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Quarterly Infrastructure Finance Review



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1.0. Infrastructure Finance Overview

Table A: Infrastructure Project Financing Profile of Banks & DFIs

(Amount in Billions)	Periods			% Change	
	Dec-11	Sep-12	Dec-12	QoQ	YoY
Amount Outstanding	280.7	286.2	285.4	-0.3%	1.7%
NPLs	13.8	17.3	17.5	1.1%	26.7%
Disbursements (Cumulative)	325.7	363.2	355.0	-2.3%	9.0%
No. of Projects (*Cumulative)	274	362	362	0.0%	32.1%
Total Sanctioned Amount	544.9	482.8	492.4	2.0%	-9.6%
*Cumulative number of projects is the total number of projects less the matured ones.					

Cumulative disbursements to Infrastructure sectors saw a rise of 9.0 percent, YoY basis.

Economic growth potential of a country as well as the ability of an enterprise to engage effectively is actually affected by quality infrastructure in a country. 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.

At the end of Dec-12, the amount outstanding against infrastructure sector remained almost same with some negligible reduction of 0.3 percent when compared QoQ basis. However, there was a growth of 1.7 percent when compared YoY basis. While, a sector-wise analysis reveals that the lion's share (60.6 percent) in total outstanding infrastructure financing remained with Power Generation sector, Telecom sector followed it with 16.9 percent.

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

Quality Infrastructure affects economic growth potential of a country.

Infrastructure outstanding finance saw a rise of 1.7 percent YoY basis.

2.0. Outstanding Portfolio

Total amount outstanding, against infrastructure finance, at the end of Dec-12 was Rs. 285.4 billion when compared with Rs. 286.2 billion at the end Sep-12, recording a meagre decline of 0.3 percent. However, on YoY basis, there was a growth of 1.7 percent.

A segregate review showed that Power Generation sector recorded a decline of 7.9 percent. In addition to this, Petroleum sector showed a decline of 5.2 percent, QoQ basis, despite the fact that government introduced Petroleum Policies in 2009 and 2012, besides provision of other numerous incentives. Moreover, Oil & Gas Exploration & Distribution also saw a decline of 27.9 percent on QoQ basis. Nevertheless, Telecom, Power Transmission, LPG Extration & Distribution, and LPG import & Distribution sectors saw positive growth when compared with preceeding quarter.

3.0. Non Performing Loans

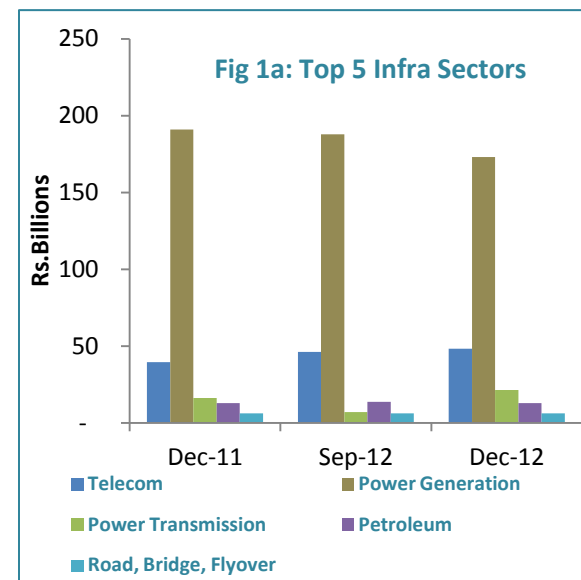
Total amount of Non Performing Loans (NPLs) at the end of Dec-12 increased to Rs. 17.5 billion when compared with Rs. 17.3 billion at the end Sep-12 registering a rise of 1.1 percent. While, on YoY basis NPLs increased from Rs. 13.8 billion to Rs. 17.5 billion.

At the end of Dec-12, a sectoral analysis revealed that the major share (47.2 percent) in NPLs pertained to Power Generation Sector, followed by Telecom and Power Transmission with 26.8 and 13.2 percent respectively whereas the remaining 12.8 percent was the share of all other sectors.

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 74.3 percent followed by public sector banks with 18.7 percent and 5.1 percent by DFIs, whereas the share of foreign and Islamic banks together amounted to about Rs.5.37 billion (2 percent). Similar trends were observed in total amount disbursed during the quarter, amount sanctioned, and cumulative disbursements as well.

As per the data reported by Banks & DFIs, among the Islamic banks, two Islamic banks



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 Dec-12 was Rs. 355.0 billion.

have undertaken Islamic project financing and their total outstanding was Rs. 3.57 billion against Infrastructure sectors.

At the end of Dec-12, out of 362 infrastructure projects, 233 were undertaken by Private Sector banks, 56 by Public Sector Banks, 4 by Foreign Banks, 4 by Islamic Banks and 65 by DFIs.

5.0. Disbursements

During the quarter under review, an amount of Rs. 13.88 billion was disbursed in infrastructure sectors against Rs. 9.56 billion in the preceding quarter, a growth of about 45 percent QoQ basis, primarily attributable to Petroleum and Power Generation Sectors. Moreover, there was a rise of about 100 percent in disbursements when compared with corresponding quarters of 2011 and 2012.

In addition to this, the cumulative disbursements (at the end of the quarter under review) saw a decline of 2.3 percent, QoQ basis mainly driven by Power Generation Sector. However, on YoY basis, a rise of 9.0 percent was recorded.

6.0. New Projects during the Quarter

Five new projects have been undertaken by the industry during the quarter under review, of which three have been undertaken by Private Sector Banks and one each by DFIs and Public Sector Banks.

7.0. Infrastructure Finance News

Following part briefly mentions important news pertaining to infrastructure projects during the quarter (Sep-Dec, 2012) under review. However, for further details the relevant hyperlinks may be visited.

Diamer Bhasha Dam: Government to knock on China's doors

<http://tribune.com.pk/story/473456/diamer-bhasha-dam-turned-away-from-elsewhere-government-to-now-knock-on-chinas-doors/>

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/ihfdin.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/>

ISLAMABAD: After failing to secure funds for the multibillion dollar Diamer Bhasha Dam from multilateral donors – allegedly due to Indian lobbying – the government has now decided to seek a major portion of the project’s financing from China.

“China may not be able to provide our entire financing needs: however, it can contribute a major portion of funds needed for the Diamer Bhasha dam,” Ministry of Water and Power’s Special Secretary Himayatullah Khan informed a parliamentary panel here on Friday.

AfDB, Kenya sign multi-million dollar loan agreement to finance hydroelectric power project, enhance higher education

<http://www.worldstagegroup.com/worldstagenew/index.php?active=news&newscid=6967&catid=26>

The African Development Bank (AfDB) has signed two loan agreements with the Government of Kenya amounting to millions of dollars to finance a major regional hydroelectric power project and the enhancement of the country’s higher education system.

The first loan totaling US \$115 million will finance the construction of the multinational electricity highway between Ethiopia and Kenya, consisting of about 1,068 km of high voltage direct current (HVDC) 500 kV transmission line. While the second loan of US \$43 million will go towards improving the quality and relevance in engineering faculties in line with Kenya’s Vision 2030 priorities for science, technology and innovation (STI) and human resource aspirations of the East African Community (EAC) integration

Iran hopeful IP pipeline will boost joint ventures

<http://tribune.com.pk/story/471846/iran-hopeful-ip-pipeline-will-boost-joint-ventures/>

KARACHI: The outgoing Consul General of Iran to Pakistan Abbas Ali Abdollahi hopes that the Iran-Pakistan (IP) gas pipeline will go a long way in promoting new investment opportunities and increase in mutual trade volume between both countries.

Speaking at a farewell reception hosted by Tariq Sayeed, chairman of the Pak-Iran Business Council, the envoy disclosed that Iran had already laid 1,200-kilometre pipeline

Box 4: 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 5: Upcoming Seminar on Infrastructure project Financing

IH& SME Finance Department, SBP will hold a two days program on Infrastructure Project Financing in the country. The program will be held at NIBAF, Islamabad on March 18-19, 2013.

from Bunder Abbas to the Balochistan border; however, Pakistan had yet to implement the project in its area.

UK Government Set to boost Clean Energy Future

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

On Nov. 23 the UK government gave low carbon energy investors an early glimpse of its latest policy decisions with respect to the much-anticipated energy market reforms (EMR) which it hopes will unlock £110 billion (\$176 billion) of investment in the nation's energy infrastructure over the coming years. The announcement aimed to spark some positive market sentiment in advance of the publication of the Energy Bill expected this week.

US reaffirms assistance for Diamer Bhasha Dam

<http://tribune.com.pk/story/470301/us-reaffirms-assistance-for-diamer-bhasha-dam/>

ISLAMABAD: The United States said the financing issue of the multi-billion dollar Diamer Bhasha Dam project will be taken up in the upcoming meeting of the US-Pakistan Economic Working Group next month in Washington.

US Ambassador to Pakistan Richard Olson reaffirmed support to the project during a meeting with Minister for Water and Power and discussed various matters of mutual interest and to enhance bilateral cooperation in the energy sector.

A Short-Term Approach to Funding Leaves U.S. Transportation Infrastructure without a Solid Long-Term Plan

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

Even with across-the-aisle agreement in Washington that an overhaul of the U.S.' transportation infrastructure is a must to foster growth in the world's biggest economy, one essential question remains: How do we pay for it?

An answer of sorts came in July, with the signing of the Moving Ahead for Progress in the 21st Century Act (MAP-21) into law. It provides \$105 billion for fiscal years 2013 and 2014 (year ended Sept. 30) to finance highway construction and repair. Following that was the

Box 6: Infrastructure in India

- The Government of India has estimated that investments of \$514 billion in the Indian infrastructure sector are needed to achieve growth projection of 9% per annum within the 11th Five-Year Plan (FYP) (2007–2012).
- In order to scale up the development of infrastructure through PPP, the government established the *India Infrastructure Finance Company Limited (IIFCL)* in January 2006.
- In February 2008, *IIFC (UK)* was incorporated as a wholly owned subsidiary of IIFCL, under the laws of England, to supplement IIFCL's role and functions.
- In FY2011–2012, IIFCL established a subsidiary, *IIFCL Projects Limited*, to provide project advisory services, including project appraisal and syndication services.

Source: ADB Report on *India Infrastructure Project Financing Facility*, November 2012.

August release of \$470 million in Transportation Department funds to states to create construction jobs and repair crumbling infrastructure.

Re-igniting the Infra Debt Capital Markets

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

When it comes to financial markets, going against the grain can be a difficult and thankless proposition. But often those who stick their necks out and break the consensus are proved correct at a later date. In 2006, during infrastructure's heady days of highly leveraged deals and astronomical prices, Standard & Poor's managing director, Mike Wilkins, pointed out that the asset class was heading for trouble. He claimed that there might be a pricing bubble forming in infrastructure, with investors exposed to overpriced and overleveraged assets, and fund managers pushed towards private equity strategies in order to justify their large fees.

India finalizes details for tax-free bond issuance in 2012/13

<http://www.reuters.com/article/2012/11/07/india-bonds-tax-free-idUSI8E8KQ00L20121107>

(Reuters): India will allow select companies to issue tax-free bonds in the rest of the financial year, finalizing details of a proposal announced in the budget in February, according to a government notification obtained from two of the eligible issuers. The government said in the notification seen by Reuters that a total of 535 billion rupees (\$9.83 billion) would be raised through issue of tax-free infrastructure bonds in the current financial year that ends in March.

World Bank Gives \$40 Million to Boost Private-Public Deals

<http://allafrica.com/stories/201211180069.html>

THE World Bank has approved a Sh3.4 billion (\$40 million) loan to Kenya to support public-private sector partnerships.

The amount was announced yesterday for the Infrastructure Finance Public-Private Partnership Project aimed to support Kenya to improve its enabling environment and generate bankable public-private partnership projects in transport and energy sectors.

Box 7: National Energy Policy in Malaysia

<http://www.malaysia.gov.my>

- The National Energy Policy has three principal objectives that guide future energy sector developments based on supply, utilization and the environment.
- For supply, the main aim is to extend the life of domestic resources and diversify away from oil to promote other energy forms.
- Utilization depends heavily on the industry and consumers to integrate energy efficiency programmes and develop demand-side initiatives to curb consumption.
- Energy and the environment are linked at every level, thus the requirement for mandatory assessment to address negative impacts.

Australia Pacific LNG deal worth US\$8.5 billion project financing deal

http://www.claytonutz.com/publications/news/201211/19/clayton_utz_congratulates_australia_pacific_lng_on_its_groundbreaking_us8-5_billion_project_financing_deal.page

Sydney: Clayton Utz congratulates Australia Pacific LNG (APLNG) and its sponsors on the successful close of the US\$8.5 billion financing for APLNG's liquefaction plant and facilities on Curtis Island.

This is Australia's largest ever project financing and the first time that the export finance arms of the United States and China (which together will contribute at least US\$6 billion of debt) have co-operated on an Australian project.

What are the key economic factors for ratings in the various transportation sectors?

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

For all transportation sectors, we focus on changes in regional real GDP and on global GDP for selected sectors or companies that have significant international operations, such as some airlines and shipping companies. In addition, narrower measures of economic activity can be significant for certain sectors. The performance of North American freight railroads, which carry manufactured goods, coal, grain, and other commodities correlates with industrial production, for example. Airline revenues and earnings, meanwhile, often depend heavily on corporate profits (because business travelers are profitable customers) and consumer spending (which correlates with vacation travel).

PTC India to raise \$40 million from IFC

http://www.business-standard.com/article/companies/ptc-india-to-raise-40-million-from-ifc-112111900090_1.html

PTC India Financial Services Limited (PFS) will raise around \$40 million from International Finance Corporation (IFC) to fund various wind power projects, which can generate around 75-125 MW of power in the southern states and Maharashtra.

PFS has been categorized as an Infrastructure Finance Company by the Reserve Bank of India, and is focused on funding projects across the energy value chain in India.

Box 8: Indian FDI Policy for Petroleum and Natural Gas Sector 2011

<http://petroleum.nic.in/fdi.pdf>

Revised Foreign Direct Investment (FDI) Policy for the Petroleum & Natural Gas Sector has been circulated by Department of Industrial Policy & Promotion vide Circular No 1 of 2011. The sectoral policy/regulations for FDI in the Petroleum & Natural Gas sector are as follows:

For Exploration & Production Activities:

- Statutes governing the upstream sector, viz the Oil Field (Regulation and Development) Act, 1948 and Petroleum and Natural Gas Rules 1959 which govern grant of Petroleum Exploration Licenses and Mining Leases, royalty etc.
- New Exploration Licensing Policy (NELP) - allotment of exploration blocks only through international competitive bidding.
- Coal Bed Methane (CBM) Policy - allotment of coal blocks for extraction of methane gas from coal seams through international competitive bidding.