

Bilateral investment agreements

Zimbabwe has investment treaties with 21 countries, but only six of these treaties (with the Netherlands, Denmark, Germany, South Korea, South Africa, and Switzerland) have been ratified. Three other investment agreements with Botswana, India, and Iran are awaiting ratification before they become effective.

State enterprises and parastatals (SEPs)

Zimbabwe has 78 SEPs. Many SEPs support vital infrastructure (e.g. energy and transportation), so that competition within the sectors where parastatals operate tends to be limited. Most parastatals have performed poorly in recent years due to debt overhang, lack of maintenance, and inadequate investment due to lack of funding thereby imposing significant costs on the rest of the economy. However, the Government is now inviting private investors to participate in infrastructural projects through public-private partnerships after having done an extensive exercise of all SEPs and categorising them as targets for commercialisation, restructuring or privatisation.

Key Challenges for Zimbabwe infrastructure:

- The sustained deterioration in the quality of infrastructure assets stemmed from inadequate levels of public expenditures for routine and periodic maintenance of the infrastructure networks, especially in power, water and sanitation, and transport.
- Infrastructure services in road transport and communications that are provided by the private sector are now more expensive than in neighbouring countries, reflecting in part the economic costs of the deterioration.
- In other sectors such as power, rail transport, and fixed line communications, where services are provided by parastatals, prices have been kept low. As a result, the economic costs of the deterioration have emerged in the form of large and, in some cases, unsustainable operating losses for these parastatals.
- The deterioration in physical infrastructure has been accompanied by lack of progress in building institutional capacities for management and regulation of the basic services associated with these networks. Problems in this area stem from a disjointed approach to regulation and oversight among the ministries responsible for these sectors, compounded by a substantial loss of skills in the public workforce.
- The deterioration in Zimbabwe's basic infrastructure in the past decade has, in turn, had a serious impact on other productive sectors of the economy and on the level and quality of services to the public at large. It has also resulted in minimal amounts of investment by the private sector in basic infrastructure, despite periodic efforts to attract such investment, for example, in the transport and communications sectors.

Decline in Infrastructure Quality and Capacity

Aspects of the deterioration in infrastructure over the past decade and the resulting decline in levels of service. Highlights that emerge from these trends are as follows:

- The share of the total road network of almost 100,000 km in fair to good condition declined from 73 percent in 1995 to about 60 percent for much of the past decade. The additional 12,800 km of road network that was reclassified to poor condition requires complete rehabilitation, the cost of which is about \$1.1 billion at 2009 prices.
- The economic challenges of the past decade also led to very large declines in rail and aviation services. In the case of the railways, for example, freight carried in the mid-1990s was about 14 million tons, equivalent to almost 80 percent of the network capacity. By 2009, the amount of freight carried was 2.7 million tons, equivalent to 15 percent of the original design capacity of the network. Demand for rail freight services was substantially larger than the 2.7 million tons that was actually carried. The problem was that the available locomotive and rolling stock capacity was not sufficient to meet this demand.
- Electricity consumption per capita in Zimbabwe was 738 kWh in 1995, when the average for low income countries around the world was 414 kWh per capita and the average for Sub-Saharan Africa was 437 kWh. By 2008 per capita consumption in Zimbabwe had declined to about 600 kWh per capita, only marginally higher than the average for all of Sub-Saharan Africa.
- By the latter part of the 1990s, the levels of service coverage for water and sanitation were among the highest in Sub-Saharan Africa. The country was widely seen, within Africa and internationally, as a leader in innovation, policy reform and service provision in the water sector. However, the fortunes of the sector were reversed in the past decade as a result of very limited new investment and maintenance for services and inadequate revenues of the institutions responsible for service provision. In 2000, 85 percent of the population had access to safe water and 68 percent had access to improved sanitation. By 2008, access to safe water had declined to 74 percent of the population, and access to improved sanitation stood at 41 percent. This deterioration culminated in a serious cholera epidemic in 2008 that affected more than 100,000 people and killed more than 4,000.

Low Levels of Maintenance

Low levels of periodic and routine maintenance over the past 10-15 years have been the main cause of the deterioration in the quality of the basic infrastructure of the country. This decline is well illustrated by the experience of the transport sector. The current replacement cost of the transport infrastructure and facilities is estimated to be in the range of \$12 billion. The current estimated cost of rehabilitating these transport sector assets is about \$4 billion at 2009 constant prices. Lack of routine maintenance of the transport infrastructure over the past decade also contributed substantially to the deterioration in these assets and the current very large backlog of capital outlays required for rehabilitation. Subject to the availability of adequate levels of funding, the proposed rehabilitation program for the decade ahead would restore these assets to full working condition. The challenge will be to ensure that there is adequate provision for maintenance of these rehabilitated assets. This will require a major reassessment of the manner in which maintenance requirements for the transport sector are funded.

Costs of Infrastructure Services

The direct and indirect costs of these infrastructure services are high. In the case of road freight services provided by the private sector, responses from private companies suggest that the average cost of road freight within Zimbabwe is in the range of US \$0.10 per ton kilometre. These rates are substantially higher than those that apply on the regional road corridors in Southern Africa, which are typically in the

range of 3 to 6 US cents per ton km. However, the indirect costs of transportation can be substantial; for example, there is scope for reducing transit freight rates between South Africa, Zimbabwe, and Lusaka, Zambia. These costs arise in a variety of ways, including, for example, from supply problems, such as frequent electrical power outages, dependence on high cost power from private generators, and failure to supply water to firms and households on a regular basis. Systematic data on these types of costs are not readily available, but anecdotal evidence confirms the impact of these failures on costs for firms take as much as nine days for freight traffic, half of which is spent at border crossings at Beitbridge and Chirundu. Clearance by customs and other border agencies can be burdensome, costly, and time consuming. One of the major challenges facing the country in the decade ahead is the rehabilitation of the existing economic infrastructure and the addition of new capacity to meet existing and future demand in both urban and rural areas.