April - June 2012

Quarterly Infrastructure Finance Review

Team Members

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Infrastructure Finance

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Table A: Infrastructure Project Financing Profile

(Amount in Billions)	Periods			% Change	
	Jun-11	Mar-12	Jun-12	QoQ	YoY
Amount Outstanding	290.8	273.2	286.3	4.8%	-1.6%
NPLs	8.2	13.3	17.5	31.5%	112.6%
Disbursements (Cumulative)	318.8	342.7	343.5	0.2%	7.8%
No. of Projects (*Cumulative)	300	325	348	7.1%	16.0%
Total Sanctioned Amount	557.3	541.1	480.8	-11.1%	-13.7%

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

Quality Infrastructure affects economic growth potential of a country.

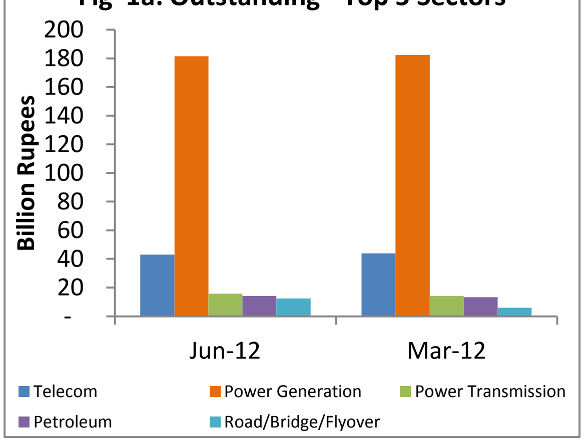
It is pertinent to reiterate that quality infrastructure affects economic growth potential of a country as well as the ability of an enterprise to engage effectively. Infrastructure investment and consumption of infrastructure services have significant implications for achievement of sustainable development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

Infrastructure Financing saw a rise of 4.8 percent when compared with the preceding quarter.

At the end of Jun-12, the amount outstanding against infrastructure project finance saw a rise of 4.8 percent, QoQ basis. While, a sector wise analysis reveals that the lion's share (63 percent) in total Infrastructure financing went to Power Generation sector, followed by Telecom sector with 16.4 percent and 8.9 percent by power transmission.

NPLs have increased considerably from Rs. 13.3 billion to Rs. 17.5 billion, recording a rise of over 30 percent, QoQ basis. However, keeping in view the nature of project financing, their implication is almost insignificant.

Fig 1a: Outstanding - Top 5 Sectors



1.0. Outstanding Portfolio

Total financing outstanding at the end of Jun-12 rose to Rs. 290.8 billion when compared with Rs. 273.2 billion at the end Mar-12. A segregate review showed that Power Generation sector stood out among all the sectors of infrastructure despite a minor decrease of 0.5 percent when compared with preceding quarter. A number of factors like power policy, availability of sovereign guarantees in case of IPPs, and expertise of financial sector in this area contributed to its consistent lead over other sectors. Moreover, Petroleum and Power Transmission sectors have also shown an upward trend of 7.0 and 11.7 percent respectively, while Oil & Gas sector saw a decline of 10.7 percent, QoQ basis. At the end of the quarter under review, interestingly, LPG Exploration & Distribution, and Road/Bridge/Flyover sectors saw a rise of more than 100 percent each.

Box 1: 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/

2.0. Banking-sector wise Share

At the end of Jun-12, following the usual trend, private sector banks' share remained the highest in the total outstanding amount with 73 percent followed by public banks with 19 percent and 5 percent by DFIs, whereas the share of foreign and Islamic banks remained less than 2 percent each. Similar trends were observed in total amount disbursed during the quarter, amount sanctioned, and cumulative disbursements as well.

Currently, two Islamic banks are doing Islamic project financing and their combined share was about 1.3 percent (Rs. 3.7 billion) in total outstanding to Infrastructure sectors.

Box 2: Infrastructure Project Finance Guidelines

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

3.0. Disbursements

During the quarter under review, an amount of Rs. 10.3 billion was disbursed in all infrastructure sectors against Rs. 10.4 billion in the preceding quarter, a decline of 0.9 percent QoQ basis. However, there was a rise of more than 50 percent when compared YoY basis. Moreover, the cumulative disbursements at the end of Jun-12 saw a rise of 0.2 percent, QoQ basis. However, on YoY basis, a rise of 7.8 percent was recorded mainly driven by Power Generation, Petroleum and Telecom sectors.

4.0. New Projects during the Quarter

About Rs. 111 billion have been sanctioned by Banks/DFIs for 9 new infrastructure projects.

During the quarter under review, a total of 9 new projects were undertaken by banks & DFIs, of which 5 were in Power generation sector, 2 in Telecom and one each in the categories of Oil & Gas exploration/distribution, and Roads/Brides/Flyovers. For these new projects, an amount of about Rs. 110.9 billion has been sanctioned by the banks & DFIs.

5.0. Infrastructure Finance News

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

Germany has started more than 14 projects in Pakistan

http://tribune.com.pk/story/446578/germany-has-started-14-projects-so-far/

Consul General of Federal Republic of Germany in Pakistan said his country had started more than 14 projects in Pakistan. Speaking at a reception held in connection with celebration of the Day of German Unity at the consulate, the German consul general said it was his earnest desire to see Karachi regain its rightful place as the city of lights and said that Pakistan can always work with Germany to improve its infrastructure. He said Germany had started several alternative energy and infrastructure projects to contribute to Pakistan's development.

Lack of Infrastructure in Pakistan, President ICCI

http://www.pakistantoday.com.pk/2011/07/22/news/profit/lack-of-infrastructure-in-pakistan-says-president-icci/

Cost of doing business in Pakistan has increased tremendously due to lack of infrastructure facilities putting strains on the growth of trade and industrial activities. The government should involve private sector by moving to public-private partnership in order to develop the country's infrastructure at a fast pace, President Islamabad Chamber of Commerce and Industry (ICCI) Mahfooz Elahi said on Thursday. He said private investment in infrastructure projects has declined over the years and no major infrastructure project has been completed in the country on a Build-Operate-Transfer (BOP) basis

ADB's first Shariah-Compliant Project Financing

http://www.iflr.com/Article/3039391/ADBs-first-shariah-compliant-project-financing-explained.html

The Asian Development Bank (ADB) has participated in its first Shariah-compliant project financing for two wind farms in Sindh province, Pakistan. But the use of Islamic financial instruments was not ADB's first option.

Though ADB has previously provided conventional debt alongside Islamic finance, this is the first time that all aspects have been Shariah-compliant. ADB granted two partial credit guarantees worth up to $66 million to the Islamic Development Bank (IDB), which then financed the project under an *Ijarah structure*. A consortium of Pakistani banks provided the remainder via a *Musharakah structure* with a term of 12 years.

Islamic Project Finance will rise to $30b by 20

http://www.alhudacibe.com/newsletter/1-15nov/international_news_5.html

Islamic project finance deals are projected to reach $30 billion by 2012, representing up to 30 per cent of all major structured deals finalized in the Middle East, according to the Islamic Project Finance Report released by the Middle East Economic Digest (MEED). The driving force behind the development of the Islamic project finance market has been the economic boom in the GCC, brought about by strong oil prices, states the report. High rates of economic growth coupled with record balance of payments surpluses are fuelling unprecedented liquidity in the regional banking market

Strong Growth Of Global Offshore Wind Power Provides Big Opportunities For Project Finance

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

Electricity comes from many sources, but there is one source that only a few countries in Western Europe, along with China, take advantage of, and it is in growing abundance: **offshore wind power**.

The industry began in Sweden and Denmark in 1991 but had not grown significantly until recently. European utilities and project developers have built more than 3,800 megawatts (MW) of offshore wind power capacity, according to the European Wind Energy Assn., and another 2,400 MW will become operational globally in 2012 or early 2013, mostly offshore of the U.K. and Germany and to a lesser extent China. Countries are increasingly relying on offshore wind power to help meet social and economic policies over the next decade, but the investment required globally to meet this vision is immense.

Credit Risks Mount For U.S. Domestic Shipping Companies As Ships Start Showing Their Age

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

The U.S. domestic shipping industry's fleet is aging. More than a thousand ships and barges will reach the end of their useful lives in the next few years. More may be forced out of service as environmental standards tighten. But given the eroding credit quality of many carriers, replacing vessels may prove difficult, or at least costly, for shipping companies.

We believe the U.S. domestic fleet likely will contract over the next three to five years as vessels retire faster than owners can replace them. Companies that cannot find sufficient financing to refresh their fleet may not survive

Global Project Finance Is Showing Signs Of Growth As Worldwide Infrastructure Needs Climb

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

Just in time for warm summer weather, we see budding signs that the enormous need for infrastructure financing around the world is translating into gradual increases in publicly rated project finance debt. In all regions, there was modest growth in new ratings since our last report card in October 2011.

To be certain, the estimates of the capital required to support new infrastructure construction and to refurbish existing assets are sizable. And, project finance continues to be sponsors' financing technique of choice when funding large, capital-intensive assets on a joint-venture basis and when municipalities privatize or concession out infrastructure assets.