‘April - June 2011’

Quarterly Infrastructure Finance Review

Team Members

Imran Ahmad Additional Director

Usman Shaukat Deputy Director

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Overview of infrastructure Finance:

The stock of infrastructure finance rose from Rs. 264 billion in October – December 2010 to Rs. 296.5 billion in January March 2011 and with a slight dip settled at Rs. 290 billion – a 2.24% decrease from the previous quarter. The trend of financing in different sectors is topped by power generation sector as shown in detail in following sections. The disbursement figure for this quarter was Rs. 6.7 billion and again the power generation sector remained the major beneficiary with 43.8% share. The NPLs have increased considerably over the year with Rs. 10.9 billion which were Rs. 7 billion a year ago. The overall scenario did not present a rosy picture as shown by the financing trends. 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.

Outstanding Portfolio:

Total financing outstanding at close of June 2011 was Rs. 290 billion against Rs. 296.5 billion at the end of previous quarter ending March 31, 2011. The volume of outstanding portfolio was Rs. 260 billion at the end of June 2010. The analysis shows, as in Figure 1, 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.

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

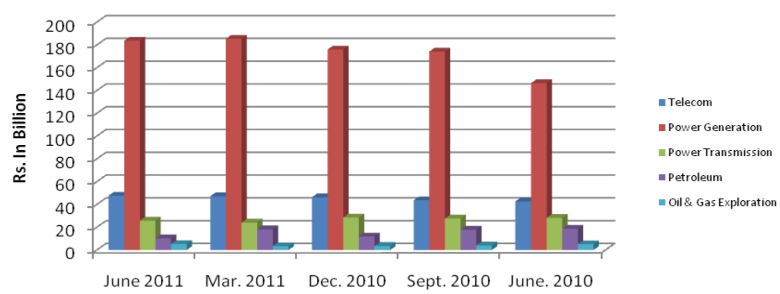

Figure 1 shows the quarterly position of top five sectors from June 2010 to June 2011. All the top five sectors showed a stabilizing trend in their respective volume of outstanding. However, the steep decline was witnessed in petroleum sector. The outstanding volume in this sector was Rs. 18.2 billion at the end of March 2011 which reduced to Rs. 10.3 billion at the end of June 2011.

Disbursements:

Total of Rs. 6.7 billion were disbursed during April - June 2011 quarter in all infrastructure sectors against Rs. 7.6 billion in the previous quarter. The disbursement during April-June 2010 quarter was Rs. 10.3 billion. Figures 2 and 3 show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 2.9 billion, which is 4.8% of overall disbursement. Power generation sector got Rs. 6.4 billion in last quarter while it received Rs. 6.3 billion in April-June 2010. Oil & gas sector got revived after a quiescent phase of many quarters and received financing of Rs. 2 billion. This amount will be utilized to improve and enhance the distribution network of public sector gas utilities. Telecom sector also posted a minuscule Rs. 500 million financing. 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.

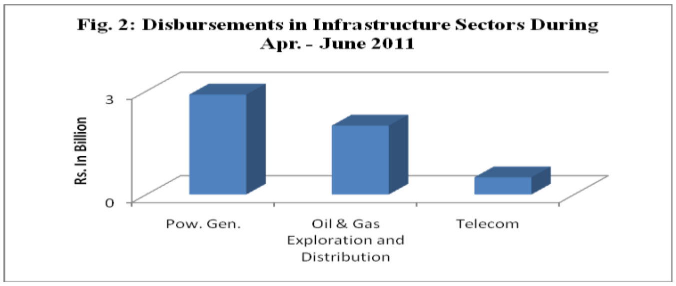

Fig. 2: Disbursements in Infrastructure Sectors During Apr. - June 2011

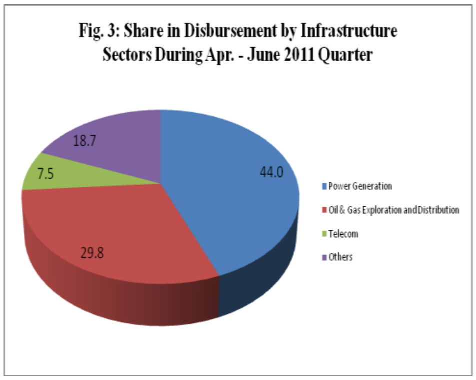

Fig. 3: Share in Disbursement by Infrastructure Sectors During Apr. - June 2011 Quarter

Analysis of Sectoral Share in Infrastructure Finance Portfolio:

Figure 4 shows the comparison of top five sectors in outstanding infrastructure financing at the end of June 2011 with the status existing on June 30, 2010. At the end of June 2010, power generation sector had 56.3% of the total stock followed by telecommunication sector with 16.4%. After a year, the top slot continues to be held by power generation sector with a substantial 63.2% share in the pie. All other major sectors in graph showed a declining trend. The Telecommunication sector remained stable with 16.4% share. Petroleum sector, despite having huge potential, had been on the downside from 7% to 3.5% in a year. The reduction of Power Transmission sector is due to shifting of some of its outstanding to a power holding company.

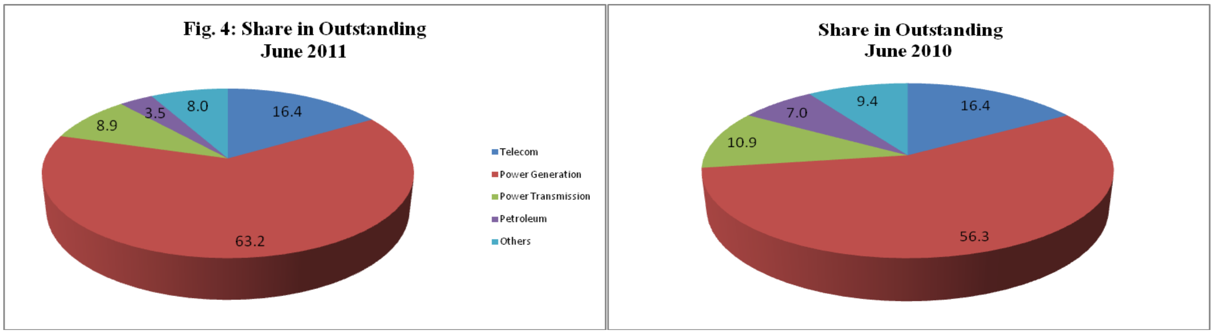

Fig. 4: Share in Outstanding June 2011

Banking Sector-wise Performance:-

Banking Sector-wise Disbursements:-

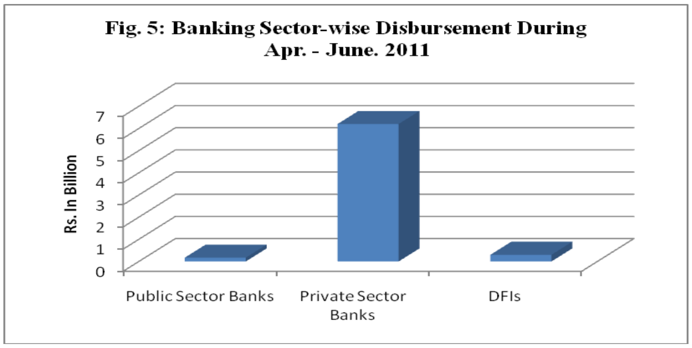

Figure 5 shows that private sector commercial banks disbursed Rs. 6.2 billion (90%) out of total Rs. 6.7 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 168 million (2.5%) while DFIs disbursed Rs. 309 million (4.6%) despite having a mandate of development finance. In same quarter last year, private sector banks disbursed Rs. 9.05 billion (87.9%) while public sector banks disbursed Rs. 1.07 billion (10.4%). DFIs' share in disbursements during the quarter ending June 2010 was also minimal at Rs. 148 million (1.4%).

Banking Sector-wise Share in Outstanding:

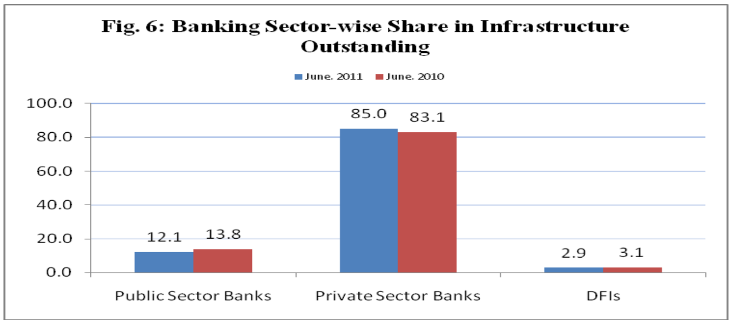

Figure 6 shows the category-wise share of banking sector in outstanding stock of infrastructure financing. The trend has been in favor of private sector as it was in previous quarters. Share of private sector banks rose from 83.1% to 85%, while share of public sector banks declined from 13.8% to 12.1% 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.

New Initiatives, in the quarter, in infrastructure projects:

The first ever wind power project of 49.5 megawatts (MW) in Pakistan having achieved all major milestones concluded the groundbreaking financial close in this quarter under review. The EPC contractor for the project has already initiated construction work on site.

This is a landmark in wind sector of Pakistan achieved by the FFC Energy Limited under the facilitation of the AEDB, based on signing of Energy Purchase Agreement in April 2011 between M/s FFCEL and Central Power Purchasing Agency (CPPA) and Implementation Agreement with AEDB in February 2011. The estimated cost of project is around USD 134 million with 80:20 debt equity ratio.

Pakistan now offers an investment-friendly and lucrative wind energy market for the investors and equipment suppliers. Only a few years ago, the wind energy sector of Pakistan had no attraction to the investors and suppliers. Now more than six (06) EPC contractors are ready to provide their services in Pakistan. The financing of projects have also become available with IFC, ADB, OPIC (Overseas Private Investment Corporation) and other commercial banks and financing institutions ready to finance wind power projects.

Major Departmental Initiatives and Achievements:

A Presentation of IPDF's Approved Infrastructure Projects to Banks and DFIs:

Infrastructure & Housing Finance Division, in its bid to bridge the gap between development and financing institutions of infrastructure projects, arranged a presentation of approved infrastructure projects developed by IPDF (Infrastructure Project Development Facility) – a federal institution mandated with developing infrastructure projects under Public-Private Partnership mode. The CEO of IPDF, Mr. Adil Anwar presented a number of approved projects to a select audience of banks and DFIs who have to play a significant role in providing financing to these projects. The presenter stressed the need for establishing a viability gap fund to make long-term project self-sustaining and also urged that our banking sector had great potential. The Director, IH & SMEF, Mohammed Mansoor Ali remarked that pension funds were also a potential source of funding long-term infrastructure projects. Additional Director, Mr. Imran thanked the audience and re-avowed the pledge of SBP creating a platform to ensure a synergetic approach towards infrastructure building.