

TOOL № 001

**DEMONSTRATION OF THE ADDITIONALITY OF THE PROJECT ACTIVITY**

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Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the project, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation.

To demonstrate additionality, an analysis of activities similar to the proposed project activity should be carried out, which is complemented and enhanced by an analysis of investments and/or barriers. The choice of approaches to confirm additionality is summarized on the decision scheme (Fig. 1).

## **1. Identification of alternatives to the project activity consistent with current laws and regulations**

Identify realistic and credible alternative(s) available to the project participants or similar project developers that provide outputs or services comparable with the proposed project activity that would be implemented in the absence of a project if

- (a) the proposed project activity undertaken without being registered as a project activity;
- (b) other realistic and credible alternative scenario(s) would be implemented that that deliver outputs and services with comparable quality, properties and application areas;
- (c) continuation of the current situation is applicable (no project activity or other alternatives have been undertaken).

The alternative(s) shall be in compliance with all mandatory applicable legal and regulatory requirements, even if these laws and regulations have objectives other than GHG reductions, e.g. to mitigate local air pollution.

### **Outcome of Step 1:**

Identified the presence or absence of an alternative development scenario to the project activity, providing results or services comparable to the proposed project activity and corresponding to mandatory legislative and regulatory acts.

- If the proposed project activity is the only alternative amongst the ones considered by the project participants that is in compliance with mandatory regulations with which there is general compliance, then the proposed project activity **is not additional**
- If a realistic and reliable alternative scenario that provides results or services comparable to the proposed project activity, complies with mandatory legislative and regulatory acts is identified,

then it is necessary to demonstrate the additionality of the project activity using investment and/or barrier analysis.

## **2. Investment analysis**

Investment analysis is carried out in order to determine whether the proposed project activity is not:

- (a) the most economically or financially attractive; or
- (b) economically or financially feasible, without the revenue from the sale of carbon units.

The investment analysis can be based on the latest version of the “Guidelines on the assessment of investment analysis”, available on the UNFCCC website.

To conduct the investment analysis, use the following sub-steps:

- a) Determine whether to apply simple cost analysis, investment comparison analysis or benchmark analysis. If the project activity and the alternatives identified in Step 1 generate no financial or economic benefits other than project related income, then apply the simple cost analysis (Option I). Otherwise, use the investment comparison analysis (Option II) or the benchmark analysis (Option III)

### **Option I. Apply simple cost analysis:**

Document the costs associated with the project activity and the alternatives identified in Step 1 and demonstrate that there is at least one alternative which is less costly than the project activity. If it is concluded that the proposed project activity is more costly than at least one alternative then the project activity cannot be considered as the most financially attractive.

### **Option II. Apply investment comparison analysis**

Identify the financial indicator, such as internal rate of return (IRR), net present value (NPV), cost benefit ratio, or unit cost of service (e.g. levelized cost of electricity production in RUB/kWh or levelized cost of delivered heat in RUB/GJ) most suitable for the project type and decision-making context.

Present in the project PDD submitted for validation a clear comparison of the financial indicator for the proposed project activity and the alternatives. If one of the other alternatives has the best indicator (e.g. highest IRR), then the project activity cannot be considered as the most financially attractive.

**Option III. Apply benchmark analysis**

Identify the financial/economic indicator, for example, such as IRR, most suitable for the project type.

Present in the project PDD submitted for validation a clear comparison of the financial indicator for the proposed project activity and the financial benchmark. If the project activity has a less favourable indicator (e.g. lower IRR) than the benchmark, then the project activity cannot be considered as financially attractive.

b) Sensitivity analysis (only applicable to Options II and III)

Sensitivity analysis shows whether the conclusion regarding the financial/economic attractiveness is robust to reasonable variations in the critical assumptions. The investment analysis provides a valid argument in favour of additionality only if it consistently supports (for a realistic range of assumptions) the conclusion that the project activity is unlikely to be the most financially/economically attractive or financially/economically attractive.

**Outcome of Step 2:**

Identified financially/economically attractiveness of the project compared with realistic and credible alternative scenario(s) or benchmarks.

- If it is concluded that the proposed project activity is unlikely to be the most financially/economically attractive or financially/economically attractive, then **proceed to Step 4 (Common practice analysis)**.
- Otherwise, unless barrier analysis below is undertaken and indicates that the proposed project activity faces barriers that do not prevent at least one alternative from occurring, **the project activity is considered not additional**.

**3. Barrier analysis**

This step serves to identify barriers and to assess which alternatives are prevented by these barriers.

If this step is used, determine whether the proposed project activity faces barriers that:

- (a) Prevent the implementation of this type of proposed project activity; and
- (b) Do not prevent the implementation of at least one of the alternatives.

The barrier analysis can be based on the latest version of the “Guidelines for objective demonstration and assessment of barriers”, available on the UNFCCC website.

***a) Identify barriers that would prevent the implementation of the proposed project activity***

Establish that there are realistic and credible barriers that would prevent the implementation of the proposed activity from being carried out if the project activity was not registered as a project. Such realistic and credible barriers may include, barriers listed in the Order of the Ministry of Economic Development of the Russian Federation dated May 11, 2022 №248:

- (a) Investment barriers, other than the economic/financial barriers in investment analysis above,
- (b) Technological barriers (availability of technology),
- (c) Technical barriers (the possibility of implementing the technology)
- (d) Regulatory (the presence of regulatory restrictions on the use of technology),
- (e) Socio-ecological (the level of impact on the environment and local communities);
- (f) Qualification (availability of the necessary competencies for the implementation of the technology)
- (g) Other barriers.

***b) Show that the identified barriers would not prevent the implementation of at least one of the alternatives (except the proposed project activity)***

In applying barriers analysis, provide transparent and documented evidence and offer evidence, as to how it demonstrates the existence and significance of the identified barriers and whether alternatives are prevented by these barriers. The type of evidence to be provided should include at least one of the following:

- (a) Relevant legislation, regulatory information or industry norms;
- (b) Relevant (sectoral) studies or surveys (e.g. market surveys, technology studies, etc.) undertaken by universities, research institutions, industry associations, companies, bilateral/multilateral institutions, etc.;
- (c) Relevant statistical data from national or international statistics;
- (d) Documentation of relevant market data (e.g. market prices, tariffs, rules);
- (e) Written documentation of independent expert judgments from industry, educational institutions (e.g. universities, technical schools, training centres), industry associations and others.

### **Outcome of Step 3**

Identified the presence or absence of barriers that may prevent the implementation of alternative activity scenarios.

- If both points (a and b) are satisfied, **proceed to Step 4** (Common practice analysis).
- If one of the points (a and b) is not satisfied, the project activity **is not additional**

## **4. Common practice analysis**

This step serves to identify if the proposed project activity is “common practice” applied in the region or sector.

Compare the proposed project activity to the other similar activities and assess whether there are essential distinctions between the proposed project activity and the similar activities. If this is the case, point out and explain the essential distinctions between the proposed project activity and the similar activities.

Essential distinctions may include a serious change in circumstances under which the proposed project activity will be implemented when compared to circumstances under which similar projects were carried out. For example, new barriers may have arisen, or promotional policies may have ended, leading to a situation in which the proposed project activity would not be implemented in the absence of the incentives from the project. The change must be fundamental and verifiable.

The proposed project activity is regarded as “common practice” if similar activities can be observed and essential distinctions between the proposed project activity and similar activities cannot be identified.

### **Outcome of Step 4:**

If outcome of Step 4 is that the proposed project activity is not regarded as “common practice”, then the proposed **project activity is additional**.

If outcome of Step 4 is that the proposed project activity is regarded as “common practice” then the proposed **project activity is not additional**.

## 5. Decision scheme

Fig. 1 Decision scheme

