12 January 2011

The Chairman and the Members of the CDM Executive Board
c/o UNFCCC Secretariat
P. O. Box 260124
D-53153 Bonn, Germany

RE: Call for public inputs on the draft revision to the "Guideline on the Assessment of Investment Analysis"

Dear Sir/Madam;

We welcome efforts made by the Executive Board to address the issues regarding assessment of investment analysis and to prepare the draft revision to the guidelines. We are fully aware that the tools should simplify and streamline project participants' related works so as to promote further development of CDM project activities especially in under-represented countries. Keeping the above in consideration, the following response has been prepared.

1. Para 12: Guidance in using WACC or local commercial lending rate as project IRR benchmark seems clear but not regarding equity IRR. Proposed fixing-up default value benchmarks for expected return on equity (Appendix A) is not appropriate in view of country specific issues, which are difficult to factor in, for generic default estimation. Instead of coming up with a default value table for different countries and different sectors, a standard formula and guidelines for the estimation of project/sector specific country wise equity return benchmark should be developed.

2. Para 13: Benchmark based on parameters that are standard in the market may not be applicable especially for investors who are new to business in GHG reducing economic activity. There is a possibility that these investors have come into a new business with a strong commitment to environment and higher hurdle. In such circumstances, it is better to provide a higher return (it is supposed 2 % higher) to these new entrants in the GHG emission reduction industry.

3. Para 14: CAPM is a relatively complex tool. It may be possible that the investing company in a developing country may not be using the tool prior to the GHG emission reduction project's consideration. Reasons for not using the tool may be many. Some of these are:
    a. Stock market may not exist;
    b. Company itself is in developing stage; and
    c. Qualified manpower may not be available.

   In light of above, use of CAPM or any other financial indicator in the past should be allowed irrespective of the earlier usage.

4. Para 15: It is understandable that the use of default values for expected return on equity (ROEs) will help streamline the current investment analysis with less requirements for all players involved. However, default values in different countries/sectors have to be carefully designed and determined with regular reviews and revisions. Although draft revision group sectors based on most widely used CDM sectors, it is difficult to imagine that an investor in the energy and waste sector would require the same return. The risk perception between a composting and wind

mill project is different. Ultimately, it will solely depend on the maturity of the industry and the policies of the country/sector. In effect, the perception of investors is different for a wind power project and DSM project of CFL distribution within energy sector. In light of this, we propose the default values be dropped. Or, if they are to be included, in parallel, the PP should also be allowed to use the values of benchmark issued by host governments based on host country practices.

5. Para 17: There is no clear guidance why 50:50 debt equity ratios should be adopted in project financing, in case of un-finalized structure of project financing. Usually, this is considered at 70:30 by many banks and FIs for infrastructure and project finance. Furthermore, the actual practice using a company's internal benchmark is not so straightforward, which the guideline also should take into consideration carefully.

6. Appendix A: Somehow a straitjacket or totally standardized approach for all host countries and for sectors within them does not seem workable. Just because data is available for a longer time frame in the US does not justify use of data from US treasury bonds, for risk free rate of return (3%) for developing countries. The conditions in many countries could be totally different. It is not clear how it has been addressed by Moody's value for specific country. For example, the government bond rate is more than 6% in India. Similar issues prevail for the consideration of 6.5 % value of equity risk premium. It is also not clear how the adjustment factor has considered different types of risks within same/different sectors and categorized by only two groups.

   Appendix A should be also dynamic. It is not possible that all the four parameters indicated in deciding the risk premium can remain constant all the time. It may be a good idea to explore the possibility of using formulae. The investor can pick up a standard value from known sources (e.g. national stock exchange, government bond rates or Moody's) to find out the exact value at the time of decision making.

   In summary, Appendix A is not going to serve the purpose it is intended for as it is not representative in view of various country specific complex issues. It will be better if Appendix A is deleted for this guideline.

We would greatly appreciate if the CDM Executive Board could consider above mentioned inputs.

Sincerely yours,

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