

CDM-MP89-A02

Draft Methodological tool

TOOL27: Investment analysis

Version 11.0

DRAFT



COVER NOTE

1. Procedural background

1. The CDM Executive Board (hereinafter referred to as the Board), at its 85th meeting, requested the Methodologies Panel (hereinafter referred to as MP) to revise the tool “Investment analysis” to identify the host countries where the cost of equity may be calculated using the capital asset pricing model (CAPM).
2. The Board also requested that the default values for the cost of equity should be updated on an annual basis based on the latest available database.
3. The Board at its 112th meeting approved the revised default values for the cost of equity for countries with available data. Further, the Board requested the MP to work on the tool to include the default values for cost of equity for the countries where the data (e.g. sovereign rating) is not available, ensuring consistency and comparability with the approach used for the remainder of the countries, and recommend the revised tool for consideration by the Board at a future meeting.

2. Purpose

4. The purpose of the draft revision is to update the default values for the cost of equity based on the latest available database.

3. Key issues and proposed solutions

5. The default values for the cost of equity are calculated based on the the following:
 - (a) Risk free rate of return, based on the average returns on the long-term US treasury bonds;
 - (b) Equity risk premium, derived from the average historical returns on equity in the US market relative to the long-term US treasury bonds;
 - (c) Country risk premium, calculated based on Moody’s rating or PRS Composite Risk Score for frontier markets, for those countries with available rating. For countries where neither rating is available, an algorithm is used to derive the values, based on latest available macroeconomic data from the World Bank, IMF and Fragile State Index.

4. Impacts

6. The updated default values for the cost of equity will ensure the use of latest data by the project participants for conducting investment analysis to demonstrate additionality.

5. Subsequent work and timelines

7. The MP, at its 89th meeting, agreed to launch a call for public inputs on the draft revised version of the tool. Any input received will be discussed with the MP and forwarded to the Board for its consideration.

6. Recommendations to the Board

8. The MP recommends that the Board adopts this draft version of the tool, to be made effective at the time of the Board's approval.

TABLE OF CONTENTS	Page
1. INTRODUCTION	5
1.1. Background	5
2. SCOPE, APPLICABILITY, AND ENTRY INTO FORCE.....	5
2.1. Scope and applicability	5
2.2. Entry into force	5
3. DEFINITIONS.....	5
4. GENERAL ISSUES IN CALCULATION AND PRESENTATION	5
5. APPLICATION OF PROJECT IRR AND EQUITY IRR.....	7
6. SELECTION AND VALIDATION OF APPROPRIATE BENCHMARKS	7
6.1. Cost of equity (expected return on equity) in the market.....	9
6.2. Cost of debt.....	10
6.3. Weighting of debt and equity	11
7. SENSITIVITY ANALYSIS	12
APPENDIX. DEFAULT VALUES FOR COST OF EQUITY (EXPECTED RETURN ON EQUITY).....	13

1. Introduction

1.1. Background

1. In consideration of issues identified through requests for review and reviews of requests for registration the CDM Executive Board (hereinafter referred to as the Board) considers it necessary to provide project participants and designated operational entities (DOEs) with requirements on the preparation, presentation and validation of investment analysis.

2. Scope, applicability, and entry into force

2.1. Scope and applicability

2. This methodological tool is applicable to project activities that apply the methodological tool “Tool for the demonstration and assessment of additionality”, the methodological tool “Combined tool to identify the baseline scenario and demonstrate additionality”, the guidelines “Non-binding best practice examples to demonstrate additionality for SSC project activities”, or baseline and monitoring methodologies that use the investment analysis for the demonstration of additionality and/or the identification of the baseline scenario.
3. In case the applied approved baseline and monitoring methodology contains requirements for the investment analysis that are different from those described in this methodological tool, the requirements contained in the methodology shall prevail.

2.2. Entry into force

4. The date of entry into force is the date of the publication of the EB XX meeting report on DD Month YYYY.

3. Definitions

5. The definitions contained in the Glossary of CDM terms shall apply.

4. General issues in calculation and presentation

6. The period of assessment should not be limited to the proposed crediting period of the CDM project activity. Both project internal rate of return (IRR) and equity IRR calculations should reflect the period of expected operation of the underlying project activity (technical lifetime) and if a shorter period than the technical lifetime is chosen, the investment analysis shall be conducted for at least 10 years and include the fair value of the project activity assets at the end of the assessment period. The IRR calculation may include the cost of major maintenance and/or rehabilitation if these are expected to be incurred during the period of assessment.

Rationale: 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.

7. The fair value of any project activity assets at the end of the assessment period shall be included as a cash inflow in the final year. The fair value should be calculated in accordance with local accounting regulations where available, or international best practice. It is expected that such fair value calculations will include both the book value of the asset and the reasonable expectation of the potential profit or loss on the realization of the assets.

Rationale: Net Present Value (NPV) or Internal Rate of Return (IRR) calculations are designed to calculate the return on the cost of investment, in cases where the capital expenditures have not been fully devalued this should be reflected as a cash inflow. Not to apply a residual value would imply that the project must repay the full value of the capital expenditure before the value of this expenditure had been consumed.

8. The discount rate used in the investment comparison analysis shall be determined following the requirements as set out in this tool for the calculation of IRR benchmarks in section 6 below.

9. The weighted average costs of capital (WACC) and the cost of equity provided in the Appendix or calculated using Capital Asset Pricing Model (CAPM) are post-tax IRR benchmarks, and investment analysis shall be conducted with post-tax cash flows. Depreciation, and other non-cash items related to the project activity, which have been deducted in estimating gross profits on which tax is calculated, shall be added back to net profits for the purpose of calculating the financial indicator (e.g. IRR, NPV). The cash flow effects of taxation should be included in the IRR/NPV calculation.

Rationale: Depreciation is not an actual expense incurred by the company and as such does not directly affect the financial viability of the project. To treat both the capital cost of the assets and their depreciation as an expense to the project would be a double counting of this cost.

10. Input values used in all investment analysis shall be valid and applicable at the time of the investment decision taken by the project participant. The DOE is therefore expected to validate the timing of the investment decision and the consistency and appropriateness of the input values with this timing. The DOE should also validate that the listed input values have been consistently applied in all calculations.

Rationale: The use of investment analysis to demonstrate additionality is intended to assess whether or not a reasonable investor would or not decide to proceed with a particular project activity without the benefits of the CDM. This decision will therefore be based on the relevant information available at the time of the investment decision and not information available at an earlier or later point. Any expenditures occurred prior to the decision to proceed with the investment in the project will not impact the final investment decision as such expenses sunk costs which remain unaffected by the decision to proceed or not with a project activity.

11. In the case of project activities for which implementation ceases after the commencement and where implementation is recommenced due to consideration of the CDM the investment analysis should reflect the economic decision-making context at point of the decision to recommence the project. Therefore, capital costs incurred prior to the revised

project activity start date can be reflected as the recoverable value of the assets, which are limited to the potential reuse/resale of tangible assets.¹

Rationale: At the point of taking a decision to restart implementation of a project as a CDM project activity, the key issue of interest to an investor is the costs and revenues including the incentives from the CDM accruing from continuation of the investment.

12. Project participants shall supply spreadsheet versions of all investment analysis. All formulas used in this analysis shall be readable and all relevant cells shall be viewable and unprotected. The spreadsheet will be made available to the Board, UNFCCC secretariat and others contracted to assess the request for registration on behalf of the Board including assigned members of the Registration and Issuance Team. In cases where the project participant does not wish to make such a spreadsheet available to the public an exact read-only or PDF copy shall be provided for general publication. In case the project participant wishes to black-out certain elements of the publicly available version, a clear justification for this shall be provided to the secretariat by the DOE when requesting registration.

Rationale: Investment analysis shall be presented in a transparent manner, to the extent that the reader can reproduce the results.

5. Application of Project IRR and Equity IRR

13. The cost of financing expenditures (i.e. loan repayments and interest) shall not be included in the calculation of project IRR.

Rationale: The purpose of the project IRR calculation is to determine the viability of the project to service debt. Therefore, to include the cost of financing as an expense in this calculation would result in a double counting of this cost in the ultimate analysis.

14. In the calculation of equity IRR only the portion of investment costs which is financed by equity should be considered as the net cash outflow, the portion of the investment costs which is financed by debt should not be considered a cash outflow.

Rationale: The purpose of the equity IRR calculation is to determine the final return on the initial equity investment. In such calculations cost of servicing debt (interest and principle payments) are considered as costs. Therefore, to consider all investment costs to be a cash outflow would double count the cost of debt to the equity investor.

6. Selection and Validation of Appropriate Benchmarks

15. The applied benchmark shall be appropriate to the type of IRR calculated. Local commercial lending rates or WACC are appropriate benchmarks for a project IRR. Required/expected returns on equity are appropriate benchmarks for an equity IRR. Benchmarks supplied by relevant national authorities are also appropriate. The DOE shall validate that the benchmarks used are applicable to the project activity and the type of IRR calculation presented.

¹ Capital expenditures should be included not at the original investment costs but at the market fair value at the point of the decision to proceed with the investment, demonstrating the value through assessments done by chartered specialists.

$$WACC = r_e \times W_e + r_d \times W_d \times (1 - T_c) \quad \text{Equation (1)}$$

Where:

r_e	=	Cost of equity (-)
W_e	=	Percentage of financing that is equity (-)
r_d	=	Cost of debt (-)
W_d	=	Percentage of financing that is debt (-)
T_c	=	Corporate tax rate (-)

Rationale: For the same project activity, the project IRR and equity IRR will be different, therefore the benchmark shall be appropriate to the type of calculation applied.

16. In situations where an investment analysis is carried out in nominal terms and the available IRR benchmarks are in real terms, project participants shall convert the real term values of benchmarks to nominal values by adding the inflation rate. The inflation rate shall be obtained from the inflation forecast of the central bank of the host country for the duration of the crediting period. If this information is not available, the target inflation rate of the central bank shall be used. If this information is also not available, then the average forecasted inflation rate for the host country published by the IMF (International Monetary Fund World Economic Outlook) or the World Bank for the next five years after the start of the project activity shall be used.
17. In the cases of projects which could be developed by an entity other than the project participant the benchmark should be based on parameters that are standard in the market. The DOE's validation of the benchmark shall also include its opinion on whether a company-specific benchmark or a benchmark based on parameters that are standard in the market is suitable in the context of the underlying project activity.

Rationale: If the project could be developed by a different entity the unwillingness of one investor to assume the associated risks is not sufficient evidence that the project is additional, as this may be based on the subjective profit expectations of that investor. The applied benchmark must be suitable for the specific proposed project activity. It is not suitable to compare the return of low risk investments with the returns achieved or achievable by higher risk investments.

18. If there is only one possible project developer, either internal company benchmarks/expected returns may be applied, or the benchmark based on standard conditions in the market may be used. If internal company benchmarks/expected returns are used, it should be demonstrated to have been used for similar projects with similar risks, developed by the same company or, if the company is brand new, would have been used for similar projects in the same sector in the country/region. This shall require as a minimum clear evidence of the resolution by the company's Board and/or shareholders and require the validating DOE to undertake a thorough assessment of the financial statements of the project developer to assess the past financial behaviour of the entity during at least the last 3 years in relation to similar projects.

Rationale: The Tool for the demonstration and assessment of additionality requires that benchmarks should not include the subjective profitability expectations or risk profile of a particular project developer. Note that a company's internal benchmark can be derived in

different ways, however, values derived based on such approaches should only be used if the resulting benchmarks were consistently used by the company in the past.

6.1. Cost of equity (expected return on equity) in the market

19. If the benchmark is based on parameters that are standard in the market, the cost of equity should be determined either by: (a) selecting the values provided in the Appendix; or by (b) calculating the cost of equity using CAPM.² The default values in the Appendix are based on long term historical returns and therefore may also be applied by projects with a start date prior to the adoption of the default values by the Board.

Rationale: The values in the Appendix reflect, as an approximate value, the returns on equity expected by the market for different sectors and countries. The expectation of return depends on conditions of the market that can be modelled, taking into account the history (time series) of the market key variables (explaining variables proper of the technology and/or sector under analysis).

20. The cost of equity may be calculated using CAPM if all of the following conditions are satisfied, according to the most recent datasets from the World Federation of Exchanges and the Gross Domestic Product (GDP) from the World Bank or UNSTAT. In addition, the countries meeting the criteria (a)-(c) and (e) are also indicated in the table in the Appendix.
- (a) More than 10 years of existence for the stock exchange;
 - (b) The stock market is representative of the domestic economy, i.e. ratio of stock market capitalization to GDP is in excess of 20 per cent;
 - (c) The average share turnover ratio over the last calendar year is in excess of 20 per cent;
 - (d) There are at least three domestic pure players that belong to the same sector as the project³ to calculate beta with at least 3 years of daily stock market data, and daily values are available;
 - (e) There are domestic government securities labelled in the domestic currency with maturities over 10 years.

Rationale for the individual conditions above:

- (a) For market return, it allows to include relatively recent but quite active stock exchanges;
- (b) For market return, this level is relatively low on purpose to ensure that countries that have not been undergoing multiple waves of privatization but still offer domestic private sector investment opportunities be included;

² Adjustment to the CAPM or use of other financial models may be proposed through a request of revision of the Tool for the demonstration and assessment of additionality.

³ If this data requirement cannot be met, the sector may be defined more broadly, e.g. by extending from the solar PV sector to the renewable energy sector and even to the utilities sector, so that at least three players can be identified.

- (c) For market turnover, a ratio in excess of 100 per cent means that a single stock is traded more than once per year / a ratio of 20 per cent means that, on average, one stock out of five changes hands every year;
 - (d) Minimum information required to calculate beta;
 - (e) For risk-free rate, the maturity of such security should not be significantly lower than the project lifetime.
21. The application of CAPM to calculate the cost of equity shall follow the equation below, and should use official data sources from financial institutions (central banks, stock exchanges, etc.) as preferred choice over third party sources:

$$r_e = r_f + \beta \times (r_m - r_f) \quad \text{Equation (2)}$$

Where:

- r_e = Cost of equity (-)
- r_f = Risk-free rate (-). It shall be based on local sovereign debt and shall have a maturity date close to the project lifetime (at least 10 years) and sufficient liquidity. The latest (rather than the average over a time horizon) sovereign debt data available at the time of the investment decision should be used
- β = Beta (-). The beta shall be calculated as the weighted arithmetic average of the beta of all the pure players that have been in business for at least 3 years and over the longest common lifetime for the companies in the sample of pure players, weighted by the total capitals (i.e. equity and long-term debt) of the pure players. Every pure player that meets the abovementioned criteria and that belongs to the same sector as defined in the previous paragraph shall be accounted for and used in the beta calculation. The individual betas shall be calculated independently without deleveraging by the debt-equity ratios of the pure players
- r_m = Expected market return. It shall be calculated using the average of the following three annualized rates of return of stock market for (1) the longest time series available, (2) a 20-year horizon (if existing), and (3) a 10-year horizon (if existing). Daily values shall be used. Should there be multiple stock exchange indices, stock issues for a given company, or sovereign debt issues, the most liquid or most frequently traded one shall be used. For stock market indices, liquidity is assessed with the volume of trading for the component stock issues

6.2. Cost of debt

22. If a company's internal benchmark is used for the expected return on equity, the cost of debt should be based on the weighted average cost of debt financing of the legal entity owning the CDM project activity:
- (a) For loans, use the weighted average cost of outstanding long-term debt;
 - (b) For bonds, use the weighted average yield of the bonds during the last three months prior to the submission of the CDM-PDD for validation or prior to the investment decision, whichever is earlier. The use of bonds to determine the cost

of debt is only appropriate for corporate bonds issued in the host country of the CDM project;

- (c) In cases where the debt finance structure of the project is not yet available (e.g. a letter of intent for debt funding is not available), the cost of debt can be assumed as the commercial lending rate in the country or the yield of a 10-year bond issued by the government of the host country or, if this is not available, the bond with the maturity which is closest to 10 years.

23. The following should be documented in the CDM-PDD:

- (a) For bonds: the key parameters of the bond including the time of maturity, yield, registration issuance in the financial system and set-up in the market;
- (b) For loans from a financial institution: the contract of lending between the financial institution and the legal entity owning the assets of the project activity, or, in absence of the contract, a letter from the bank stating its intention to award the loan and the key terms for the loan;
- (c) For debt financing from a parent company: the transfer of capital to the legal entity, documented with the contract of lending between the parent company and the legal entity owning the assets of the project activity and/or the parameters of the corporate bonds as mentioned above. This latter option is only valid for corporate bonds issued in the host country of the CDM project activity.

Rationale: Interest rates charged on loans are dependent upon a company's specific credit rating. Hence company specific interest rates are only relevant for projects with only one possible project developer.

24. If the benchmark is based on parameters that are standard in the market, the cost of debt should be calculated as the cost of financing in the capital markets (e.g. commercial lending rates and guarantees required for the country and the type of project activity concerned), based on documented evidence from financial institutions with regard to the cost of debt financing of comparable projects. In cases where such data is not available, use the commercial lending rate in the host country to calculate the cost of debt.

6.3. Weighting of debt and equity

25. If a company's internal benchmark is used for the expected return on equity, then the percentage of debt financing and equity financing should reflect the long-term debt/equity finance structure of the legal entity owning the assets of the project activity. The percentage should be determined based on the latest balance sheet provided under local fiscal/accounting standards and rules if: (a) the legal entity owning the assets of the project activity has balance sheets audited by a third party within two years prior to the submission of the CDM-PDD for validation; and (b) the accounting books of the legal entity reflect at least the total value of all the assets needed for the project activity. If the debt/equity finance structure is not yet available, 50 per cent debt and 50 per cent equity financing may be assumed as a default.

26. If the benchmark is based on parameters that are standard in the market, then the typical debt/equity finance structure observed in the sector of the country should be used. If such information is not readily available, 50 per cent debt and 50 per cent equity financing may be assumed as a default.

7. Sensitivity analysis

27. Variables, including the initial investment cost, that constitute more than 20% of either total project costs or total project revenues should be subjected to reasonable variation (all parameters varied need not necessarily be subjected to both negative and positive variations of the same magnitude), and the results of this variation should be presented in the PDD and be reproducible in the associated spreadsheets. Where a DOE considers that a variable which constitute less than 20 per cent has a material impact on the analysis they shall raise a corrective action request to include this variable in the sensitivity analysis.

Rationale: The initial objective of a sensitivity analysis is to determine in which scenarios the project activity would pass the benchmark or become more favourable than the alternative.

28. The DOE should assess in detail whether the range of variations is reasonable in the project context. Past trends may be a guide to determine the reasonable range. As a general point of departure variations in the sensitivity analysis should at least cover a range of +10 per cent and –10 per cent, unless this is not deemed appropriate in the context of the specific project circumstances. In cases where a scenario will result in the project activity passing the benchmark or becoming the most financially attractive alternative the DOE shall provide an assessment of the probability of the occurrence of this scenario in comparison to the likelihood of the assumptions in the presented investment analysis, taking into consideration correlations between the variables as well as the specific socio-economic and policy context of the project activity.

Rationale: The ultimate objective of the sensitivity analysis is to determine the likelihood of the occurrence of a scenario other than the scenario presented, in order to provide a cross-check on the suitability of the assumptions used in the development of the investment analysis.

Appendix. Default values for cost of equity (expected return on equity)

1. The table below provides default values for the approximate expected return on equity for different project types and host countries. The expected return on equity is composed of four elements: (a) risk-free rate of return; (b) equity risk premium; (c) country risk premium; and (d) an adjustment factor to reflect the risk of projects in different sectoral scopes. All values are expressed in real terms. Geometric means are used because they are more appropriate in corporate finance and valuations than the arithmetic means.¹
2. The risk-free rate of return is calculated based on the long-term average returns of US treasury bonds—the inflation adjusted geometric average of return on the long-term US government bonds for 1972 - 2021². The US stock market is used as a proxy because it has the longest well recorded data for government bonds as well as stocks. A value of 4.4 3.9 per cent is used.³
3. The equity risk premium is derived from the long-term historical returns on equity inflation adjusted geometric average return on equity in the US market relative to the return on the long-term US government bonds for 1972 – 2021 in the USA market relative to the return of bonds. A value of 4.4-2.8 per cent is used.⁴
4. The country risk premium is estimated using Moody's rating as a proxy, for those countries with available rating⁵, PRS Composite Risk Score for frontier markets and Fitch rating. For countries where none Moody's of the ratings net are available, a statistical algorithm developed by the Secretariat is used to derive the values, based on latest available macroeconomic data⁶ published by the World Bank, IMF and the Fragile State Index (these countries are marked with an asterisk on the table below).

¹ ~~Equity Risk Premiums (ERP): Determinants, Estimation and Implications, the 2013 Edition; Aswath Damodaran; Stern School of Business (page 27).~~

² USA dollar values are used as it has the longest recorded historical data for both government bonds and stock markets.

³ Credit Suisse Global Investment Returns Yearbook 2022 – summary edition (page 38), sourced from <https://www.credit-suisse.com/about-us/en/reports-research/studies-publications.html>

⁴ Credit Suisse Global Investment Returns Yearbook 2022 – summary edition (page 38) (Page 60), downloaded—sourced from <https://www.credit-suisse.com/about-us/en/reports-research/studies-publications.html>.

⁵ "Risk Premiums for Other Markets" – July 2021-2022
https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html.

⁶ The estimates may not reflect the most recent events or extreme circumstances experienced in some countries at the time of publication.

5. For the purpose of determining the adjustment factor to reflect the risk of projects in different sectoral scopes, three different project categories are distinguished according to the sectoral scopes used under the CDM:
- (a) Group 1 (Adjustment factor: no adjustment is made for this Group):
 - 1. Energy Industries;
 - 2. Energy Distribution;
 - 3. Energy Demand;
 - 13. Waste handling and disposal.
 - (b) Group 2 (Adjustment factor: the cost of equity is increased by 1 percentage point for this Group):
 - 4. Manufacturing industries;
 - 5. Chemical Industries;
 - 6. Construction;
 - 7. Transport;
 - 8. Mining/Mineral production;
 - 9. Metal production;
 - 10. Fugitive Emissions from fuels;
 - 11. Fugitive Emissions from production and consumption of halocarbon, and Sulphur hexafluoride;
 - 12. Solvent use;
 - 16. Carbon capture and storage of CO₂ in geological formations.
 - (c) Group 3 (Adjustment factor: the cost of equity is reduced by 0.5 percentage point for this Group):
 - 14. Afforestation and reforestation;
 - 15. Agriculture.
6. Depending on the country and sector, project participants can select the relevant benchmark value for their proposed CDM project activity. Note that the values are expressed in percentages in real terms.

Table 1. Default values for the cost of equity (expected return on equity)

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20?
Albania	12.48	13.48	11.98	
Algeria	14.99	15.99	14.49	
Andorra	10.30	11.30	9.80	
Angola	14.99	15.99	14.49	
Argentina	18.77	19.77	18.27	
Armenia	11.72	12.72	11.22	
Azerbaijan	11.22	12.22	10.72	
Bahamas	11.22	12.22	10.72	
Bahrain	13.32	14.32	12.82	
Bangladesh	11.72	12.72	11.22	
Belize	17.09	18.09	16.59	
Benin	12.48	13.48	11.98	
Bolivia	13.32	14.32	12.82	
Bosnia and Herzegovina	14.16	15.16	13.66	
Botswana	9.71	10.71	9.21	
Brazil	11.22	12.22	10.72	Y
Brunei Darussalam	9.21	10.21	8.71	
Burkina Faso	13.32	14.32	12.82	
Côte d'Ivoire	11.72	12.72	11.22	
Cambodia	13.32	14.32	12.82	
Cameroon	13.32	14.32	12.82	
Cape Verde	14.16	15.16	13.66	
Chile	9.29	10.29	8.79	
China	9.29	10.29	8.79	Y
Colombia	10.30	11.30	9.80	
Congo	16.25	17.25	15.75	
Cook Islands	14.99	15.99	14.49	
Costa Rica	13.32	14.32	12.82	
Cuba	16.25	17.25	15.75	
Democratic People's Republic of Korea	18.77	19.77	18.27	
Democratic Republic of the Congo	14.99	15.99	14.49	
Djibouti	8.70	9.70	8.20	
Dominican Republic	11.72	12.72	11.22	
Ecuador	17.09	18.09	16.59	
Egypt	13.32	14.32	12.82	
El Salvador	14.16	15.16	13.66	
Ethiopia	14.99	15.99	14.49	
Fiji	12.48	13.48	11.98	
Gabon	14.99	15.99	14.49	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20?
Gambia	14.16	15.16	13.66	
Georgia	11.22	12.22	10.72	
Ghana	14.16	15.16	13.66	
Guatemala	10.80	11.80	10.30	
Guinea	16.25	17.25	15.75	
Guinea-Bissau	14.99	15.99	14.49	
Guyana	12.48	13.48	11.98	
Haiti	16.25	17.25	15.75	
Honduras	12.48	13.48	11.98	
India	10.55	11.55	10.05	Y
Indonesia	10.30	11.30	9.80	Y
Iran (Islamic Republic of)	13.32	14.32	12.82	
Iraq	14.99	15.99	14.49	
Israel	9.29	10.29	8.79	Y
Jamaica	13.32	14.32	12.82	
Jordan	12.48	13.48	11.98	
Kazakhstan	10.55	11.55	10.05	
Kenya	13.32	14.32	12.82	
Kuwait	9.29	10.29	8.79	
Kyrgyzstan	13.32	14.32	12.82	
Lebanon	26.47	27.47	25.97	
Liberia	18.77	19.77	18.27	
Libya	13.32	14.32	12.82	
Madagascar	14.16	15.16	13.66	
Malawi	16.25	17.25	15.75	
Malaysia	9.71	10.71	9.21	Y
Maldives	14.16	15.16	13.66	
Mali	14.99	15.99	14.49	
Mauritius	10.30	11.30	9.80	
Mexico	10.04	11.04	9.54	Y
Mongolia	14.16	15.16	13.66	
Montenegro	12.48	13.48	11.98	
Morocco	10.80	11.80	10.30	
Mozambique	16.25	17.25	15.75	
Myanmar	18.77	19.77	18.27	
Namibia	11.72	12.72	11.22	
Nicaragua	14.16	15.16	13.66	
Niger	14.16	15.16	13.66	
Nigeria	13.32	14.32	12.82	
Oman	11.72	12.72	11.22	
Pakistan	14.16	15.16	13.66	
Panama	10.30	11.30	9.80	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20?
Papua New Guinea	13.32	14.32	12.82	
Paraguay	10.80	11.80	10.30	
Peru	9.71	10.71	9.21	
Philippines	10.30	11.30	9.80	
Qatar	9.21	10.21	8.71	
Republic of Korea	9.12	10.12	8.62	Y
Republic of South Sudan	14.16	15.16	13.66	
Rwanda	13.32	14.32	12.82	
Saint Vincent and the Grenadines	14.16	15.16	13.66	
Saudi Arabia	9.29	10.29	8.79	Y
Senegal	11.72	12.72	11.22	
Serbia	11.22	12.22	10.72	
Sierra Leone	16.25	17.25	15.75	
Singapore	8.70	9.70	8.20	Y
Solomon Islands	14.16	15.16	13.66	
Somalia	26.47	27.47	25.97	
South Africa	11.22	12.22	10.72	Y
Sri Lanka	14.99	15.99	14.49	
Sudan	26.47	27.47	25.97	
Suriname	17.09	18.09	16.59	
Swaziland	14.16	15.16	13.66	
Syrian Arab Republic	26.47	27.47	25.97	
Tajikistan	14.16	15.16	13.66	
Thailand	10.04	11.04	9.54	Y
North Macedonia	11.72	12.72	11.22	
Togo	14.16	15.16	13.66	
Trinidad and Tobago	10.80	11.80	10.30	
Tunisia	14.16	15.16	13.66	
Uganda	13.32	14.32	12.82	
United Arab Emirates	9.12	10.12	8.62	Y
United Republic of Tanzania	13.32	14.32	12.82	
Uruguay	10.30	11.30	9.80	
Uzbekistan	12.48	13.48	11.98	
Venezuela	26.47	27.47	25.97	
Viet Nam	11.72	12.72	11.22	Y
Yemen	26.47	27.47	25.97	
Zambia	18.77	19.77	18.27	
Zimbabwe	16.25	17.25	15.75	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20
Afghanistan*	17.34	18.34	16.84	
Albania	12.99	13.99	12.49	
Algeria	12.99	13.99	12.49	
Andorra	9.36	10.36	8.86	
Angola	15.79	16.79	15.29	
Argentina	23.48	24.48	22.98	
Armenia	11.73	12.73	11.23	
Azerbaijan	10.91	11.91	10.41	
Bahamas	11.73	12.73	11.23	
Bahrain	14.39	15.39	13.89	
Bangladesh	11.73	12.73	11.23	
Belize	20.68	21.68	20.18	
Benin	12.99	13.99	12.49	
Bhutan*	22.66	23.66	22.16	
Bolivia	14.39	15.39	13.89	
Bosnia and Herzegovina	15.79	16.79	15.29	
Botswana	8.38	9.38	7.88	
Brazil	10.91	11.91	10.41	Y
Brunei Darussalam	7.88	8.88	7.38	
Burkina Faso	17.18	18.18	16.68	
Burundi*	17.22	18.22	16.72	
Côte d'Ivoire	11.73	12.73	11.23	
Cambodia	14.39	15.39	13.89	
Cameroon	14.39	15.39	13.89	
Cape Verde	15.79	16.79	15.29	
Central African Republic*	24.73	25.73	24.23	
Chad*	18.12	19.12	17.62	
Chile	7.69	8.69	7.19	
China	7.69	8.69	7.19	Y
Colombia	9.36	10.36	8.86	
Comoros*	12.41	13.41	11.91	
Congo	19.29	20.29	18.79	
Cook Islands	17.18	18.18	16.68	
Costa Rica	14.39	15.39	13.89	
Cuba	23.48	24.48	22.98	
Democratic People's Republic of Korea	23.48	24.48	22.98	
Democratic Republic of the Congo	17.18	18.18	16.68	
Djibouti*	11.48	12.48	10.98	
Dominican Republic	11.73	12.73	11.23	
Ecuador	20.68	21.68	20.18	
Egypt	14.39	15.39	13.89	
El Salvador	20.68	21.68	20.18	
Equatorial Guinea*	10.04	11.04	9.54	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20
Eritrea*	17.59	18.59	17.09	
Ethiopia	19.29	20.29	18.79	
Fiji	12.99	13.99	12.49	
Gabon	17.18	18.18	16.68	
Gambia	12.99	13.99	12.49	
Georgia	10.91	11.91	10.41	
Ghana	17.18	18.18	16.68	
Grenada*	18.75	19.75	18.25	
Guatemala	10.20	11.20	9.70	
Guinea	19.29	20.29	18.79	
Guinea-Bissau	15.79	16.79	15.29	
Guyana	8.93	9.93	8.43	
Haiti	20.68	21.68	20.18	
Honduras	12.99	13.99	12.49	
India	9.77	10.77	9.27	Y
Indonesia	9.36	10.36	8.86	Y
Iran (Islamic Republic of)	12.99	13.99	12.49	
Iraq	17.18	18.18	16.68	
Israel	7.69	8.69	7.19	Y
Jamaica	14.39	15.39	13.89	
Jordan	12.99	13.99	12.49	
Kazakhstan	9.36	10.36	8.86	
Kenya	14.39	15.39	13.89	
Kiribati*	13.65	14.65	13.15	
Kuwait	7.69	8.69	7.19	
Kyrgyzstan	15.79	16.79	15.29	
Lao People's Democratic Republic	20.68	21.68	20.18	
Lebanon	27.10	28.10	26.60	
Lesotho	13.30	14.30	12.80	
Liberia	19.29	20.29	18.79	
Libya	10.91	11.91	10.41	
Madagascar	15.79	16.79	15.29	
Malawi	20.68	21.68	20.18	
Malaysia	8.38	9.38	7.88	Y
Maldives	17.18	18.18	16.68	
Mali	19.29	20.29	18.79	
Mauritania*	14.39	15.39	13.89	
Mauritius	9.36	10.36	8.86	
Mexico	8.93	9.93	8.43	Y
Micronesia (Federated States of)*	15.45	16.45	14.95	
Mongolia	15.79	16.79	15.29	
Montenegro	12.99	13.99	12.49	
Morocco	10.20	11.20	9.70	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20
Mozambique	19.29	20.29	18.79	
Myanmar	19.29	20.29	18.79	
Namibia	12.99	13.99	12.49	
Nepal*	12.62	13.62	12.12	
Nicaragua	15.79	16.79	15.29	
Niger	15.79	16.79	15.29	
Nigeria	14.39	15.39	13.89	
North Macedonia	11.73	12.73	11.23	
Oman	11.73	12.73	11.23	
Pakistan	15.79	16.79	15.29	
Panama	9.36	10.36	8.86	
Papua New Guinea	14.39	15.39	13.89	
Paraguay	10.20	11.20	9.70	
Peru	8.93	9.93	8.43	
Philippines	9.36	10.36	8.86	
Qatar	7.54	8.54	7.04	
Republic of Korea	7.39	8.39	6.89	Y
Republic of Moldova	15.79	16.79	15.29	
Republic of South Sudan*	22.07	23.07	21.57	
Rwanda	14.39	15.39	13.89	
Saint Lucia*	18.66	19.66	18.16	
Saint Vincent and the Grenadines	15.79	16.79	15.29	
Samoa*	16.33	17.33	15.83	
San Marino	9.70	10.70	9.20	
Sao Tome and Principe*	18.57	19.57	18.07	
Saudi Arabia	7.69	8.69	7.19	Y
Senegal	11.73	12.73	11.23	
Serbia	10.91	11.91	10.41	
Sierra Leone	23.48	24.48	22.98	
Singapore	6.70	7.70	6.20	Y
Solomon Islands	17.18	18.18	16.68	
Somalia	23.48	24.48	22.98	
South Africa	10.91	11.91	10.41	Y
Sri Lanka	23.48	24.48	22.98	
Sudan	27.10	28.10	26.60	
Suriname	20.68	21.68	20.18	
Swaziland	15.79	16.79	15.29	
Syrian Arab Republic	27.10	28.10	26.60	
Tajikistan	15.79	16.79	15.29	
Thailand	8.93	9.93	8.43	Y
Timor-Leste*	13.81	14.81	13.31	
Togo	15.79	16.79	15.29	
Tonga*	16.21	17.21	15.71	
Trinidad and Tobago	10.91	11.91	10.41	

Country	Group 1	Group 2	Group 3	Meeting criteria (a)-(c) and (e) in paragraph 20
Tunisia	17.18	18.18	16.68	
Turkmenistan	12.10	13.10	11.60	
Uganda	14.39	15.39	13.89	
United Arab Emirates	7.39	8.39	6.89	Y
United Republic of Tanzania	14.39	15.39	13.89	
Uruguay	9.36	10.36	8.86	
Uzbekistan	12.99	13.99	12.49	
Vanuatu*	12.41	13.41	11.91	
Venezuela	27.10	28.10	26.60	
Viet Nam	11.73	12.73	11.23	Y
Yemen	27.10	28.10	26.60	
Zambia	23.48	24.48	22.98	
Zimbabwe	17.18	18.18	16.68	

Document information

Version	Date	Description
12.0	11 October 2022	MP 89, Annex 2 To be considered by the Board at EB 116. A call for public input will be issued for this draft document. Any input will be discussed with the MP and forwarded to the Board for consideration. Revision to update the default values for the cost of equity.
11.0	1 October 2021	EB 112, Annex 2 Revision to update the default values for the cost of equity.
10.0	28 November 2019	EB 105, Annex 6 Revision to update the default values for the cost of equity.
09.0	29 November 2018	EB 101, Annex 11 Revision to update the default value of the cost of equity and to identify host countries where the cost of equity may be calculated using the CAPM.
08.0	1 November 2017	EB 97, Annex 8 Revision to update the default values for the cost of equity.
07.0	4 November 2016	EB92, Annex 5. Revision to update the default value of the cost of equity and to identify host countries where the cost of equity may be calculated using the CAPM.
06.0	24 July 2015	EB 85, Annex 12

<i>Version</i>	<i>Date</i>	<i>Description</i>
		<p>Revision to:</p> <ul style="list-style-type: none"> • Describe the conditions under which the application of capital asset pricing model (CAPM) can be considered appropriate; • Provide guidance on how CAPM should be applied to calculate the cost of equity; • Update the default values for the cost of equity in appendix; • Incorporate a clarification issued by the Board (EB73-A08-CLAR); • Include other editorial improvements; • Change the title to “Methodological tool: investment analysis”.
05.0	15 July 2011	<p>EB 62, Annex 5</p> <p>The revision clarifies that:</p> <ul style="list-style-type: none"> • In situations where an investment analysis is carried out in nominal terms, project participants can convert the real term values provided in the table in the appendix to nominal values by adding the inflation rate; • The default values for the expected return on equity showed in the table in the appendix are calculated after taxes.
04.0	3 June 2011	<p>EB 61, Annex 13</p> <p>The revision provides further guidance on the calculation of the expected return on equity, the cost of debt and the percentage of equity and debt funding. The revision also includes a new Appendix with default values for the expected return on equity.</p>
03.1	15 January 2010	<p>EB 51, Annex 58</p> <p>Editorial changes.</p>
03.0	04 December 2009	<p>EB 51, Annex 58</p> <p>Revision to provide guidance on the treatment of interest payments in income tax calculations.</p>
02.1	02 August 2008	<p>EB 41, Annex 45</p> <p>Revision to insert annex number.</p>
02.0	02 August 2008	<p>EB 41, Annex 45</p> <p>Revision to provide guidance on the treatment of costs incurred prior to the project activity start date.</p>
01.0	6 May 2008	<p>EB 39, Annex 35</p> <p>Initial adoption.</p>

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