

April 23, 2010

CDM Executive Board
c/o UNFCCC Secretariat
P.O. Box 260124
D-53153 Bonn
Germany

Subject: Response to the EB call for public inputs at its 53rd meeting regarding the draft “Tool to calculate the weighted average cost of capital (WACC)”

Honorable Members of the CDM Executive Board,

In the interest of ensuring the efficient, cost-effective and transparent functioning of the clean development mechanism, the *Conference of the Parties serving as the meeting of Parties to the Kyoto Protocol* have requested the Executive Board to “further enhance the objectivity of approaches used to assist in the demonstration and assessment of additionality, while ensuring environmental integrity, including, where appropriate: (a) Standardized methods to calculate financial parameters,” (paragraph 36(a) of decision 2/CMP.4).

In response, the Executive Board, at its fifty-third meeting, took note of the draft “*Tool to calculate the weighted average cost of capital (WACC)*” developed by Methodology Panel as contained in Annex 8 of the Report of 43rd meeting of the Methodology Panel and requested the secretariat to launch a call for inputs from stakeholders on the draft tool.

It is expected that when appropriate, standardization and simplification efforts could facilitate the use and assessment of key methodological principles and may potentially reduce the regulatory risks associated with CDM project development.

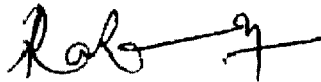
At the same time, these advantages should be carefully balanced with possible losses of representativeness of standardized/simplified financial methods thereby making them irrelevant, limiting their applicability or leading to excessively conservative results that would not reflect the reality of investment decision contexts and practices in developing countries. In addition, it should be recognized that project entities of different types, such as companies listed on the stock market, government agencies, public sector entities, municipalities, small and medium enterprises, or small-scale operations in the least developed countries, use different approaches to investment decisions depending on specific country and sector context, type and scale of activity and access to financing.

We request that the WACC issues discussed in the draft Tool should be viewed in the broader context of the body of tools and guidance available to demonstrate additionality of CDM projects and consistency should be ensured. For instance, the scope and applicability of the draft Tool states that the *“WACC [or its components] can be used as financial benchmark and be compared with financial parameters of an investment alternative, such as the internal rate of return (IRR) among others, or it can be used as discount rate in calculating financial parameters of an investment alternative, such as the net present value (NPV) or the levelized costs of production”*. This indicates that the draft Tool, if applied and compared with other financial parameters, may affect the definition of all main financial indicators/components that are used for investment comparison or benchmark analysis in the “Tool for the demonstration and assessment of additionality”, Version 05.2 (Sub-Step 2b Option II and Option III).

We believe that the appropriateness of “standardized methods to calculate financial parameters” (paragraph 36(a) of decision 2/CMP.4) as well as additionality should be considered in a holistic manner. In this context, we suggest that the Executive Board convene a workshop of relevant stakeholders, including the financial institutions with experience in developing country contexts to discuss the aspects associated with standardization in the calculation of financial parameters in reference to the additionality and to help develop guidance. Therefore, we suggest that any further guidance of the Executive Board on the standardized methods to calculate financial parameters should be based on substantive and wider consultations.

We will be glad to provide clarifications as necessary and are available for further consultations.

With kind regards,



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