II-AMT TOOL01

TOOL FOR THE DEMONSTRATION AND ASSESSMENT OF ADDITIONALITY

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CONCEPT NOTE

International Initiative for Development of Article 6 Methodology Tools

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Introduction

Background

1. Additionality testing aims to ensure that only mitigation outcomes that require carbon market support are credited under baseline-and-credit schemes, so that carbon finance is not spent on mitigation that would have been achieved anyway. If carbon finance is directed toward such activities and redirects resources from where additional mitigation would occur, global emissions will increase. If NDCs were to be ambitious, and a host country is committed to achieve its targets, a non-additional mitigation outcome may be compensated for by additional action to achieve the NDC. However, that would still lead to an inefficient allocation of resources. If non-additional mitigation outcomes are transferred and not compensated for by more action in the host country, offsetting emissions with such non-additional mitigation outcomes leads to an increase in global emissions. Therefore, a robust assessment of additionality is key to ensure the quality of the mitigation outcomes and environmental integrity of carbon market mechanisms.

2. As a criterion, additionality is known already from the Kyoto Protocol flexibility mechanisms - Joint Implementation (JI) and the Clean Development Mechanism (CDM). Under the CDM, methodologies included steps to determine additionality, and later these approaches were summarised in tools[1].

3. Since the implementation of the Paris Agreement, determining additionality must be done in the context of the obligation of Parties to implement their NDCs and to increase ambition in mitigation and adaptation action to contribute to achieving the long-term objectives of the agreement. The Article 6 rulebook, in particular the rules, modalities, and procedures (RMP) of the Article 6.4 mechanism (A6.4M) clarify new principles and requirements for the demonstration and assessment of additionality.

4. In January 2022, the "International Initiative for Development of Article 6 Methodology Tools" (II-AMT) was launched with the aim of developing methodological tools that guide the revision of existing methodologies when applied to activities implemented in the context of Article 6 of the Paris Agreement.

Objectives

5. From January to April 2022, in the concept phase of the II-AMT, this concept note for TOOL01 on additionality has been developed, encompassing the outline and key components of the future tool.

6. This TOOL01 aims to provide a robust approach and guidance for project proponents to demonstrate that their proposed mitigation activities can be considered additional in the context of Article 6 of the Paris Agreement. TOOL01 will be developed based on the experiences with and lessons learned from the application of the CDM additionality tool and other approaches to additionality assessment applied in international carbon markets. We propose a stand-alone tool for additionality under Article 6 for project and programme-level activities, and thus have not presented a combined tool for baseline setting and additionality[2].

[1] The most widely applied CDM tools for additionality are the "Tool for the demonstration and assessment of additionality" with its latest version (version 7) adopted in November 2012 and the "Combined tool to identify the baseline scenario and demonstrate additionality" with the latest version (version 7) from September 2017. These tools refer to separate tools for common practice analysis, currently in version 3.1 from June 2015, and for investment analysis. The latter has been revised frequently, with the current version 11 adopted in October 2021.

[2] In the development phase of the initiative, experts may consider options to combine parts of the additionality determination and baseline setting through an approach based on an assessment of "best available technologies" that considers investment parameters.

The following experts of the II-AMT have led the development of this tool:

- Axel Michaelowa, Perspectives Climate Research, Switzerland
- Randall Spalding-Fecher, Carbon Limits, Norway
- Derik Broekhoff, Stockholm Environment Institute, USA
- Jessica Wade-Murphy, Atmosphere Alternative, Colombia

The following experts supported the development of this tool:

- Aglaja Espelage, Perspectives Climate Research, Germany
- Clayton Munnings, Munnings Consulting, USA
- Kentaro Takahashi, International Institute for Global Environmental Studies, Japan
- Martha Ntabadde, freelance consultant and member of the CDM Methodologies Panel, Uganda

Rules and Principles

7. This tool will be developed based on the following principles enshrined in the decision 2/CMA.3 and 3/CMA.3 adopted by the Parties to the Paris Agreement:

8. **Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement**

   "1. Internationally transferred mitigation outcomes (ITMOs) from a cooperative approach are:

   (a) Real, verified and **additional**; […]" (Decision 2/CMA.3, annex, paragraph 1)

9. **Rules, modalities, and procedures of the A6.4M**

   31. The activity: (a) Shall be designed to achieve mitigation of GHG emissions that is **additional,** including reducing emissions, increasing removals and mitigation co-benefits of adaptation actions and/or economic diversification plans (hereinafter collectively referred to as emission reductions), and not lead to an increase in global emissions; […]

   38. Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a **robust assessment** that shows the activity **would not have occurred in the absence of the incentives from the mechanism**, taking into account all **relevant national policies, including legislation**, and **representing mitigation that exceeds any mitigation that is required by law or regulation**, and taking a **conservative approach** that **avoids locking in levels of emissions, technologies or carbon-intensive practices** incompatible with **paragraph 33**[3] above.

   (Decision 3/CMA.3, annex, paragraphs 31 and 38)

10. In addition, the following principles are relevant for the development of this tool:
    a. Each participating Party shall ensure that participation in Article 6 contributes to the implementation and achievement of their NDCs, LT-LEDS, and long-term goals of the Paris Agreement (most notably Decision 2/CMA.3, annex, paragraph 4.f and Decision 3/CMA.3, annex, paragraph 28.b) (see II-AMT GUIDE01)
    b. The assessment shall deliver **consistent results** for similar activities in the same relevant context conditions. For that to work, the additionality tool must contain mandatory steps for all activities and only few optional assessments. To

[3] Paragraph 33 reads: "Mechanism methodologies shall encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below 'business as usual'; avoid leakage, where applicable; recognize suppressed demand; align to the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party; and align with its NDC, if applicable, its long-term low GHG emission development strategy if it has submitted one and the long-term goals of the Paris Agreement." (Decision 3/CMA.3, annex, paragraph 33).

allow for **consistent validatio**n by third party auditors, the tool must provide detailed guidance on how to apply the different steps (See II-AMT TOOL03, paragraph 65).

c. The assessment shall include a characterisation of the inherent risks to additionality relevant to the general activity type and to the specific project conditions, as a reality check of the additionality assessment. Safeguards include:
   - Automatic financial additionality through positive lists shall only be applicable to activity types in circumstances where few, if any, activities are occurring without carbon credit revenue. National and international positive lists for financial additionality must be updated regularly.
   - Host country approval lists for assessment of "target surplus" must be updated regularly, with an update triggered at least with every NDC update due as per the common time frames decision.
   - Mandatory re-assessment of (or parts of) additionality determination steps at the time of crediting period renewal.
   - Mandatory restriction of choices for crediting period length under certain circumstances.

d. The assessment shall utilise information communicated in the respective host country NDC as a reference point for additionality demonstration.

Scope and Applicability

11. The document provides a general framework for demonstrating and assessing additionality of activities implemented in cooperative approaches under Article 6.2 of the Paris Agreement, subject to approval by participating Parties, and aims to inform the development of more detailed rules by the Supervisory Body of the Article 6.4 mechanism.

12. This tool will provide for a stepwise approach to demonstrate and assess additionality of projects and programmatic approaches (collectively called "mitigation activities") in an applicable geographic area that is both in line with the Article 6.2 guidance and the RMPs of the A6.4M, the latter offering more detail on how to robustly determine additionality under Article 6. It is not applicable to mitigation activities on a higher level of aggregation such as sectoral approaches or mitigation policies. This tool does not replace the need for the baseline methodology to provide a stepwise approach to identify the baseline scenario. Activity participants shall ensure consistency between the determination of additionality of an activity and the determination of a baseline scenario (see II-AMT TOOL02).

13. In validating the application of this tool, independent third party auditors shall carefully assess and verify the reliability and credibility of all data, rationales, assumptions, justifications, and documentation provided by activity participants to support the demonstration of additionality. In this context, they shall also identify and cross-check available independent sources and documentation. The information checked during this assessment and the conclusions shall be documented transparently[4]. The host country NDC shall be one of the sources assessed during this process (see II-AMT TOOL03, paragraphs 65-68).

14. TOOL01 will include detailed guidance for a stepwise approach to determine additionality by considering the elements of "prior consideration", "regulatory additionality", "target surplus" and "financial additionality", summarised in Figure 1 and detailed in paragraphs 19-23. The different steps entail[5]:

    a) Checking for public notification of the intent to earn carbon credits prior to the start of the activity as part of an assessment of financial additionality.

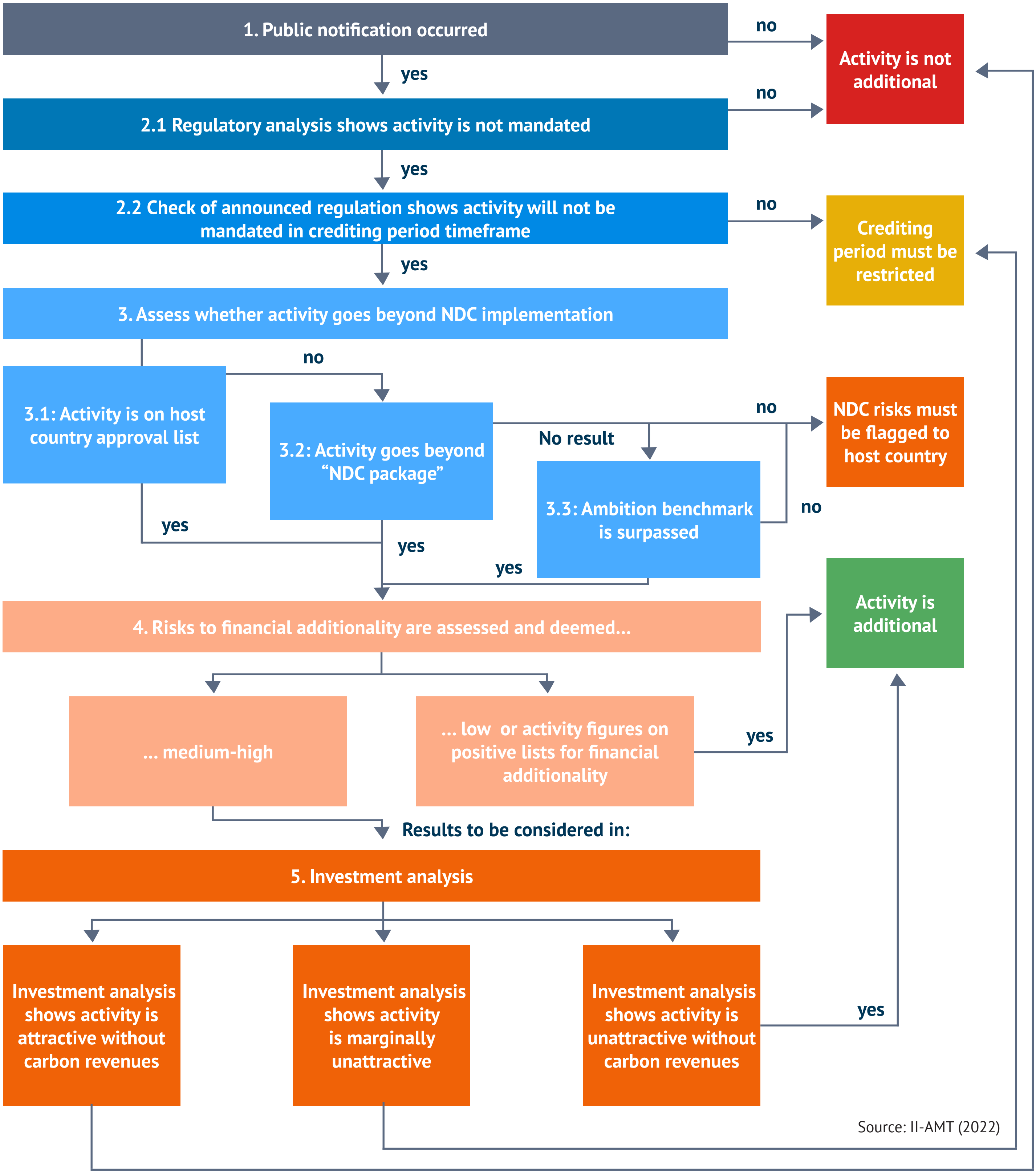
    b) Determining regulatory additionality to confirm that the neither is the activity mandated by law, nor is the mitigation effectively required by regulation. This step also includes a check of whether existing and promulgated regulation would mandate the activity at any point during the crediting period.

[4] The II-AMT experts recommend exploiting the benefits of digitisation in Article 6 cooperation in this context. Governments participating in cooperative approaches could agree to keep information on data, assumptions, benchmarks, in a database that auditors can access to cross-check information provided in mitigation activity design documentation.

[5] The tool will not include a step for common practice analysis. While the principle is important, there has been no robust operationalisation so far that provides added value for the determination of additionality, mostly given difficulties in accessing the necessary data.

c) Evaluating target surplus to assess whether the activity goes beyond actions required to reach the host country's NDC.
d) Evaluating the risk that the activity type is financially attractive without carbon revenue, to decide if an investment analysis is required.
e) Determining financial additionality of the activity based on an investment analysis.

FIGURE 1: FLOWCHART OF PROPOSED STEPWISE PROCESS FOR DEMONSTRATION OF ADDITIONALITY



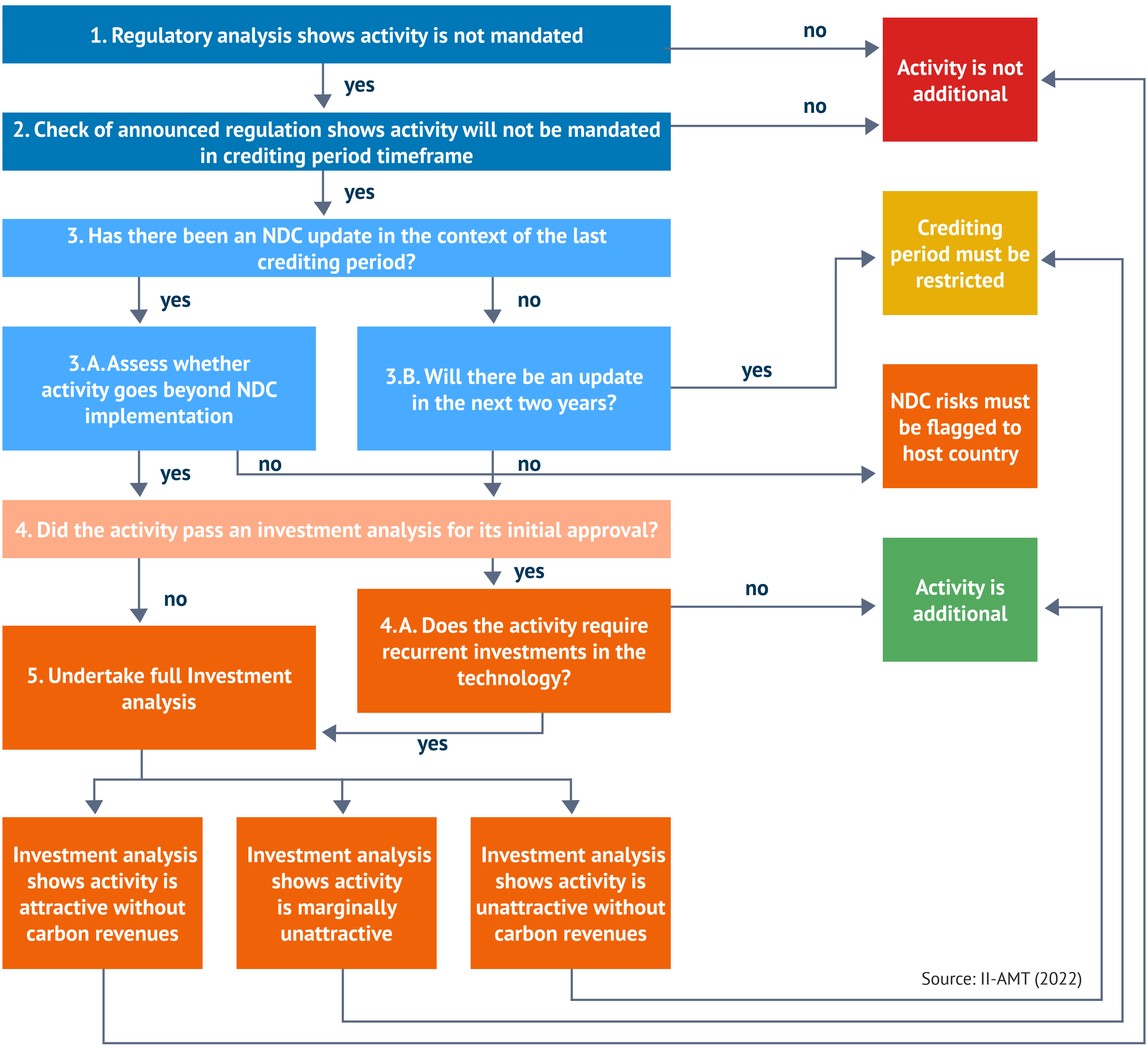
Source: II-AMT (2022)

15. TOOL01 will also include guidance on the development of positive lists for financial additionality at different levels of aggregation as well as for host country approval lists for target surplus in the host country context. The guidance includes necessary requirements for elaborating and regularly updating positive and host country approval lists. Details are provided in paragraphs 24-29.

16. TOOL01 will include guidance on setting the initial crediting period length for crediting periods that are either a maximum of five years renewable twice or ten years non-renewable, based on insights from the investment analysis, and the relationship of technology lifetime and type and timing of investment decisions (e.g., for once-off investments versus replacement and additional investments into one activity). Further details are provided in paragraphs 30-31.

17. TOOL01 will furthermore include guidance on considering additionality of activities at crediting period renewal in a stepwise approach as depicted in Figure 2, with further details provided in paragraphs 32-34.

FIGURE 2: FLOWCHART OF PROPOSED STEPWISE APPROACH TO RE-ASSESS ADDITIONALITY AT CREDITING PERIOD RENEWAL



Terms and Definitions

18. The following terms and definitions will be agreed upon in the development phase of the II-AMT, based on an assessment of how these terms are used in other methodological frameworks.
    a. **Applicable geographic area**: Definition of this term will have to consider the relevant levels of aggregation depending on the proposed activity [scale, boundaries, sector, technology]. It could be linked to the area covered by a particular jurisdiction.
    b. **Carbon intensive practice/technology**: Narrow vs. stringent interpretation must be discussed and objective indicators agreed upon. Differentiation to lock-in needs to be discussed, possibly both definitions can be combined in one.
    c. **Financially feasible**: The activity is attractive from a commercial point of view (definition may be fleshed out further).
    d. **Host country approval list**: an activity on a host country approval list is deemed eligible for approval and authorisation by a host country government (definition of the term as used in the context of the II-AMT).
    e. **Lifetime of technology**: The lifetime of a technology is related to the economic and technical lifetime. It is an important aspect for the crediting period and activity lifetime.
    f. **Lock-in of emission levels**: Narrow vs. stringent interpretation, including on level of aggregation (linked to applicable geographic area) and time horizons, must be discussed and objective indicators agreed upon.
    g. **Payback period**: Amount of time required to recover the cost of an investment.
    h. **Positive list**: an activity on a positive list is deemed automatically additional in relation to all or specific aspects of additionality.
    i. **Relevant Law / Mandate / Regulation / Policy**: Regardless of the exact terminology used in the respective national context any imposition of rules and all agreed official plans and actions by international law ratified at the national level, as well as national, subnational, and local government is to be considered in the regulatory analysis if it has a direct impact on the proposed activity.
    j. **Similar economic and social context**: Beyond the applicable geographic scope, comparison is undertaken regarding similar economic and social contexts. Definitions of the term "economic context" and "social context" must be provided. Alignment of this definition with definition of "similar social, economic, environmental and technological circumstances" in TOOL02, paragraph 14j.
    k. **Start date**: The date on which the activity participants commit to making expenditures for the construction or modification of the main equipment or facility, or for the provision or modification of a service, for the activity. Where a contract is signed for such expenditures, it is the date on which the contract is signed. In other cases, it is the date on which such expenditures are incurred. Activities incurring minor pre-project expenses (e.g., feasibility studies, preliminary surveys) are not considered in the determination of the start date.
    l. **Target surplus**: Mitigation that goes beyond the efforts of a government as expressed in its NDC.

Methodology Procedure

The methodology procedure will be developed in the full development phase of the II-AMT. This section provides an initial outline of the steps and how they could be implemented.

STEPWISE DETERMINATION OF ADDITIONALITY

19. **Step 1 - MANDATORY: Public notification of intent to earn carbon revenue prior to start of the activity**
    a. Demonstration that carbon market revenues were considered by the activity participants in the investment decision of the activity. This communication could take different forms, such as:
        i. A letter from the activity participants to the host country government/the UNFCCC Secretariat/the participating Parties of a cooperative approach.
        ii. Further forms of public notice (will be developed further).

b. The communication must occur prior to the start of the activity (in a transitional period, some grace period may be allowed, e.g., communication must occur within two months from the activity start date), which is the date on which the activity participant commits to making significant expenditures for activity implementation. This is equivalent to the step defined in CDM as prior consideration.

20. **Step 2 - MANDATORY: Determination of regulatory additionality:**

a. Applicable geographical area of the analysis: Country, including national, subnational, and local regulation.
b. Sub-step 2.1- MANDATORY: Regulatory analysis to determine that the proposed activity is neither mandated by law nor is the activity part of the planned GHG emission reductions effectively required by regulation.
c. Sub-step 2.2- MANDATORY: Check of formal government communication that a new, mandatory law or regulation will require the planned activity type or resulting mitigation to be introduced in the period covered by the duration of the [initial] [entire] crediting period[6].
d. Mandatory re-assessment of regulatory additionality at the point of crediting period renewal (see paragraph 32).

21. **Step 3 - MANDATORY: Evaluation of the risk whether the activity will be part of the host country's efforts to reach NDC targets, and thus cannot be deemed to go beyond the NDC ("target surplus"):**

a. This step complements the regulatory analysis in checking whether implementation of the activity type, and more specifically the mitigation impact of the activity, may be deemed part of the host country efforts to achieve the (unconditional) mitigation target of the NDC (further explanation is included in II-AMT GUIDE01). In the development phase of the II-AMT, the experts will consult with stakeholders prior to taking a decision on whether an inconclusive or negative outcome of the assessment proposed will mean the activity is in general deemed "non additional". The current proposal of the experts is to require programme developers to flag the risks to the host country authorities and in public documentation but leave the choice with the government on whether to not deem the activity's mitigation to represent "target surplus" (see further justification in II-AMT GUIDE01).

b. The following stepwise approach is used for the determination of "target surplus":
   i. **Sub-step 3.1:** Assessment of whether the proposed activity is deemed by the host country to go beyond its efforts for achieving its NDC. A host country may have communicated this decision publicly through a "host country approval list", or any other formal communication of the relevant national Article 6 authority in this regard (See: Guidance for the development of positive lists for target additionality).
      1. If outcome is positive: proceed to financial additionality test (Step 4)
      2. If outcome is negative, as no such list exists, or the activity does not figure on an existing list: proceed to step 3.2

   ii. **Sub-step 3.2:** Assessment of whether the proposed activity falls into the scope of a measure defined in official planning documents by the host Party as necessary to achieve its unconditional NDC target as well as any conditional NDC targets for which the Party has excluded the use of carbon finance. If the NDC does not differentiate between an unconditional and conditional target or has not made clear statements about the nature of the NDC target, the full NDC target will be assessed. For crediting periods exceeding the duration of the NDC in place at the activity start date, the LT-LEDS or long-term strategy of the country will be used to define the target level. In case no such strategy exists, the trend between the start and the end year of the current NDC should be linearly extrapolated. To undertake this assessment, there are three options for activity developers. The default option should be option 3.2.1, but if this assessment is not conclusive, activity developers can choose option 3.2.2 and lastly if neither 3.2.1 nor 3.2.2 are appropriate, undertake the assessment described in option 3.2.3.

[6] E.g., if a government has published in the gazette that venting of landfill gas will be banned in five years, the activity can only be considered to fulfil the requirement of regulatory additionality for a maximum crediting period of five years, ending in the year of introduction of the legal mandate. Exemptions for activities in LDCs where programme developers can robustly justify non-enforcement of regulation may be considered in the development phase.

1. **Option 3.2.1:** *Activity meets the target surplus criterion once the degree of implementation of that mitigation action specified in the NDC for the time frame in question has been exceeded*[7]. This option may be particularly suitable for NDC targets that have yearly or several interim goals.
    a. If outcome is positive: Proceed to analysis of financial additionality (Step 4). The host country can be informed of the positive outcome of the assessment when requesting activity approval.
    b. If outcome is negative: Target surplus is unlikely, consequences will be decided upon in II-AMT development phase. Currently proposed consequence by the experts is that this needs to be flagged in activity documentation and in communication to the host country when requesting approval of the activity or authorisation of transfer of credits. Reasoning: it is the host country's prerogative to make the final decision on target surplus. Proceed to analysis of financial additionality (Step 4).
    c. If outcome unclear: continue to option 3.2.2.
2. **Option 3.2.2:** *Activity meets the target surplus criterion if it the mitigation is beyond the mitigation trajectory of implementation needed for the NDC target*[8].
    a. If outcome is positive: Proceed to analysis of financial additionality (Step 4). The host country can be informed of the positive outcome of the assessment when requesting activity approval.
    b. If outcome is negative: Target surplus is unlikely, consequences will be decided upon in II-AMT development phase. Currently proposed consequence by the experts is that this needs to be flagged in activity documentation and in communication to the host country when requesting approval of the activity or authorisation of transfer of credits. Reasoning: it is the host country's prerogative to make the final decision on target surplus. Proceed to analysis of financial additionality (Step 4).
    c. If outcome unclear: continue to option 3.2.3.
3. **Option 3.2.3:** *Marginal costs related target surplus*: less expensive mitigation options could be reserved for the NDC first and only used under Article 6 when NDC targets have been achieved. The test for this could be to use a cost threshold[9], ideally derived from NDC financing strategies and related abatement costing exercises. If the abatement cost of the mitigation activity exceeds this threshold, target surplus is proven.
    a. If outcome is positive: Proceed to analysis of financial additionality (Step 4). The host country can be informed of the positive outcome of the assessment when requesting activity approval.
    b. If outcome is negative: Target surplus is unlikely, consequences will be decided upon in II-AMT development phase. Currently proposed consequence by the experts is that this needs to be flagged in activity documentation and in communication to the host country when requesting approval of the activity or authorisation of transfer of credits. Reasoning: it is the host country's prerogative to make the final decision on target surplus. Proceed to analysis of financial additionality (Step 4).
    c. Undetermined result: Continue to sub-step 3.3.

iii. **Sub-step 3.3:** Assessment of whether the mitigation mobilised by the activity is greater than the ambition benchmark derived from the (unconditional) NDC target ambition level[10].
1. Only to be applied if Sub-step 3.1 and 3.2 are not applicable and/or conclusive.
2. Guidance for setting the ambition benchmark to be developed in phase 2.
    a. If outcome is positive: Proceed to analysis of financial additionality (Step 4). The host country can be informed of the positive outcome of the assessment when requesting activity approval.
    b. If outcome is negative: Target surplus is unlikely, consequences will be decided upon in II-AMT development phase. Currently proposed consequence by the experts is that this needs to be

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7 Example: NDC includes wind power target of 100 MW by 2030; wind power will be target additional only after 100MW have been installed in the host country.

8 The calculation could be done as follows: assess the remaining years of the NDC period after the activity start date (e.g., 5 years); Calculate the annual increment of activities needed for these remaining years (e.g., X/5); Check whether the proposed activity exceeds this increment (e.g., it provides X/4); The excess of the increment would be target additional.

9 Experts will discuss in the development phase how such a threshold can be defined.

10 Simple example: if NDC target at national or sectoral level mandates emission reductions by 20% compared to reference level, the activity must achieve more than 20% emission reduction compared to its baseline.

flagged in activity documentation and in communication to the host country when requesting approval of the activity or authorisation of transfer of credits. Reasoning: it is the host country's prerogative to make the final decision on target surplus.

22. **Step 4- MANDATORY: Evaluation of inherent financial additionality risks of the specific activity type**

   a. This is a pre-step for the determination of financial additionality to ensure realistic assumptions are provided by the activity proponent in comparison to the risk scenario described.
   b. Applicable geographical area: Country
   c. List and characterisation of the inherent additionality risks related to this specific activity type (e.g., evidence of potential profitability, ample experience, availability of subsidies, availability of competitive financing sources, etc.).
      i. Includes analysis of whether the only source of revenue or savings of the activity is the revenue from the sale of mitigation outcomes. Activity types that feature such characteristics in all possible contexts shall be deemed to have a "low" inherent additionality risk.
   d. List and characterisation of risks to the activity type implementation (e.g., long payback periods, technical barriers, lack of financing sources, lack of access to financing, lack of human capacity).
   e. Conclusions on:
      i. the consolidated inherent additionality risk (high, medium, low);
      ii. the consolidated implementation risk (high, medium, low)
   f. If consolidated inherent additionality risk is deemed
      i. Low: Activities are eligible for a global positive list [of low risk to financial additionality] and do not have to go through Step 5.
      ii. Medium: Step 5 (investment analysis) is mandatory.
      iii. High: Step 5 (investment analysis) is mandatory. In addition, the activity proponent must justify how the specific activity differs from the norm of the activity type and submit supporting evidence.
   g. If consolidated implementation risk is deemed
      i. Low: Technical barriers are not included in the investment analysis and not considered further.
      ii. Medium: Technical barriers to implementation must be incorporated in the investment analysis and impacts on the investment decision explained in Step 5[11].
      iii. High: Technical barriers to implementation must be incorporated in the investment analysis. A risk-adjustment for the discount rate used may be applied in accordance with further rules of the Supervisory Body of the Article 6.4 mechanism (A6.4SB)[12].

23. **Step 5: Determination of financial additionality of the activity through investment analysis (MANDATORY step if risk to financial additionality is medium or high):**

   a. Investment analysis of the activity to determine that it is not financially feasible without the expected revenues from the sale of the certified mitigation outcomes *internationally*.
      i. This analysis requires identification of what is a financially feasible and realistic alternative(s) to the activity in similar social, economic, and regional contexts[13]. This will provide the point of comparison for the analysis to identify the value of the economic assessment parameter (e.g., internal rate of return, payback period)

[11] In the II-AMT development phase, the experts will discuss if special circumstances of LDCs and SIDS may be recognised in this step and for mitigation activities located in LDCs, barriers to implementation may be considered as a complement to the investment analysis, while for other countries they must be incorporated in the investment analysis as explained in Step 5.

[12] In the absence of such a decision, programme developers must refer to the latest version of the "guidelines on the assessment of investment analysis" approved by the CDM EB in in its most recent version and in particular the default values for the expected return on equity listed therein.

[13] In the development phase, experts will discuss how to define the applicable geographic context. Wherever possible, the relevant geographical context is the country, since mitigation activities will now always be "in competition" for carbon finance with other mitigation in the same country, wholly and exclusively. Urban/rural context differences may be relevant to be accounted for in many activity types if the same technology is applied in rural and urban contexts. Supranational contexts (e.g., global) could be relevant for highly integrated industry sectors (but cost of capital may still be dependent on country context). The experts will discuss options to standardise the identification of similar social, economic, and regional contexts at country and sector level.

at which an activity would *not* be deemed economically / financially feasible, considering all revenues and savings generated by the activity[14].

ii. This analysis needs to include all revenues and savings generated for the activity, including any incentives related to policy instruments, such as all kinds of subsidies (e.g., grants, reverse auctions, contracts for difference etc.), avoided carbon taxes, financial impacts of emissions trading schemes, etc.

iii. The analysis needs to include any identified medium and high risks to implementation. These risks generated by technical barriers need to be expressed in monetary terms, e.g., in changes in cash flow due to slower activity implementation, lower load factors etc. If this is not possible, then the risk cannot be considered, which leads to conservative outcomes.

b. Conclusions on degree of confidence on financial additionality:

i. Additionality cannot be proven if the activity is like to be attractive without the revenues from credit sales[15].

ii. If the activity type is only marginally unattractive [e.g., threshold of relevant economic parameter variation, such as IRR or payback period +/- 10%], the crediting period must be restricted as detailed paragraph 31.

iii. The activity is financially additional, if the investment analysis concludes to a medium to high degree of confidence that the activity would not be attractive without the revenues from credit sales.

Guidance for the Development of Positive and Host Country Approval Lists

24. In the following, positive lists are defined as lists of technologies and activity types that allow programme developers to automatically pass certain elements of the stepwise procedure of determining additionality, with the aim of simplifying the process and reducing transaction costs. In the context of the II-AMT, positive lists for additionality must meet minimum quality criteria including third party validation and regular updates before they can be used to substitute Step 5 of the above proposed stepwise procedure (financial additionality). These minimum criteria are included below. Positive lists may be developed and/or approved by the Article 6.4 Supervisory Body (for use in the Article 6.4 mechanism or in cooperative approaches), other independent standards as well as parties to the Paris Agreement (for use in cooperative approaches).

25. In addition, the II-AMT recognises that parties to the Paris Agreement may develop lists to communicate which activity types they consider going beyond their NDC efforts. In the following, these lists are called "host country approval lists". These lists can be used by programme developers in the context of Step 3 (target surplus assessment), if they meet the minimum quality criteria outlined below. In some cases, they can substitute regulatory additionality (Step 2) as well.

GUIDANCE ON HOST COUNTRY APPROVAL LISTS

26. Guidance for host countries to develop host country approval lists that can be used in option Sub-step 3.1 will be developed in the development phase of the II-AMT, including on:

a. Process of developing and accepting a host country approval list

i. Based on existing policies/regulation and NDC implementation plan

ii. Based on trajectories

iii. Based on marginal abatement costs

b. The role of expert and public inputs, the role of independent assessment

c. Guidance on regular updates of host country approval lists

[14] In the development phase, experts will assess who to define "realistic" alternative scenarios. Definitions of alternative scenarios may be linked to the concept of best available technologies and techniques.

[15] In the development phase of the II-AMT, the experts will discuss whether barrier analysis exemptions may be applicable for activities located in LDCs. If an activity is in an LDC and implementation risk is medium or high, if the identified implementation non-monetary barrier is overcome by the fact that the project is framed as an Article 6 activity and receives carbon revenues, it may be deemed additional. Specific barriers would be defined in this context.

GUIDANCE FOR THE DEVELOPMENT OF POSITIVE LISTS FOR FINANCIAL ADDITIONALITY

27. Activity types that under all contexts can show that their net present value of costs significantly, i.e., by at least 25%, exceeds revenues and savings without carbon finance are eligible to be put on a global positive list of "low risks to financial additionality".

28. Activity types that under the national context can show their costs exceed revenues and savings are eligible to be put on a national positive list. Thresholds will be developed in the development phase of the II-AMT.

29. In the development phase, further guidance for positive lists to meet the minimum criteria to be used in the context of this II-AMT TOOL01 will be elaborated on:
    a. Technology-based positive lists, sector and sub-sector based positive lists (including consideration of penetration rates)
    b. Process of developing and accepting a positive list at national and international level
    c. The role of expert and public inputs
    d. The role of independent assessment and validation
    e. Guidance on regular updates of positive lists
    f. International vs. regional and vs. national positive lists and factors for disaggregation

Guidance for Crediting Period and Length and Approval

30. In the development phase, guidance will be elaborated based on an analysis of the relationship between technology lifetime and type and timing of investment decisions (e.g., for once-off investments versus replacement and renewed investment decisions into the same activity).
    a. When the investment decision is either one-off (e.g., building power plant) or replacement and/or renewed investments are undertaken (e.g., investing in clean cookstoves, re-investing for replacement or expansion of programme)
    b. When the lifetime of the technology is longer than crediting period
    c. When the lifetime of technology is shorter than crediting period

EX-ANTE DETERMINATION OF CREDIT PERIOD LENGTH

31. In the development phase, guidance for determining and restricting crediting period length for activities other than removals will be elaborated. The underlying assumption is, in line with the RMPs of the A6.4M, that the crediting period length is fixed at either a maximum five years renewable twice or at ten years non-renewable.
    a. If activity is marginally unattractive: restriction of crediting period depending on payback period of the project investment (if investment decision is one-off) or depending on lifetime of technology (if the activity requires replacement and additional investments).
    b. In case of replacement and or additional investments and a technology with lifetime of less than five years (e.g., 3 years), the initial crediting period should be a maximum of five years renewable (10 years non-renewable should not be accepted). Host country can determine shorter crediting period in their approval.

STEPWISE APPROACH FOR CONSIDERATION OF ADDITIONALITY FOR CREDITING PERIOD RENEWAL

32. **Step 1 - MANDATORY: Assessment of regulatory additionality**

33. **Step 2: Evaluation of target surplus**
    a. Mandatory only if NDC update/ new NDC implementation period occurred since start of project.

34. **Step 3: Assessment of financial additionality for replacement and/or new investments into the activity**
    a. Whether this step is mandatory depends on the interrelationship of technology lifetime and investment decision:
        i. In case no investment analysis was required due to low financial risk a re-assessment of financial risk is required. If risk now deemed medium-high for activity type, investment analysis is now required.
        ii. In case of a one-off investment decision in a technology with a lifetime that is longer than the crediting period, re-assessment of financial additionality is not required if this was done for the first crediting period.
        iii. In case of replacement investments in a technology with a lifetime shorter than the crediting period or additional investments to scale up the activity, the project is required to undertake an investment analysis for the renewal.

References

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UNFCCC (2021a): Decision 2/CMA.3. Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf#page=11 (accessed on 31 March 2022)

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