ECORA Carbon Credit Certification Program

Document: FEEC002 – Tool for Demonstrating Additionality

Public Consultation Stage

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1. Acronyms and Definitions

Term	Definition
Additionality	The principle that the reduction of emissions and/or removal of Greenhouse Gases (GHG) would not occur in the absence of the incentive provided by carbon markets.
Afforestation, Reforestation and Revegetation (ARR)	Category of activities in the AFOLU sector that includes Afforestation, Reforestation, and Revegetation practices aimed at reducing emissions and/or removing GHG.
Agricultural Land Management (ALM)	Category of activities in the AFOLU sector that encompasses Agricultural Land Management practices aimed at reducing emissions and/or removing GHGs.
Agriculture, Forestry and Other Land Use (AFOLU)	The sector defined by the IPCC that brings together Agriculture, Forestry, and Other Land Use activities used in the accounting of emission reductions or GHG removals.
Baseline Scenario	Reference scenario quantified against which the mitigation effects of GHG provided by the project are measured, representing the emissions and/or removals that would occur in the absence of the implementation of the Project Activity, serving as a parameter to calculate the climate benefits generated.
Carbon Credit	Unit that represents the reduction of emissions and/or removal of one metric ton of CO2e.
Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)	The program of the International Civil Aviation Organization to offset carbon emissions from international flights.
Clean Development Mechanism (CDM)	Flexibility instrument of the Kyoto Protocol to support developed countries in achieving their emission reduction and/or GHG removal targets, allowing investments in sustainable projects in developing countries.
Comparable Activities with Essential Differences (N_{dif})	Number of activities comparable to the Project Activity with essential differences within the defined geographic area.
Current Measure Penetration (M_{pen})	Current share of the Project Activity within the potential target market.
ECORA Carbon Unit (UCE)	Unit that represents the reduction of emissions to the atmosphere and/or removal from the atmosphere of one metric ton of CO2e, verified by a VVB and registered in the ECORA Carbon Credit Certification Program. This is the carbon credit certified by the ECORA Carbon Credit Certification Program.
Greenhouse Gases (GHG)	Gaseous components of the atmosphere, natural or anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere, and clouds.
Integrity Council for Voluntary Carbon Markets (ICVCM)	An independent and multisectoral governance body that sets integrity standards for the global voluntary carbon market.
International Carbon Reduction and Offset Alliance (ICROA)	An organization that recognizes best practices in the voluntary carbon market.
Long-Term Low Emission Development Strategies (LT-LEDS)	Plans developed by countries to achieve the goal of limiting global warming to 1.5°C or 2°C, as per the Paris Agreement.
Nationally Determined Contributions (NDC)	Individual targets that each country commits to achieve to reduce and/or remove GHG emissions and adapt to the impacts of climate change, as established in the Paris Agreement.
Participation Capacity of the Comparable Activity (P_i)	Participation capacity of each activity comparable to the Project Activity with essential differences within the defined geographic area, expressed in measurable units according to the corresponding indicator.
Potential Target Market (M_{pot})	Total size of the potential target market for the measure in the defined geographic area.
Project Activity	Action or set of specific actions within the Project Area that generates emission reductions and/or GHG removals.

Term	Definition
Project Area	Project Area is defined by the specific geographic boundaries where ECORA Carbon Units will be issued.
Project Designer	Individual or legal entity formally designated by the Project Proponent to develop, monitor, and be technically responsible for a project for emission reductions or GHG removals. The Project Designer may be the Project Proponent themselves or a different entity, provided there is a formal delegation of responsibilities. The Project Designer does not hold legal rights over the project or the credits generated, except when they are also the Project Proponent by express legal ownership.
Project Proponent	Individual or legal entity that holds formal authority and responsibility for the design, implementation, and management of the emission reduction or GHG removal project. The Project Proponent is the legal holder of the UCEs at the time of their issuance. May or may not be the Project Designer, as established in the contractual instruments between the parties.
Reduction Emissions from Deforestation and Degradation of Native Vegetation (REDD)	Category of activities in the AFOLU sector that encompasses native vegetation protection practices aimed at reducing GHG emissions.
Reduction Emissions from Planned Deforestation and Degradation of Native Vegetation (REDD/P)	REDD activity category aimed at preventing deforestation and degradation of native vegetation that would be carried out in a planned and regular manner for the Baseline Scenario.
Reduction Emissions from Unplanned Deforestation and Degradation of Native Vegetation (REDD/NP)	REDD activity category aimed at preventing deforestation and degradation of native vegetation that would be carried out in an unplanned and irregular manner in the Baseline Scenario.
Total Comparable Activities (N_{total})	Number of activities comparable to the Project Activity within the defined geographic area.
Total Participation Capacity (P_{total})	Aggregate participation capacity of all activities comparable to the Project Activity with essential differences within the defined geographic area, expressed in measurable units according to the corresponding indicator.
United Nations Framework Convention on Climate Change (UNFCCC)	An international agreement and the main body for global negotiations on climate change.
Validation and Verification Body (VVB)	Independent technical entity responsible for assessing the adequacy of projects to the requirements of the ECORA Carbon Credit Certification Program based on evidence collected during audit processes.

2. Introduction

Widely established by the UNFCCC and by international integrity mechanisms, additionality is a central requirement to attest to the credibility of carbon credit projects. Its demonstration aims to show that emission reductions and/or GHG removals are certified as carbon credits only when they represent a climate benefit that would not occur without the incentives generated by the project.

The **Tool for Demonstrating Additionality** that is part of the ECORA Carbon Credit Certification Program aims to establish a systematic procedure, with clear and verifiable criteria, to determine whether the proposed Project Activity would not occur in the absence of incentives from carbon credits.

This tool establishes the analytical steps for demonstrating additionality under different aspects for a complete additionality assessment, including Regulatory Analysis, Lock-in Analysis, Investment Analysis, Barrier Analysis, and Common Practice Analysis.

The adopted methodological procedure is aligned with international best practices, incorporating in its approach the requirements and guidelines established by ICVCM, CORSIA, the Paris Agreement Credit Mechanism (Article 6.4), and ICROA, ensuring consistency, environmental integrity, and robustness.

The **Tool for Demonstrating Additionality** is applicable to Project Activities eligible for the ECORA Carbon Credit Certification Program that require demonstration of additionality.

3. Methodological Procedure for Demonstrating Additionality

The methodological procedure to demonstrate the additionality of a Project Activity under the ECORA Carbon Credit Certification Program must follow the flowchart presented in **Figure 2**.

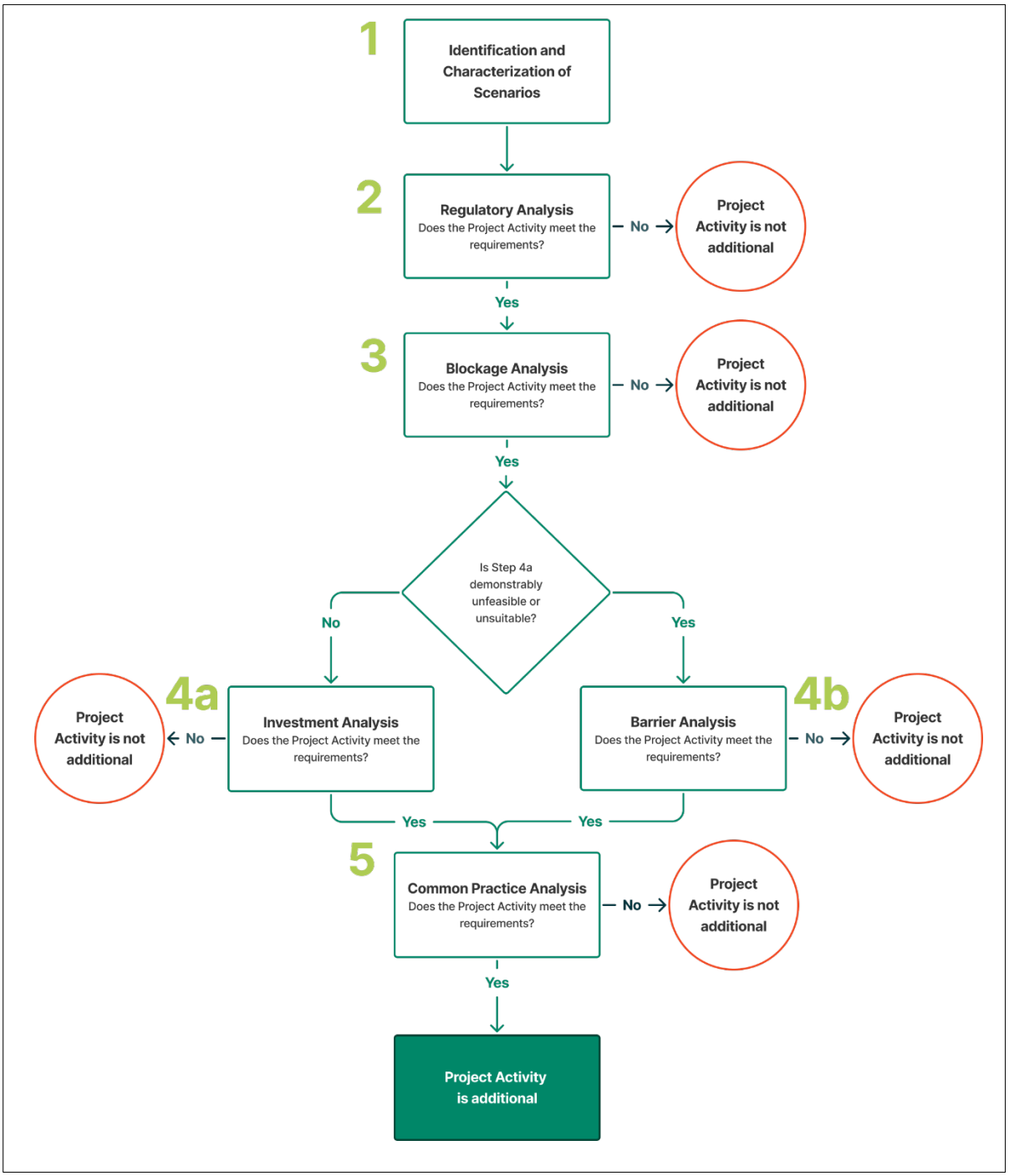

Figure 2. Flowchart for demonstrating additionality of a Project Activity under the ECORA Carbon Credit Certification Program.

3.1 Step 1 – Identification and Characterization of Scenarios

Step 1 aims to identify and characterize the scenarios that could occur in the Project Area, which will be the subject of the analyses provided for in the subsequent steps of this tool.

The Project Designer must identify and characterize the following scenarios:

- **Possible Baseline Scenarios (abscence of Project Activity):** Scenario or scenarios that consider the continuation of activities prior to the implementation of the Project Activity and/or previously planned for the Project Area. If more than one Possible Baseline Scenario is identified, each of them must be individually analyzed in the subsequent steps. The Baseline Scenario defined for the project must be one of these analyzed scenarios;

And;

- **Project Scenario (scenario with the Project Activity)**: Scenario that considers the implementation of the proposed Project Activity, disregarding the benefits and requirements associated with the generation of carbon credits.

The identified scenarios must be feasible for the Project Area, taking into account relevant national and/or sectoral policies and local circumstances.

The characterization must cover aspects of operational nature, location, size, accessibility, and other characteristics that enable the analyses of the steps provided for in this tool.

The definition of all scenarios must be aligned with the criteria established in the applicable methodology for defining the Baseline Scenario and eligibility of the Project Activity.

The Possible Baseline Scenarios must identify and characterize activities that would be carried out by the agent who has control over the Project Area, except for REDD/NP-type projects, which may consider activities carried out by external agents.

The Project Designer must demonstrate that the Possible Baseline Scenarios are realistic and credible, observing the principles of conservatism, transparency, methodological consistency, and use of verifiable data, according to the requirements below:

- Activity occurring on the property:
  - Prove that the scenario activity occurs within the property where the Project Area is located on the Project Start Date; or
  - Prove that the scenario activity occurred within the property where the Project Area is located during the historical analysis period defined by the applied methodology;

    OR;
- Activity not occurring on the property:
  - Demonstrate trends based on territorial planning and sectoral policies, when applicable;
  - Prove trends of land use change based on the historical record in the region during the reference period established by the applied methodology;
  - Prove market trends for the region and/or sector, for sectors other than AFOLU.

After identifying and characterizing the scenarios, proceed to Step 2 (Regulatory Analysis).

3.2 Step 2 – Regulatory Analysis

Step 2 aims to assess whether the scenarios identified and characterized in Step 1 are in compliance with the laws, regulations, and policies in force in the host country, but that the Project Scenario does not result from the fulfilment of a legal or regulatory obligation.

The Project Designer must prove that both the Project Scenario and at least one of the Possible Baseline Scenarios (including the Baseline Scenario defined for the project) meet the legal requirements applicable to the sector and the host country. For projects in Brazil, the Guidelines Document of the Regulatory Framework Applicable to Projects must be considered. In the case of projects belonging to the REDD/NP typology, the Possible Baseline Scenarios may be based on activities carried out by external agents who do not comply with the legal requirements applicable in the host country, given the premise of this Project Activity to avoid unplanned deforestation.

The Project Designer must prove that Project Scenario does not result from compliance with compulsory legal obligations, requirements and/or mechanisms, or mandatory environmental compensation instruments. Public policies, financial incentives, or voluntary instruments that encourage but do not impose the implementation of the Project Scenario are not considered to be requirements already provided for by applicable legal requirements and/or mechanisms.

To support the analysis, the Project Designer must identify all national and subnational policies applicable to the Project Scenario and to the Possible Baseline Scenarios. This survey must cover laws, regulations, subsidies, fees, tariffs, incentives, and other current regulatory mechanisms. Sector-specific targets or targets for the type of activity must also be considered when accompanied by concrete regulatory frameworks that ensure their implementation. Generic targets or broad objectives without direct linkage to the sector or activity should not be included in this analysis.

If the implementation of the Project Scenario is already required by applicable legal requirements and/or mechanisms, it may be considered additional from a regulatory perspective if it is proven that the rule or regulation is not systematically applied. Evidence must be provided of the absence of oversight and application of penalties by the competent authorities and that non-compliance is identified in a widespread manner throughout the territory of the applicable jurisdiction. The evidence must be from the same jurisdiction, up-to-date, verifiable, and from official government sources, representative sectoral institutions, or peer-reviewed academic studies. This exception does not apply to Project Activities proposed in countries classified as high income, according to the World Bank.

If the requirements of Step 2 are met, proceed to Step 3 (Blockage Analysis). Otherwise, the Project Activity is not additional.

3.3 Step 3 – Blockage Analysis

Step 3 aims to assess whether the Project Scenario does not create, reinforce, or perpetuate structural, technological, economic, or institutional dependencies incompatible with a long-term decarbonization pathway, according to the requirements established by Article 6.4 of the Paris Agreement.

The Project Designer must demonstrate that the Project Activity:

- Does not result in potential blocking elements for the adoption of cleaner technologies, including but not limited to:
  - Investments in infrastructure, equipment, or practices with a long useful life (over 10 years) and high emission intensity compared to the less polluting available options;
  - Institutional, technological, or operational arrangements that hinder the future adoption of cleaner alternatives;
  - Contractual or financial commitments that limit migration to lower emission options.
- It is consistent with:
  - The host country's long-term low-emission development strategy (LT-LEDS) and the NDCs, as referred to in the Paris Agreement (when the host country has submitted one);
  - Sectoral or jurisdictional mitigation plans;
  - Policies for conservation, restoration, or sustainable land use.

If the requirements of Step 3 are met, proceed to Step 4a (Investment Analysis). If the application of Step 4a (Investment Analysis) is demonstrably unfeasible or inadequate for the context of the identified scenarios, proceed to Step 4b (Barrier Analysis).

If the requirements of Step 3 are not met, the Project Activity is not additional.

3.4 Step 4a – Investment Analysis

Step 4a aims to assess whether the Project Scenario identified and characterized in Step 1 is not financially attractive without the revenues from carbon credits.

The Project Designer must conduct the Investment Analysis in a conservative, reproducible manner and consistent with the decision-making context at the time the investment was considered. The data, assumptions, methodologies, and results must be presented in a traceable and auditable format. Post-tax cash flows must be used, unless technically justified otherwise.

The Project Designer must select only one of the three methodological options available below. If the Project Scenario does not generate financial benefits (disregarding carbon credit revenues), Option 1 must be applied.

- **Option 1: Revenue Absence Analysis;** or
- **Option 2: Reference Analysis;** or
- **Option 3: Investment Comparison Analysis.**

Option 1: Revenue Absence Analysis

The Revenue Absence Analysis aims to assess whether the Project Scenario does not generate revenues and, therefore, only becomes viable with revenues from carbon credits.

The Project Designer must demonstrate, in a verifiable and traceable manner, that the Project Scenario does not generate any type of revenue (disregarding carbon credit revenues). If there is any revenue, this option (Revenue Absence Analysis) cannot be used.

If the application of Option 1 concludes that the Project Scenario does not generate financial benefits, proceed to Step 5 (Common Practice Analysis).

Otherwise, proceed to Option 2 (Benchmark Analysis) or Option 3 (Investment Comparison Analysis).

Option 2: Benchmark Analysis

The Benchmark Analysis aims to assess whether the financial return of the Project Scenario is lower than the minimum expected return for similar investments in the sector and host country and, therefore, is only financially attractive with the revenues from carbon credits.

- **Step 1: Selection of benchmark parameter**

The Project Designer must define the minimum applicable rate of return based on a benchmark parameter.

For Project Activities carried out exclusively by the proponent entity, internal investment decision parameters should be used, such as:

- Weighted Average Cost of Capital;
- Historically practiced Minimum Attractiveness Rate (MAR).

For Project Activities carried out by multiple entities, the most conservative parameter among those described below must be adopted and technically justified:

- Risk-free rate (government bond rates) plus a risk premium appropriate to the host country, sector, and project type;
- Financing costs and typical return required by investors for comparable projects (private equity fund or specialized funds).

- **Step 2: Definition of the evaluation period**

The evaluation period must cover the technical useful life of the Project Activity (equivalent to the project's Credit Period) and, when applicable, include:

- Residual value of assets at the end of the period;
- Replacement investments (recurring capital expenditure).

- **Step 3: Construction of cash flows**

The cash flows of the Project Scenario must include, at a minimum:

- Capital expenditures;
- Operating expenses;
- Operating revenues and cost savings;
- Subsidies or public financing, when available.

Local market data should be prioritized. Regional or national values may be used when local data is not available.

- **Step 4: Selection and calculation of the financial indicator for comparison with the benchmark parameter**

The Project Designer must use at least one of the indicators described below to compare the financial results of the Project Scenario with the benchmark parameter:

- Internal Rate of Return (IRR);
- Net Present Value (NPV).

Other indicators may be proposed, provided they are technically justified.

- **Step 5: Sensitivity analysis**

The Project Designer must subject critical assumptions to a sensitivity analysis, assessing how changes in important variables (upwards or downwards) would impact the financial outcome of the scenarios.

Variables (such as capital expenditures, operating expenses, revenues, and cost savings) that represent more than 20% of the total costs or total revenues of the scenarios must be tested by applying variations. Other variables must also be subjected to sensitivity analysis if they have a material and determining impact on the financial outcome.

As a starting point, the variation applied in the analysis must cover, at a minimum, a range of +10% and -10% for each variable tested.

- **Step 6: Interpretation of results**

The Project Scenario will be considered financially unattractive if, even after applying the sensitivity analysis:

- IRR < benchmark parameter; or
- NPV < 0; or
- Other indicators justify inferior performance.

If the application of Option 2 concludes that the Project Scenario is financially unattractive, proceed to Step 5 (Common Practice Analysis).

Otherwise, the Project Activity is not additional.

Option 3: Investment Comparison Analysis

The Investment Comparison Analysis aims to assess whether the Project Scenario is financially less attractive than at least one of the Possible Baseline Scenarios (including the Baseline Scenario defined for the project), as identified and characterized in Step 1, and, therefore, is only financially attractive with the revenues from carbon credits.

- **Step 1: Financial characterization of the scenarios**

Cash flows must be prepared for the Project Scenario and for the Baseline Scenario, including:

- Capital expenditures;
- Operating expenses;
- Revenues and savings;
- Applicable incentives or subsidies.

The cash flows for the Baseline Scenario must consider the expenses and revenues related, directly or indirectly, to the agent who has control over the Project Area, excluding expenses and revenues related to external agents in REDD/NP category projects.

Local market data should be prioritized. Regional or national values may be used when local data is not available.

- **Step 2: Selection and calculation of the financial indicator for scenario comparison**

The Project Designer must use at least one of the indicators described below to compare the financial results of the Project Scenario with the Baseline Scenario:

- Internal Rate of Return (IRR);
- Net Present Value (NPV).

Other indicators may be proposed, provided they are technically justified.

- **Step 3: Sensitivity analysis**

The Project Designer must subject critical assumptions to a sensitivity analysis, assessing how changes in important variables (upwards or downwards) would impact the financial outcome of the scenarios.

Variables (such as capital expenditures, operating expenses, revenues, and cost savings) that represent more than 20% of the total costs or total revenues of the scenarios must be tested by applying variations. Other variables must also be subjected to sensitivity analysis if they have a material and determining impact on the financial outcome.

As a starting point, the variation applied in the analysis must cover, at a minimum, a range of +10% and -10% for each variable tested.

- **Step 3: Identification of the most financially attractive scenario**

The scenario whose financial indicator demonstrates better performance, even after the application of the sensitivity analysis, will be considered the most financially attractive.

If the application of Option 3 concludes that the Project Scenario is financially less attractive than at least one of the Possible Baseline Scenarios (including the Baseline Scenario defined for the project), proceed to Step 5 (Common Practice Analysis).

Otherwise, the Project Activity is not additional.

3.5 Step 4b – Barrier Analysis

Step 4b is mandatory whenever Step 4a (Investment Analysis) is proven to be unfeasible or inadequate. The Project Designer must provide a substantiated justification, clarifying the limitations that make the Investment Analysis unfeasible or inadequate for the context of the identified scenarios.

Step 4b aims to assess whether the occurrence of the scenarios identified and characterized in Step 1 is rendered unfeasible by barriers.

The Project Designer must:

- Identify and describe the barriers with the potential to prevent the occurrence of both the Possible Baseline Scenarios and the Project Scenario in the Project Area;
- Assess, based on conservative, verifiable, and substantiated evidence, whether each identified barrier prevents or not the occurrence of both the Possible Baseline Scenarios and the Project Scenario in the Project Area;

The barriers to be identified and described by the Project Designer are limited to the following categories:

- **Financial Barriers:** Obstacles that affect the economic viability of the activity or access to financing. Examples include:
  - Insufficient capital or investment;
  - Inadequate financial return or long payback periods;
  - High investment risk;
  - Lack of adequate credit lines, financing restrictions, or unfavorable loan conditions;
  - Absence or denial of public incentives or subsidies.
- **Institutional Barriers:** Limitations arising from legal frameworks, institutional arrangements, or public policies. Examples include:
  - Restrictive or unclear regulations on land use, carbon ownership, or forest management;
  - Policy gaps or lack of institutional support;
  - Uncertainty or lack of definition regarding property or tenure rights;
  - Delays, costs, or inefficiencies in licensing, authorization, or regularization processes.
- **Information Barriers**: Restrictions related to lack of technical knowledge, limited access to information, insufficient local training, or lack of knowledge concerning technologies and practices associated with the mitigation activity.
- **Ecological barriers:** Limitations imposed by natural risks or the action of living organisms on the Project Activity. Examples include:
  - Presence of invasive species and/or domestic animals that harm the Project Activity;
  - Presence of fire and other events that compromise the establishment of the Project Activity.
- **Other Specific Barriers**: Technical, social, cultural, or logistical barriers directly related to the local or regional context, provided they are clearly justified. Examples include:
  - Inadequate infrastructure or unavailability of specialized equipment;
  - Geographical isolation, long distances, or high logistical costs;
  - Community, social, or cultural resistance to project adoption;
  - Shortage of qualified or specialized labor.

If the application of Step 4b concludes that there is at least one barrier that prevents Project Scenario and that there are no barriers that prevent at least one of the Possible Baseline

Scenarios (including the Baseline Scenario defined for the project), proceed to Step 5 (Common Practice Analysis).

Otherwise, the Project Activity is not additional.

3.6 Step 5 – Common Practice Analysis

Step 5 aims to assess whether the Project Scenario does not constitute standard practice, that is, that it is not something that would already occur in the Project Area because it is a widely disseminated activity in the region and/or sector.

The Project Designer must consider the physical boundaries of the host country as the geographical delimitation for the Common Practice Analysis. More restricted geographical boundaries (for example, state, watershed, specific sectoral market) may be used when they more realistically represent the behavior of the dynamics of the activity analyzed. The definition of these boundaries must be technically justified.

The Project Designer must select the most appropriate methodological option from the two presented below, taking into account the availability and quality of data, the technological nature of the activity, and the characteristics of the sector:

- **Option 1: Comparable Activities Analysis;**
- **Option 2: Market Penetration Analysis.**

Option 1: Comparable Activities Analysis

The Comparable Activities Analysis aims to assess whether the Project Scenario is not a common practice considering activities directly comparable to this scenario existing in the region.

- **Step 1: Identification and Quantification of Comparable Activities (N_{total})**

The Project Designer must identify and quantify the activities comparable to the Project Scenario within the defined geographical area, considering:

- Services provided, expected results, or land use objectives, such as energy generation, ecosystem restoration, reduction of emissions from deforestation, among others;
- Applied technology, management methods, or type of intervention;
- Temporal and spatial context, including the implementation date of the comparable activity (reference period), comparable regional socioeconomic and environmental conditions, and institutional and regulatory conditions.

The identified activities must not be registered in carbon credit certification programs.

The total number of comparable activities implemented in the last five to ten years, duly documented with reliable sources (public records, sectoral databases, national inventories, spatial data, market studies), will be referred to as N_{total}.

- **Step 2: Identification and Quantification of Activities with Essential Differences (N_{dif})**

Among the comparable activities implemented in the last five to ten years (N_{total}), the Project Designer must identify and quantify activities that have essential differences from the proposed Project Scenario, such as:

- Raw materials, energy source, processes, or substantially different technologies;
- Favorable political or institutional conditions not applicable to the project;
- Access to differentiated financing unavailable to the proposed project;

- Scale, purpose, or location incompatible with comparative analysis;
- Specific criteria for AFOLU activities, including:
    i. Land tenure regime or legal conditions that materially affect the feasibility of the project;
    ii. Environmental conditions or biophysical constraints (for example, water regime, soil productivity, fire risk);
    iii. Access to markets and infrastructure;
    iv. Degree of enforcement and monitoring of land use regulations;
    v. History of land use or levels of environmental degradation.
- Any additional essential difference conditions defined by the applied methodology.

The number of comparable activities with essential differences will be referred to as N_{dif}.

- **Step 3: Determination of Participation Capacity (P_{total} and P_{dif})**

The Project Designer must calculate the capacity representing the total participation of comparable activities (P_{total}) and the participation of those excluded due to essential differences (P_{dif}). The capacity represents the total market share of similar/different activities, expressed in terms of installed capacity, volume treated, area covered, or another indicator relevant to the sector.

The participation capacity of the activities must consistently and comparably represent the measurable outcome of the activities identified in the previous step.

For each sector, the indicator described in Table 1 must be used to calculate participation capacity:

Table 1. Participation capacity indicators for the Common Practice Analysis by sector.

Sector	Participation capacity indicator
AFOLU	Total area (hectares) under comparable land use activities
Energy	Installed capacity (MW) or annual energy generation (MWh/year)
Waste	Total volume treated or processed (m³/year)
Transport	Total volume of service provided, expressed in passenger-km, freight-km, or length of implemented infrastructure-km, according to the type of intervention

Based on this data, the Project Designer must calculate P_{total} and P_{dif} as described below.

$$P_{total} = \sum P_i$$

Where:

P_{total} = Aggregate participation capacity of all comparable activities;

P_i = Participation capacity of each identified comparable activity i

i = Comparable activity.

$$P_{dif} = \sum P_{dif,i}$$

Where:

P_{dif} = Aggregate participation capacity of comparable activities with essential differences;

$P_{dif,i}$ = Participation capacity of each comparable activity that presents essential differences;

i = Comparable activity.

- **Step 4: Calculation of the Common Practice Factor (F)**

The Common Practice Factor must be calculated as follows:

$$F = 1 - \frac{P_{dif}}{P_{total}}$$

Where:

P_{dif}= Aggregate participation capacity of comparable activities with essential differences;

P_{total} = Aggregate participation capacity of all comparable activities.

- **Step 5: Analysis of Results**

The Scenario with the proposed Project Activity will be considered common practice if both of the following conditions are met:

- F > 16%[1]: indicating that a relevant share of the market has already implemented the activity without external incentives; and
- $N_{total} - N_{dif} > 3$: indicating the existence of at least three initiatives effectively comparable to the project.

If the application of Option 1 concludes that the Project Scenario is not common practice, the Project Activity is additional.

Otherwise, the Project Activity is not additional.

Option 2: Market Penetration Analysis

- **Step 1: Determination of Potential Target Market (M_{pot})**

The Project Designer must quantify the total size of the potential target market for the Project Scenario in the defined geographic area. The potential target market corresponds to the universe that is technically and economically eligible for the adoption of the Project Scenario. The indicator must follow the sectoral metric indicated in Table 1.

- **Step 2: Determination of Current Target Market Penetration (M_{pen})**

The Project Designer must quantify the current target market penetration of the Project Scenario in the defined geographic area. Target market penetration corresponds to the current share of the Project Scenario within the potential target market, considering initiatives implemented in the last five to ten years that are not registered in carbon credit certification programs.

- **Step 3: Calculation of the Common Practice Factor (F)**

The Common Practice Factor (F) is calculated as the market penetration rate:

[1] The value of 16% is inspired by the Common Practice Analysis tool of the Article 6.4 Mechanism (A6.4-MEP008-A02). By adopting the ceiling provided in this reference, the threshold is treated as conservative.

$$F = \frac{M_{pen}}{M_{pot}} X\ 100$$

Where:

M_{pen}= Target market penetration of the Project Scenario already implemented;

M_{pot}= Total Potential Target Market.

- **Step 4: Results Analysis**

The activity will be considered common practice when:

- F > 16%; and
- There are three or more similar initiatives implemented under comparable conditions.

If the application of Option 2 concludes that the Project Scenario is not common practice, the Project Activity is additional.

Otherwise, the Project Activity is not additional.