‘September-December 2009’

Quarterly Infrastructure Finance Review

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Overview:

The infrastructure project finance portfolio has posted a 4.5% growth on YoY basis from Dec-2008 to Dec-2009. The quantum of overall disbursement is Rs. 27.4 billion in this quarter which was Rs. 18.9 billion during the previous quarter while the same was Rs. 38.8 billion during Sep-Dec, 2008 quarter. There is 41.6% downfall in volume of disbursement on YoY basis. Power generation sector remains the supreme beneficiary with disbursement of Rs. 17.5 billion during the quarter under review as compared to Rs. 13.2 billion during previous quarter while the quantum of disbursement for power generation was staggering Rs. 25 billion during Sep-Dec 2008 quarter. Telecom sector, which remained dormant in last quarter, received Rs. 4.1 billion during this quarter while the situation was more promising for telecom sector a year ago when it received Rs. 10.4 billion in September- December 2008.

The level of participation by private sector in project financing is visible only in couple of sectors while hardly any activity is seen in other important infrastructure sectors. The lack of infrastructure financing is primarily due to absence of institutional arrangement with a mandate to focus on development and long-term financing for infrastructure projects. The SBP is working on an initiative of establishing Infrastructure Development & Finance Institution (IDFI) under Public Private Partnership in line with successful international models. 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 Dec 2009 was Rs. 262.3 billion as against Rs. 251.1 billion at the end of Dec 2008 achieving a growth of mere 4.5% while the same was 36.9% 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 also hit a plateau in last two quarters. A number of factors like a power policy, expertise of financial sector and demand of energy have contributed to the increase of volume in outstanding portfolio of energy sector.

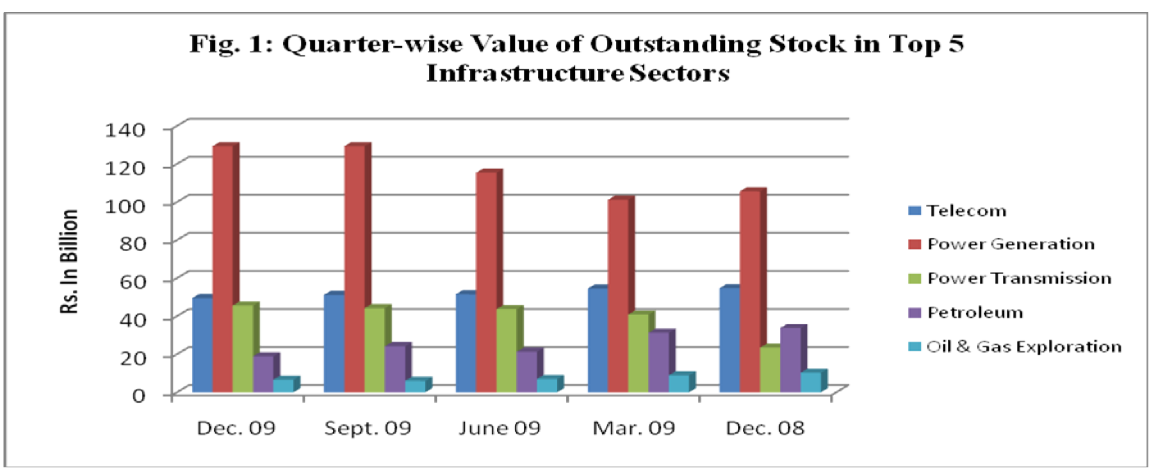
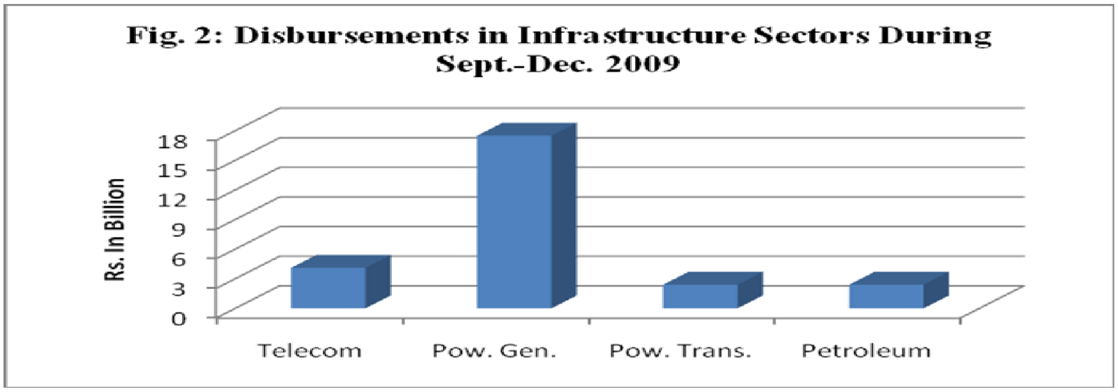


Fig. 1: Quarter-wise Value of Outstanding Stock in Top 5 Infrastructure Sectors

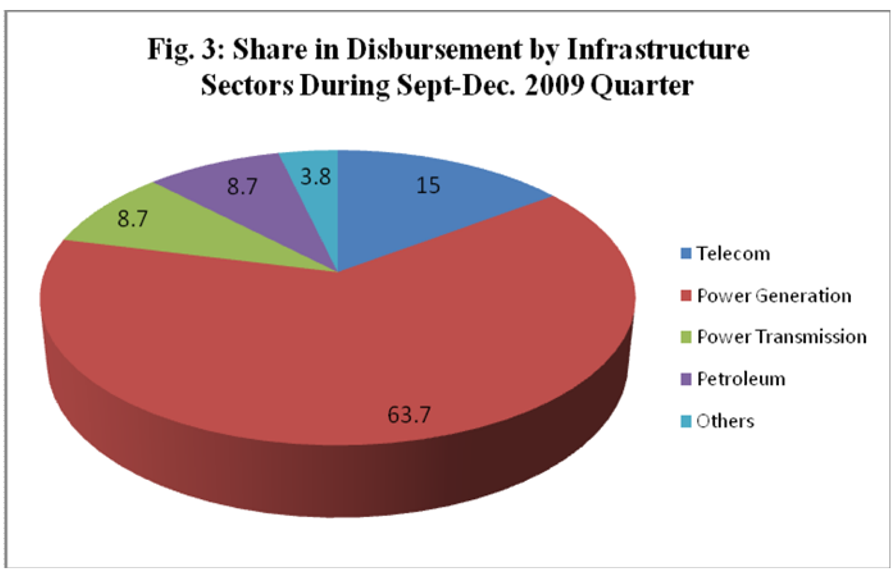
Figure 1 shows the position of top five sectors from Dec 2008 to Dec 2009. Telecom sector remained stable over the year while petroleum sector is gradually posting a low score as its stock decreased from Rs. 33.8 billion in Dec 2008 to Rs. 18.9 billion in Dec 2009. Power transmission, though, has shown an increase over the year but still much below the desired level, considering the huge unmet needs in this sector.

Disbursements:

Total Rs. 27.4 billion were disbursed during Sep-Dec 2009 quarter in all infrastructure sectors against Rs. 18.9 billion in previous quarter. The disbursement during Sep-Dec 2008 quarter was Rs. 38.8 billion. Figures 2 and 3 show the amounts disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 17.5 billion (63.7%), which is significantly higher than other sectors. Share of power generation sector in disbursement was also significantly

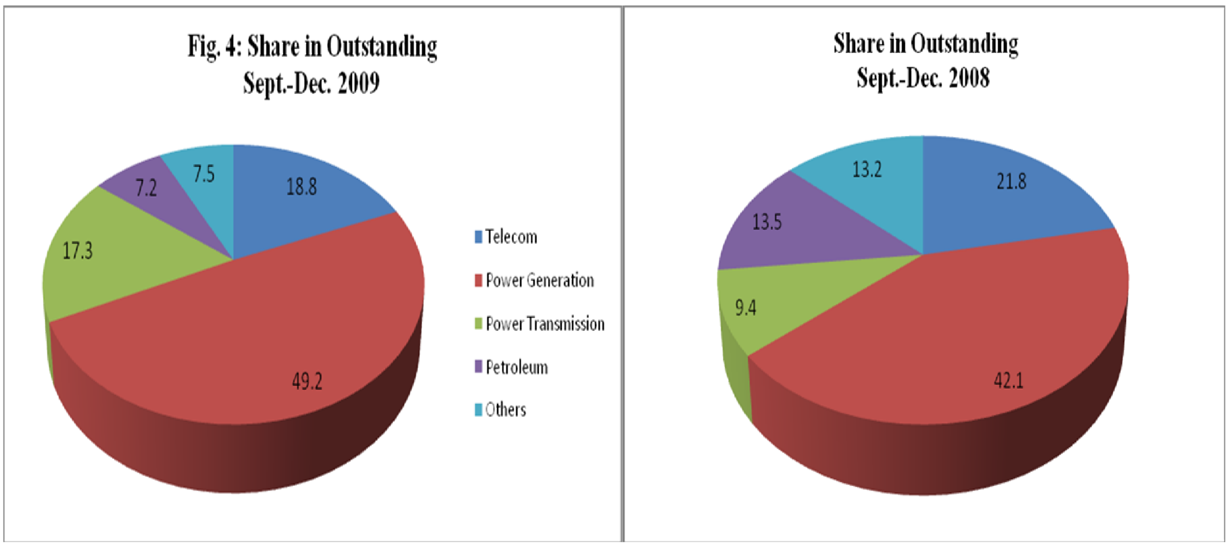


higher in previous quarter at 69.8% (Rs. 13.2 billion) whereas it was 65% (Rs. 25 billion) during Sep-Dec 2008. Telecommunication sector received only Rs. 107 million in last quarter but increased up to Rs. 4.1 billion in this quarter. The absence of oil & gas sector is conspicuous, considering the significance and potential of this sector.



Year-wise Analysis of Sectoral Share in Infrastructure Portfolio:

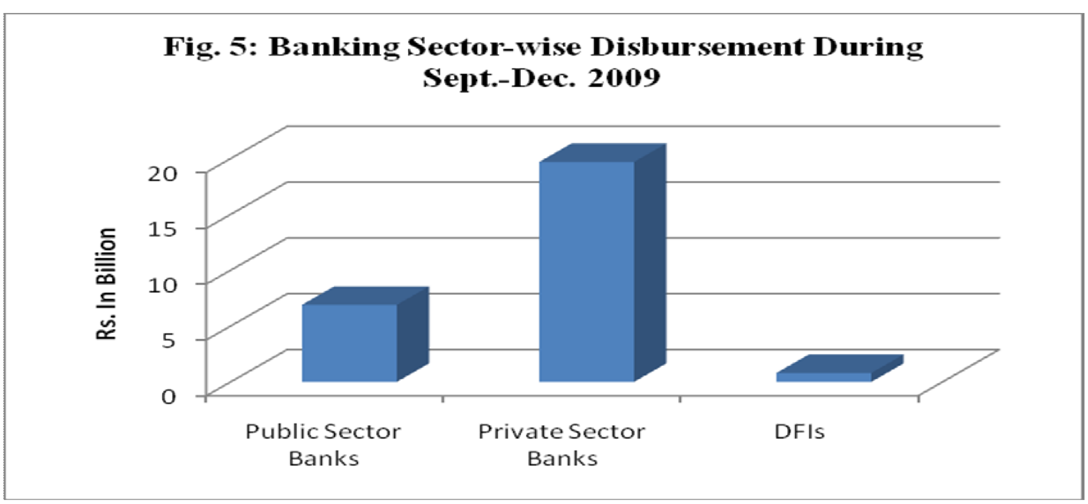
Figure 4 shows the comparison of top four sectors in outstanding infrastructure financing at the end of Dec 2008 with the status existing on Dec 31, 2009. In Dec 2008, power generation sector had 42.1% of the total stock followed by telecommunication sector with 21.8%. After a year, the top slot continues to be held by power generation sector with a substantial 49.2% share in the pie. The telecommunication sector remained at second place with 18.8% share followed closely by power transmission sector at 17.3%. With rise in power transmission sector also, more than 60% of the infrastructure portfolio pie is taken by the power sector as a whole. Petroleum sector, despite having huge potential, had also been on the downside from 13.5% to 7.2% in a year.



Banking Sector-wise Performance:-

Banking Sector-wise Disbursements:-

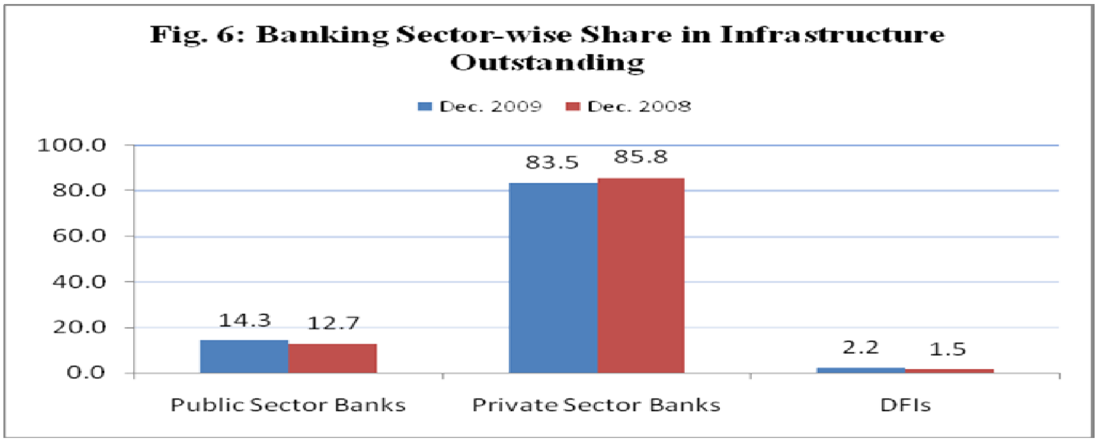
Figure 5 shows significant contribution of the private sector commercial banks in infrastructure project financing, who disbursed Rs. 19.7 billion (71.9%) out of total Rs. 27.4 billion financing



in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 6.9 billion (25.2%) while DFIs have miniscule Rs. 800 million (2.9%) despite having a mandate of development finance. In Sep-Dec 2008 quarter, private sector banks disbursed Rs. 26.7 billion (68.8%) while public sector banks Rs. 11.8 billion (30.4%) and DFIs Rs. 400 million (1%).

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 85% during the year. Public sector banks and DFIs have a very



marginal share and do not present a major shift during the year. Though private banks enjoy a major share, portfolio diversification beyond limited infrastructure sectors is highly desirable.

New Initiatives in the Quarter:

Table 1 shows that during the quarter total 8 projects have been finalized in power generation, telecom, marine terminal, oil & gas exploration and power transmission to the tune of Rs. 123 billion. Banking sector financing is Rs. 69 billion which is 56% of the total combined cost of these projects. Power sector figures prominently both in terms of project cost (Rs. 53.2 billion) and financing by banks and DFIs (Rs. 38.1 billion). This is directed towards three power projects which are expected to add 1511 MW of power to the national grid. Telecom sector comes next with two projects costing Rs. 52 billion and have secured financing of Rs. 18.4 billion which is 35% of the total cost. One project in marine terminal category has been reported which is being built at Port Qasim to provide storage facilities for grain and fertilizer. This project will give storage capacity of 100,000 tons. The terminal will have the capability to handle vessels up to 75,000 DWT. One project each in oil & gas exploration and power transmission has also secured financing during the quarter.

Table 1	**New Projects in Sep-Dec, 2009 Quarter**		**(Rs. in Billion)**
Sectors	**No. of Projects**	**Estimated Project Cost**	**Banks' Financing**
Power Generation	3	53.2	38.1
Telecom	2	52	18.4
Marine Terminal	1	9.2	6.5
Oil & Gas Exploration	1	4.9	3.5
Power Transmission	1	3.7	2.5
Total	**8**	**123**	**69**

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) 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' is being planned for the current year.

2) 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, have been developed and shared with the key stakeholders to seek their input. Revised guidelines are expected to be issued shortly.

3) Infrastructure Development Finance Institution:

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.