

## Agenda item 4.1

Paragraph 25 (e) of the annotated agenda.

# Revision of Methodological tool: Investment analysis

**CDM EB 101**

City, Country, 26 to 29 November 2018



## Procedural background

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At EB83, the Board requested the MP to update the default values for the cost of equity in the appendix to the tool on an annual basis.



## Purpose

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



## Key issues and proposed solutions

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The approach followed for deriving the default values of this update is the same as in previous revisions. The following key parameters were applied :

- (a) risk free rate of return: based on the long-term average returns of US treasury bonds; data for years 1996-2015 was updated to 1996-2018;
- (b) equity risk premium: derived from the long-term historical returns on equity in the US market relative to the return of bonds; data for years 1996-2015 was updated to 1996-2018
- (c) risk premium for the host country: based on Moody's rating as a proxy; in case Moody's rating not available, applying the same algorithm base on latest macroeconomic data from the World Bank related to Economy & Growth, External Debt, Trade, Health and Environment.

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## Impacts

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The revision will facilitate its applicability by the project participants and allow an updated investment analysis.



## Recommendations to the Board

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The MP recommends that the Board adopt the revised methodological tool.

