July - Sept, 2014

Quarterly Infrastructure Finance Review

Infrastructure Housing &
SME Finance Department

The Team

Team Leader

Syed Samar Husnain - Executive Director

Members

Ghulam Muhammad Abbasi - Director

Dr. Muhammad Saleem - Additional Director

Zahir Saeed Sakhi - Assistant Director

For queries

Email: ihfd.reporting@sbp.org.pk

Phone: 021-32453589

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Acronyms

IPF	*Infrastructure Project Financing*
DFI	*Development Finance Institution*
QoQ	*Quarter-on-Quarter*
YoY	*Year-on-Year*
PG	*Power Generation*
O&G	*Oil and Gas*
RBF	*Road, Bridge & Flyover*
PT	*Power Transmission*
WSS	*Water Supply & Sanitation*
NPLs	*Non-Performing Loans*
FY	*Fiscal Year*
LPG	*Liquefied Petroleum Gas*

1. Infrastructure Finance Overview

It is estimated that Pakistan needs to invest around 10 percent of GDP until 2020 to close its enormous infrastructure gap. Whereas, infrastructure investment as percentage of GDP is currently around 6 percent. Public sector has limited resources to fill this gap, and opportunities for private sector investment in Infrastructure are vast. Infrastructure sector requires large upfront capital investment for benefits that spread over longer time. Unlike public sector, which takes into consideration the social benefits as well apart from commercial gains; private sector's involvement in infrastructure is pinned on commercial returns. Therefore, appropriate incentives are required to lure private sector investment in infrastructure sectors.

In Pakistan, Banks and Development Finance Institutions (DFIs) have remained a major source of funding to infrastructure investment in the private sector. This review is prepared based on quarterly data received from banks and DFIs. An analysis of the infrastructure financing profile for Q1 FY-15 depicts the following trends.

The total number of projects categorized under infrastructure projects by banks & DFIs have reached 382, with addition of 6 new projects during the quarter. Moreover, the total amount sanctioned by banks and DFIs at the end of Sept-14 stands at Rs 551.4 billion, compared to Rs 535.6 billion in the previous quarter, showing an increase of 3%.

At the end of Sept-14, amount outstanding against infrastructure sectors witnessed growth of Rs 6.3 billion or 2.3% when compared with the preceding quarter (Apr-Jun, 2014). This increase was largely due to the telecom and power transmission sectors, where combined outstanding amount grew by more than Rs 12 billion. The growth in telecom was observed due to a new non-fund based project reported during the quarter.

Non-performing loans (NPLs) showed a rise of 2.4%, QoQ basis whereas, quarterly disbursement decreased during Q1 of FY15 compared to the preceding quarter but still showed an increase when compared with Q1 of FY14.

A sector-wise analysis shows that the major share (66% & 18%) in total outstanding infrastructure project financing remained with power generation and telecom sectors respectively. Strong demand and Government of Pakistan backed guarantees are the major reasons that power generation sector has witnessed tremendous growth over the years. The share of power transmission sector was 2.5% while petroleum and oil & gas (exploration and distribution) sectors' share was 3% and 3.3% respectively in total outstanding amount.

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

The following sections present outstanding portfolio, disbursements, number of projects, non-performing loans, amount sanctioned, and sectoral share of Banks & DFIs in Infrastructure Project Financing (IPF). It is pertinent to mention here that the data/figures pertain to the existing projects and excludes projects which have matured at the end of September, 2014.

Table A: Infrastructure Project Financing Profile of Banks & DFIs

(Amount in PKR Billions)				% Change	
	Sep-13	**Jun-14**	**Sep-14**	**QoQ**	**YoY**
Amount Outstanding	266.2	276.1	**282.4**	2.3%	6.1%
NPLs	18.2	18.1	**18.5**	2.4%	1.7%
Disbursements During the Quarter	12.3	27.3	**15.7**	-42.4%	27.3%
Disbursements (Cumulative)	350.0	371.3	**349.6**	-5.9%	-0.1%
No. of Projects (*Cumulative)	372	375	**382**	1.9%	2.7%
Total Sanctioned Amount	510.2	535.6	**551.4**	3.0%	8.1%

*Cumulative number of projects is the total number of projects less the matured ones.

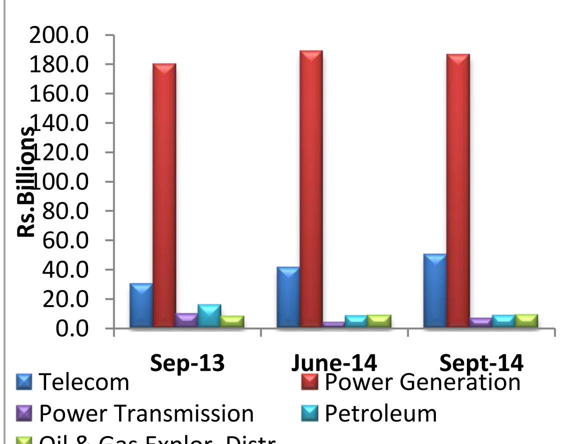
2. Outstanding Portfolio

The total amount outstanding, against infrastructure finance, at the end of Sept-14 was Rs 282.4 billion as compared to Rs 276.1 billion at the end of Jun-14, recording a rise of 2.3%. Telecom, power transmission and petroleum sectors noticed a rise of 22%, 63% & 1.3% respectively while outstanding portfolio in the power generation sector declined by 1.3% (QoQ basis), reaching Rs 186 billion. Following is the list of infrastructure sectors where lending has been made by banks/DFIs:-

a) Power Generation (PG)
b) Telecom
c) Oil & Gas (O&G) Exploration/Distribution
d) Petroleum
e) Road, Bridge, Flyover (RBF)
f) Power Transmission (PT)
g) LPG Extraction/ Distribution
h) Water Supply, Sanitation (WSS)

On YoY basis, amount outstanding against infrastructure grew by 6%. Yearly growth was observed in telecom, power generation, O&G and RB&F sectors. The share of O&G and RB&F sector in total outstanding portfolio is 3.3% and 1.8% only.

Fig 1: Top 5 Infrastructure Sectors



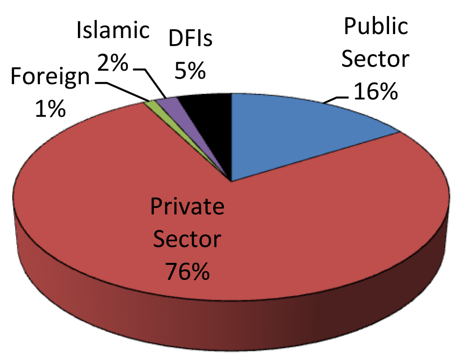
3. Non Performing Loans

At the end of Sept-14, total amount of non-performing loans (NPLs) stood at Rs 18.5 billion, showing an increase of 2.4% from a quarter earlier. While, compared to the same period, last year, the total amount of NPLs increased by 1.7%. The major share of 59% in NPLs pertained to PG sector while telecom's share in total NPLs was 25%.

4. Banking-sector wise share

The institutional share in outstanding portfolio has largely remained the same with a large share of private sector banks followed by public sector banks (Figure below). DFIs share in total outstanding amount remains unchanged at 5%.

Fig: 2 Share of financial institutions in outstanding portfolio as of Sept-14



Total outstanding: Rs 282 billion

Although, in absolute terms, share of institutions has increased as total outstanding amount has increased.

Moreover, at the end of Sept-14, total amount sanctioned for infrastructure sectors grew by 3%, QoQ basis, and stood at Rs 551 billion. Of this amount, the share of private sector banks was 78%, showing 1% increase from previous quarter, followed by public sector banks with 14%, DFIs with 3.3%, foreign banks with 1.3%, and Islamic banks with 3.2% share in total amount sanctioned.

At the end of Sept-14, cumulative disbursements witnessed a decrease of 5.9%, QoQ basis. Private sector bank's share in cumulative disbursements at the end of June, 2014 stood at 73%; public sector banks share 19%, DFIs with 4.6% and Islamic banks with 1.7%.

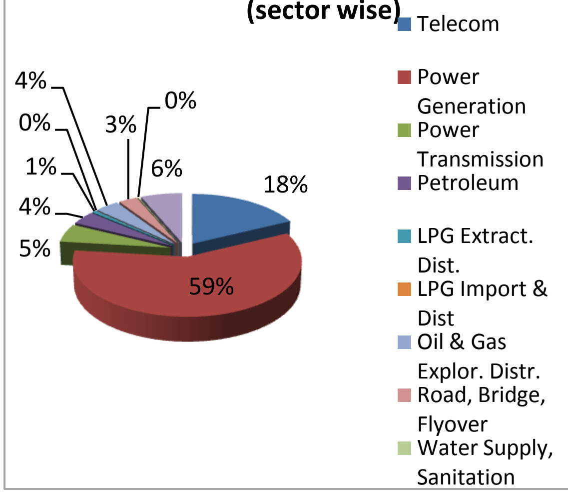
The private sector banks' share in NPLs was recorded at 58% followed by public sector with 26%. DFIs share in NPLs has increased to 16%, while foreign banks and Islamic banks did not report any NPLs.

5. Disbursements

Cumulative disbursements as of Sept-14 declined both on quarterly (5.9%) and yearly (0.1%) basis.

At the end of Sept, Rs 349 billion was the cumulative amount disbursed to all infrastructure sectors, of which 59% was in PG sector followed by telecom sector with 18% share (Figure 3).

Figure 3: Cumulative Disbursements (sector wise)



During the quarter under review, an amount of Rs 15.7 billion was disbursed under infrastructure project financing against Rs 27.2 billion in the previous quarter.

6. Number of Projects

Out of the 382 infrastructure projects financed, 196 were undertaken in power generation sector, 48 in telecom, 16 in power transmission, 23 in petroleum, 21 in O&G, and 41 in RB&F sector.

7. Amount Sanctioned

At the end of the period under review, the total amount sanctioned by Banks & DFIs for infrastructure projects increased from Rs 535 billion to Rs 551 billion, recording a growth of 3% compared to the previous quarter. A similar trend was observed when compared on yearly basis.

Out of the total amount sanctioned during the quarter, share of PG stands at 53%, telecom's share was at 20% followed by petroleum with 7.7% and O&G sector with 4.8%.

Infrastructure financing portfolio of Banks & DFIs has been increasing for the second consecutive quarter now which is a positive sign for economic development. This trend must be continued for longer term growth with further increasing trend for sustainable development. Additionally there are other sectors like railway, aviation, roads and tourism where financing can be provided to commercially viable projects.

Box 2: Infrastructure Projects as defined in SBP's Infrastructure Project Finance (IPF) Guidelines

a. A road, including toll road, fly over, bridge project;
b. A mass transit, urban bus, urban rail project;
c. A rail-bed, stations system, rail freight, passenger services project;
d. A telecommunication local services, long distance and value added project;
e. A power generation project;
f. A power transmission or distribution project by laying a network of new transmission or distribution lines;
g. A natural gas exploration and distribution project,
h. An LPG extraction, distribution and marketing project;
i. An LPG import terminal, distribution and marketing project;
j. An LNG (Liquefied Natural Gas) terminal, distribution and marketing project;
k. A water supply, irrigation, water treatment system, sanitation and sewerage system or solid waste management system project;
l. A dam, barrage, canal project;
m. A primary and secondary irrigation, tertiary (on-farm) irrigation project;
n. A port, channel dredging, shipping, inland waterway, container terminals project;
o. An airport;
p. A petroleum extraction, refinery, pipeline project;
q. Any other infrastructure project of similar nature, notified by SBP.

Annexure

Table B: Infrastructure Project Financing Profile over the years

(Amount in Rs. Billions)	Periods						
	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Sep-14
Amount Outstanding	234.4	275.9	298.5	265.5	289.3	255.2	282.4
NPLs	1.3	8.2	10.4	17.1	17.5	19.4	18.5
Disbursements (Cumulative)	203.2	251.1	349.0	356.2	356.3	351.9	349.6
No. of Projects (*Cumulative)	291	311	338	337	364	363	382
Total Sanctioned Amount	459.6	496.5	520.3	482.6	493.5	502.9	551.4

*Cumulative No of projects are the total number of projects less the matured ones.

Table C: Total Investment requirements in Pakistan across different Infrastructure sectors between 2011-20

		(in billions USD)
	Low	**High**
Transport	17.2	21.5
Electricity	64.0	96.0
Water Supply & Sanitation	9.3	14.0
Solid Waste	3.3	6.7
Telecom	12.4	12.4
Irrigation	9.7	14.6
Total	**115.9**	**165.2**

Source: Reducing poverty by closing South Asia's Infrastructure Gap, World Bank study, Dec 2013