‘October - December 2010’

Quarterly Infrastructure Finance Review

Team Members

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Overview of infrastructure Finance:

The stock of infrastructure finance, which was hovering around Rs. 260 billon for some time in previous quarters, rose to Rs. 286 billion in last quarter i.e. July-September 2010. However, at the end of the quarter under review, this again settled down at Rs. 264 billion. There are some structural changes underway at the government level which also account for the recent decrease in outstanding portfolio. A power holding company was formed to resolve the issue of circular debt and it has taken the responsibility of some of the outstanding dues of power sector. The outstanding of power transmission sector, which was Rs. 28 billion in last quarter, now stands at Rs. 7.7 billion – a 72.5% decrease from the previous quarter. Petroleum sector also saw a significant decrease from Rs. 17.8 billion to Rs. 11.8 billion in one quarter. On the disbursement side, Power Generation sector is again at top with Rs. 5.4 billion followed by Petroleum sector with Rs. 3.9 billion. Telecom sector, which was the mainstay of infrastructure sector portfolio in previous years, is lying dormant since last two years and watching its share being declined by every passing quarter. Total NPLs are now at Rs. 4.8 billion for this quarter while same were Rs. 7 billion at the end of December 2009. International experience emphasizes the need of institutional capacity for project development to achieve meaningful progress in infrastructure financing. The countries that have created dedicated institutions for infrastructure project development have excelled in attracting private sector investment for infrastructure development. The capacity of developing viable projects is as big an issue as securing finance. Thus such an institution can play a pivotal role in developing marketable projects in the diversified areas like roads, mass transit, ports and agri infrastructure etc.

Outstanding Portfolio:

Total financing outstanding at close of December 2010 was Rs. 264 billion against Rs. 286 billion at the end of previous quarter ending September 30, 2010. The volume of outstanding portfolio was Rs. 262.3 billion at the end of December 2009. The analysis shows, as in Figure 1, that power generation sector stood out among all the sectors of infrastructure. A number of factors like power policy, availability of sovereign guarantees in case of IPPs, expertise of financial sector in this area and demand of energy are the main reasons of its consistent lead over the other sectors.

Fig. 1: Quarter-wise Value of Outstanding Stock in Top 5 Infrastructure Sectors

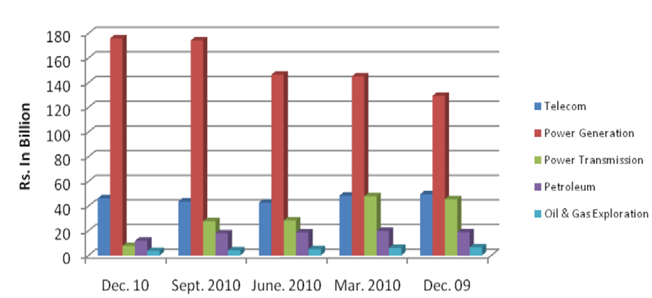


Figure 1 shows the quarterly position of top five sectors from December 2009 to December 2010. All the top five sectors, except Power Generation, are showing a decline in their respective volume of outstanding over the year. However, the steep decline was witnessed in Power Transmission and Distribution sector due to transfer of its outstanding from banks to a power holding company. The outstanding volume in this sector was Rs 45.5 billion at the end of December 2009 which reduced to Rs 7.8 billion at the end of December 2010.

Disbursements:

Total Rs. 12 billion were disbursed during October-December 2010 quarter in all infrastructure sectors against Rs. 7.9 billion in the previous quarter. The disbursement during October-December 2009 quarter was Rs. 27.4 billion. Figures 2 and 3 show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 5.4 billion, which is a steady 45% share of overall disbursement. Share of power generation sector in disbursement was a robust 91% in previous quarter with Rs. 7.2 billion whereas it was 63.7% (Rs. 17.5 billion) during October-December 2009. Petroleum sector also got significant financing of Rs 3.9 billion (31.9%) in this quarter while Airport sector was recipient of over a billion rupee financing in this quarter. Ports and Shipping together with Container & Terminal sectors were some of the other beneficiaries in this quarter. Telecom and Power Transmission sectors were conspicuous by their absence in this quarter. The absence of bank financing in oil & gas sector has been a real concern considering its real potential to play an important role in the economic activity of the Country.

Fig. 2: Disbursements in Infrastructure Sectors During Sept. - Dec. 2010

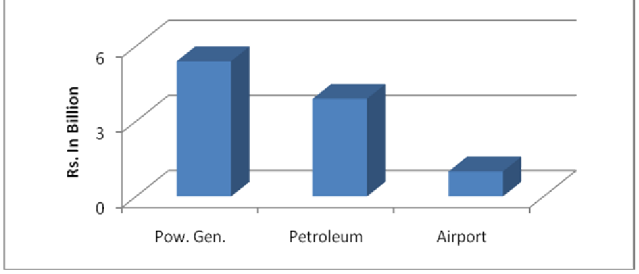
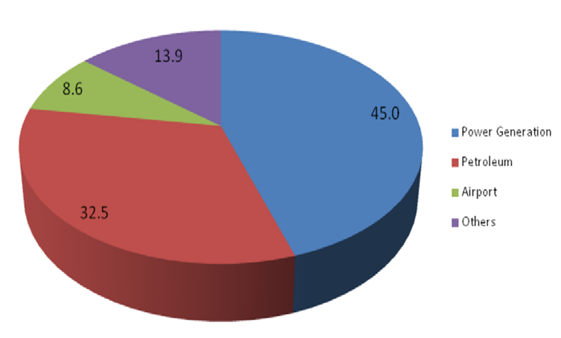


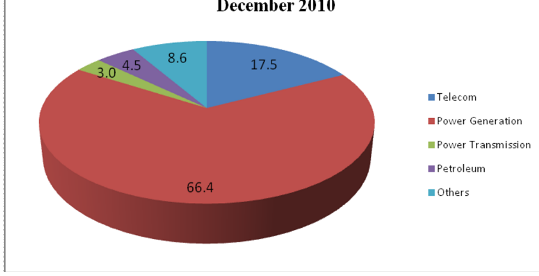
Fig. 3: Share in Disbursement by Infrastructure Sectors During Sept. - Dec. 2010 Quarter



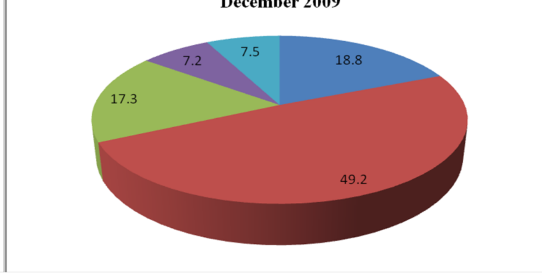
Analysis of Sectoral Share in Infrastructure Portfolio:

Figure 4 shows the comparison of top five sectors in outstanding infrastructure financing at the end of December 2009 with the status existing on December 31, 2010. At the end of December 2009, power generation sector had 49.2% of the total stock followed by telecommunication sector with 18.8%. After a year, the top slot continues to be held by power generation sector with a substantial 66.4% share in the pie. All other major sectors in graph showed a declining trend. The Telecommunication sector remained at second place with 17.5% share. Petroleum sector, despite having huge potential, had been on the downside from 7.2% to 4.5% in a year. The reduction of Power Transmission sector is due to shifting of some of its outstanding to a power holding company.

Fig. 4: Share in Outstanding December 2010



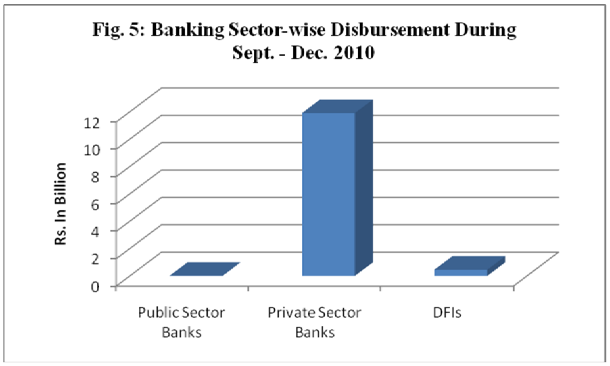
Share in Outstanding December 2009



Banking Sector-wise Performance:-

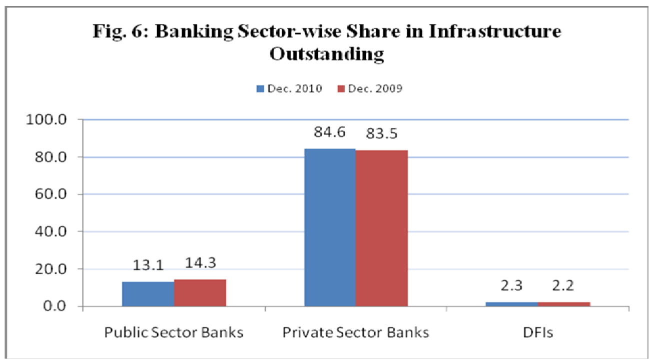
Banking Sector-wise Disbursements:-

Figure 5 shows that private sector commercial banks disbursed Rs. 11.5 billion (96%) out of total Rs. 12 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 1 million (less than 1%) while DFIs disbursed Rs. 452 million (3.8%) despite having a mandate of development finance. In same quarter last year, private sector banks disbursed Rs. 19.7 billion (71.9%) while public sector banks disbursed Rs. 6.9 billion. DFIs' share in disbursements during the quarter ending December 2009 was also minimal at Rs. 800 million (2.9%).



Banking Sector-wise Share in Outstanding:

Figure 6 shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend remains almost the same throughout the year. Share of private sector banks rose marginally from 83.5% to 84.6%, while share of public sector banks declined from 14.3% to 13.1% after a year. The share of DFIs remained below par through-out the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.



New Industry Initiatives in the Quarter:

A new 560MW Combined Cycle Power Project by KESC at Bin Qasim was initiated in this quarter. The cost of project is PKR 38,250 million with 67:33 debt equity ratio. The long term loan has been provided by Asian Development Bank, International Finance Corporation and a syndicate of local banks. The local syndicate is providing PKR 8,500 million facility. The BQPS-2, as the project is called, is the biggest thermal power project under construction in country.

Departmental Initiatives and Achievements:

Appreciating the critical role of infrastructure sector in propelling the domestic economy, following key initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

1. <u>Revised Guidelines for Infrastructure Project Finance:</u>

The department issued guidelines for infrastructure project finance. The new guidelines cover a broad array of concepts like project insurance, requirement of technical feasibility, risk assessment and allocation matrix, financing during development phase, emphasis on Operation & Maintenance Agreement for initial years, financial covenants, technical monitoring of projects during loan tenure and requirement of Supply and Off-take agreements.

2. <u>Capacity Building Program:</u>

A comprehensive Training Program on Infrastructure Project Finance was conducted with the assistance of the World Bank Group from 12 to 16 July 2010 at SBP's Learning Resource Centre in Karachi. This was for the first time that such a high level massive training program on Infrastructure Project Finance was held in Pakistan. This SBP-World Bank joint initiative was taken to address the issue of lack of expertise in the financial sector on project development and financing. Cambridge Economic Policy Associates (CEPA), a very renowned organization for working in infrastructure development and training sector, prepared the course manual and delivered the training. IHFD has planned to continue this capacity building initiative in this business year with the help of local trainers. The next training program is scheduled in May 2011.

News and Articles

<u>China to transfer solar power technology</u>

An agreement reached with China during the recent visit of Premier Wen Jiabao to Pakistan to generate 2,300MW of electricity through wind turbines and solar panels.

Wind power projects of 1,000MW each would be set up in Punjab and Sindh. A 200MW solar power project would be set up in Punjab and another of 100MW in Sindh. Total expected investment is $6.5 billion.

An agreement signed between the China International Water and Electric Corporation and the Alternate Energy Development Board would also involve transfer of technology and China would assist Pakistan in manufacturing solar panels and turbines.

<u>Punjab government, Chinese company to sign MoU</u>

Memorandum of understanding was signed recently between Punjab government and China International Water & Electric Corporation in energy and infrastructure sectors. China Dongfang Electric Corporation has expertise in manufacturing of equipment and plants of power generation.

Pakistan is facing severe energy crisis including shortage of 5,000MW electricity, which is leaving a negative impact on the economy.

<u>Japan would invest in Pakistan's Karachi Circular Railway (KCR) project</u>

Japan would invest in Pakistan's Karachi Circular Railway (KCR) project this will be a boost for foreign investment attraction in the country. Japan will provide PKR128.6bn (US$1.5bn) loan for the project. The railway will be operational by 2011.

Wapda, Harpo Hydropower Consultants sign agreement

An agreement was signed between Pakistan Water & Power Development Authority (Wapda) and Harpo Hydropower Consultants - a joint venture of three Pakistani and German firms at Wapda House for updating of feasibility study of Harpo Hydropower Project.

ADB Supports Pakistan's First Privately Owned Wind Farm

The Asian Development Bank will be providing a loan to help fund the first privately owned and financed wind farm in Pakistan. This will help in attracting other private entrepreneurs to invest in wind power sector and contribute bridging the gap in power sector and in improving the energy mix of the country by reducing reliance on fossil fuels.

The total cost of the project is $147 million with 30% financed through equity provided by Zorlu Enerji and the rest through US dollar-denominated loans from ADB, the International Finance Corp., the ECO Trade and Development Bank and a Pakistan rupee loan from Habib Bank.

Pak-China Business Corporation Summit

Board of Investment has organized Pak-China Business Corporation Summit during 3rd week of December 2010 with the collaboration of FPCCI, TDAP and CCPIT China. Premiers of Pakistan & China inaugurated the ceremony.

Almost 250 Chinese delegates and 150 representatives of Pakistan from different investment sectors participated in summit while a B2B meeting was also organized among business communities of both the countries.

Foreign Direct Investment Inflows Touched $2.21 Billion in 2009-10

Total Foreign Direct Investment for the fiscal year 2009-2010 i.e., from 1st July 2009 to 30th June 2010 touched $2.21 billion.

Pakistan an Investor Friendly Heaven

The World Bank recognized Pakistan the most business friendly country in the region in its annual 'Ease of Doing Business' report. Recent reforms improved our position and helped sustain our position as the first most business friendly location in our region.

Economies are ranked on their ease of doing business, from 1 - 183, with first place being the highest. The ease of doing business index averages the economy's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The rankings are from the Doing Business 2010.