPPs under long-term power purchase agreements (PPAs) at predetermined tariffs. These inefficiencies have a negative impact on these companies' financial health. In line with this line of argument, participant FE3 pointed out the following;

Participant FE3

“There are investors who want to invest in the power sector especially in electricity generation. However, Independent Power Producers are compelled to sell their power to the Zimbabwe Electricity Supply Authority. We all know that ZESA is not a credible off-takers due to decades of mismanagement. Thus, if there is no credible off-take in the energy sector Zimbabwe will continue to experience power shortages”.

4.4. Legal/Regulatory Risks

Participants have also highlighted legal/regulatory risks as one of the major risks discouraging PPI in Zimbabwe. Participants argued that each infrastructure project comprises an intricate plan of many interrelated contracts. In this regard, the success or failure of a project will depend on the project company's ability to manage these contracts. The major challenge is, in Zimbabwe, as with many developing countries, the legal system does not function efficiently. Hence, there tends to be no consequences for many defaulting parties should they fail to honour their obligations. There are few legal options available to the aggrieved parties, due to the possibility of intricate, time-consuming, and expensive legal options. Consequently, the infrastructure company's chances may be very slim.

This is a significant challenge, since no investor wants to find themselves in a position where they have committed to delivering a project under pressure but are unable to make their partners fulfil their obligations. Legal concerns can seriously impact cash flow, because it is uncommon for payments to be delayed due to poor quality or failure to meet deadlines.

Furthermore, investment policies into infrastructure projects in most developing countries lack clarity, where political parties, at times, keep the policies unclear for a purpose. Consequently, companies may fail to comply with the investment requirements, which opens avenues for government officials to ask for bribes for the non-compliance aspects to be overlooked. Companies that pay bribes will be allowed to work, while those that do not submit to paying bribes may be exposed to strict legal action. Bribes are not only unethical; they place a severe financial burden on infrastructure projects. [39] revealed an unclear policy environment is equivalent to a 33 percent tax on infrastructure projects.

These unethical practices increase the level of risk of investing in infrastructure projects in developing countries. The high risks will result in investors demanding higher returns to compensate for the risks assumed. Thus, should developing

countries want to benefit from investments in infrastructure, they need to reduce the risks, for the project execution costs to also be minimised. It is extremely difficult to attract the crucial private investment needed due to the revenue and risk profiles of infrastructure projects in developing nations. However, many of these infrastructure projects, which are essential to achieving development goals, will not be completed without private funding. Development institutions have developed new financial instruments to reduce the risk of infrastructure projects in developing nations for private investors because of their recognition of this gap. When done well, such risk reduction can significantly “crowd-in” the private financing required to supplement public infrastructure spending [39].

Mechanisms such as investment protection agreements have been proposed to reduce political risk, but these seem not to have addressed the underlying problem. What is therefore required, is policy consistency and political commitments for projects on the part of the government to enhance investors’ level of confidence. Hence, it is critically important to mitigate political and regulatory risk as much as possible.

5. Conclusions and Recommendation

This study investigates the primary risks in financing infrastructure in Zimbabwe using a qualitative methodology. Based on semi-structured interviews with 24 key stakeholders, the paper identifies currency/exchange rate risk, political risk, and demand risk as the most significant barriers to private investment.

Findings of the study revealed that exchange rate, political, regulatory and demand risks were the major risks inherent in most infrastructure projects in the country. As a result of these risks, investors who would have risked their capital are likely to demand higher returns, which increases the cost of the project. It would, therefore, be better to minimise these risks so the costs of the project are reduced, thereby ensuring the country enjoys value for money. To minimise these risks, the role of MDBs and DFIs in providing credit enhancement and guarantees was highlighted as critical. Government interventions through offering guarantees, policy consistency and allowing the country’s central bank to operate independently to insulate it from political interference to achieve monetary stability, were indicated as key in reducing the risks inherent in projects in the country. Stringent exchange rate controls by the RBZ, where there are restrictions on the remittances of dividends and profits, have discouraged capital flows into the infrastructure sector.

These cumbersome processes, when an investor wants to repatriate loan payments, dividends, and profits, are discouraging investment into infrastructure in Zimbabwe. The lack of a clear position on the exchange rate policy has caused much volatility in the foreign exchange rate market, thus engendering macroeconomic instability. Since the advent of the new millennium, the country has been embroiled in political instability due to the perceived illegitimacy of past and present presidents. Political instability has discouraged FDI into the country. Political

risk increases the cost of doing business in the country as financiers when pricing their capital, factor the country's risk premium when calculating the cost of capital. Additionally, because of the country's blacklisting by major international financiers, many investors have faced challenges in raising funding for their projects on both the domestic and international capital markets. Sovereign risk of the country has, therefore, discouraged PPI investment in the country.

Considering the high costs and risks investors face, specifically in the country, where economic and financial conditions are more tenuous, there is a need to generate investor friendly policies. These policies should safeguard the basic tenets of good corporate governance by engendering accountability and transparency. The government should respect property rights and enact laws that ensure the contracts are enforceable.

Another critical element for attracting the private sector into infrastructure is to instil confidence in investors to ensure that the investment environment is stable and conducive for investors to operate with limited risk. Empirical evidence points to a favourable regulatory and institutional framework corresponding with a successful PPP investment environment.

The author concludes by recommending government interventions, such as providing guarantees, ensuring policy consistency, and allowing central bank independence, to create a more stable investment environment.

Conflicts of Interest

The author declares no conflicts of interest.

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