

11 January 2011

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

Dear madam/Sir,

Re: Comments on the Draft revised “Guidelines on the assessment of investment analysis”

We welcome efforts made by the CDM executive board to improve the “Guideline on the assessment of investment analysis”. In responding to the open call for public inputs on the proposed revised guideline, we would like to submit our comments on the draft revised “Guidelines on the assessment of investment analysis.” We highly appreciate if our comments would be considered at the 59th meeting of the CDM executive board.

Comments on “Appendix A: Default values for the expected return on equity”

First of all, we welcome the establishment of the default values for the expected return on equity as presented in the Appendix A. We think that this information will be very helpful for project developers when they select the benchmark rate for the investment analysis to demonstrate the additionality of the proposed project because the current guidelines on the assessment of investment analysis does not provide a specific level of input values and also how to select the benchmark rate for the proposed project.

However, we would like to suggest to the CDM executive board for it to consider that further transparency in relation to the establishment of the default value should be required in order to maintain the credibility of those values. Since the default values will ultimately decide the proposed project’s additionality, therefore, it is imperative that the rationale behind the values should be explained clearly in transparent manner.

The report entitled “Towards CDM reform”, published by IGES Market Mechanism Group on June 2010, mentions it and also emphasized that the guidelines for investment analysis had much room for the improvement. The report also refers that the development of common benchmark rates that can be published officially by the government and/or any other regulating body for the CDM, taking national circumstances into consideration, may remove the obstacles to using investment analysis for potential CDM projects.

Therefore, we totally agree and support the proposed revision, which refers in paragraph 15, *“If the benchmark is based on parameters that are standard in the market, the values provided in Appendix A shall be used to determine the expected return on equity”*.

However, according to IGES CDM Investment Analysis database, which summarizes the information related to the investment analysis (including IRR, benchmark rate and others), actual benchmark rates utilized in some countries are much higher than the default values in the revised guideline. Table 1 shows India's and Brazil's default values for the expected return on equity proposed by the draft revised guideline. Table 1 & 2, Figure 1 & 2 show the actual benchmark rates used for the investment analysis in India and Brazil as an example.

Table1. Default values for the expected return on equity proposed by the draft revised guideline

Country	Group1	Group2	Group3
Brazil	11.75	12.75	11.25
India	11.75	12.75	11.25

Table2. Actual benchmark rate in India

Benchmark rate	Projects
8-9%	1
9-10%	3
10-11%	15
11-12%	14
12-13%	26
13-14%	9
14-15%	39
15-16%	23
16-17%	34
17-18%	4
18-19%	1
19-20%	1
20-21%	2

Table3. Actual benchmark rate in Brazil

Benchmark rate	Projects
8-9%	1
11-12%	2
12-13%	3
14-15%	2
15-16%	1
16-17%	1
17-18%	3
19-20%	5
20-21%	3
22-23%	2
23-24%	2

Source: IGES CDM Investment Analysis Database (IGES 2010)
http://www.iges.or.jp/en/cdm/report_cdm.html#ia

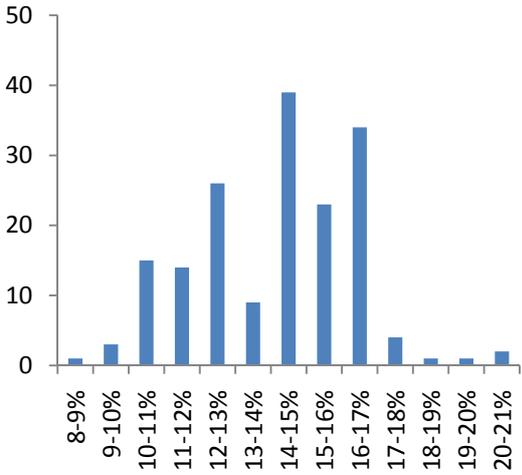


Fig1. Actual benchmark rate in India

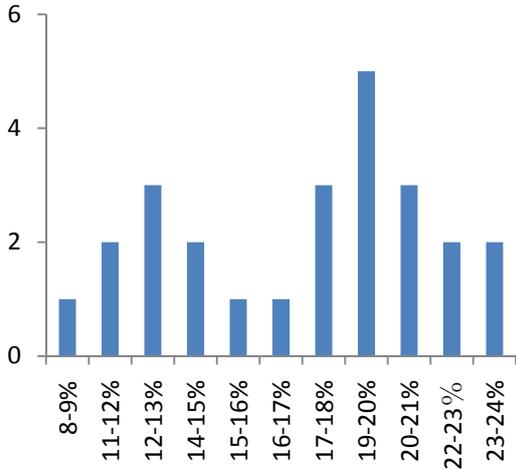


Fig2. Actual benchmark rate in Brazil

Source: IGES CDM Investment Analysis Database (IGES 2010)
http://www.iges.or.jp/en/cdm/report_cdm.html#ia

We assume that one of the reasons for the difference between the default value and actual benchmark rate would be the use of 3.0 % risk free rate of return in the calculation of establishing default values. Our view is that long-term average returns of US treasury bonds is too conservative to reflect the actual national circumstances in developing countries. While we understand that the level of conservativeness should be considered when establishing the default values, we need to ensure that values selected will surely reflect the current living situation of the economy.

Therefore we would like to suggest that the expected return on equity should be calculated, taking national circumstances into consideration, by utilizing the government bond rate etc as a risk free rate of return in each country. If those values are not available for some countries, the government bond rate should be derived from those of countries which have similar gross national product per capita. We also would like to suggest that the default values in the Appendix A should be updated regularly to reflect the economic situation at the time of the investment decision.

Finally, we believe that the current draft revised guidelines on the assessment of investment analysis could be further improved. We also believe that it can greatly streamline the registration process including preparation and validation of the CDM projects as well as the reduction of the related time and resources in developing countries.

Sincerely yours,

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