

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE
ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL - Version 1.0

SECTORAL SCOPE 17

“Developed from the UNFCCC methodological conception”.



April 2020

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

1. SCOPE, APPLICABILITY AND ENTRY INTO FORCE

Scope

- 1 This tool provides a general framework and the path that allows to identify the baseline scenario simultaneously demonstrating the additionality of COVID19-ZERO2NATURE-PREBIO project activities.
- 2 The application of this tool allows baseline scenario clear identification, enabling the conservative establishment of net negative emissions removals baseline scenario for COVID19-ZERO2NATURE-PREBIO project activities.
- 3 Project participants who choose to propose new baseline methodologies may incorporate this tool to the proposal. Moreover, project participants may also propose other approaches for baseline scenario and demonstration of additionality identification for the evaluation of the ZERO2NATURE Technical Committee.
- 4 In validating the application of this tool, the Designated Environmental Certifier–DEC shall assess and verify the reliability and credibility of all data, rationales, assumptions, justifications and documentation provided by project participants to support the selection of the baseline and demonstration of additionality. The elements checked during this assessment and the according conclusions shall be documented transparently in the validation report.

Applicability

- 5 This tool is applicable under the specifics of the COVID19-ZERO2NATURE-PREBIO proposed project activity, as long as no law has been infringed.

Entry into force

- 6 The date of entry into force of this tool is May 8, 2020.

PROCEDURE

- 7 Project participants shall apply the following steps:

Step I. Preliminary screening based on the beginning of the activities that culminated in COVID19-ZERO2NATURE-PREBIO proposed project activity, showing that the sale of COVID19-PREBIO-DTUs was of fundamental importance in the realization and implementation of the project;

SHA3-384

12eeb82b3587fa0c3c4955177be0e8243423ac7ba87839d4d5d958a8fb3ca1f1c7c09131b83cc5c3e868309852614120

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

Step 2. Identification of alternative scenarios to that which should occur with COVID19-ZERO2NATURE-PREBIO proposed project activity in a detailed and credible way, with presentation of objective evidence;

Step 3. Barrier analysis;

- Investment barriers, inter alia:

- Similar activities have only been implemented with grants or other non-commercial finance terms. In this context similar activities are defined as activities of a similar scale that take place in a comparable environment with respect to regulatory framework and are undertaken in the relevant geographical area;

- Much less private capital is available from domestic or international capital markets due to real or perceived risks associated with investments in the country where proposed COVID19-ZERO2NATURE-PREBIO project activity is to be implemented, as a consequence of the pandemic magnitude;

- There is not enough debt funding available for the fight against COVID19;

- Lack of access to credit.

- Institutional barriers, inter alia:

- Risk related to changes in government policies or laws;

- Lack of efficacy in the enforcement of the law related to the different stages of confinement.

- Technological barriers, inter alia:

- Lack of access to necessary materials, for example personal protective equipment;

- Lack of infrastructure for implementation of better technology.

- Barriers related to local tradition, inter alia:

- Traditional knowledge or lack thereof, laws and customs, market conditions and practices;

- Traditional equipment and technology.

- Barriers due to prevailing practice, inter alia:

- The proposed project activities are pioneer. No activity of this type is currently operational in the host country or region.

- Barriers due to local conditions, inter alia:

- Degraded health system;

- Catastrophic natural and/or human-induced events;

SHA3-384

12eeb82b3587fa0c3c4955177be0e8243423ac7ba87839d4d5d958a8fb3ca1f1c7c09131b83cc5c3e868309852614120

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

- Unfavourable environmental conditions;
- Pervasive opportunistic species;
- Unfavourable course of ecological succession;
- Barriers due to social conditions, inter alia:
- Demographic pressure on treatment;
- Social conflict among interest groups in the region where the project takes place;
- Widespread illegal practices;
- Lack of skilled and/or properly trained labour force;
- Lack of organisation of local communities.
- Barriers relating to rights, inter alia:
- Possibilities of large price risk due to the fluctuations in the prices of products over the project period in the absence of efficient markets and insurance mechanisms;
- Barriers relating to markets, transport and storage;
- Unregulated and informal markets for products and services prevent the transmission of effective information to project participants;
- Remoteness of project activity area and undeveloped road and infrastructure incur large transportation expenditures;
- Possibilities of large price risk due to the fluctuations in the prices products over the project period in the absence of efficient markets and insurance mechanisms;

Anecdotal evidence can be included, but this alone is not sufficient proof of barriers. The type of evidence to be provided may include:

- Relevant legislation, regulatory information or environmental/natural resource management norms, acts or rules;
- Relevant (sectoral) studies or surveys (e.g. market surveys, technology studies, etc) undertaken by universities, research institutions, associations, companies, bilateral/multilateral institutions, etc;
- Relevant statistical data from national or international statistics;
- Documentation of relevant market data (e.g. market prices, tariffs, rules);
- Written documentation from the company or institution developing or implementing the COVID19-ZERO2NATURE-PREBIO project activity, such as minutes from meetings, correspondence, feasibility studies, financial or budgetary information, etc;

SHA3-384

12eeb82b3587fa0c3c4955177be0e8243423ac7ba87839d4d5d958a8fb3ca1f1c7c09131b83cc5c3e868309852614120

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

- Documents prepared by the project developer, contractors or project partners in the context of the proposed project activity or similar previous project implementations;
- Written documentation of independent expert judgements from medical/health science areas related Government/Non-Government bodies or individual experts, educational institutions (e.g. universities, technical schools, training centers), professional associations and others.

Finalized the barrier analysis, follows the application of the decision tree below:

Is the fight against COVID19 not-registered as a COVID19-ZERO2NATURE-PREBIO project activity included in the list of COVID19 fighting scenarios that are not impeded by any barriers?

→ **If yes, then:**

Does the list contain only one “fighting front” scenario?

→ If yes, then the proposed COVID19-ZERO2NATURE-PREBIO project activity is not additional.

→ If no, then continue with Step 4: Investment analysis.

Step 4. Investment Analysis (if necessary)

Determine whether to apply simple cost analysis, investment comparison analysis or benchmark analysis. If the proposed COVID19-ZERO2NATURE-PREBIO project activity generates no financial or economic benefits other than COVID19-PREBIO-DTUs related income, then apply the simple cost analysis (Option I). Otherwise, use the investment comparison analysis (Option II) or the benchmark analysis (Option III). Note, that Options I, II and III are mutually exclusive hence, only one of them can be applied.

Option I. Apply simple cost analysis

(a). Document the costs associated with COVID19-ZERO2NATURE-PREBIO project activity and demonstrate that the activity generates no financial benefits other than COVID19-PREBIO-DTUs related income.

(b). Document the incomes and costs associated with each of the “fighting front” scenarios that are not prevented by any barrier.

→ If at least one “fighting front” scenario that is not prevented by any barrier generates financial benefits then select as the baseline the "fighting front" scenario that allows for the highest difference between incomes and costs over the crediting period. Proceed to **Sensitivity analysis**.

→ Otherwise, select as the baseline the "fighting front" scenario that allows for the highest baseline negative emissions removals by sinks. If the baseline is the proposed COVID19-ZERO2NATURE-PREBIO project activity then it is not additional. Otherwise, proceed to **Common practice test**.

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

Option II. Apply investment comparison analysis

Identify the financial indicator, such as IRR7, NPV, payback period, cost benefit ratio most suitable for the project type and decision-making context.

Option III. Apply benchmark analysis

Identify a suitable financial indicator, such as IRR8, NPV, payback period, cost benefit ratio, or other most suitable for the project type and decision context. Identify the relevant benchmark value, such as the required rate of return (RRR) on equity. The benchmark is to represent standard returns in the market, considering the specific risk of the project type, but not linked to the subjective profitability expectation or risk profile of a particular project developer. Benchmarks can be derived from:

Government bond rates, increased by a suitable risk premium to reflect private investment and/or the project type, as substantiated by an independent (financial) expert;

- Estimates of the cost of financing and required return on capital (e.g. commercial lending rates and guarantees required for the country and the type of project activity concerned), based on bankers views and private equity investors/funds' required return on comparable projects;
- A company internal benchmark (weighted average capital cost of the company) if there is only one potential project developer. The project developers shall demonstrate that this benchmark has been consistently used in the past (i.e. that project activities under similar conditions developed by the same company used the same benchmark).

Calculation and comparison of financial indicators (only applicable to options II and III):

Calculate the suitable financial indicator for the proposed COVID19-ZERO2NATURE-PREBIO project activity without the financial benefits from the COVID19-PREBIO-DTUs and for all the "fighting front" scenarios that are not prevented by any barrier. Include all relevant costs (including, for example, the investment cost, the operations and maintenance costs), and revenues (excluding COVID19-PREBIO-DTUs revenues, but including subsidies/fiscal incentives where applicable), and, as appropriate, non-market cost and benefits, in the case of public investors.

Present the investment analysis in a transparent manner and provide all the relevant assumptions in the PDD-COVID19-PREBIO, so that a reader can reproduce the analysis and obtain the same results. Clearly present critical economic parameters and assumptions (such as capital costs, lifetimes, and discount rate or cost of capital). Justify and/or cite assumptions in a manner that can be validated by the Designated Environmental Certifier. In calculating the financial indicator, the project's risks can be included through the cash flow pattern, subject to project-specific expectations and assumptions (e.g. insurance premiums can be used in the calculation to reflect specific risk equivalents).

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

Assumptions and input data for the investment analysis shall not differ across the project activity and its alternatives, unless differences can be well substantiated.

If Option II (investment comparison analysis) is used then apply the following decision tree:

Is the fight against COVID19 without being registered as a COVID19-ZERO2NATURE-PREBIO project activity included in the list of “fighting front” scenarios that are not prevented by any barrier?

→ If yes, then:

Has the proposed COVID19-ZERO2NATURE-PREBIO project activity a less favourable financial indicator than at least one “fighting front” scenario that is not prevented by any barrier?

→ If yes, then select as the baseline scenario the “fighting front” scenario that allows for the highest value of the financial indicator. Proceed to **Sensitivity analysis**.

→ If no, then the proposed COVID19-ZERO2NATURE-PREBIO project activity is not additional.

If Option III (benchmark analysis) is used then apply the following decision tree:

Is the fight against COVID19 without being registered as a COVID19-ZERO2NATURE-PREBIO project activity included in the list of “fighting front” scenarios that are not prevented by any barrier?

→ If yes, then:

Has the proposed COVID19-ZERO2NATURE-PREBIO project activity a financial indicator that does not meet the benchmark and at least one of the “fighting front” scenarios that are not prevented by any barrier has a financial indicator that meets the benchmark?

→ If yes, then select as the baseline scenario the “fighting front” scenario that meets the benchmark and allows for the most favourable financial indicator (such as IRR, NPV, cost benefit ratio). Proceed to **Sensitivity analysis**.

→ If no, then

→ If the financial indicator of the proposed COVID19-ZERO2NATURE-PREBIO project activity meets the benchmark, then the proposed COVID19-ZERO2NATURE-PREBIO project activity is not additional.

→ If the financial indicators of neither the proposed COVID19-ZERO2NATURE-PREBIO project activity nor any of the alternatives meets the benchmark then the baseline scenario is the continuation of the pre-project reality.

→ If no, then:

Has at least one of the “fighting front” scenarios that are not prevented by any barrier the financial

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version I.0 – Sectoral Scope - I7

indicator that meets the benchmark?

→ If yes, then select as the baseline scenario the “fighting front” scenario that has the most favourable financial indicator (such as IRR, NPV, cost benefit ratio). Proceed to **Sensitivity analysis**.

→ If no, then the baseline scenario is the continuation of the pre-project reality.

Sensitivity analysis (for Option II and III)

Include a sensitivity analysis to assess whether the initial conclusion regarding the financial attractiveness of the baseline scenario is robust to reasonable variations in the critical assumptions. The investment analysis only provides a valid argument in identifying the baseline scenario and demonstrating additionality if it consistently supports (for a realistic range of assumptions) the initial conclusion of the analysis.

5. Business as usual analysis:

The previous steps shall be complemented with an analysis of the extent to which the fight against COVID19 has already diffused in the geographical area of the proposed COVID19-ZERO2NATURE-PREBIO project activity. This test is a credibility check to demonstrate additionality which complements the barrier analysis and, where applicable, the investment analysis.

Provide an analysis to which extent similar activities to the one proposed as the COVID19-ZERO2NATURE-PREBIO project activity have been implemented previously or are currently underway. Similar activities are defined as that which are of similar scale, take place in a comparable environment, inter alia, with respect to the regulatory framework and are undertaken in the same geographical area, subject to further guidance by the underlying methodology. Other registered COVID19-ZERO2NATURE-PREBIO project activities shall not to be included in this analysis. Provide documented evidence and, where relevant, quantitative information. Limit your considerations to any period since 31 December 2001.

If activities similar to the proposed COVID19-ZERO2NATURE-PREBIO project activity are identified, then compare the proposed project activity to the other similar activities and assess whether there are essential distinctions between them. Essential distinctions may include a fundamental and verifiable change in circumstances under which the proposed COVID19-ZERO2NATURE-PREBIO project activity will be implemented when compared to circumstances under which similar activities were carried out. For example, barriers may exist, or promotional policies may have ended. If certain benefits rendered the similar activities financially attractive (e.g., subsidies or other financial flows), explain why the proposed COVID19-ZERO2NATURE-PREBIO project activity cannot use the benefits. If applicable, explain why the similar activities did not face barriers to which the proposed COVID19-ZERO2NATURE-PREBIO project activity is subject.

→ If Step 5 is satisfied, i.e. similar activities can be observed and essential distinctions between the

TOOL TO IDENTIFY THE BASELINE SCENARIO AND TO DEMONSTRATE ADDITIONALITY OF COVID19-ZERO2NATURE-PREBIO PROJECT ACTIVITIES

PROPOSED TOOL

Version 1.0 – Sectoral Scope - I7

proposed COVID19-ZERO2NATURE-PREBIO project activity and similar activities cannot be made, then the proposed COVID19-ZERO2NATURE-PREBIO project activity is not additional. Otherwise, the proposed COVID19-ZERO2NATURE-PREBIO project activity is not the baseline scenario and, hence, it is additional.

Document information		
Version	Date	Description
1.0	May 8, 2020	Tool

