

**July-September, 2012**

# Quarterly Infrastructure Finance Review



Imran Ahmad  
Karim Alam

Additional Director  
Deputy Director

## Table of Contents

1.0.	Infrastructure Finance Overview .....	3
2.0.	Outstanding Portfolio .....	4
3.0.	Non Performing Loans .....	4
4.0.	Banking-sector wise Share .....	4
	Box 1: Infrastructure Project Finance Guidelines.....	4
5.0.	Disbursements .....	5
6.0.	New Projects during the Quarter .....	5
7.0.	Infrastructure Finance News.....	5
	Box 2: Training Program on Infrastructure Project Finance.....	5
	Box 3: Task Force on Urban Development .....	5
	Box 4: PPP Cell, Planning & Development Department, Punjab .....	6
	Box 5: PPP Unit, Finance Department, Government of Sindh .....	6
	Box 6: Infrastructure Project Development Facility-Supporting Framework.....	6
	Box 7: Petroleum Policy of 2012 .....	6
	Box 8: Policy for Development of Renewable Energy for Power Generation .....	6
	Box 9: Infrastructure Task Force Report .....	6

*Disclaimer: Whilst every effort has been made to ensure the quality and accuracy of the data/information provided in this document, the State Bank of Pakistan makes no warranty concerning the contents of this review. The contents and comments are provided for educational purposes as well as for general information only. In no event will the State Bank, its affiliates or other stake holders be liable for any mistakes.*

## 1.0. Infrastructure Finance Overview

**Table A: Infrastructure Project Financing Profile**

(Amount in Billions)	Periods			% Change	
	Sep-11	Jun-12	Sep-12	QoQ	YoY
Amount Outstanding	299.9	286.3	286.2	0.0%	-4.5%
NPLs	14.4	17.5	17.3	-1.1%	20.4%
Disbursements (Cumulative)	327.9	343.5	363.2	5.7%	10.8%
No. of Projects (*Cumulative)	302	348	362	4.0%	19.9%
Total Sanctioned Amount	554.5	480.8	482.8	0.4%	-12.9%
*Cumulative number of projects is the total number of projects less the matured ones.					

*Cumulative disbursements to Infrastructure sectors saw a rise of 10.8 percent, YoY basis.*

Quality infrastructure affects economic growth potential of a country as well as the ability of an enterprise to engage effectively. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development objectives, as infrastructure services encourage new investment and underpin many aspects of economic and social activity.

*Quality Infrastructure affects economic growth potential of a country.*

At the end of Sep-12, the amount outstanding against infrastructure project finance did not witness any considerable movement rather remained constant when compared QoQ basis. However, there was a decrease of 4.5 percent when compared YoY basis. While, a sector-wise analysis reveals that the lion's share (65.6 percent) in total Infrastructure financing remained with Power Generation sector, followed by Telecom sector with 16.2 percent.

*Infrastructure Financing saw a rise of 0.4 percent when compared with the preceding quarter.*

Although, NPLs have lesser significance in Infrastructure projects, nevertheless there was a decline of 1.1 percent on QoQ basis.

## 2.0. Outstanding Portfolio

Total amount outstanding, against infrastructure project finance, at the end of Sep-12 was Rs. 286.2 billion when compared with Rs. 299.9 billion at the end Sep-11, recording a decline of more than 4 percent. A segregate review showed that Power Generation sector recorded a rise of 3.5 percent when compared with preceding quarter. This is attributable to a number of factors like power policy, availability of sovereign guarantees in case of IPPs, and expertise of financial sector in this area. The Petroleum, and Power Transmission showed a decline of 3.8, 55.5 and 40 percent respectively, QoQ basis, despite of the fact that government introduced Petroleum Policies in 2009 and 2012, besides other numerous incentives. At the end of the quarter under review, interestingly, Oil & Gas Exploration & Distribution, and Telecom sectors saw a rise of 43 and 7.6 percent respectively.

## 3.0. Non Performing Loans

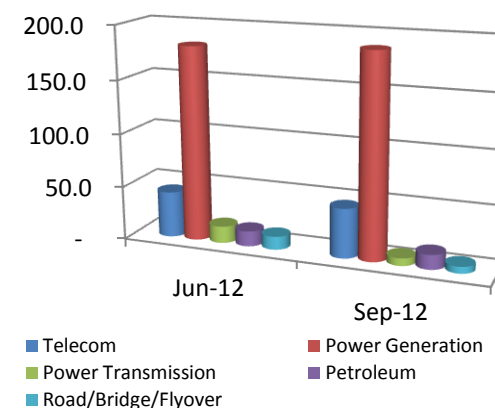
Total amount of Non Performing Loans (NPLs) at the end of Sep-12 declined to Rs. 17.3 billion when compared with Rs. 17.5 billion at the end Jun-12. A sectoral analysis reveals that the decline was primarily due to the Power Generation and LPG Extraction/Distribution sectors. While telecom sector saw some rise in NPLs.

## 4.0. Banking-sector wise Share

At the end of the quarter under review, following the usual trend, private sector banks' share remained the highest in the total outstanding amount with 75 percent followed by public banks with 17 percent and 5 percent by DFIs, whereas the share of foreign and Islamic banks together amounted to 3 percent. Similar trends were observed in total amount disbursed during the quarter, amount sanctioned, and cumulative disbursements as well.

Currently, among the Islamic banks, two Islamic banks have undertaken Islamic project financing and their combined share was about 1.3 percent (Rs. 3.63 billion) in total outstanding to Infrastructure sectors.

**Fig 1a: Top 5 Sectors of the Quarter**



### Box 1: Infrastructure Project Finance Guidelines

- SBP's Infrastructure Project Finance Guidelines can be accessed at <http://www.sbp.org.pk/ihfd/2010/Annex-CL1.pdf>

*Cumulative amount disbursed by Banks & DFIs for infrastructure projects at the end of Sep-12 was Rs. 363.3 billion.*

### 5.0. Disbursements

During the quarter under review, an amount of Rs. 9.6 billion was disbursed (during the quarter under review) in all infrastructure sectors against Rs. 10.3 billion in the preceding quarter, a decline of 6.6 percent QoQ basis, primarily attributable to Petroleum Sector. However, there was a rise of more than 200 percent when compared YoY basis. Moreover, the cumulative disbursements (at the end of the quarter under review) at the end of Sep-12 saw a rise of 5.7 percent, QoQ basis mainly driven by Power Generation Sector. Moreover, on YoY basis, a rise of 10.8 percent was recorded too again due to Power Generation Sector.

### 6.0. New Projects during the Quarter

During the quarter under review, only one new project was undertaken in Road/Bridge/Flyover category by a private bank.

### 7.0. Infrastructure Finance News

Following part briefly mentions important news pertaining to infrastructure projects during the quarter (Jul-Sep, 2012) under review.

#### Australian Project Finance Activity May Be Picking Up

<http://www.infrastructurereviews.com/2012/>

Activity in Australia's project finance (PF) or public-private partnership (PPP) segment could be picking up. A new report by Standard & Poor's Ratings Services highlights a number of major projects or debt refinancing under consideration. PPP projects that have either recently concluded or would reach financial close in the coming months are Sydney Convention Centre, Bendigo Hospital, and Sunshine Coast Hospital.

#### Islamic Finance may keep Development of Indonesia's Infrastructure on Track

<http://www.infrastructurereviews.com/2012/>

Islamic finance may be a viable option to help Indonesia meet its ambitious infrastructure plans. That's a key finding from a new report by Standard & Poor's Ratings Services titled "Islamic Finance Could Plug the Gap in Indonesia's Infrastructure Funding." The report

#### Box 2: Training Program on Infrastructure Project Finance

A two day's training program on Infrastructure Project Finance was held on Nov 13-14, 2012 at Learning Resource Center, SBP, Karachi. The soft copies of the presentations made can be accessed via the link

<http://www.sbp.org.pk/departments/ihfdfin.htm>

#### Box 3: Task Force on Urban Development

- Planning Commission, Government of Pakistan had established a **Task Force on Urban Development** in June, 2010 to review the prevailing urban conditions and establish principles that provide sound underpinnings for a consensus national urban policy.
- The subject report can be accessed at <http://www.pc.gov.pk/>

says that Indonesia can emulate Malaysia's success thus far in utilizing Islamic finance for infrastructure development.

### **Rio De Janeiro is Racing to Complete Infrastructure Projects in Advance of the Olympic Games**

<http://www.infrastructureviews.com/2012/>

The London Olympics aren't yet complete, but the eyes of the sports world are already starting to turn toward the next host, Rio de Janeiro. The International Olympic Committee's selection of Rio as host of the 2016 Summer Olympic Games – over such global powerhouses as Chicago, Madrid, and Tokyo—marked the first time the Committee had chosen a South American country.

### **US Infrastructure Project Financing Looks to the Capital Markets as Bank Lending Shrinks**

<http://www.infrastructureviews.com/2012/>

The US is facing a conundrum: Its needs for big infrastructure projects are growing just as the typical funding source for project financing of infrastructure – bank lending – is shrinking. Historically, long-term bank loans were the primary funding mechanism for building infrastructure projects such as power plants, bridges, tunnels, roads, ports, and other large complex infrastructure projects. But thanks to Basel III and Solvency II – accords that call for better-capitalized banks globally and European insurance companies – Standard & Poor's Rating Services expects banks to diminish lending in coming years, leaving capital markets with a bigger financing role for many massive infrastructure undertakings.

### **How Will China Fund Its Massive Pipeline For Infrastructure-Related Projects?**

<http://www.infrastructureviews.com/2012/>

China's so-called twelfth Five-Year Plan has proposed massive capital investments on infrastructure-related projects over the next few years – everything from power, water, and wastewater to transport infrastructure such as airports, ports, railways, and roads. One big question is how these projects will be funded. According to Standard & Poor's Ratings Services, local regional governments (LRGs), logistics companies, and utilities may have to seek new funding sources, in addition to bank loans, to finance these projects. This topic is discussed at length in the report titled, "China Credit Spotlight: LRGs, Logistics

#### **Box 4: PPP Cell, Planning & Development Department, Punjab**

[http://www.pndpunjab.gov.pk/ppp\\_cell/About.html](http://www.pndpunjab.gov.pk/ppp_cell/About.html)

The government of Punjab has established PPP Cell for provision of infrastructure services and facilities such as roads, schools, hospitals, water supply, sewerage, solid waste management, and transport etc.

#### **Box 5: PPP Unit, Finance Department, Government of Sindh**

<http://www.pppunitsindh.gov.pk/site/index.php?pid=25>

Government of Sindh has taken the initiative of setting up a Public Private Partnership Unit, in Finance Department, to launch the projects of extreme socio-economic significance, in PPP mode.

Companies, And Utilities Are Likely to Tap New Funding Sources for Infrastructure Projects”.

### UK Government to Guarantee Infrastructure Projects

<http://www.infrastructureviews.com/2012/>

The UK government is increasingly viewing infrastructure investment as an important tool for its agenda for growth. As a first step in its attempts to re-launch the UK infrastructure market, the government announced on July 18 that it will use its AAA balance sheet to support infrastructure projects. In addition to providing £6 billion of short-term loans to existing PPP deals that are struggling to raise finance in the current market; the government said it will also underwrite £40 billion of private finance for infrastructure schemes.

### Support for Renewable Energy Inches Ahead While Global Energy Demand Grows by Leaps and Bounds

<http://www.infrastructureviews.com/2012/>

With energy consumption worldwide projected to roughly double in the next 35 years, conventional wisdom says renewable sources of power will play a big role in meeting demand. The conventional wisdom may be wrong. Cost, feasibility, and political wrangling all stand in the way of near-term renewable-energy expansion, globally and in the U.S. The sputtering economic recovery in the U.S. (combined with historically low natural gas prices) and a wave of austerity sweeping through Europe’s legislatures are not fostering a celebratory mood when governments propose spending on renewable-energy infrastructure. Even fast-growing economies in Asia, where energy consumption looks set to far outpace that in other regions, seem content to rely on fossil fuels for the time being.

### Low-Cost Financing from NYS Approved for City of Oswego Stormwater, Sewer Projects

<http://oswegocountytoday.com/?p=101890>

The Board of Directors of the New York State Environmental Facilities Corp. approved \$7.96 million in short-term financing for the city of Oswego, including \$4 million in no-interest loans, to improve sewer and storm water collection in the city.

The EFC financing, bearing an average interest rate of 0.2 percent, will result in long-term savings of \$3.8 million for Oswego. The EFC loans will be used for two important wastewater projects: the repair of 50,000-feet of sewer pipes on the city’s west side and

### Box 6: Infrastructure Project Development Facility-Supporting Framework

<http://ipdf.gov.pk/organization/supporting-framework/>

PPP network at Federal, Provincial and Local government levels

- National Partner Organization with ADB’S Cities Development Initiative for Asia (CDIA)
- Framework agreement with Partnerships UK, H.M. Treasury Department
- MoU with NUST for Project Development and Capacity Building
- MOU signed with BOI - Creating presence in the Provinces via use of BOI office space
- MOU signed with Punjab Urban Unit
- Assistance to the Punjab Government in setting up PPP unit within the P&D Department
- Assistance to the Sindh Government in setting up PPP unit within the P&D department
- Assistance to the K.P. Government in building a PPP program



the installation of a chlorine disinfection system for occasional sewer and storm water overflows into the Oswego River and the harbor.

### **MY Signs Financing Framework Agreement for Renewable Energy Projects with Reliance Power India and China Development Bank**

<http://www.marketwatch.com/story/my-signs-financing-framework-agreement-for-renewable-energy-projects-with-reliance-power-and-china-development-bank-2012-11-26>

ZHONGSHAN: China Ming Yang Wind Power Group Limited ("Ming Yang" or the "Company"), a leading wind turbine manufacturer in China, announced that Guangdong Mingyang Wind Power Industry Group Limited ("Guangdong Mingyang"), a subsidiary of Ming Yang, has entered into a financing framework agreement (the "Framework Agreement") with Reliance Power Limited ("Reliance Power"), the largest private sector power company in India, both in capacity under development as well as market capitalization, and China Development Bank Corporation ("CDB"), a government policy bank wholly owned by China's central government, under which CDB is expected to act as the coordinating bank and lead potential lender for renewable energy projects in India to be jointly developed by Ming Yang and Reliance Power.

### **World Bank, Bangladesh sign financing agreement for ICT project**

<http://english.peopledaily.com.cn/90778/8035320.html>

The Bangladeshi government signed a financing agreement with the World Bank worth 70 million U.S. dollars for an IT or information technology project aimed to create employment opportunities for thousands. The Leveraging ICT (Information Communication Technology) for Growth, Employment and Governance Project aims at creating an estimated 30,000 direct jobs in the IT and IT enabled service sectors, which have the potential to create up to 120,000 indirect jobs. The project is also expected to increase revenue by over 200 million U.S. dollars by the end of the initiative from IT and its related services, said the Washington-based lender in a statement.

### **Additional Financing from ADB for Northern Road Connectivity Project in Sri Lanka**

[http://www.defence.lk/new.asp?fname=Additional\\_Financing\\_from\\_ADB\\_for\\_Northern\\_Road\\_20121120\\_01](http://www.defence.lk/new.asp?fname=Additional_Financing_from_ADB_for_Northern_Road_20121120_01)

Two loan agreements to rehabilitate and improve 200 kilometers of 19 roads under the Northern Road Connectivity Project were signed at the Ministry of Finance & Planning, by Dr.P B Jayasundera, Secretary to the Ministry of Finance and Planning, on behalf of the

#### **Box 7: Petroleum Policy of 2012**

<http://www.mpn.gov.pk/>

The government of Pakistan announced **Petroleum Exploration and Production Policy 2012** in August, 2012. The Policy would help achieve maximum self-sufficiency in energy and promote exploration and production activities by providing competitive incentives to the investors.

This was the second petroleum policy of the current government as the first one was formulated introduced in 2009.

#### **Box 8: Policy for Development of Renewable Energy for Power Generation**

<http://www.aedb.org/Policy/REpolicy.pdf>

The Policy for Development of Renewable Energy for Power Generation 2006 can be accessed via the above link.



Government of Sri Lanka and Ms. Rita O'Sullivan, Country Director of ADB on behalf of the ADB.

### World Bank to Fund Karnataka Health Project

[http://www.daijiworld.com/news/news\\_disp.asp?n\\_id=156230](http://www.daijiworld.com/news/news_disp.asp?n_id=156230)

Bangalore: The World Bank will provide \$70 million (Rs.387 crore) loan to finance the Karnataka health systems development and reform project.

"The objective of the loan is to improve the health services delivery, public-private collaboration and financing particularly for the benefit of underserved and vulnerable groups in Karnataka," the bank said in a statement. An agreement for the assistance was signed by joint secretary in the finance ministry Prabodh Saxena, World Bank (India) operations advisor Michael Haney and state project administrator R. Vishal in the national capital Wednesday. The project envisages strengthening of state-run health programmes, innovations in service delivery and health financing, project management, monitoring and evaluation. "The project financing will be implemented till March 31, 2016," the statement added.

#### Box 9: Infrastructure Task Force Report

<http://www.sbp.org.pk/departments/ihfd/InfrastructureTaskForceReport.pdf>

SBP had earlier constituted an **Infrastructure Task Force** comprising representatives from key public and private sector institutions.

The Task Force was mandated to identify obstacles in the development of infrastructure in general and infrastructure finance in particular and propose viable ways for effective private sector participation.

The task force addressed the challenges facing key infrastructure areas i.e. Power, Roads and Water & Sanitation and made its recommendations on these and other important infrastructure areas.

The report can be accessed via the above link.