

**TOOL01**

Methodological tool

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Tool for the demonstration and assessment  
of additionality

Version 07.0.0



**United Nations**  
Framework Convention on  
Climate Change

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## 1. Introduction

1. The tool provides a step-wise approach to demonstrate and assess the additionality of a CDM project. These steps are:
  - (a) Step 0 Demonstration whether the proposed project activity is the first-of-its-kind;
  - (b) Step 1 Identification of alternatives to the project activity;
  - (c) Step 2 Investment analysis;
  - (d) Step 3 Barriers analysis; and
  - (e) Step 4 Common practice analysis.

## 2. Scope, applicability, and entry into force

### 2.1. Scope

2. This tool provides for a step-wise approach to demonstrate and assess additionality. These steps include:
  - (a) Demonstration whether the proposed project activity is the first-of-its-kind;
  - (b) Identification of alternatives to the project activity;
  - (c) Investment analysis to determine that the proposed project activity is either: 1) not the most economically or financially attractive, or 2) not economically or financially feasible;
  - (d) Barriers analysis; and
  - (e) Common practice analysis.
3. Based on the information about activities similar to the proposed project activity, the common practice analysis is to complement and reinforce the investment and/or barriers analysis.<sup>1</sup> The steps are summarized in Figure 1.
4. The document provides a general framework for demonstrating and assessing additionality and is applicable to a wide range of project types. Some project types may require adjustments to this general framework.
5. This tool does not replace the need for the baseline methodology to provide a step-wise approach to identify the baseline scenario. Project participants that propose new baseline methodologies shall ensure consistency between the determination of additionality of a project activity and the determination of a baseline scenario. Project participants can also use the “Combined tool to identify the baseline scenario and demonstrate additionality”, which provides a procedure for baseline scenario identification as well as additionality demonstration.

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<sup>1</sup> Project participants can use either investment analysis or barrier analysis step. They may, if they so wish, use both investment and barrier analysis step.

6. In validating the application of this tool, Designated Operation Entities (DOEs) shall carefully assess and verify the reliability and creditability of all data, rationales, assumptions, justifications and documentation provided by project participants to support the demonstration of additionality. The elements checked during this assessment and the conclusions shall be documented transparently in the validation report.
7. Project activities with a start date before the date of validation shall specifically take into account the guidance provided in Chapter B “Specific guidelines for completing the Project Design Document (CDM-PDD)” section B, sub-section B-5. The “start date of a project activity” is as defined in paragraph 76 of thirty-third report of the Board.<sup>2</sup>
8. Project activities that apply this tool in context of approved consolidated methodology ACM0002, only need to identify that there is at least one credible and feasible alternative that would be more attractive than the proposed project activity.

## 2.2. Applicability

9. The use of the “Tool for the demonstration and assessment of additionality” is not mandatory for project participants when proposing new methodologies. Project participants may propose alternative methods to demonstrate additionality for consideration by the Executive Board. They may also submit revisions to approved methodologies using the additionality tool.
10. Once the additionally tool is included in an approved methodology, its application by project participants using this methodology is mandatory.

## 2.3. Entry into force

11. Immediately upon adoption of the tool at the seventieth meeting of the Board (23 November 2012).

## 3. Definitions

12. The definitions contained in the “Glossary of CDM terms” shall apply.
13. For the purpose of this tool, the following definitions apply:
  - (a) **Applicable geographical area** should be the entire host country. If the project participants opt to limit the applicable geographical area to a specific geographical area (such as province, region, etc.) within the host country, then they shall provide justification on the essential distinction between the identified specific geographical area and the rest of the host country.
  - (b) **Measure**<sup>3</sup> (for emission reduction activities) is a broad class of greenhouse gas emission reduction activities possessing common features. Four types of measures are currently covered in the framework:

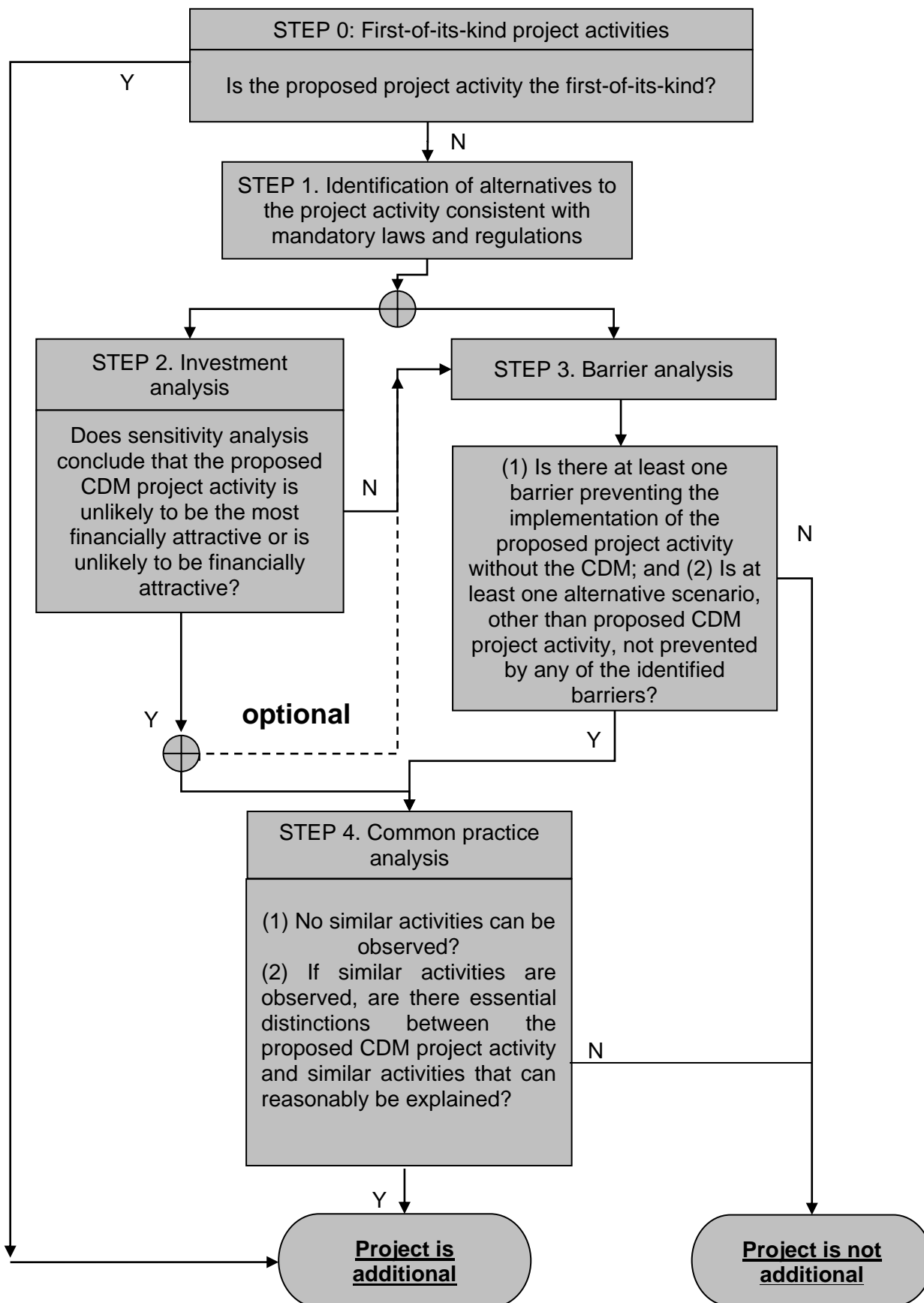
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<sup>2</sup> The Board agreed to clarify that the primary purpose of defining the start date of a project activity is to ensure that project activities submitted for registration comply with the requirements of paragraph 13 of Decision 17/CP.7. In this context, it has always been the Board’s view that the start date of a CDM project activity is the earliest of the dates at which the implementation or construction or real action of the project activity begins.

<sup>3</sup> Identified measures do not cover industrial gases, transport and afforestation/reforestation projects.

- (i) Fuel and feedstock switch (example: switch from naphtha to natural gas for energy generation, or switch from limestone to gypsum in cement clinker production);
  - (ii) Switch of technology with or without change of energy source including energy efficiency improvement as well as use of renewable energies (example: energy efficiency improvements, power generation based on renewable energy);
  - (iii) Methane destruction (example: landfill gas flaring);
  - (iv) Methane formation avoidance (example: use of biomass that would have been left to decay in a solid waste disposal site resulting in the formation and emission of methane, for energy generation).
- (c) **Output** is good/services produced by the project activity including, among other things, heat steam, electricity, methane, and biogas unless otherwise specified in the applied methodology.

**Figure 1** Flowchart of the step-wise approach



## 4. Methodology procedure

### 4.1. Step 0: Demonstration whether the proposed project activity is the first-of-its-kind

14. This step is optional. If it is not applied it shall be considered that the proposed project activity is not the first-of-its-kind.
15. This step serves for the demonstration of additionality by means of the first-of-its-kind.
16. If the proposed CDM project activity(ies) apply measure(s) that are listed in the definitions section above, the latest version of the “Guidelines on additionality of first-of-its-kind project activities” available on the UNFCCC website shall be applied to demonstrate that the project activity is the first-of-its-kind.
17. If the proposed CDM project activity(ies) apply other measure(s) than those identified in the definitions section above, the project proponents shall propose approach for demonstrating that a project is a “first-of-its-kind”.
18. **Outcome of Step 0:** If the proposed project is the first-of-its-kind, its additionality is demonstrated; otherwise, proceed to Step 1.

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

19. Define realistic and credible alternatives<sup>4</sup> to the project activity(s) through the following Sub-steps:

#### 4.2.1. Sub-step 1a: Define alternatives to the project activity

20. Identify realistic and credible alternative(s) available to the project participants or similar project developers<sup>5</sup> that provide outputs or services comparable with the proposed CDM project activity.<sup>6</sup> These alternatives are to include:

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<sup>4</sup> Reference to “alternatives” throughout this document denotes “alternative scenarios”.

<sup>5</sup> For example, a coal-fired power station or hydropower may not be an alternative for an independent power producer investing in wind energy or for a sugar factory owner investing in a co-generation, but may be an alternative for a public utility. Alternatives are, therefore, related to technology and circumstances as well as to the investor.

<sup>6</sup> For example:

- In the case of a project reducing emissions in the aluminum or cement production, the output provided by the alternative scenarios should be the production of the same quality of aluminum or the production of a cement type that can be used in the same applications as the cement type produced by the project activity;
- In the case of a project improving the energy efficiency of motors in a facility, the service provided is mechanical energy. Different scenarios to produce the same quantity of mechanical energy should be considered;
- In the case of a landfill gas capture project, the service provided by the project includes operation of a landfill. Alternatives scenarios to the project could include different ways to operate the landfill, such as no capture of methane, capture and flaring of the methane or capture and combustion of the methane for energy generation.

- (a) The proposed project activity undertaken without being registered as a CDM project activity;
  - (b) Other realistic and credible alternative scenario(s) to the proposed CDM project activity scenario that deliver outputs services (e.g. cement) or services (e.g. electricity, heat) with comparable quality, properties and application areas, taking into account, where relevant, examples of scenarios identified in the underlying methodology;
  - (c) If applicable, continuation of the current situation (no project activity or other alternatives undertaken).
21. If the proposed CDM project activity includes several different facilities, technologies, outputs or services, alternative scenarios for each of them should be identified separately. Realistic combinations of these should be considered as possible alternative scenarios to the proposed project activity.<sup>7</sup>
22. For the purpose of identifying relevant alternative scenarios, the project participant should include the technologies or practices that provide outputs (e.g. cement) or services (e.g. electricity, heat) with comparable quality, properties and application areas as the proposed CDM project activity and that have been implemented previously or are currently being introduced in the relevant country/region.
23. **Outcome of Step 1a:** Identified realistic and credible alternative scenario(s) to the project activity

#### 4.2.2. Sub-step 1b: Consistency with mandatory laws and regulations

24. 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. (This sub-step does not consider national and local policies that do not have legally-binding status.)
25. If an alternative does not comply with all mandatory applicable legislation and regulations, then show that, based on an examination of current practice in the country or region in which the law or regulation applies, those applicable legal or regulatory requirements are systematically not enforced and that noncompliance with those requirements is widespread in the country. If this cannot be shown, then eliminate the alternative from further consideration.
26. 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 CDM project activity is not additional.
27. **Outcome of Step 1b:** Identified realistic and credible alternative scenario(s) to the project activity that are in compliance with mandatory legislation and regulations taking

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<sup>7</sup> For example:

- In case of a cogeneration project activity, alternative scenarios for heat and electricity generation should be established separately;
- In case of a project that improves energy efficiency in several boilers with rather different characteristics (e.g. size, technology, age, etc.), alternative scenarios should be established for each boiler or for types of boilers with broadly similar characteristics.



into account the enforcement in the region or country and EB decisions on national and/or sectoral policies and regulations.

28. “Proceed to Step 2 (Investment analysis) or Step 3 (Barrier analysis). (Project participants may also select to complete both Steps 2 and 3)”

#### **4.3. Step 2: Investment analysis**

29. 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 certified emission reductions (CERs).
30. Please note that the latest version of the “Guidelines on the assessment of investment analysis”, available on the UNFCCC website, shall be taken into account when applying this step.
31. To conduct the investment analysis, use the following sub-steps:

##### **4.3.1. Sub-step 2a: Determine appropriate analysis method**

32. Determine whether to apply simple cost analysis, investment comparison analysis or benchmark analysis (Sub-step 2b). If the CDM project activity and the alternatives identified in Step 1 generate no financial or economic benefits other than CDM related income, then apply the simple cost analysis (Option I). Otherwise, use the investment comparison analysis (Option II) or the benchmark analysis (Option III).

##### **4.3.2. Sub-step 2b: Option I. Apply simple cost analysis**

33. Document the costs associated with the CDM 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.
34. “If it is concluded that the proposed CDM project activity is more costly than at least one alternative then proceed to Step 4 (Common practice analysis)”.

##### **4.3.3. Sub-step 2b: Option II. Apply investment comparison analysis**

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

##### **4.3.4. Sub-step 2b: Option III. Apply benchmark analysis**

36. Identify the financial/economic indicator, such as IRR, most suitable for the project type and decision context.
37. When applying Option II or Option III, the financial/economic analysis shall be based on parameters that are standard in the market, considering the specific characteristics of the project type, but not linked to the subjective profitability expectation or risk profile of a particular project developer. Only in the particular case where the project activity can be

implemented by the project participant, the specific financial/economic situation of the company undertaking the project activity can be considered.<sup>8</sup>

38. Discount rates and benchmarks shall be derived from:
- (a) 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 or documented by official publicly available financial data;
  - (b) 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;
  - (c) A company internal benchmark (weighted average capital cost of the company), only in the particular case referred to above in paragraph 5. 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;
  - (d) Government/official approved benchmark where such benchmarks are used for investment decisions;
  - (e) Any other indicators, if the project participants can demonstrate that the above Options are not applicable and their indicator is appropriately justified.

**4.3.5. Sub-step 2c: Calculation and comparison of financial indicators (only applicable to Options II and III):**

39. Calculate the suitable financial indicator for the proposed CDM project activity and, in the case of Option II above, for the other alternatives. Include all relevant costs (including, for example, the investment cost, the operations and maintenance costs), and revenues (excluding CER revenues, but possibly including inter alia subsidies/fiscal incentives,<sup>9</sup> ODA, etc., where applicable), and, as appropriate, non-market cost and benefits in the case of public investors if this is standard practice for the selection of public investments in the host country.
40. Present the investment analysis in a transparent manner and provide all the relevant assumptions, preferably in the CDM-PDD, or in separate annexes to the CDM-PDD, so that a reader can reproduce the analysis and obtain the same results. Refer to all critical techno-economic parameters and assumptions (such as capital costs, fuel prices, lifetimes, and discount rate or cost of capital). Justify and/or cite assumptions in a manner that can be validated by the DOE. In calculating the financial/economic 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).

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<sup>8</sup> For example, when the project activity upgrades an existing process or uses a resource (i.e. some waste) available on the project site and that is not traded.

<sup>9</sup> See EB guidance on the consideration of national/local/sectoral policies and measures for the baseline setting.

41. Assumptions and input data for the investment analysis shall not differ across the project activity and its alternatives, unless differences can be well substantiated.
42. Present in the CDM-PDD submitted for validation a clear comparison of the financial indicator for the proposed CDM activity and:
  - (a) The alternatives, if Option II (investment comparison analysis) is used. If one of the other alternatives has the best indicator (e.g. highest IRR), then the CDM project activity cannot be considered as the most financially attractive;
  - (b) The financial benchmark, if Option III (benchmark analysis) is used. If the CDM project activity has a less favourable indicator (e.g. lower IRR) than the benchmark, then the CDM project activity cannot be considered as financially attractive.

#### **4.3.6. Sub-step 2d: Sensitivity analysis (only applicable to Options II and III)**

43. Include a sensitivity analysis that 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 (as per Step 2c) or is unlikely to be financially/economically attractive (as per Step 2c).
44. **Outcome of Step 2:** If after the sensitivity analysis it is concluded that: (1) the proposed CDM project activity is unlikely to be the most financially/economically attractive (as per Step 2c) or is unlikely to be financially/economically attractive (as per Step 2c), then proceed to Step 4 (Common practice analysis).<sup>10</sup>
45. 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.

#### **4.4. Step 3: Barrier analysis**

46. This step serves to identify barriers and to assess which alternatives are prevented by these barriers. Please note that the latest approved version of the "Guidelines for objective demonstration and assessment of barriers", available on the UNFCCC website, shall be taken into account when applying this step.
47. 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.
48. The identified barriers are only sufficient grounds for demonstration of additionality if they would prevent potential project proponents from carrying out the proposed project activity undertaken without being registered as a CDM project activity.

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<sup>10</sup> If the project participants so wish, they may apply the Step 3 (Barrier analysis) as well.

49. If the CDM does not alleviate the identified barriers that prevent the proposed project activity from occurring, then the project activity is not additional.

50. Use the following sub-steps:

**4.4.1. Sub-step 3a: Identify barriers that would prevent the implementation of the proposed CDM project activity**

51. Establish that there are realistic and credible barriers that would prevent the implementation of the proposed project activity from being carried out if the project activity was not registered as a CDM activity. Such realistic and credible barriers may include, among others:

(a) Investment barriers, other than the economic/financial barriers in Step 2 above, inter alia:

(i) For alternatives undertaken and operated by private entities: Similar activities have only been implemented with grants or other non-commercial finance terms. Similar activities are defined as activities that rely on a broadly similar technology or practices, are of a similar scale, take place in a comparable environment with respect to regulatory framework and are undertaken in the relevant country/region;

(ii) No private capital is available from domestic or international capital markets due to real or perceived risks associated with investment in the country where the proposed CDM project activity is to be implemented, as demonstrated by the credit rating of the country or other country investments reports of reputed origin.

(b) Technological barriers, inter alia:

(i) Skilled and/or properly trained labour to operate and maintain the technology is not available in the relevant country/region, which leads to an unacceptably high risk of equipment disrepair and malfunctioning or other underperformance;

(ii) Lack of infrastructure for implementation and logistics for maintenance of the technology (e.g. natural gas cannot be used because of the lack of a gas transmission and distribution network);

(iii) Risk of technological failure: the process/technology failure risk in the local circumstances is significantly greater than for other technologies that provide services or outputs comparable to those of the proposed CDM project activity, as demonstrated by relevant scientific literature or technology manufacturer information;

(iv) The particular technology used in the proposed project activity is not available in the relevant region;

(c) Other barriers, preferably specified in the underlying methodology as examples.

52. **Outcome of Step 3a:** Identified barriers that may prevent one or more alternative scenarios to occur or conclusion that the project is additional.

**4.4.2. Sub-step 3b: Show that the identified barriers would not prevent the implementation of at least one of the alternatives (except the proposed project activity)**

53. If the identified barriers also affect other alternatives, explain how they are affected less strongly than they affect the proposed CDM project activity. In other words, demonstrate that the identified barriers do not prevent the implementation of at least one of the alternatives. Any alternative that would be prevented by the barriers identified in Sub-step 3a is not a viable alternative, and shall be eliminated from consideration.
54. In applying Sub-steps 3a and 3b, provide transparent and documented evidence, and offer conservative interpretations of this documented evidence, as to how it demonstrates the existence and significance of the identified barriers and whether alternatives are prevented by these barriers. Anecdotal evidence can be included, but alone is not sufficient proof of 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.
55. **Outcome of Step 3:** If both Sub-steps 3a – 3b are satisfied, proceed to Step 4 (Common practice analysis).
56. If one of the Sub-steps 3a – 3b is not satisfied, the project activity is not additional.

**4.5. Step 4: Common practice analysis**

57. The above generic additionality tests shall be complemented with an analysis of the extent to which the proposed project type (e.g. technology or practice) has already diffused in the relevant sector and region. This test is a **credibility check** to complement the investment analysis (Step 2) or barrier analysis (Step 3). Identify and discuss the existing common practice through the following sub-steps. If the proposed CDM project activity(ies) applies measure(s) that are listed in the definitions section above proceed to Sub-step 4a; otherwise, proceed to Sub-step 4b.

**4.5.1. Sub-step 4a: The proposed CDM project activity(ies) applies measure(s) that are listed in the definitions section above**

58. The latest version of the “Guidelines on common practice” available on the UNFCCC website shall be applied.
59. Proceed directly to the outcome of Step 4.

**4.5.2. Sub-step 4b: The proposed CDM project activity(ies) does not apply any of the measures that are listed in the definitions section above**

60. Provide an analysis to which extent similar activities to the proposed CDM project activity have been implemented previously or are currently underway. Similar activities are defined as activities (i.e. technologies or practices) that are of similar scale, take place in a comparable environment, inter alia, with respect to the regulatory framework and are undertaken in the applicable geographical area, as defined above. Other CDM project activities (registered project activities and project activities which have been published on the UNFCCC website for global stakeholder consultation as part of the validation process) are not to be included in this analysis. Provide documented evidence and, where relevant, quantitative information. On the basis of that analysis, describe whether and to which extent similar activities have already diffused in the applicable geographical area.
61. If similar activities to the proposed project activity are identified, then 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 and explain why the similar activities enjoyed certain benefits that rendered them financially attractive (e.g., subsidies or other financial flows) and which the proposed project activity cannot use or why the similar activities did not face barriers to which the proposed project activity is subject.
62. Essential distinctions may include a serious change in circumstances under which the proposed CDM 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 CDM project activity would not be implemented without the incentive provided by the CDM. The change must be fundamental and verifiable.
63. The proposed project activity is regarded as “common practice” if similar activities can be observed and essential distinctions between the proposed CDM project activity and similar activities cannot be identified.
64. **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.
65. If outcome of Step 4 is that the proposed project activity is regarded as “common practice” then the proposed CDM project activity is not additional.

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### Document information

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<i>Version</i>	<i>Date</i>	<i>Description</i>
07.0.0	23 November 2012	EB 70, Annex 8 Inclusion of reference to the latest approved “Guidelines on additionality of first-of-its-kind project activities” and the “Guidelines on common practice”.
06.1.0	13 September 2012	EB 69, Annex 20 Amendment to: <ul style="list-style-type: none"> <li>• Allow the use of other sources of information to assess the common practice of a project activity.</li> </ul>
06.0.0	25 November 2011	EB 65, Annex 21 Inclusion of requirements from the guidelines on additionality of Foik projects activities and the guidelines on common practice.
05.2.1	27 June 2011	Editorial amendment to: <ul style="list-style-type: none"> <li>• Remove the "Guidelines on the assessment of investment analysis" as an annex within this document and instead add it as a reference;</li> <li>• Add reference to the “Guidelines for objective demonstration and assessment of barriers”;</li> <li>• Implement other minor editorial improvements.</li> </ul>
05.2	26 August 2008	Updated with version 2 of the annex “Guidance on the assessment of investment analysis”.
05.1	25 July 2008	Addition of the “Guidance on the assessment of investment analysis” as an annex to the Additionality Tool.
05	16 May 2008	EB 39, Annex 10 <ul style="list-style-type: none"> <li>• Changes in scope and applicability;</li> <li>• Clarity in the conditions under which different approaches, provided in Step 2: Investment analysis can be applied;</li> <li>• Clarity in the appropriate choice of the benchmark for the assessment of additionality when using benchmark analysis;</li> <li>• Footnote 6 deleted.</li> </ul>
04	30 November 2007	EB 36, Annex 16 Footnote 7 revised.
03	16 February 2007	EB 29, Annex 05 <ul style="list-style-type: none"> <li>• Removed Step-0 and Step-5 from Tool and other small changes done;</li> <li>• The tool is aligned with the Combined Tool.</li> </ul>
02	25 November 2005	EB 22, Annex 08 Footnote 2 added providing clarity on evidence for the incentive from CDM to be submitted by project proponents as per Step-0 1b).

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01	22 October 2004	EB 16, Annex 01 Initial adoption.

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