The Effects of the Economic Downturn on Carbon Offset Projects

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Overview of Standard Bank Group

- A global emerging markets bank, headquartered in South Africa
- In terms of total assets, Standard Bank is the largest bank domiciled in Africa
- Full-service bank covering:
  - Personal & Business Banking
  - Corporate & Investment Banking
  - Investment Management & Life Insurance

- Leading financial services provider in South Africa – one of the fastest growing emerging market banking sectors. Growing market share across all sectors and a consistent track record of increasing profitability and franchise value
- The largest bank in Africa with presence in 18 countries
- Global reach on the ground in 20 countries outside Africa with distribution capabilities in the world's leading financial centres – New York, London and Hong Kong
- Signed strategic partnership with the Industrial and Commercial Bank of China Limited (ICBC), the world's largest bank by market capitalisation

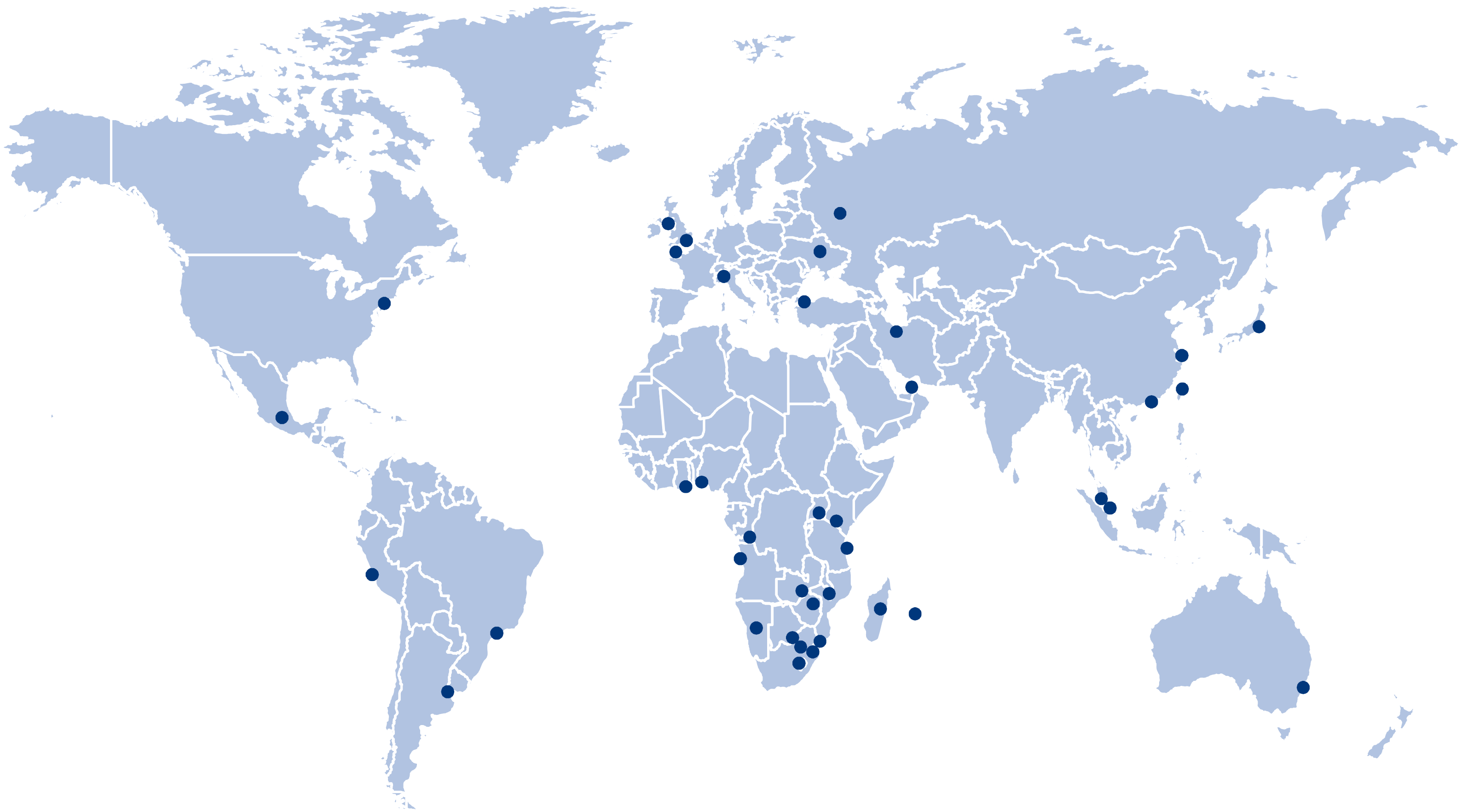
- Total assets US$174 billion
- Market capitalisation of US$15 billion
- Present in 38 countries around the world
- Employs over 48,000 people (including Liberty Life)

Standard Bank Group operations

Locations

- Operates in 38 countries worldwide
- 18 African countries
- 20 countries outside Africa

- Over 1000 branches world-wide
- Over 4000 ATMs



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Energy Supply/Demand Gap

- Growth in energy consumption has outpaced economic growth in the developing world.
  - Driven by:
    - Rising incomes resulting in the creation of substantial middle classes in countries such as India and China
    - Rural electrification programs
    - Population increase
    - Industrialization.
- This sustained rapid rise in energy demand requires large-scale investment in all areas of the power sector

Some $22 trillion of investment in energy-supply infrastructure is required up to 2030.

- More than half of this, $16 trillion of capital expenditure, is needed to increase power capacity.
- The balance will be required to update transmission and distribution infrastructure.
- Developing countries account for more than 74% of the increase in global primary energy use, with the most notable growth coming from Indian and Chinese power sectors.
- **What is going on in Asia?**
  - Over 1 billion people remain without access to modern energy sources
  - Renewable sources are plentiful in the region
  - Demand is projected to increase by 89% by 2030.
- **We are destined to fall short. In some countries (e.g.: Argentina), rolling black-outs are already taking place.**

Sources: Oxford Analytica, World Bank & IFC Publications (Various)

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Why Clean Energy?

- Technology is becoming increasingly cost competitive
- Fossil Fuel reserves are dwindling
- Increase demand for energy in Asia and throughout Emerging Markets where feedstock is plentiful.
- Climate Change is a concern
- Policies are changing favouring renewable sources of energy
- Little or no impact on foreign reserves

Clean Energy Project Types

- **Large Scale Projects (100MW and up)**
  - Project Characteristics:
    - Technology: Primarily Wind & Hydro.
    - Project Promoters: Established companies with experience and equity capital
    - Financing: Combination of traditional debt/equity financing.

- **Medium Scale Projects (15MW to 100MW)**
  - Project Characteristics:
    - Technology: Wind, Hydro, Biomass, Coal Mine Methane, Biogas
    - Project Promoters: Varied group of promoters.
      - Corporate entities with funding setting up in-house energy projects
      - Midsized project developers with capital and experience
      - Project developers with more ambition than capital
    - Financing: Combination of traditional debt/equity financing.

- **Small Scale Projects (< 15MW)**
  - Project Characteristics:
    - Technology: Wind, mini-Hydro, Biogas, Solar
    - Project Promoters:
      - Inexperienced and lacking capital
    - Financing: Private individual and/or government sponsored. Some local bank financing available based on Promoter’s credit standing.
    - Programmatic CDM as a tool to promote small scale projects.

Financial Continuum

Stage One:	Stage Two	Stage Three
Conceptual Stage: Large number of projects fail to leave this stage.	Financial Closing. Monies secured, land acquired. Equipment purchased and construction commences.	Commissioning. Project begins to deliver promised energy and carbon offsets. Loan is paid down and investors secure promised return.
Requirements	**Requirements**	**Requirements**
Equity. Equity. Equity!	•Debt financing •Technical know-how •Track record •Political connections	•Staff •Monitoring

- **Most common issues faced by energy projects:**
  - No equity. A great number of projects look to CDM as the source of equity.
  - Unproven technology.
  - Lack of track record: Market is littered with entrepreneurs who have limited experience and are looking to capitalize on the market.
  - Regulatory hurdles and uncertainties. (CDM/EB risks, municipal waste issues, energy market issues)

Credit Crisis

The global credit crisis has a negative effect on the financing of clean energy projects:

•Liquidity is at a premium making banks very selective in bringing on new business.

•Banks financing energy projects are currently unable to quickly sell down (syndicate) deals to other banks.

•Management “bandwidth” is simply not there for new transactions.

Only the best deals will come to market.

•Proven players
•Strong equity position
•Proven technologies
•Necessary transactions

Sources of Financing in today's environment

- **No good news:**
  - Banks
    - Reduced syndication capability
    - Those with capital tend to guard the position carefully.
    - Reduce management bandwidth
  - Hedge Funds
    - Leveraged Funds – Lack of liquidity has sidelined these players
    - Private Equity Funds – They are seeing 10 times more deals and being very selective. Flight to quality.
  - Government Sources
    - Bandwidth issues
    - Liquidity issues

- **CDM as a project facilitator.**
  - Carbon Credits do not address equity gaps.
  - EB's inconsistent treatment of CDM projects has a serious impact on the "bankability" of future credits.
  - Uncertainty over post-Kyoto Framework

Conclusions

- Patience
- Only high quality projects will get funding.
- Larger projects tend to have better overall characteristics.
- Traditional technologies (e.g.: Wind, hydro) have an advantage over unproven technologies.
- Higher project hurdle rates inevitable

- Overall outlook remains guarded. The length of this downturn is contingent on too many factors to credibly forecast.

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