

**'October - December 2011'**

# Quarterly Infrastructure Finance Review

## Team Members

Imran Ahmad

Additional Director

Usman Shaukat

Deputy Director

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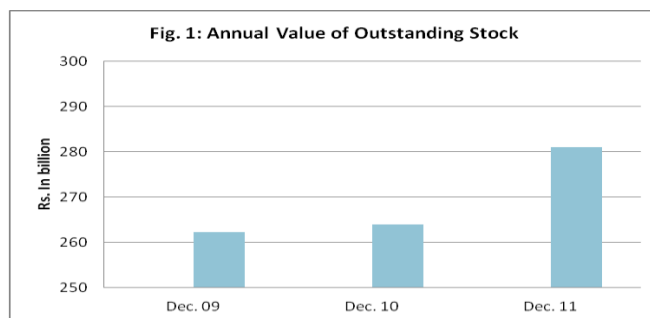
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## **OVERVIEW OF INFRASTRUCTURE FINANCE:**

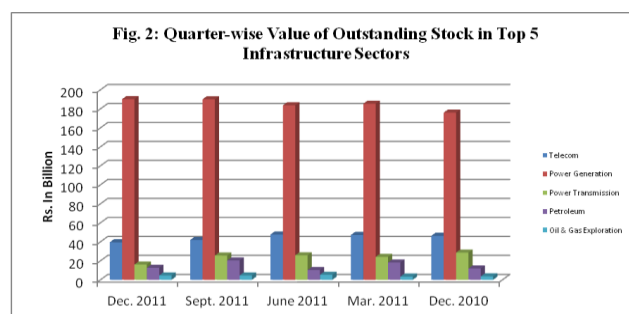
The importance of physical infrastructure cannot be overemphasized but the commensurate response is still lacking and leaving a lot to be desired. International experience emphasizes the need of institutional capacity for project development to achieve meaningful progress in infrastructure financing. All the developing countries have multiple institutions with varying degrees of mandate and functions peculiar to their economic needs but the common thread among them is they supply a pipeline of viable projects and means to provide long term fixed-rate financing.

The stock of infrastructure finance has seen some roller coaster ride in recent time as it was Rs. 290 billion in April - June 2011 which rose to Rs. 300 billion in July - September 2011. In this quarter under review the outstanding portfolio of infrastructure saw some sluggishness and decreased to Rs. 281 billion. On annual basis, as depicted in fig. 1, the outstanding is showing a smooth upward trend – 6.4% rise in stock from December 2010 to December 2011. The trend of financing in different sectors is topped by power generation sector as shown in detail in following sections. The disbursement figures are most volatile in recent history as these were Rs. 6.7 billion in April – June 2011 and saw a dip at Rs. 3 billion in July – September 2011 which again posted an upward Rs. 7 billion during quarter under review. Power sector, once again, was the major beneficiary of financing as it got Rs. 4.5 billion with phenomenal 64.4% share. In quarter of July – September, power sector, although, had the largest percentage of financing but in actual it was paltry Rs. 1.16 billion. The overall scenario did not present a rosy picture as shown by the financing trends.



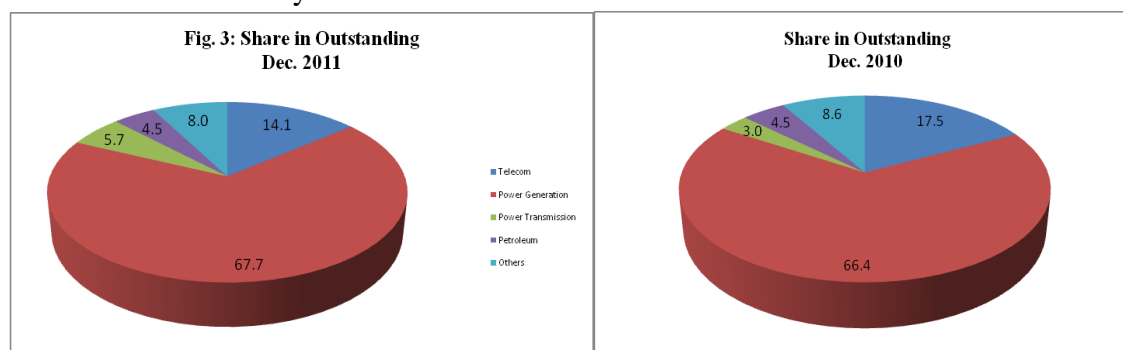
## **OUTSTANDING PORTFOLIO:**

Total financing outstanding at close of December 2011 was Rs. 281 billion against Rs. 300 billion at the end of previous quarter ending September 30, 2011. The volume of outstanding portfolio was Rs. 264 billion at the end of December 2010. Figure 2 shows the quarterly position of top five sectors from December 2010 to December 2011. The analysis shows 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. A considerable activity had been witnessed in petroleum sector during couple of previous quarters which again slowed down in this quarter under review which is a testament to the cyclical nature of this sector. Other than petroleum, telecom and power transmission sector also showed a downward trend.



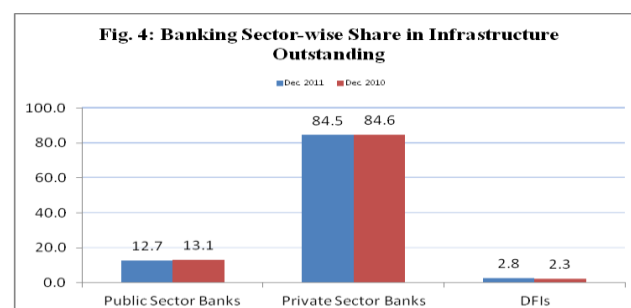
### **Sectoral Share in Outstanding Portfolio:**

Figure 3 shows the comparison of top five sectors in outstanding infrastructure financing at the end of December 2011 with the status existing on December 31, 2010. At the end of December 2010, power generation sector had 66.4% of the total stock followed by telecommunication sector with 17.5%. After a year, the top slot continues to be held by power generation sector with a substantial 67.7% share in the pie. Most of the other major sectors in graph showed a declining trend. The telecommunication sector dipped at 14.1% share. Petroleum sector also climbed down from 8.6% to 8% in a year.



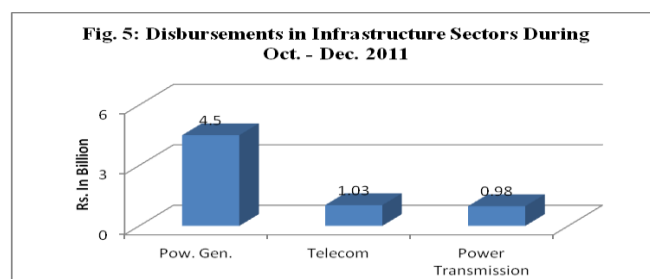
### **Banking Sector-wise Share in Outstanding Portfolio:**

Figure 4 shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend has been in favor of private sector as it was in previous quarters. Share of private sector banks have been stable over the year at around 84.5%, while share of public sector banks declined from 13.1% to 12.7% 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.

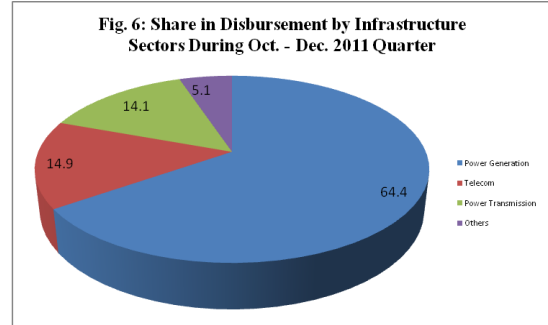


### **DISBURSEMENTS:**

Total of Rs. 7 billion were disbursed during October - December 2011 quarter in all infrastructure sectors against Rs. 3.6 billion in the previous quarter. The disbursement during Oct-Dec 2010 quarter was Rs. 12 billion. Figures 3 and 4 show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 4.5 billion, which is 64.4% of overall disbursement. Power generation sector got Rs. 1.16 billion in last quarter while it received Rs. 7.9 billion in October - December 2010. Oil & gas sector, which was revived with Rs. 2 billion in April – June 2011 and Rs. 500 million in previous quarter got Rs. 100 million in this quarter under review. This amount has been

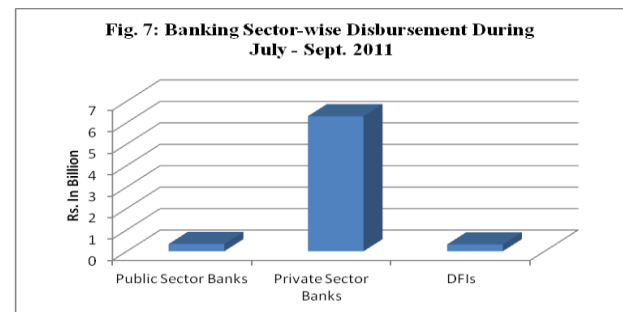


financed to improve and enhance the distribution network of public sector gas utilities. Telecom sector also reprised its activity with Rs. 500 million apiece in couple of last sectors and also received over Rs. 1 billion in quarter under review. Apart from this recent funding, overall the telecom sector seems reaching a saturation point as most of telecom companies are in paying back mode and no new initiatives are on the ground.



### **Banking Sector-wise Disbursements:-**

Figure 7 shows that private sector commercial banks disbursed Rs. 6.3 billion (90.6%) out of total Rs. 7 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 335 million (4.8%) while DFIs disbursed Rs. 318 million (4.6%) despite having a mandate of development finance. In the same quarter last year, private sector banks disbursed Rs. 11.5 billion (96%) while public sector banks disbursed Rs. 1 million (less than 1%). DFIs' share in disbursements during the quarter ending September 2010 was Rs. 452 million (3.8%).



### **Departmental Initiative:**

#### **A half-day Training Program on Shariah-compliant Infrastructure Project Finance**

Infrastructure, Housing & SME Finance Department conducted a training session in this quarter under review on Shariah-compliant Infrastructure Project Finance. The program was intended to the capacity building of mid-level to senior bankers engaged in Shariah-compliant infrastructure project finance to enhance their knowledge as well providing for an interactive forum for exchange of mutual experience to the benefit of other practitioners. The program was half-day and scheduled on 18<sup>th</sup> January 2012 at LRC, SBP, Karachi. Twenty-five participants from banks attended this session. Mr. Ali Ahmed Siddiqui, Executive Vice President & Head Product Development and Shariah Compliance, Meezan Bank was invited to impart the training on aforementioned topic to the attendees. The training session was very interactive and involved where different practical issues were brought up during discussion and debated to the higher understanding of the subject.

## **Infrastructure News:**

### **USAID helps Water & Power Ministry enhance capacity**

The US Government sponsored Power Distribution Program has started providing computers, laptops, servers and printers to the Ministry of Water and Power. This assistance is aimed at improving the IT infrastructure of the ministry and the efficiency of the staff. The existing IT infrastructure at MWP is pretty rudimentary with very little internal or external communications. The lack of IT facilities result in low efficiency at the ministry. The officials spend a lot of time in searching for Cases, locating earlier decisions or summaries and travelling to attend meetings. A basic Case Tracking System (CTS) can help transform the manual logging and registration of files as they move from officer to officer and, are many times lost in the traffic. USAID Power Distribution Program is assisting Pakistan power sector in improving its overall performance and reducing losses. One component of this assistance is the advisory services provided by the Power Sector Reform Working Group (PSRWG) based at the Ministry of Water and Power (MWP). Working with the officials of MWP, this group has identified the need to update and expand the current Information Technology (IT) infrastructure at MWP. (The Express Tribune: December 29, 2011)

### **Anti-poverty unit to fund 109 infrastructure projects**

The Pakistan Poverty Alleviation Fund (PPAF) announced to provide Rs238 million grant to finance 109 small-scale community development schemes in the poorest areas of the country. The development program would benefit over 40,000 marginalized communities in the districts of Rajanpur, Layyah, Dera Ismail Khan and Khyber Agency. This financing would be used for small-scale infrastructure, water, energy, livelihood enhancement and protection and capacity-building schemes in four districts. The assets would be transferred to the poor and ultra poor community organizations to sustain their livelihood while capacity-building trainings would also be imparted to the marginalized communities. PPAF's partner organization, South Asia Partnership-Pakistan, will execute these projects.

PPAF is a leading institution in providing microfinance credits, the PPAF is a not-for-profit company formed under public private partnership. Its operations are funded through credit from bilateral and multilateral lending agencies. Since April 2000, cumulative disbursements of the PPAF, both lending and grant-based, stand at over \$1 billion of which microfinance disbursements stand at \$600 million. PPAF's cumulative operational activities entailed over 4.7 million microcredit loans impacting 31.6 million people directly or indirectly. (The Express Tribune: December 10, 2011)

### **Pakistan urges Korean Investment**

Permission of 100% foreign equity, equal treatment to foreign as well as domestic investments makes Pakistan an attractive place for investment, Spokesperson to the President Farhatullah Babar quoted the president as saying, on the eve of President's forthcoming visit to Republic of Korea. To highlight investment opportunities in Pakistan among the Korean businessmen and investors, a meeting was held in the Presidency with President Asif Ali Zardari in the chair and the heads and executives of Korean companies operating in Pakistan and some federal ministers and senior officials around the table. The President invited Korean companies to take advantage of most attractive investment opportunities available in Pakistan in different sectors including oil & gas, mining, trading, energy, information technology & telecom, food & agriculture, small and

medium enterprises, infrastructure and tourism. He said that Pakistan offered establishment of country-specific economic zones to friendly countries and offered that Korea may also consider establishing an economic zone in Pakistan. (**The Express Tribune: December 01, 2011**)

**Power companies: Management control to be outsourced**

Managing Director of Private Power and Infrastructure Board (PPIB) NA Zuberi said that in order to enhance efficiency of nine public sector power companies, the government had decided to outsource their managements, operations, maintenance and rehabilitation, including conversion to cheaper fuel, to the private sector companies located one each in Jamshoro, Kotri, Quetta, Guddu, Muzaffargarh, Multan, Shahdara and two in Faisalabad. A roadshow for the management, operation, maintenance and rehabilitation of the public sector power complexes through private sector's operation and maintenance contractors was organized in Beijing where a large number of Chinese attended the event. Giving salient features of the initiative, Zuberi said that the whole process of awarding the contract to qualified investors would be completed in six months. The duration of the contract will be 10 years, he said, adding there will be no downsizing of existing staff. Zuberi said that invitations for expressions of interest for the induction of private sector contractors had already been advertised including international press and details were also available on the website. (**The Express Tribune: October 19, 2011**)