Criteria for the Selection of Investment Project Proposals

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Selection Criteria	Associated Risk
1. The project sponsor (person or entity which initiates, owns and promotes the project and has decision making power on borrowing or equity distribution) must have a proven track record in their line of business, must demonstrate that is able to implement the project and ability to carry any required administrative or management changes.	Management Risk

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2. The project owner is able to develop and implement a proper management plan to ensure sustainable operation of the proposed project.	Management Risk

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3. The project must demonstrate that there is a strong ownership and commitment by the project partners and should be funded with a significant contribution from the project sponsor, normally at least 25 per cent. In cases including special industrial projects where special technical and management skills are needed the project sponsors are expected to have a majority shareholding or adequate operational control.	Shareholders, Management and Technical Risk

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4. Projects should be based on significant equity contributions, usually from more than one investor and have sufficiently developed financing plan.	Commitment Risk

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5. The project sponsor must have the legal entitlement to borrow; clear ownership, legal title or property rights, including licenses and rights to use the methane, necessary to implement the investment.	Regulatory, Legal Risk

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6. The project sponsor must be certifiably creditworthy and have identified suitable commercial, municipal or national government guarantees or guarantee mechanisms for the proposed investment.	Credit, Guarantees Risks

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7. A project should demonstrate sufficient cash-flows and positive Net Present Value and Internal Rate of Return above the opportunity cost of capital.	***Financial risk*** Opportunity cost of capital = Required Rate of Return (from the perspective of the funders). Cost of Capital = Cost of Equity x Ratio of Equity + Cost of Debt x Ratio of Debt Cost of Debt = Interest Rates x (1 - Tax Rate) Cost of Equity = Risk-free Rate + (β x Equity Risk Premium) Net Present Value = Σ (discounted cash flows - discounted cash outflows) Internal Rate of Return = interest rate which the investment of capital will return

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8.The project sponsor should demonstrate that there is a legal and administrative framework allowing an appropriate level of tariffs to be applied, maintained and collected.	Policy, Regulatory Risks

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9. Funds could be available either in local or hard currency depending on the financial intermediary. If funding is provided in hard currency, the project must demonstrate the ability to generate hard currency or the ability to absorb increases in local currency financing costs should there be any depreciation during the loan period. .	Exchange Risk

Selection Criteria	Associated Risk
10. Projects should demonstrate to have a significant potential for the reduction of greenhouse gas emissions. Identification, credit analysis and supervision of loans or investments will be carried out with special regard and analyse the baseline emission and the potential reduction of carbon emissions and related environmental benefits.	Incremental Benefits