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Mr. CA.G.N. Jayaram
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Date: 13 February 2012
Reference: 2011-058-S
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*Sent by e-mail to: ram@icai.org*

**Re.: Observations on CDM guidance to financial additionality**

Dear Mr. Jayaram,

Thank you for your letter received on 9 January 2012, which has been made available to the Chair of Board.

On behalf of the Chair of the Board, I would like to thank you for the comments provided on the latest version of *Guidelines on the assessment of investment analysis* (Version 05, EB62, Annex 5).

With regard to the clarification that you have requested concerning an apparent contradiction between the guidelines under paragraphs 3 and 4 of the aforementioned document, I would like to clarify the secretariat's interpretation of the two paragraphs. As explained in the rationale in paragraph 3, "*the purpose of undertaking an investment analysis is to determine whether or not the project activity would be financially viable without the incentive of the CDM. The actual project activity is not limited in time to the crediting period being requested.*" Therefore, the guidance in paragraph 3 elaborates on an appropriate time period for assessment "*Both project IRR and equity IRR calculations shall as a preference reflect the period of expected operation of the underlying project activity (technical lifetime), or - if a shorter period is chosen - include the fair value of the project activity assets at the end of the assessment period.* The guidance in paragraph 4 further explains how to consider the fair value of the project assets in those cases where the assessment period chosen is shorter than the actual technical lifetime of the project activity, "*The fair value of any project activity assets at the end of the assessment period should be included as a cash inflow in the final year.*"

As you mentioned, while the land could be an appreciating asset in many countries, whether the land is considered as an asset of a project activity depends on the specific context of the project (e.g. land is not an asset in a waste recovery project in an existing plant). The responsibility of including all the inputs values in the project activity remains with the project participant and shall be validated by the DOE as per *Guidelines on the assessment of investment analysis*.

Your letter also highlighted the distinction between *debt finance structure* and *cost of debt*. The guidance in paragraph 16 presents two different options to determine the cost of debt: 1) when no evidence is available to demonstrate which is the debt finance structure of the project, and 2) when the evidence is available.

The comments provided in your letter have been forwarded to the concerned secretariat team for its consideration for further improvement of these guidelines.

I would also like to inform you that there are other means available to provide comments of this nature in a systematic way: a) the *procedure[1]s* for requesting clarifications and revisions to methodological tools (including guidelines referred to in the tools), and b) the *commenting system*, that allows the submission and consideration of comments on methodologies, tools and also guidelines referred to in the tools provided by any stakeholder registered in the UNFCCC CDM website. The comments can be submitted on any particular approved methodology or tool (large scale, small scale and A/R), available at https://cdm.unfccc.int/methodologies/PAmethodologies/approved (large scale methodologies and tools) and at https://cdm.unfccc.int/methodologies/SSCmethodologies/approved (small scale methodologies and tools).

I encourage you to continue providing such valuable inputs and hope this letter addresses your concerns.

Yours sincerely,

Andrew Howard
Secretary to the CDM Executive Board

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[1] https://cdm.unfccc.int/Reference/Procedures/meth_proc01.pdf and https://cdm.unfccc.int/Reference/Procedures/meth_proc06_ver01.pdf