‘July - September 2011’

Quarterly Infrastructure Finance Review

Team Members

Imran Ahmad	Additional Director
Usman Shaukat	Deputy Director

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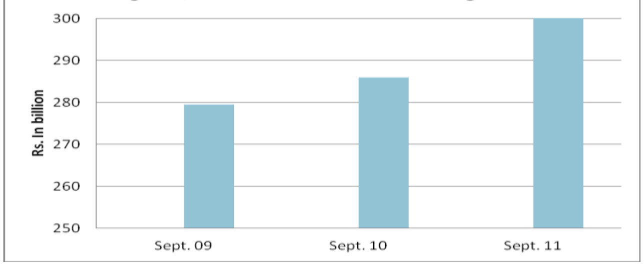
Overview of infrastructure Finance:

Fig. 1: Quarter-wise Value of Outstanding Stock



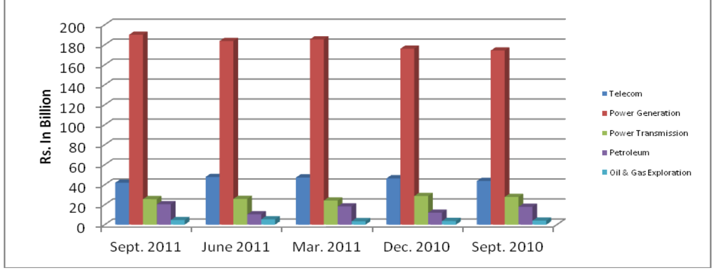
The stock of infrastructure finance has seen some roller coaster ride in recent time as it was Rs. 296.5 billion in January - March 2011 and with a slight dip settled at Rs. 290 billion in April-June 2011. In this quarter under review the outstanding portfolio of infrastructure had touched the figure of Rs. 300 billion for the first time. On annual basis, as depicted in fig. 1, the outstanding is showing a smooth upward trend – 4.9% rise in stock from September 2010 to September 2011. 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 lower than the previous quarters with Rs. 3 billion against Rs. 6.7 billion during previous quarter. Though power sector was the largest beneficiary in terms of percentage but in terms of volume it did not post a healthy sign as it was mere Rs. 1.16 billion. The NPLs have increased considerably over the year with Rs. 12 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 September 2011 was Rs. 300 billion against Rs. 290 billion at the end of previous quarter ending June 30, 2011. The volume of outstanding portfolio was Rs. 285.9 billion at the end of September 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. Figure 2 shows the quarterly position of top five sectors from September 2010 to September 2011. A considerable activity has been witnessed in petroleum sector which shows the cyclical nature of this sector. Other than petroleum, remaining sectors showed a stabilizing trend in their respective volume of outstanding with power sector clearly dwarfing other sectors.

Fig. 2: Quarter-wise Value of Outstanding Stock in Top 5 Infrastructure Sectors



Disbursements:

Total of Rs. 3.6 billion were disbursed during July - September 2011 quarter in all infrastructure sectors against Rs. 6.7 billion in the previous quarter. The disbursement during July-September 2010 quarter was Rs. 7.9 billion. Figures 3 and 4 show the amount disbursed and share of each sector during the quarter under review. Power generation sector received Rs. 1.16 billion, which is 38% of overall disbursement. Power generation sector got Rs. 2.9 billion in last quarter while it received Rs. 7.3 billion in July-September 2010. Oil & gas sector, which was revived with Rs. 2 billion in previous quarter, received financing of Rs. 500 million. 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 financing – it received Rs. 500 million in previous quarter. 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. 3: Disbursements in Infrastructure Sectors During July - Sept. 2011

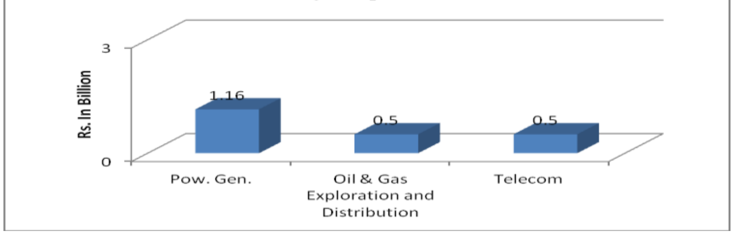
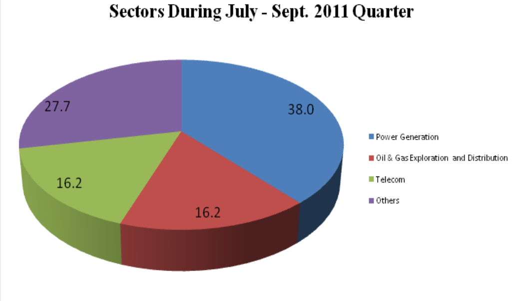


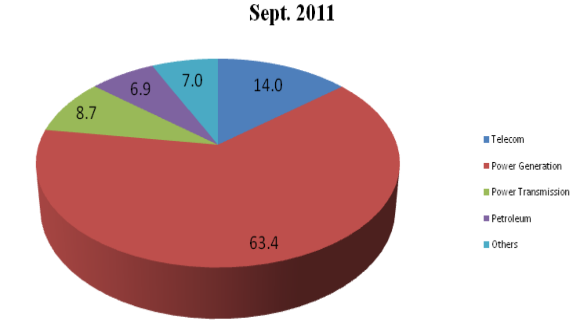
Fig. 4: Share in Disbursement by Infrastructure Sectors During July - Sept. 2011 Quarter



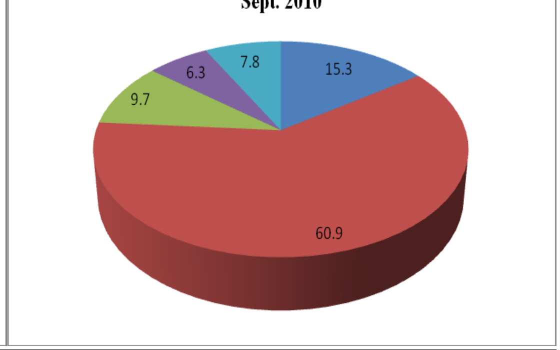
Analysis of Sectoral Share in Infrastructure Finance Portfolio:

Figure 5 shows the comparison of top five sectors in outstanding infrastructure financing at the end of September 2011 with the status existing on September 30, 2010. At the end of September 2010, power generation sector had 60.9% of the total stock followed by telecommunication sector with 15.3%. After a year, the top slot continues to be held by power generation sector with a substantial 63.4% share in the pie. All other major sectors in graph showed a declining trend except for a small increase in petroleum. The Telecommunication sector dipped with 14% share. Petroleum sector posted a slight increase from 6.3% to 6.9% in a year.

Fig. 5: Share in Outstanding Sept. 2011



Share in Outstanding Sept. 2010



Banking Sector-wise Performance:-

Banking Sector-wise Disbursements:-

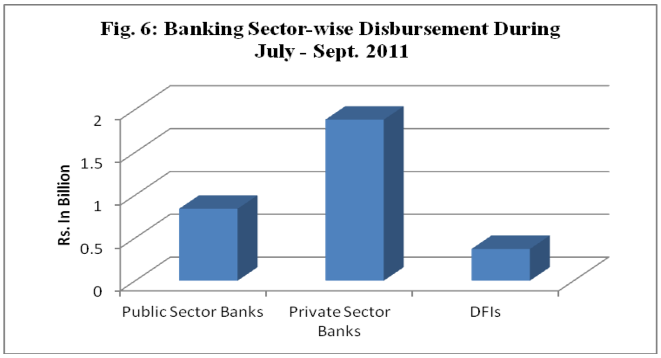
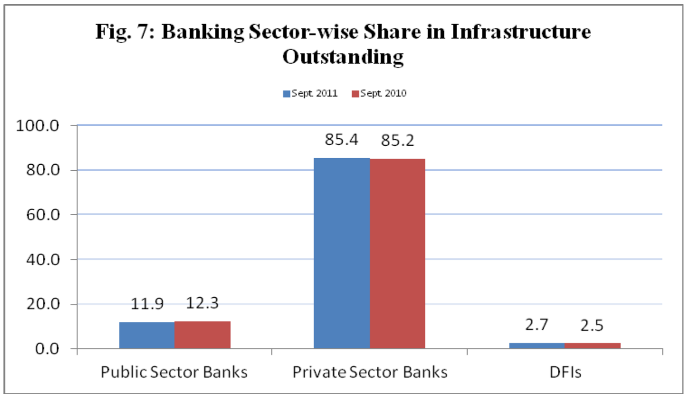


Figure 6 shows that private sector commercial banks disbursed Rs. 1.9 billion (61%) out of total Rs. 3 billion financing in infrastructure sectors during the quarter. Public sector banks disbursed Rs. 835 million (27%) while DFIs disbursed Rs. 366 million (11.8%) despite having a mandate of development finance. In same quarter last year, private sector banks disbursed Rs. 7.3 billion (91.6%) while public sector banks disbursed Rs. 348 million (4.4%). DFIs' share in disbursements during the quarter ending September 2010 was also miniscule at Rs. 320 million (4%).

Banking Sector-wise Share in Outstanding:

Figure 7 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 slightly from 85.2% to 85.4%, while share of public sector banks declined from 12.3% to 11.9% 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.



Major Departmental Initiatives and Achievements:

A half-day Training Program on Infrastructure Project Finance Guidelines

Infrastructure, Housing & SME Finance Department conducted a training session on October 12, 2011 on Infrastructure Project Finance Guidelines which incorporated a blend of international best practices and our indigenous experience. The event was well-attended and well-participated. The objective of the training was to initiating the young professionals into the theoretical as well as practical aspects of project finance in light of SBP's guidelines thereof. Muhammad Umer Khan, SVP, Head Project and Structured Finance and Ms. Mehvish Virani, VP, Project & Structured Finance from UBL were the trainers who shared the practical significance of the guidelines in structuring financing arrangements to infrastructure projects to more than 50 participants of the event.

Infrastructure News:

Diamer – Bhasha: A ground-breaking project after 5 decades

The last time a new, major dam project was inaugurated in Pakistan was at Tarbela, almost five decades ago, under the Ayub Khan administration. That dry spell broke on October 18, 2011 when Prime Minister Yousaf Raza Gilani became the first democratically-elected head of government to lay the foundation stone for the 4,500MW Diamer-Bhasha Dam. With a storage capacity of about 8 million acre feet (MAF) and projected electricity generation of 4,500MWs, Diamer-Bhasha will top both Tarbela and Mangla dams, whose storage capacities have fallen drastically due to silting over the years.The project will take eight years to complete and will cost over $12 billion. In addition to the Rs11.5 billion already allocated for the project, Prime Minister announced an additional Rs1 billion for repair and expansion of Karakoram Highway and other roads in the region. Prime Minister announced Rs200 million for the development of Diamer district, besides announcing a cadet college for the region and upgradation of district headquarters hospitals of Chilas, Gilgit and Skardu. **(The Express Tribune, October 19, 2011)**

Doing business in Pakistan is 25% cheaper than China

A Multilateral Investment and Trade Conference, 2011 had been organized in Karachi on 20th October 2011- a private & government joint effort to boast investment in Pakistan. Edward Hertzman, Director of business development at Synergies Worldwide, a global apparel sourcing company, said that doing business in Pakistan costs 25% less than doing business in China and about 15% cheaper than other countries. He also said that “Although strikes and instability affect production, Pakistan offers the lowest cost alternative in the region”.

Newly appointed Governor of the State Bank of Pakistan, Yaseen Anwar said Pakistan had made great progress in the past three years in increasing foreign exchange reserves and remittances while reducing the current account deficit. He said there was huge investment potential in small and medium size enterprises (SMEs) and housing and agriculture sectors. Terming them “engines of growth,” Anwar said Pakistan needed to develop its capital market to promote investment in the three sectors. He further said that a Pakistani cow produced 1,000 litres of milk a year on average. “However, the average yearly milk production of a cow in the United States is 10,000 litres.” He said Pakistan should also use modern ways to enhance milk production. Anwar said Pakistan topped the microfinance regulatory framework ranking by The Economist. He said the State Bank had taken measures to promote branchless banking in Pakistan to help those people who couldn’t afford conventional banking.

Multinational companies (MNCs) operating in the country had never faced any problem in repatriating their profits, he said, adding that even during the bad financial period in the late 1990s, MNCs had easily repatriated their profits.

Nestle Pakistan Managing Director James Donald said that the company had consistently doubled its turnover every three years during the two decades of its operations in Pakistan. He said he was “bowled over” by the work ethic of Pakistanis. “I’ve been with Nestle for 40 years. But nowhere have I witnessed such a strong work ethic.”

Donald said Nestle operated the world’s largest milk factory in Pakistan, whose performance standards were used as global benchmarks. He said the share of packaged milk in Pakistan’s milk industry was only 10 to 15%.

Delegates from Australia, Belgium, France, Germany, Italy, Japan, Malaysia, Russia, Sri Lanka, Switzerland, United States and United Kingdom participated in the conference. **(The Express Tribune, October 21, 2011)**

<u>Conference on draft policy framework for investment</u>

Punjab Board Investment and Trade (PBIT) organized a conference on Policy Framework for Investment in Punjab (PFIP) at Lahore Chambers of Commerce and Industry (LCCI) on 7th October 2011. The conference focused on sectors important to Punjab's economic growth, such as agriculture, dairy and livestock, textile, energy and power, mines and minerals, transportation and service including health and education, infrastructure, housing and urban development, manufacturing, tourism and information technology. Chief Executive Officer PBIT, Dr Sajid Yoosufani said, "PFIP is a significant initiative taken by PBIT to educate and enlighten investors about legal and regulatory regime that highlights long-term incentives and risk returns in Punjab". He said that conference on draft policy framework for investment in Punjab was a consultative process in which relevant stakeholder were taken on board to brainstorm and discuss technical avenues of the draft policy towards finalization that should be shared with all the stakeholders.

(Daily Times October 07, 2011)

<u>International conference: Coal termed vital to country's energy security</u>

Speakers at an international conference on October 22, 2011, while terming coal an important resource for energy security, called on the federal government to develop Thar coal reserves and switch from expensive furnace oil and gas to coal in power generation. Domestic and international specialists, foreign investors, representatives of development finance institutions, diplomats and other stakeholders attended the coal conference, jointly organised by the Coal and Energy Department and the Sindh Board of Investment in Karachi. Prime Minister Yousaf Raza Gilani also spoke at the end of the conference. The Thar region has mammoth coal (lignite) reserves estimated at 175 billion tons, which can produce 100,000 megawatts of electricity for the next 300 years and can serve as a key to energy security and economic prosperity. Speaking at the conference, Federal Water and Power Minister Naveed Qamar said the government was focusing on shifting power generation from expensive furnace oil and gas to coal. He also told the audience that the government had started work to convert 5,300-megawatt oil-fired power plants to coal-based plants. Initially, they would run on imported coal and then shift to technically compatible indigenous coal. He admitted that electricity needs could not be met through rental power and independent power producers, so the government was considering other options and exploring other resources. (**The Express Tribune, October 23, 2011)**