

'January-March 2010'

Quarterly Infrastructure Finance Review



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Overview:

The infrastructure project finance portfolio posted a 8.9% growth on YoY basis from March 2009 to March 2010. The quantum of overall disbursement was Rs. 9.6 billion in this quarter which was Rs. 27.4 billion during the previous quarter while the same was Rs. 38 billion during Jan-Mar, 2009. There is 74.7% downfall in volume of disbursement on YoY basis. Power generation sector was significant contributor with disbursement of about Rs. 7 billion during the quarter under review as compared to Rs. 17.5 billion during previous quarter while the quantum of disbursement for this sector was stable at Rs. 17.8 billion during Jan-Mar 2009 quarter. Telecom sector, which received Rs. 4.1 billion during previous quarter, was inert in this quarter with mere Rs. 238 million while the same sector received Rs. 6.5 billion in Jan. - March 2009.

During previous quarters the level of participation by private sector banks in project financing was visible in couple of sectors like telecom and power generation. This has now been concentrated in power generation sector only. The risk associated with different infrastructure areas is the main obstacle for financial institutions to venture in uncharted terrains. Financial institutions feel more secured in those sectors where sovereign guarantees are involved – power generation is a case in point. The SBP is working on an initiative of establishing Infrastructure Development & Financing Institution (IDFI) under Public Private Partnership in line with successful international models which will act as a catalyst for private sector’s participation and boost the confidence of investors. The GoP and key multilaterals are on board in establishment of this institution. A dedicated institution like IDFI is of vital importance to ensure the required growth in key infrastructure sectors necessary for sustainable growth in overall economy.

Outstanding Portfolio:

Total financing outstanding at close of March, 2010 was Rs. 283.7 billion as against Rs. 260.5 billion at the end of March 2009 achieving a growth of mere 8.9% while the same was 4.5% on YoY basis during previous quarter. The analysis shows, as in figure 1, that stock of other sectors changes at a slow pace but the rise in stock of power generation is a constant feature which, though stable during last couple of quarters, gained momentum in this quarter. A number of factors like power policy, expertise of financial sector in this sector and demand of energy have contributed to the increase of volume in outstanding portfolio of energy sector, not to mention the sovereign guarantees available for investors.

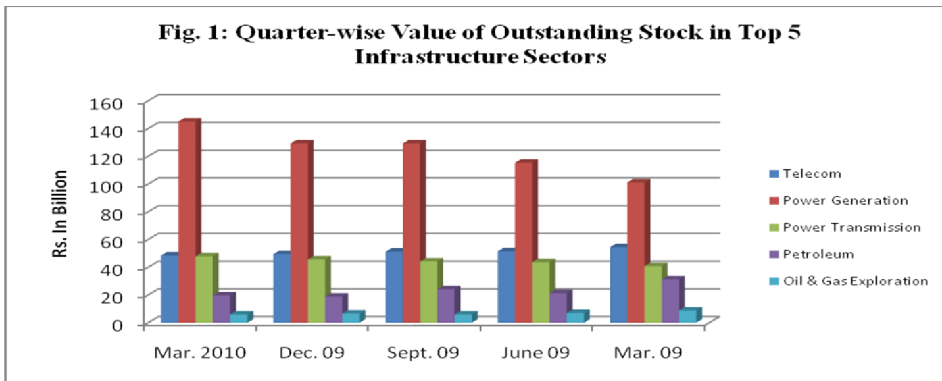
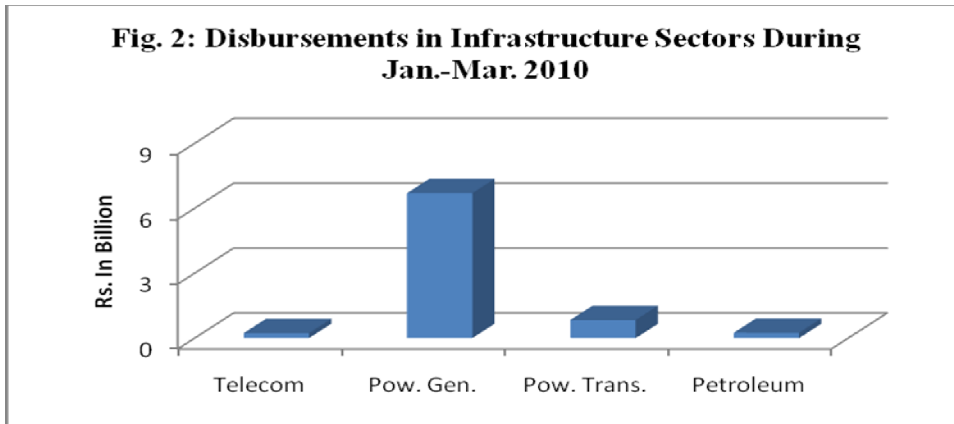


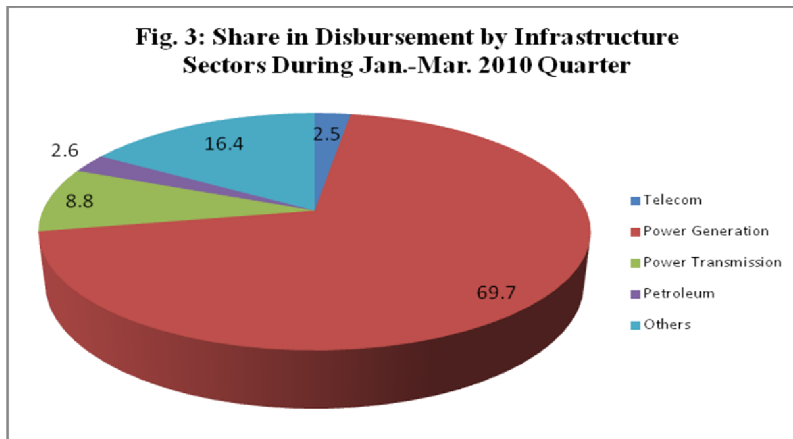
Figure 1 shows the quarterly position of top five sectors from March 2009 to March 2010. Telecom sector remained stable over the year while petroleum sector is gradually posting a low score as its stock decreased from Rs. 31.3 billion in March 2009 to Rs. 19.8 billion in March 2010. Power transmission, though, has shown an increase over the year but still much below the desired level, considering the huge unmet needs in this sector.

Disbursements:

Total Rs. 9.6 billion were disbursed during Jan-Mar 2010 quarter in all infrastructure sectors against Rs. 27.4 billion in previous quarter. The disbursement during Jan-Mar 2009 quarter was Rs. 38 billion. Figures 2 and 3 show the amounts disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 6.7 billion (69.7%), which is significantly higher than other sectors. Share of power generation sector in disbursement was also significantly

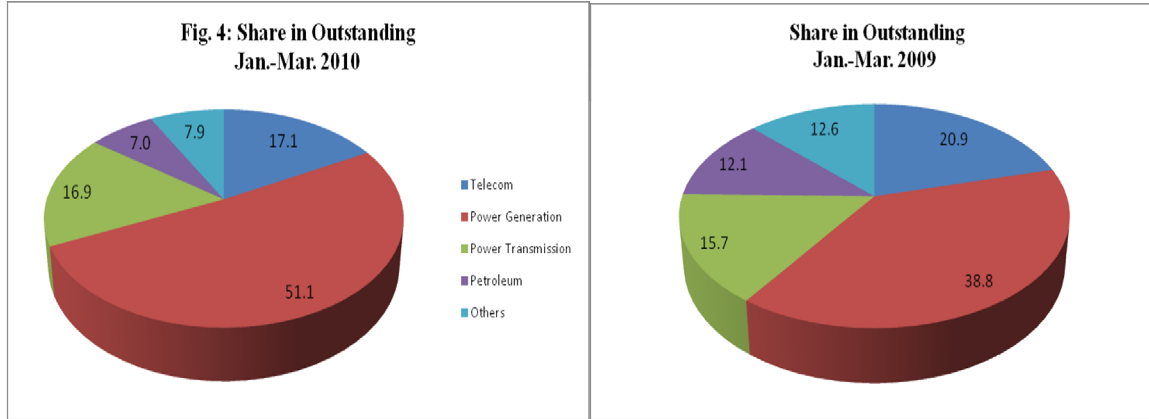


higher in previous quarter at 63.7% (Rs. 17.5 billion) whereas it was 46.7% (Rs. 17.8 billion) during Jan-Mar 2009 which shows a relatively more active scenario in infrastructure sectors a year ago. Telecommunication sector received only Rs. 238 million in this quarter against Rs. 4.1 billion in last quarter. The absence of oil & gas sector has been a real concern considering its important role in the economic activity of the country.



Analysis of Sectoral Share in Infrastructure Portfolio:

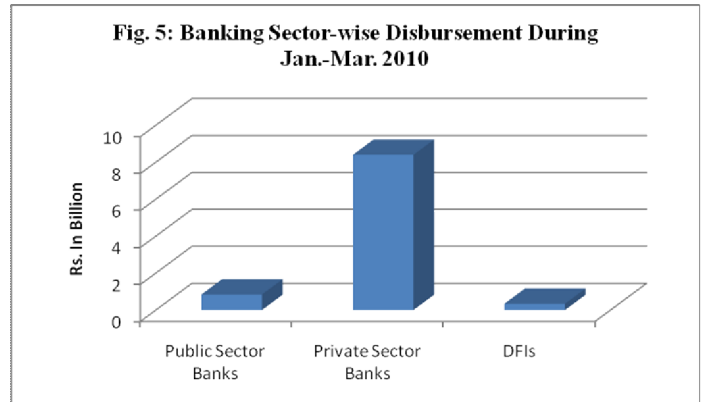
Figure 4 shows the comparison of top four sectors in outstanding infrastructure financing at the end of March 2009 with the status existing on March 31, 2010. In March 2009, power generation sector had 38.8% of the total stock followed by telecommunication sector with 20.9%. After a year, the top slot continues to be held by power generation sector with a substantial 51.1% share in the pie. The telecommunication sector remained at second place with 17.1% share followed closely by power transmission sector at 16.9%. With rise in power transmission sector also, more than 65% of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector, despite having huge potential, had been on the downside from 12.1% to 7% in a year.



Banking Sector-wise Performance:-

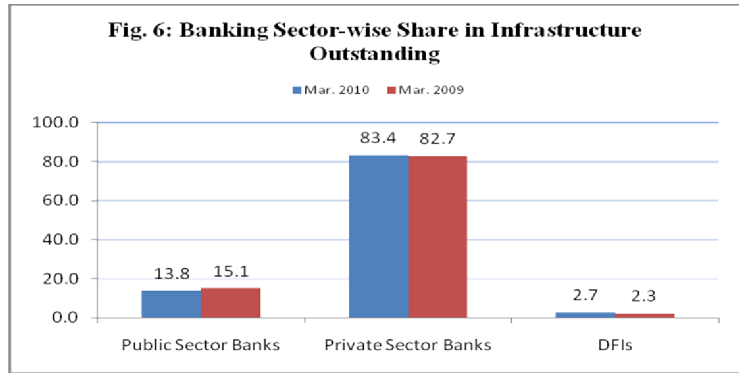
Banking Sector-wise Disbursements:-

Figure 5 shows private sector commercial banks have disbursed Rs. 8.4 billion (87.8%) out of total Rs. 9.6 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 839 million (8.7%) while DFIs have miniscule Rs. 335 million (3.5%) despite having a mandate of development finance. In Jan-Mar 2009 quarter, private sector banks disbursed Rs. 36.7 billion (96.6%) while public sector banks disbursed less than one billion.



Banking Sector-wise Share in Outstanding:

Figure 6 shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend is predominantly in private sector banks' way. The stock share of private sector banks is hovering around 83% during the year. Public sector banks slowed down a bit from 15.1% to 13.8% while DFI's remained stagnant and did not present a major shift during the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.



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New Initiatives in the Quarter:

Only two new initiatives reported in this quarter. First initiative was taken in petroleum (refinery) sector while the second one is a waste heat recovery project. The refinery project has the capacity of supplying 115,000 barrels per day and the estimated cost is almost Rs. 31.8 billion of which Rs. 10 billion is debt financed by a DFI. The waste heat recovery project is estimated to have cost of Rs. 750 million. This project will be installed in a cement factory to produce 6MW electricity through heat recovery system. The financing mode of this project is Islamic Diminishing Musharaka.

Major Departmental Initiatives and Achievements:

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

1) Infrastructure Development and Financing Institution (IDFI):

State Bank is presently working on an initiative to establish an institution under Public-Private Partnership mode for growth of infrastructure sectors in the country. Principal buy-in of MoF has been elicited. Multi-lateral agencies have also expressed their interest in supporting this initiative. The IDFI has entered the business plan development stage and TOR is being finalized for consultant hiring, to be funded by the World Bank.

1) Revised Guidelines for Infrastructure Project Financing:

The existing guidelines for Infrastructure Project Finance have been reviewed and number of areas have been identified which, if bring in tune with international standards, can facilitate project financing. The draft of revised guidelines, blending international standards and peculiar domestic experiences in infrastructure financing, has been forwarded for approval.

2) Capacity building Program:

In addition to initiatives taken to institutionalize project financing, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of project financing. In this regard a training program for the financial sector titled 'Frontiers in Infrastructure Financing' has been planned for June this year in co-ordination with the World Bank Group. International experts will be invited to conduct this high profile program.