

A Toolbox series for Article 6 implementation

Developing an Article 6 host party strategy

Guide **2**



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Version 1.0: The version of this guide, including the descriptions of mandatory and optional requirements, is based on the COP26 (2021) and COP27 (2022) decisions on Article 6.2 and 6.4 (i.e., decisions 2/CMA.3, 3/CMA.3, 6/CMA.4 and 7/CMA.4) and so does not yet include any decisions from COP28.

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Developing an Article 6 host party strategy

About the Supporting Preparedness for Article 6 Cooperations (SPAR6C)

The Supporting Preparedness for Article 6 Cooperation (SPAR6C [spark]) program enables stakeholders in Colombia, Pakistan, Thailand, and Zambia to become prepared to engage in carbon transactions under Article 6 of the Paris Agreement. SPAR6C program provides decision support to government counterparts on Article 6 strategy and governance frameworks, capacity building for private sector and technical assistance to identify and prepare mitigation activities which could serve as the basis for Article 6 transactions. In addition to in-country support, SPAR6C program hosts a global knowledge exchange platform, the “Community of Practice for Article 6 Implementing Countries” or CoP-ASIC. The program is implemented by a consortium of experts, led by the Global Green Growth Institute (GGGI), with delivery partners Carbon Limits, GFA Consulting Group (GFA), Kommunalkredit Public Consulting (KPC) and UN Environment Programme’s Copenhagen Climate Centre (UNEP-CCC). SPAR6C is a five-year program (2022–2026) funded by the German Federal Ministry for Economic Affairs and Climate Action (BMWK), through the German government’s International Climate Initiative (IKI).

About Lead Implementing Partner – Global Green Growth Institute (GGGI)

Based in Seoul, GGGI is a treaty-based international, inter-governmental organization – with 45 Members and over 22 countries and regional integration organization(s) in the process of accession – dedicated to supporting and promoting strong, inclusive, and sustainable economic growth in developing countries and emerging economies. With operations in over 30 countries, GGGI serves the role of an enabler and facilitator of Members’ transition into a low-carbon green economy, providing policy advice and technical support in the development of green growth plans, policies and regulations, mobilization of green investments, implementation of green growth projects, and development of local capacities and knowledge sharing. Further information on GGGI’s events, projects and publications can be found on www.gggi.org.

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Preface

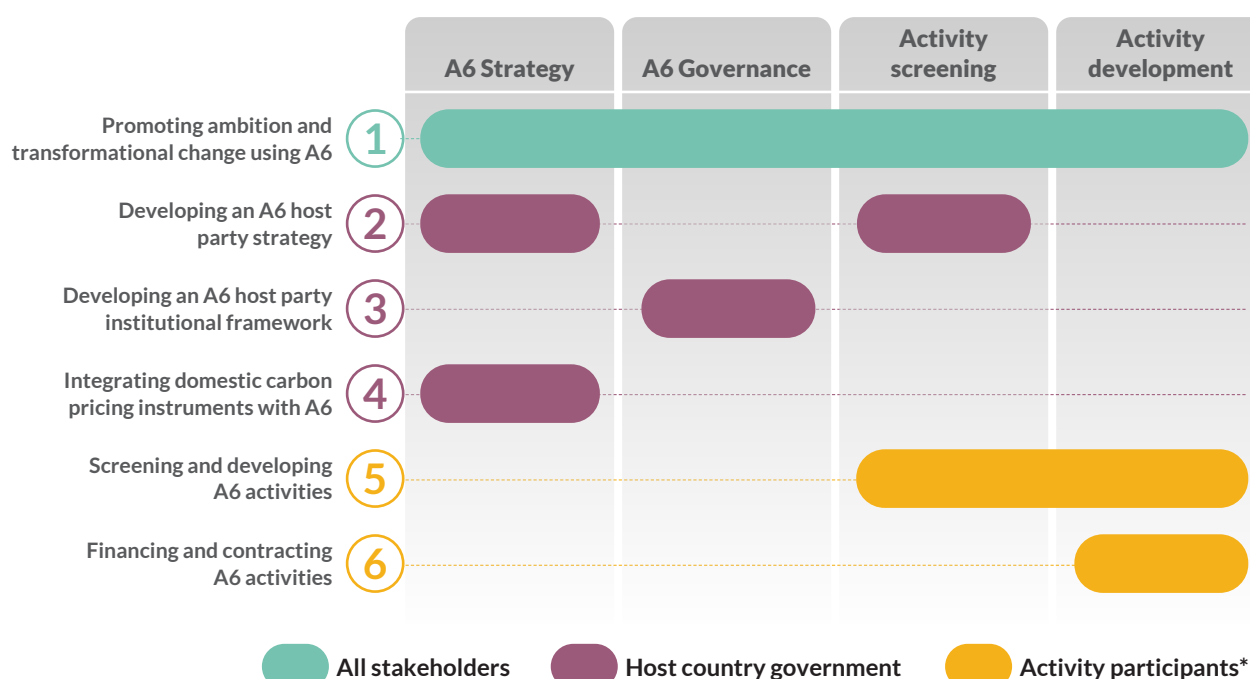
Many developing and emerging economies are keen to pursue carbon transactions under Article 6 of the Paris Agreement in the hope that they will promote ambitious climate change mitigation and generate sustainable development outcomes. However, for countries to be fully prepared to actively engage in the future Article 6 carbon market there is a steep learning curve. The German Federal Ministry of Economic Affairs and Climate Action (BMWK) through the International Climate Initiative (IKI) supports the *Supporting Preparedness for Article 6 Cooperation* (SPAR6C) program. Among the program's many ambitious goals is one to enable partner governments of Colombia, Pakistan, Thailand, and Zambia to become fully prepared to engage in Article 6 transactions.

As part of the program, the “Article 6 Toolbox” draws on the consortium's diverse experience in Article 6 activity development to create guidance and tools that can be used in the target countries will make the mechanics of Article 6 implementation better understood. Toolbox development will also promote consistency across countries and efficiency in delivery. A core principle will be the adaptability of the Toolbox to different scenarios to fit the national conditions over the course of the program. The first set of outputs in the Article 6 Toolbox are six guides that target the fundamental needs of host party governments, on the one hand, and activity participants on the other. The six guides are as follows:

- **Guide 1:** Promoting ambition and transformational change using Article 6 – e.g., long-term strategy support, ITMO cancellation, national eligibility requirements, stringency in baselines.
- **Guide 2:** Developing an Article 6 host party strategy – e.g., accessing opportunities, managing overselling risks, meeting basic Article 6 requirements, criteria for authorization and transfer, developing supporting regulation.
- **Guide 3:** Developing an Article 6 host party institutional framework – e.g., institutional arrangements and procedures for authorization, transfer, tracking and reporting, registry design.
- **Guide 4:** Integrating domestic carbon pricing instruments with Article 6 – e.g., how Article 6 engagement could support or conflict with emissions trading schemes, carbon taxes and other carbon pricing instruments.
- **Guide 5:** Screening and developing Article 6 activities – e.g., guidance of each step in the project cycle, from conceptualization and pre-design, through issuance and transfer of ITMOs.
- **Guide 6:** Financing and contracting Article 6 activities – e.g., negotiating with financing partners, bilateral agreements, contractual issues for selling ITMOs.

Out of the six guides, three cater to host party governments, two are tailored for activity participants (either public or private), and the one on ambition and transformational change encompasses aspects from both areas, as shown in Figure 1.

Figure 1. Overview of scope of the first six guides in the Article 6 toolbox



Each guide delves deeper into its scope and content, addressing any overlaps with other guides. For example, because institutional arrangements (Guide 3) also have strategic importance, the strategy guide (Guide 2) refers to those arrangements.

Future updates of the guides are planned, in 2024 and 2025, and will feature additional case studies from host countries and delve further into activity development. If you have suggestions for these case studies or any other feedback, please email SPAR6CToolbox@gggi.org.

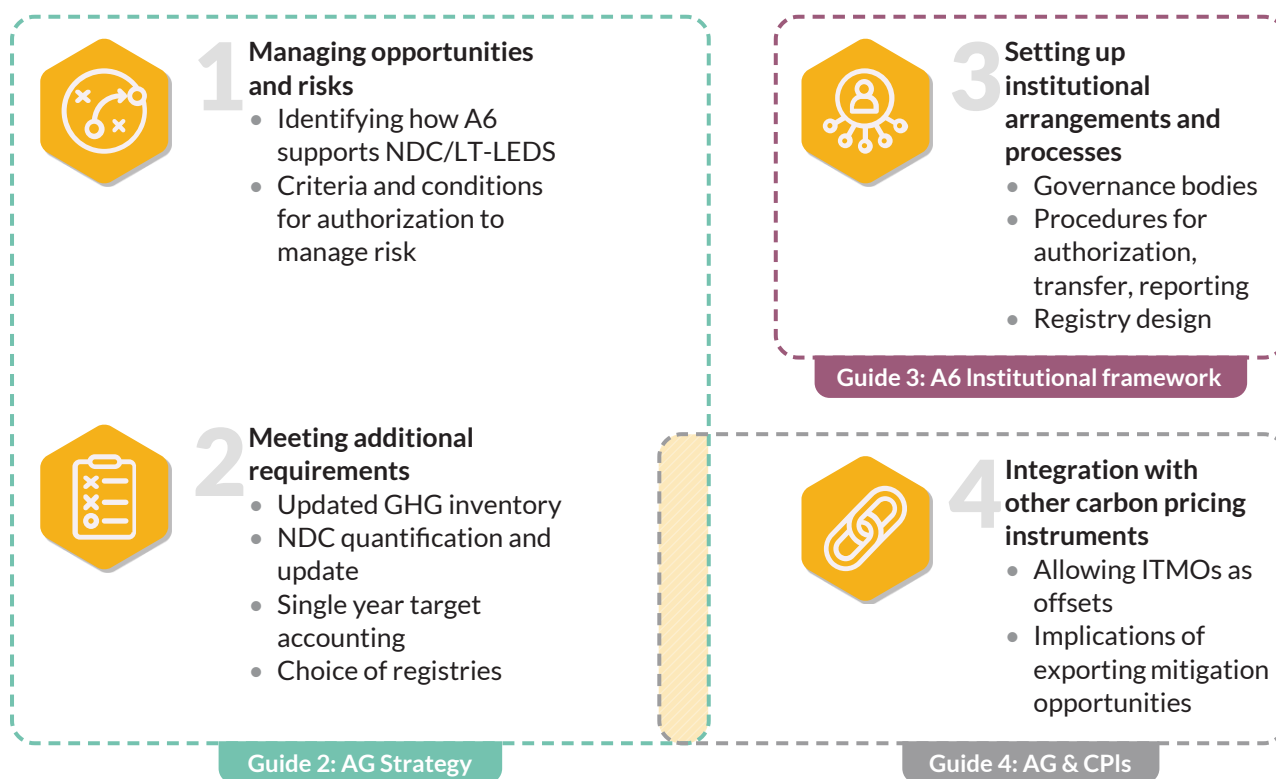
About Guide 2: Developing an Article 6 host party strategy

Guide 2 supports host Party governments – national governments who are signatories to the United Nations Framework Convention on Climate Change (UNFCCC) – in developing a strategic approach to Article 6 engagement, including Article 6.2 transactions and accessing the Article 6.4 crediting mechanism. The purpose of developing an Article 6 strategy is to manage risks related to NDC implementation, create transparency, bring confidence to the market through a credible policy framework, and reduce uncertainty for activity participants – particularly for the private sector. Clear guidelines from the host Party government on what type of Article 6 cooperation is allowed or preferred, for example, will speed up A6 cooperation, even though the strategy development process itself takes some time.

Beyond managing risks, identifying opportunities and meeting basic requirements for Article 6 participation, an Article 6 strategy is also linked to a country’s institutional arrangements, integration with other carbon pricing instruments, and formalizing the strategy in some form of

regulation. While the last one will also be covered in this guide, the institutional arrangements and integration with carbon pricing instruments will be addressed in their own guides (Figure 2).

Figure 2. Elements of an Article 6 strategy and the SPAR6C guides



In this way, Guide 2 can be adapted to each host party's available resources and level of knowledge and policy development.

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Acronyms and abbreviations

BAU	Business as usual
CDM	Clean development mechanism
CO₂	Carbon dioxide
CO₂e	Carbon dioxide equivalent
DOE	Designated operational entity
GDP	Gross domestic product
Gg	Giga-grams (10 ⁹ grams = one billion grams)
GHG	Greenhouse gas
ITMO	Internationally transferred mitigation outcome
LT-LEDS	Long term low emissions development strategy
MADD	Mitigation activity design document
MO	Mitigation outcome
MRV	Monitoring, reporting and verification
NDC	Nationally determined contribution
OMGE	Overall mitigation in global emissions
SD	Sustainable development
SDG	Sustainable development goal
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollar
VCM	Voluntary carbon market



Chapter 1



The basics of Article 6

The development of a comprehensive, deliberate strategy is the best way to maximize benefits and minimize risks for host parties when engaging in Article 6. The strategic benefits that Article 6 holds for host parties include:

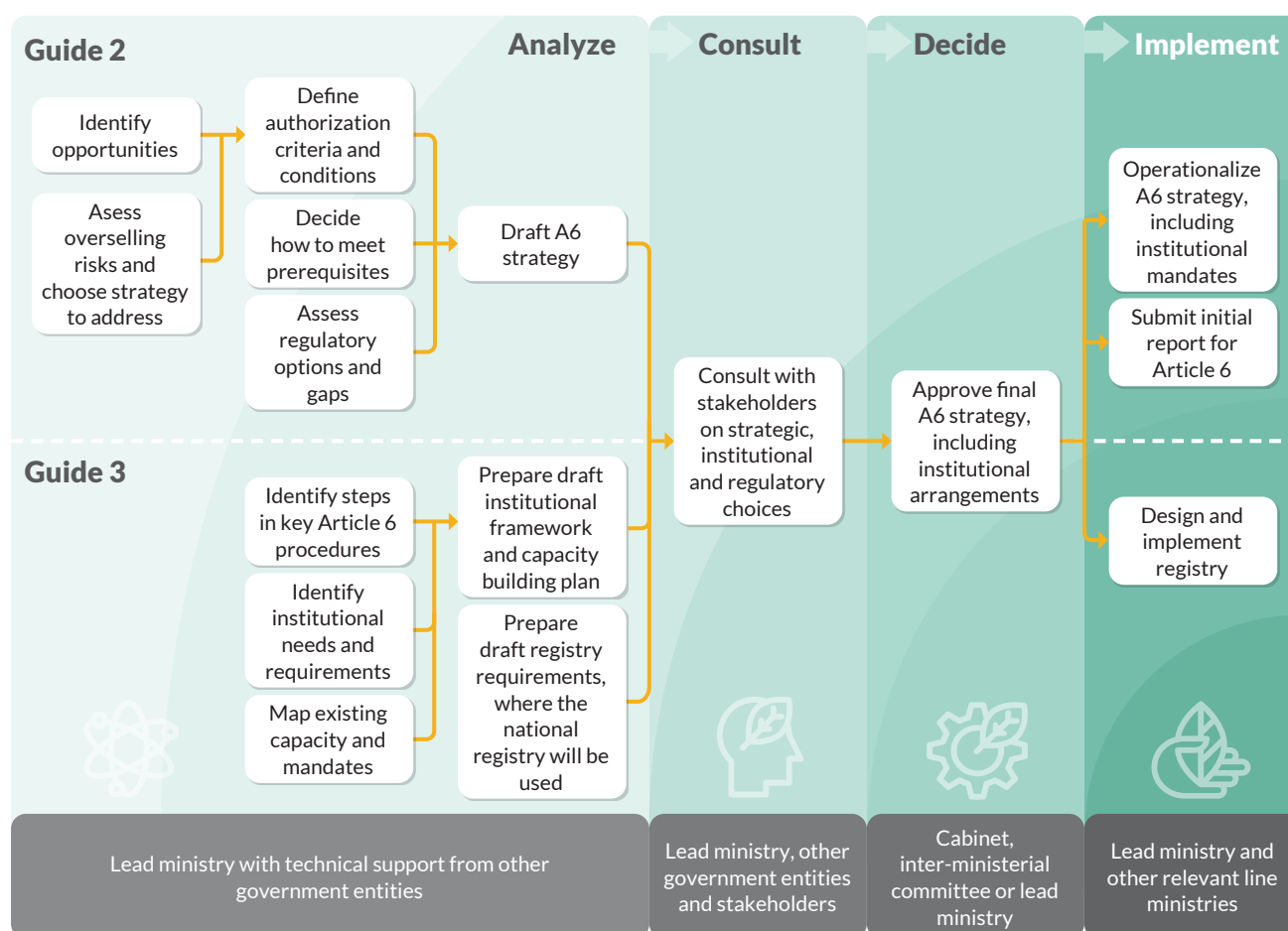
- Economic benefits (i.e., additional mitigation finance)
- Sustainable development co-benefits and SDGs support
- Increased skills and capacity
- Spill over and replication effects
- Reputational benefits

On the other hand, the key risks come from potential overselling of mitigation outcomes that are based on the following type of activities:

- Low-cost activities that could be part of the unconditional NDC
- Non-additional activities
- Mitigation activities not captured in national inventories
- Mitigation activities outside the scope of the NDC

This guide supports host parties in developing and implementing a strategy for Article 6 of the Paris Agreement. The SPAR6C guide on institutional arrangements (Guide 3) also complements the strategy development process. The parallel processes in developing an overall strategy and institutional arrangements are illustrated in Figure 3.

Figure 3. Common activities that are covered in Guides 2 and 3



The strategy process is divided into four main phases, which are analyze, consult, decide, and implement. This guide focuses on the analyze and implement phases. It also gathers international case studies that illustrate some of the challenges that host parties could be facing as part of their own Article 6 design and implementation.

Before describing the strategy development process, this first section explains some key concepts and provides an overview of benefits and risks of Article 6 engagement.

1.1 Key concepts: Article 6 and ITMOs

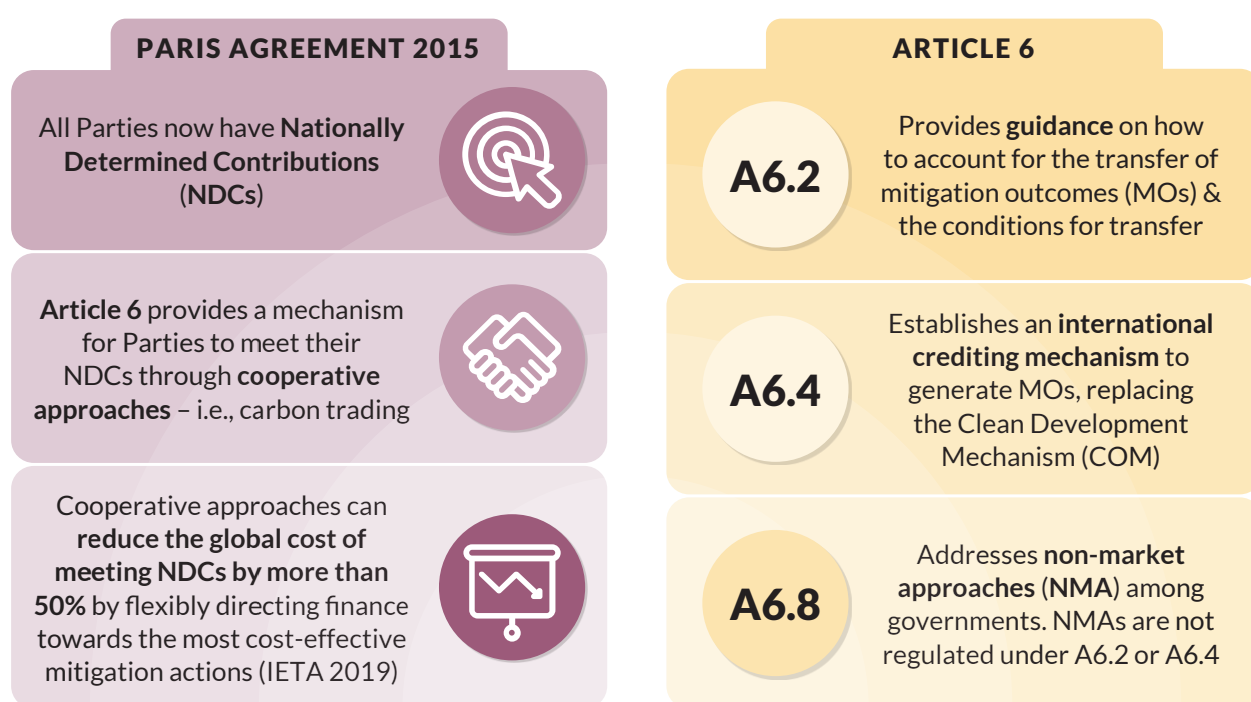
This section first explains the difference between two key elements of Article 6 that relate to market-based international cooperation on climate change mitigation, Article 6.2 and Article 6.4 (Box 1). It also explains a key term used throughout the toolbox: internationally transferred mitigation outcomes (ITMOs) (Box 2) and different forms of cooperation that are possible under Article 6.

Box 1. Article 6.2 and Article 6.4

Article 6 of the Paris Agreement allows countries to cooperate voluntarily in implementing their nationally determined contributions (NDCs).¹ As such, Article 6 provides a way for international finance to be channeled to mitigation activities that might otherwise be difficult to implement. There are two elements of Article 6 that are particularly relevant for market-based cooperation on climate change mitigation:

- Article 6.2 provides the basis for countries to participate in cooperative approaches. In 2021, the Parties to the Paris Agreement came to a consensus on guidance for Article 6.2 cooperation, including the participation and reporting requirements. The Article 6.2 guidance also specifies how to account for the international transfers and avoid double-counting by making corresponding adjustments (Box 4). Article 6.2 serves as an overarching framework for the international transfer of all mitigation outcomes (MOs) “authorized” by a host party, irrespective of the crediting mechanism through which the MOs are generated.²
- Article 6.4 establishes a centralized international crediting mechanism that will issue carbon credits – Article 6.4 emission reductions (A6.4ERs) – as a successor to the clean development mechanism (CDM). Before they can be used towards another country’s NDC or for other international mitigation purposes, A6.4ERs must still be authorized, as per the Article 6.2 guidance. The mechanism established under Article 6.4 is governed by the Article 6.4 supervisory body under the guidance of the Parties to the Paris Agreement.³

Figure 4. Overview of Articles 6.2 and 6.4



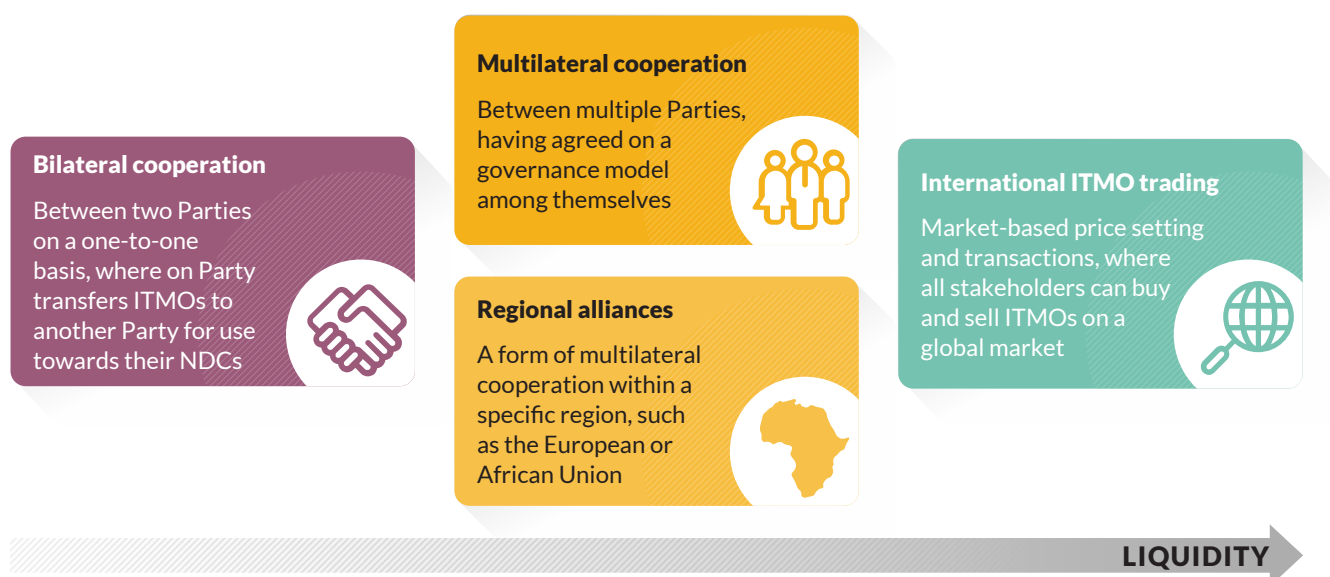
Box 2. Internationally transferred mitigation outcome

An ITMO is a mitigation outcome (i.e., measured in units of greenhouse gases (GHG) reductions or removals, or some other relevant mitigation metric) that has been authorized and transferred out of the host party – unless it is cancelled. ITMOs may be authorized for use by another country towards its NDC, or for “international mitigation purposes” (e.g., CORSIA for international aviation), or “other purposes” (e.g., voluntary carbon markets) (together the two are called “other international mitigation purposes”). Article 6.2 says that ITMOs must be “real, verified, and additional”, may include both emission reductions and removals, and must be for mitigation achieved from 2021 onward. For emission reductions issued under the Article 6.4 mechanism to be transferred out of the host party, they must be authorized as ITMOs, following the Article 6.2 guidance.

There are various forms of Article 6 cooperation with different levels of market liquidity (i.e., how easy it is to buy and sell ITMOs at any given time without impacting market prices). A host party might choose to engage in several forms of cooperation simultaneously with different partners:

- **Bilateral cooperation** involves cooperation between two parties on a one-to-one basis. Here, one party transfers ITMOs to another party for use towards the acquiring party’s NDC. This cooperation does not require any liquidity in the market for ITMOs since all transactions are individual transactions, even if they may cover several years of mitigation and a variety of underlying activities.
- **Multilateral cooperation** involves cooperation between multiple parties (e.g., a “climate club”), that have agreed on a governance model among themselves and possibly a central registry or platform to buy, sell, and transfer ITMOs.
- **Regional alliances** are a variation of the above but within a specific region, such as the European Union or the African Union. This type of cooperation can facilitate the transfer of ITMOs within the region, while also promoting regional collaboration on climate mitigation.
- **International ITMO trading** creates the highest level of market liquidity. All stakeholders can buy and sell ITMOs on a global market on one or more (possibly connected) platforms. Here parties can trade ITMOs to achieve their NDCs efficiently and cost-effectively. This market structure does not change the requirements for generating and authorizing ITMOs (i.e., they must still be “real, verified and additional”) but makes it easier to transfer and acquire them without negotiating an agreement with a specific country or countries. However, additional considerations and supporting mechanisms should be in place to enable exchanges, such as standard contracts; and in most cases, brokers or intermediaries would be needed.

Figure 5. Forms of Article 6 cooperation



In summary, Article 6 provides a flexible and adaptable framework for parties to cooperate to achieve their NDCs consistent with their own national circumstances and priorities. The next section covers the main risks and benefits of Article 6 engagement from the perspective of a host party.

1.2 Overview of risks and opportunities (benefits) for host parties in Article 6

One of the first questions for host parties is whether to engage at all with Article 6, and if so how to do it, based on an assessment of the risks and benefits. A host party Article 6 strategy is a blueprint for how to use carbon markets in a way that safeguards environmental integrity (Box 3), promotes sustainable development, and raises climate action ambition. In addition, the Article 6 strategy could serve host parties to select sectors, approach the private sector, navigate opportunities and risks, and manage its NDC achievement.⁴

When discussing the strategic benefits and risks surrounding the use of Article 6 it is important to understand who faces them. There are risks facing both the buyer and seller: buyer risks mainly relate to reputational risks arising from buying ITMOs with environmental integrity problems, while seller risks (host party) relate to missing its NDC goal, as well as reputational risks. The focus of this guide, however, is risks to the host party.

Box 3. Environmental integrity

Environmental integrity means that global greenhouse gas emissions should not increase as a result of transfers of MOs, compared to a scenario where such transfers did not take place. Traditionally, the focus for environmental integrity in compliance and voluntary carbon markets was on the quality of the carbon credits. In other words, did they represent unique, additional, verified and permanent emission reductions or removals that were conservatively quantified (i.e., conservative baseline and proper accounting for leakage)? In the framework of the Paris Agreement, however, where all countries have mitigation goals, it is also critical to account robustly for transfers and to avoid double-counting of MOs. In addition, as part of Article 6.2 guidance, additional aspects are included such as no net increase in global GHG emissions; robust governance, reference levels and baselines; and to minimize the risk of non-permanence.

Other important elements of environmental integrity are the stringency of the host party's NDC and whether transfers would affect future increases in ambition (i.e., avoiding perverse incentives to not increase NDC pledges), since these affect the long-term impact of cooperative mitigation activities.⁵

While Article 6 builds on the experience of earlier carbon markets created under the Kyoto Protocol, the Paris Agreement creates new opportunities and challenges. Previously, the CDM enabled host countries to secure additional finance for GHG emission reduction projects without the need to implement “corresponding adjustments” (Box 4). That was because host countries were not required to reduce their own emissions, as non-annex I signatories to the UNFCCC. In contrast, transactions under Article 6, whether based on the Article 6.4 mechanism or bilateral arrangements for cooperative activities, can have a direct impact on the host party's NDC achievement. By transferring MOs to another country and agreeing not to use those for achieving its own NDC, the host party might incur additional costs to still meet their national mitigation goals (i.e., there would be an “opportunity cost” for transferring the MOs).

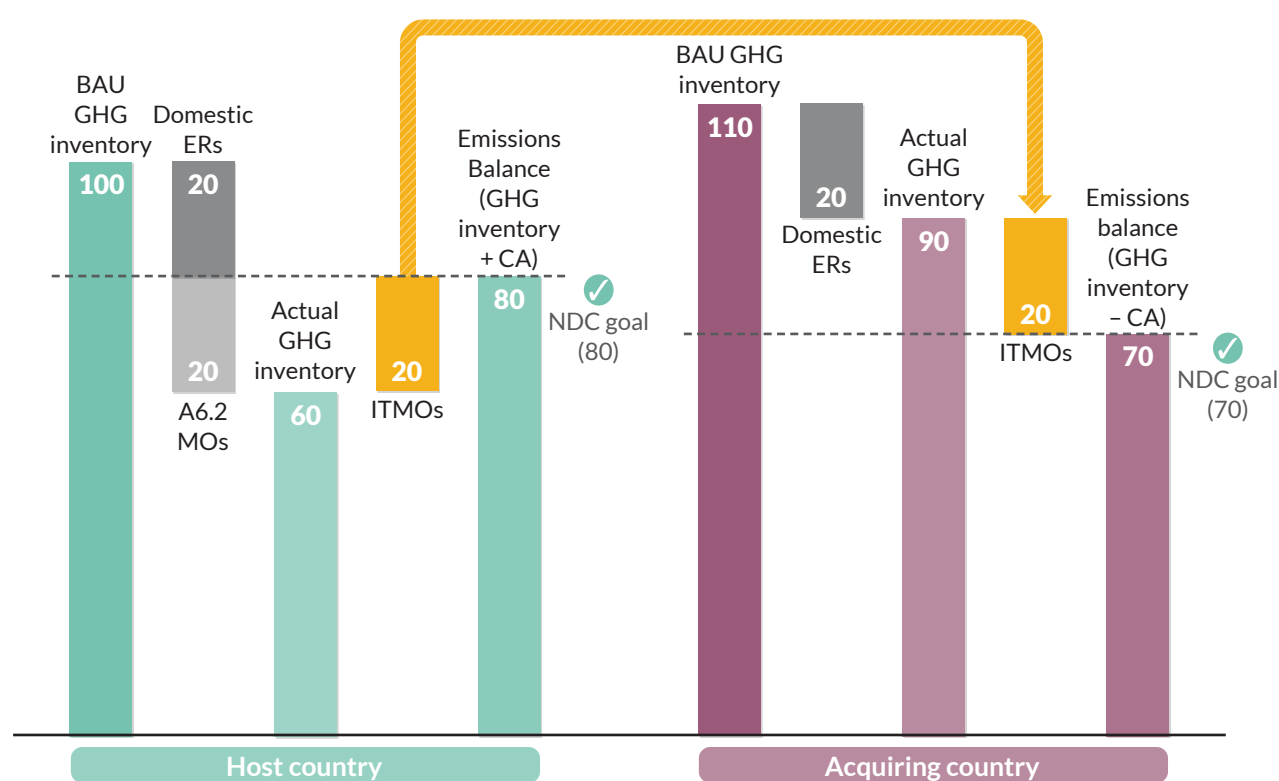
Box 4. Understanding corresponding adjustments

The rules for transferring MOs under Article 6 ensure that these outcomes are not counted by more than one country by requiring “corresponding adjustments” for all transfers. This means that the transferring country (i.e., the host party) adds back the amount on the ITMO transfer to its NDC GHG inventory to create an “emissions balance” that is compared to the NDC goal. Conversely, acquiring countries *subtract* the ITMOs transferred from their NDC GHG inventories when creating their emission balance. In other words, the acquiring party can only use the ITMOs to reach its NDC goal when the host party does not use those MOs for its own goal. The same applies to ITMOs authorized for other international mitigation purposes.

Box 4. Understanding corresponding adjustments (*continued*)

The figure below shows an example where a cooperative activity that reduces emissions by 30 units is used as the basis for an ITMO transfer. In this case, the host party still meets its NDC goal because, even after adding back the 30 units transferred to the GHG inventory, the emissions balance of 90 is the same as the host party's goal. The acquiring party is also able to meet its goal of 60 units even though its GHG inventory is 90 units, because the acquisition of ITMOs for 30 units is subtracted from the inventory, which leaves an emissions balance of 60 units. If the host party's goal had been 90, however, then the transfer would have led the country to miss its NDC pledge even though its actual GHG inventory was below that level of emissions. For more information, see Annex A.

Figure 6. Example on how corresponding adjustments work between a host party and an acquiring party



NDC: Nationally Determined Contributions
 ITMO: Internationally Transferred Mitigation Outcomes
 BAU: Business as Usual
 GHG: Greenhouse Gas

In addition, there might be instances where host parties could face the potential interaction of Article 6 with voluntary carbon markets (VCMs), and doubts regarding the need for authorizations processes could exist. Box 5 explores this issue in more detail.

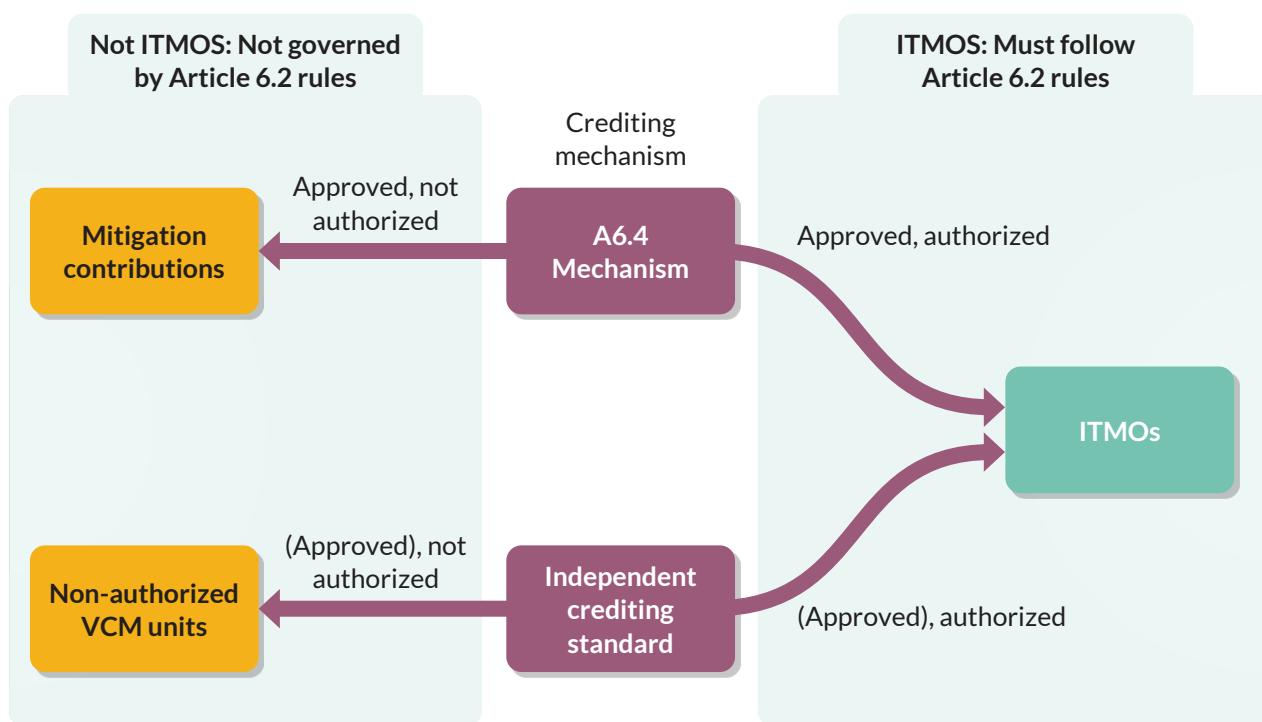
Box 5. Authorized units, non-authorized units and “mitigation contributions”

The focus of this guide is on helping host party governments to make decisions on whether and how to authorize MOs that could be used for international transfers. However, the voluntary carbon market – a key part of international carbon markets – is not directly governed by the Paris Agreement. The VCM includes multiple crediting mechanisms and trade in millions of tonnes of emission reductions each year that have traditionally been completely outside of an international compliance framework (i.e., under the Kyoto Protocol to the UNFCCC and now under the Paris Agreement). While the Article 6.2 guidance does allow for a host party to authorize ITMOs for “other purposes” – which is generally interpreted to mean purchase by the private sector and other organizations for voluntary climate goals – authorization is not universally required by any of the voluntary carbon market crediting mechanisms. In addition, none of the major VCM crediting mechanisms requires formal approval by a host party – either an approval of the project or the authorization for international transfer of the resulting MOs. Their registries may indicate whether the issued carbon credits for an activity have been authorized for international transfer, but there is no requirement for this. This means that, in the short term at least, there is likely to be a market for “non-authorized units” (e.g., carbon credits issued by a VCM mechanism without host party authorization) as well as a market for ITMOs (i.e., which are authorized by the host party). The activities generating these units might even be “approved” under the Article 6.4 mechanism, although not authorized for transfer under the Article 6.2 rules (see figure). Many experts feel that authorized units are likely to have higher prices than non-authorized units, but so far there is no public information on ITMO prices (in part because there are almost no transactions yet) that could be compared to prices for non-authorized VCM carbon credits.

One possible use of non-authorized units is for organizations to claim that they have made “mitigation contributions” – financial support to help host parties achieve their NDC goals – rather than to claim that they have “offset” their own emissions by purchasing MOs that are not used by any other country or entity. The Article 6.4 mechanism also allows for this distinction. For buyers to use Article 6.4 emissions reductions for NDC compliance, for example, those units must be authorized as ITMOs. However, Article 6.4 emission reductions can also be used for “mitigation contributions” without authorization, to provide evidence of the mitigation impact of an activity and support a claim that a buyer financially supported the mitigation activity.

Box 5. Authorized units, non-authorized units and “mitigation contributions” (*continued*)

Figure 7. Interaction of Article 6 with the voluntary carbon market



Seen from the perspective of host countries, there are strategic benefits of engaging with Article 6 (Figure 8):

- Economic benefits:** Host parties can earn revenue from the transfer and sale of ITMOs. Beyond the cash flow from ITMOs, Article 6 activities may also result in additional external financing for host parties and/or technology transfer on more favorable terms than would otherwise be available.
- Sustainable development co-benefits and SDGs support:** Participating in Article 6 cooperative approaches could support host parties on ensuring the alignment and contributions of mitigation activities towards the sustainable development objectives of the party.
- Increased skills and capacity:** Article 6 activities can address sectors of the economy that are under-served or beyond the capacity of the host party to implement in the short term. International participation in early development of such activities through Article 6 can lead to local skills development and increased capacity. Building monitoring, reporting and verification (MRV) skills can allow countries to broaden the scope of the NDC and take on more ambitious targets.

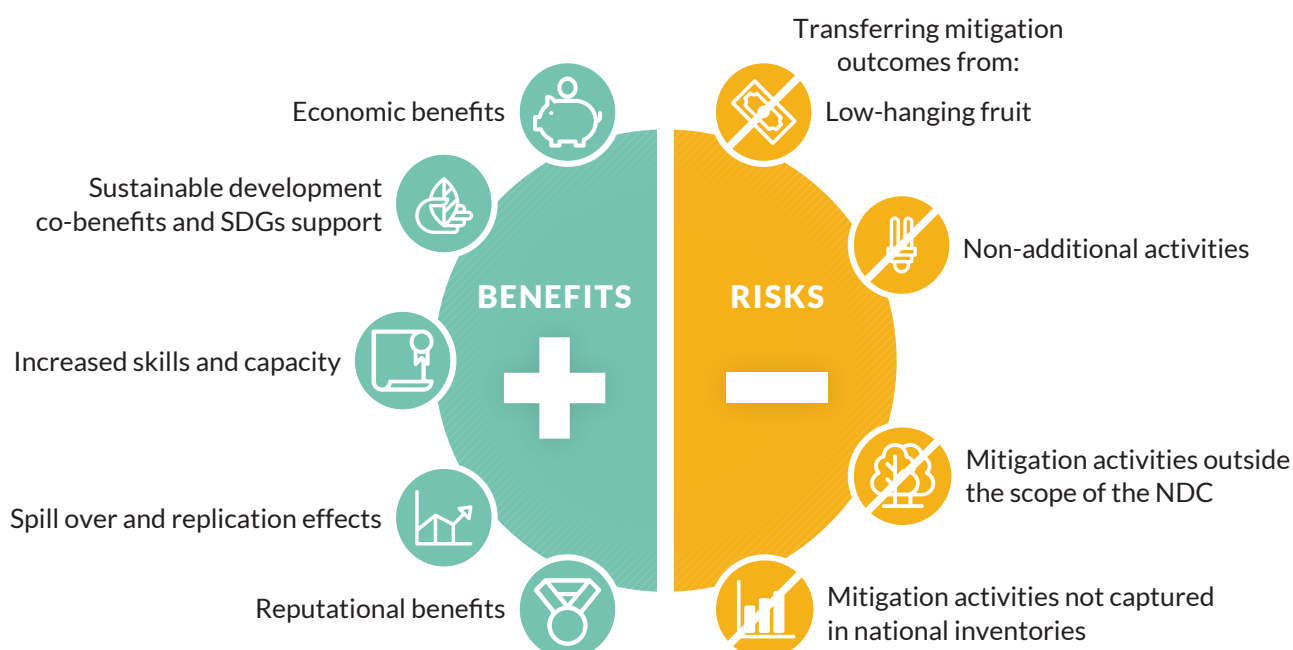
- **Spillover and replication effects:** Article 6 activities can reduce barriers through the power of demonstration and potential replication. For example, a renewable energy activity in one part of the country could serve as a model for similar activities throughout the country.
- **Reputational benefits:** Host parties can use their participation in Article 6 to demonstrate leadership and commitment to addressing climate change.

These benefits in most cases go beyond the specific activity that underpins the creation and export of ITMOs. The revenue streams from an Article 6 activity may benefit not only the activity participant, but also the government. For example, a host party may decide to charge a fee for administration or for implementing the corresponding adjustment (i.e., to compensate for the MOs that cannot be used to achieve the national goal) (Chapter 3).

There are also a number of strategic risks when participating in Article 6 (Figure 8), mainly around the risk that the host party, by transferring certain MOs, might jeopardize its own NDC goal. This could happen in several ways (Figure 9):

- **Low-hanging fruit:** If a country transfers low-cost MOs that it would want to use to meet its NDC pledges cost-effectively, this could make it more difficult to reach the NDC goal. The country might then have to replace these mitigation activities with higher-cost actions in order to meet its total mitigation pledge.
- **Non-additional activities:** Some countries and activity participants may prioritize mitigation opportunities that appear to be low cost, but there is a risk that these might have happened even without the support of the carbon market. The host party must still apply a corresponding adjustment for the transferred ITMOs even though there may be no actual emission reductions in the NDC-covered GHG inventory. This could then push the host party away from its NDC goal.
- **Mitigation activities outside the scope of the NDC:** If the emissions reductions caused by the activity are outside of the sectors, gases or sources and sinks covered by the NDC inventory, then the net result is the same as the previous two cases – the host party must add back ITMOs in a corresponding adjustment but the NDC-covered GHG inventory does not go down and balance the impact of the corresponding adjustment.
- **Mitigation activities not captured in national inventories:** Some emissions reductions may not be captured in a country's NDC-covered GHG inventory because of the assumptions and measurement approaches used in the inventory (e.g. the inventory is too highly aggregated to show the impact of the activity). As with non-additional activities, this means that there will be no measured emission reductions or removals in the GHG inventory to balance the corresponding adjustment, therefore moving the host party away from its NDC goal.

Figure 8. Summary of the benefits and risks to host parties of using Article 6



The host party may need to restrict the activities allowed for Article 6 cooperation or implement other strategies to avoid these risks. The different types of overselling risks are further explained in Chapter 3, in terms of what they mean for host countries and what corrective measure can be taken. The overall guidance is to ensure that stringent control is applied when authorizing MOs, so that these are only transferred when this supports the host party's interests, including development priorities and longer-term climate strategies.

Figure 9. Different types of overselling risks and implications for Article 6 cooperation

Types of overselling risks for host Parties			
"Low-hanging fruit"	Non-additional activities	Mitigation not "visible" in GHG inventory	Activities outside scope of NDC
The risk of using actions needed for unconditional NDC, and having to replace this mitigation	The risk of using actions that would have happened regardless of the existence of a carbon market	The risk of using actions where the emission reductions are not captured in a country's GHG inventory	The risk of using actions outside the scope of sectors, gases, or sources/sink covered by NDC
Implication:	Implication:	Implication:	Implication:
Host Party must find new mitigation actions at higher cost	No real emissions reductions to balance out the impact of CA	No emission reductions captured in NDC GHG inventory to balance out impact of CA	The emission reductions will not be covered by NDC GHG inventory to balance out the impact of the CA
Action:	Action:	Action:	Action:
Limit the use of unconditional NDC actions, or those with similar characteristics, for Article 6	Require stringent additionality assessment and/or restrict cooperation to activities with low additionality risks	Limit the use of activities where NDC GHG inventory will not capture mitigation impact	Limit the use of activities outside the scope of the NDC

Host parties could face an administrative burden that would need to be considered. This administrative burden refers to costs and resources that are to be dedicated when pursuing and maintaining an Article 6 infrastructure. Guide 3 on Article 6 institutional frameworks, Chapter 4.3, notes that this burden can be minimized by relying on elements of other crediting mechanisms already implementing in host parties.

In addition to the risks linked to overselling, there are other environmental and social risks noted within the Article 6.2 guidance that should be considered by host parties to avoid unintended negative impacts (Box 5 and Annex B).

Box 6. Avoiding negative social and environmental impacts – environmental and social risks assessment

There are additional risks related to unintended negative social and environmental impacts derived from climate action through carbon market mechanisms. International development organizations, such as the World Bank and United Nations Development Program, as well as carbon market standards or programs such as Gold Standard and Verra, have established environmental and social safeguards to address these. These are guidelines to anticipate, avoid and manage such negative impacts from a “do no harm” perspective that goes beyond environmental integrity and integrates human rights, prior informed consent, and gender equality criteria, among others.

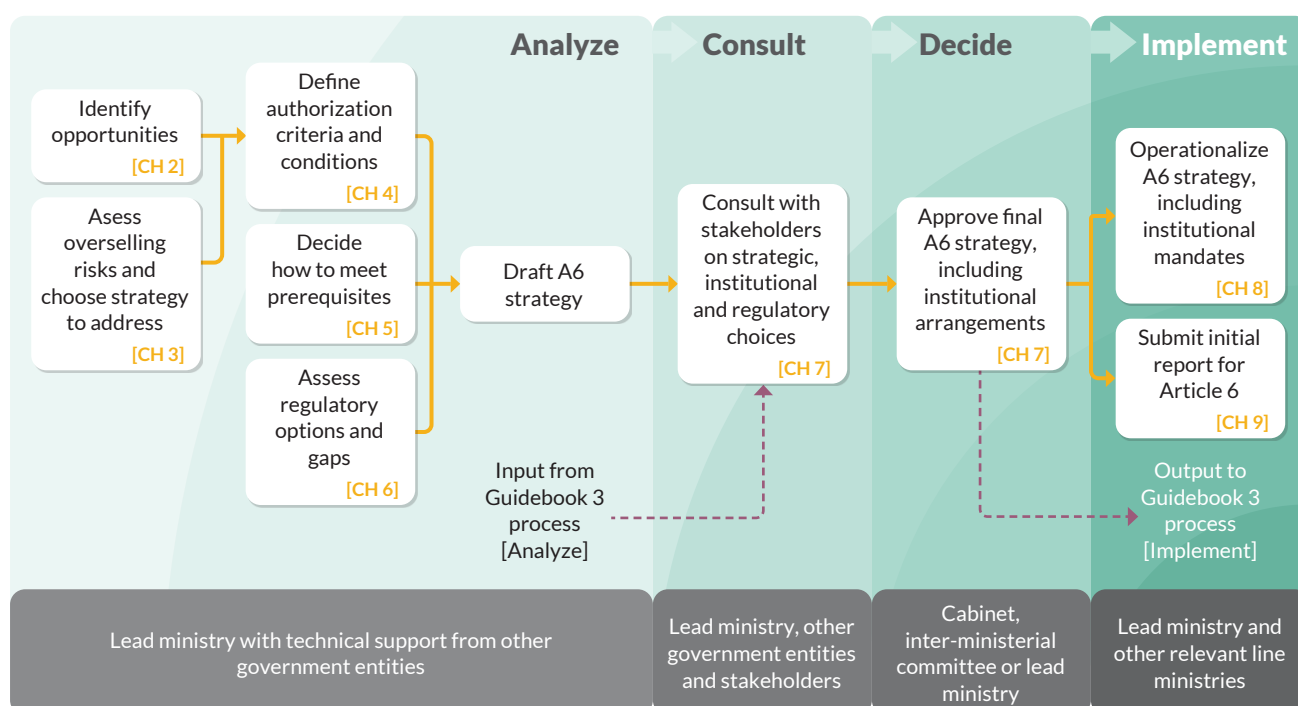
Annex B provides an overview on environmental and social risks assessment, and a mitigation plan, according to environmental and social safeguards categories used by carbon market standards.

Steps in developing an Article 6 strategy

This part of the guide presents a step-by-step approach to developing an Article 6 strategy. The following chapters will elaborate each of the main steps for host parties developing their Article 6 strategy (Figure 10).

These processes can be grouped into four main phases: analyze, consult, decide, and implement. These phases and their respective elements are described in more detail below and in the following chapters. Figure 10 also shows how the analysis in Guide 3 will feed into the consultation and decision-making on the overall Article 6 strategy.

Figure 10. Steps in developing and implementing an Article 6 strategy



Analyze

The host party government – particularly those in charge of the NDC – will lead the key steps in the analyze phase. These steps include:

Identify opportunities (Chapter 2). Identifying opportunities takes further what was said in Chapter 1 about the benefits of implementing Article 6. The identification and later prioritization of such opportunities will give host countries key criteria to consider as part of their authorization process and overall Article 6 strategy.

Assess overselling risks and choose strategies to address them (Chapter 3). Different activity types can have varying levels of overselling risks. The host party needs to understand and take these into account as part of a proactive approach to addressing risk. Screening will assess activity types on the basis of their overselling risk.

Define authorization criteria and conditions (Chapter 4). There are various criteria and conditions for authorizing ITMOs that host parties can use. These can be categorized in different groups: i) mandatory requirements from the Article 6.2 and Article 6.4 rules; ii) optional criteria to maximize opportunities and benefits; iii) implementation of negative and positive lists; and iv) conditions to manage overselling risk.

Beyond the question of authorization criteria, host parties must **decide how to meet Article 6 basic requirements** (Chapter 5).

In addition, the host party should **start assessing its regulatory options and gaps**, based on an overview of policy and regulatory needs, and after identifying the policy instruments that will have to be up and running for the Article 6 strategy to be implemented (Chapter 6).

As a result, the host party will be able to **draft its Article 6 strategy**. The drafting process could include the participation of key stakeholders as defined by the leading ministry or any regulation that exists.

Consult and decide

The consultation process is generally part of the formal process for publishing national policies and strategies. The process should help to gather feedback from a broader audience in order to better tailor the draft documents of the Article 6 strategy. Stakeholders can include other government agencies and ministries, private sector, civil society, and other relevant external stakeholders. As part of the consultation process, host parties could also include the draft institutional framework and capacity building plans. These additional draft documents are presented in Guide 3.

The host party needs to make decisions and finalize the strategy to reflect the feedback received during the consultation process. This final approval process will vary by country, but might be done by the cabinet, the designated National Climate Change Commission or Committee, the lead ministry for climate, or another designated authority (Chapter 7).

Implement

Implementing the Article 6 strategy consists of the host party publishing not only the Article 6 strategy but relevant secondary regulations that operationalize the strategy. Publishing the Article 6 strategy should include the authorization criteria and conditions, procedures, and forms, as well as any other host party requirements (Chapter 8). This would also be an appropriate time for the host party to submit its initial report for Article 6 (Chapter 9).

Chapters 2–6: Prioritizing the Analyze step

Analyze is the largest section of this guide because it addresses the decisions for which most host parties need support, and where there are currently few resources to guide these decisions. In addition, the following phases of “consult” and “decide” are both processes that tend to be regulated by existing laws on the publication of national policy instruments.

The analyze section follows the structure shown in Figure 10. First, the host party assesses opportunities and overselling risks. This assessment should best be done by the leading ministry, with technical support from other government entities. Assessment could take one of two approaches: (1) a proactive approach of assessing risks and benefits from entire activity types; or (2) a process for ad-hoc assessment of individual proposed activities based on their potential overselling risks and other benefits (Chapters 2 and 3).

Second, the different assessments and identification of opportunities provide important input towards defining authorization criteria and conditions. Some of them are mandatory as part of the Article 6.2 and Article 6.4 requirements, but others could be included to support host parties to align with domestic and international regulations, as well as to help them manage overselling risks (Chapter 4).

Third, host parties should decide on how they will meet basic participation requirements and tactical decisions as part of their Article 6 strategy. These are to be taken to better define the scope of Article 6 activities in host countries (Chapter 5).

Finally, host parties will need to address regulatory gaps and how the Article 6 strategy would be promulgated as a standalone document or within existing policies (Chapter 6).

Chapter 2



Identify opportunities

As part of the different phases that a host party could follow to implement its Article 6 strategy, its first step is to identify opportunities. This is primarily done according to what funding is available for mitigation and the national and regional priorities. There are several criteria that a host party can follow to define those priorities, for example:

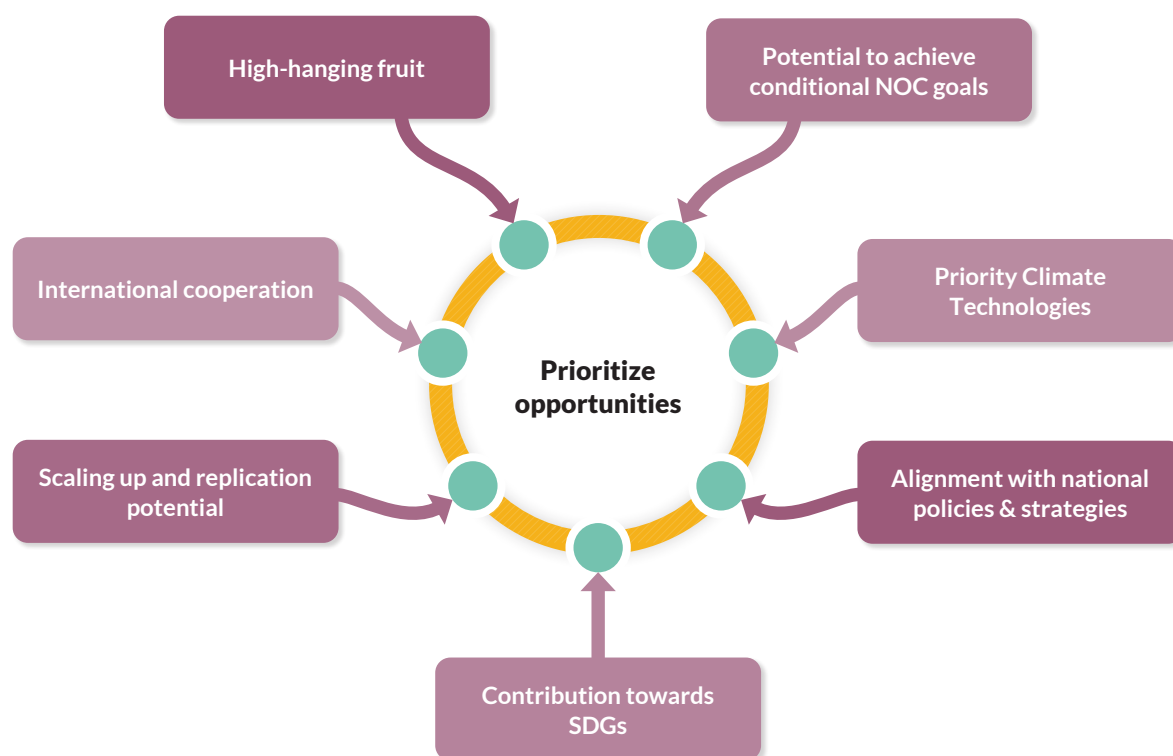
- High-hanging fruit
- Potential to achieve conditional NDC goals
- Priority for climate technologies
- Alignment with national policies and strategies
- Contribution towards SDGs
- Scaling-up and replication potential
- International cooperation

At the same time, as explained in the next chapter, transfers of MOs can impact NDC compliance, and so the strategy for managing risks could mean that, even if a potential activity is attractive based on several of these criteria, the host party may choose not to allow transfers.

Host parties may choose to prioritize mitigation activity types as part of their Article 6 strategy. This will be important where the country is deciding how to use limited funding to support activities or where the government wants to ensure stronger alignment of Article 6 activities with other national policy priorities, including the NDC goals. The host party could, for example, prioritize opportunities that can help it achieve its conditional NDC climate goals and are aligned with its national policies and strategies. Activities that are part of the conditional NDC are likely to have higher abatement costs than those that are part of the unconditional NDC (i.e., “high-hanging fruit”). Additionally, the host party may prioritize opportunities that have good potential for scaling-up and replication in other sectors and regions, as well as those that involve the transfer, diffusion, and uptake of priority climate technologies.

The process of prioritizing opportunities, e.g., what, when and how to use Article 6, is essentially a multi-criteria analysis. There are well-established methodologies for doing this for climate change technologies, such as the technology needs assessment methodology from UNEP-CCC.⁶ The key to completing a robust multi-criteria analysis is to ensure stakeholder input and buy-in to defining the criteria and what weight (importance) each criterion should have. Figure 11 indicates some potentially relevant criteria, though the final selection and weighting should be a country-driven process.

Figure 11. Criteria for identifying opportunities



As part of identifying opportunities, national authorities could include strategic criteria informed by technology-specific market analyses and strategies. That is, they could align with the focus and ambitions of the national technology action plans (i.e., plans created to implement the NDC and the low emissions development strategy (LT-LEDS), where these have been completed in the last few years as part of a UNFCCC-mandated technology needs assessment. In most cases countries will have included an analysis, or at least reference to, national financing pathways to deliver priority activity ideas in the national technology action plans. Article 6 financing should be seen as complementary to traditional ways of funding, such as the mix of grant and concessional financing on offer from various multilateral climate funds including the Global Environment Facility, the Green Climate Fund, and the Adaptation Fund. If Article 6 authorities and/or activity participants identify an opportunity to co-finance investment opportunities from the technology needs assessment or national action plans, they should liaise with the relevant national focal points (e.g. the national designated authorities to the Green Climate Fund and Global Environment Facility).

To summarize, the identification of opportunities should include setting and applying the criteria for evaluation. In addition, it is key to engage with key stakeholders to secure support and buy-in for activities. The process would also include: a comprehensive analysis of the sector and technology-specific mitigation options and opportunities; the assessment of alignment with relevant sectoral and national priorities; and the potential contribution towards the achievement of the sustainable development goals (SDGs). This process would build on existing recent analyses such as the technology needs assessments.

Chapter 3



Assess overselling risks and choose strategies to address

A critical element of a host party strategy is assessing overselling risks of proposed Article 6 activities and choosing a strategy to address those risks. For host countries to accomplish this step, they should first screen for NDC and GHG inventory visibility of activity types and then consider how the activity types overlap with the host party's NDC actions. These allow host parties to identify and categorize Article 6 activity types into low, medium, and high overselling risk. Once the level of overselling risk is identified, host parties may use these to create negative and positive lists for authorization (i.e., activities definitely would not be authorized and activities that almost certainly will be authorized). For those activities that were identified with a medium risk of overselling, host parties could choose a strategy to manage these risks, through their national authorization criteria and conditions.

This chapter provides guidance to host parties on how to evaluate the risk of overselling for specific activity types. It has a clear set of questions and criteria and indicates what strategies can be used to mitigate such risks. The chapter gives information about the benefits and drawbacks of the different strategies and offers recommendations to select the most appropriate strategies for a given activity type. The guidance applies to all types of authorizations, whether for NDC use, CORSIA, or authorized units into the VCM.

Ideally, host parties would take a proactive approach, using the process presented here to create authorization criteria and conditions that manage NDC compliance, such as establishing lists of activities that might be excluded or included in Article 6 cooperation (i.e. negative lists and positive lists). However, this may not be completed before a country is approached by activity participants or acquiring countries and asked to provide authorization for transfers. In the latter case, as part of a reactive approach, the criteria and process could still be used on an ad-hoc basis to assess the risks for transfers based on a specific activity and how to address those effectively. The last sub-chapter touches upon how overselling risk concepts apply to the transition of CDM activities to Article 6.4 activities.

3.1 Approach to overselling risk assessment

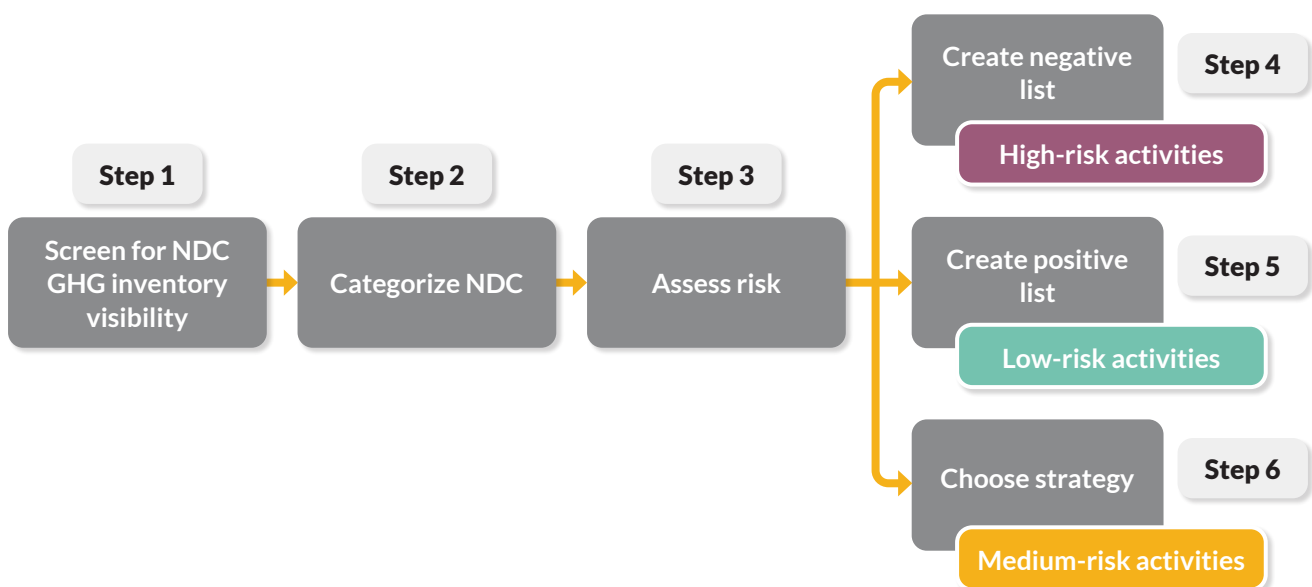
Under the CDM, corresponding adjustments were not necessary because only the acquiring countries had mitigation pledges to meet, so only one country needed to claim the emission reductions for compliance. For the Paris Agreement, however, corresponding adjustments are

an essential component of the cooperative approaches under Article 6 to ensure that only one country uses the MOs. Avoiding double-counting will require careful accounting and tracking of units, not only those used for NDC compliance but also those used for other international obligations (e.g., CORSIA). The authorities in charge of the host party's mitigation pledges must therefore pay close attention when engaging with international transfer of emission reduction units. Transferring countries must ensure that cooperation does not compromise the achievement of their own NDC goals.

Risks that host parties face by transferring MOs that might jeopardize their own NDC goals are referred to as “overselling risks”. The most common overselling risks include transferring MOs from activities that are (1) based on low cost activities that are needed for the unconditional NDC; (2) not additional; (3) not properly captured in the national inventories (lack of inventory visibility); or (4) outside of the scope of the NDC. Chapter 1.2 goes into more detail about the various types of overselling risks and their implications for host parties.

This section presents an analytical framework to assess the overselling risks of different types of mitigation activities in the context of the specific host party's NDC. It then helps the host party government to select an appropriate mitigation strategy, or to determine whether any risk reduction strategies already implemented by the host party (e.g. general requirements for sharing MOs or fees charge for authorization) are sufficient to address these risks. If the risks are minimal, or if they have already been addressed in other ways, then there might not be the need to select an additional risk reduction measure. Figure 12 presents the overall process, while the paragraphs below explain each step.ⁱ

Figure 12. Screening proposed Article 6 activities for overselling risks, and strategies to address these risks



ⁱ Since positive lists for authorization ultimately apply to mitigation outcomes and the activities, governments may choose to provide a specific time period during which they will automatically authorize mitigation outcomes (e.g., up to the end of the current NDC period). This is also related to defining the crediting period of a given activity.

3.2 Step 1 – Screen for GHG inventory visibility

Step 1 is to answer the question: is the proposed activity/activity type⁷ visible in the GHG inventory used in NDC reporting, or is it outside the scope of the host party's NDC?

The calculated MOs from the cooperative activity must be visible in the host party's GHG inventory for the sectors and gases covered by their NDC. Otherwise, there would be no reduction in the NDC GHG inventory to match the corresponding adjustment implemented because of the transfer. In other words, the data collection and calculation methods used in the GHG inventory must be detailed and disaggregated enough to show the same emissions impact of the cooperative activity as what is calculated using a carbon market emissions reduction quantification methodology. For example, a cooperative activity to increase the efficiency of steel manufacturing would result in less fossil fuel being needed for heat and electricity for that industry. These changes would likely be visible in the country's GHG inventory because emissions from energy consumption are relatively easy to calculate and the data – especially for heavy industry – will likely be available to the government.

For activities that are not visible in the NDC GHG inventory (e.g., improved cookstove projects that reduce deforestation, but whose impact is not captured in the forestry GHG inventory) or are outside the scope of the NDC, the overselling risk is very high (Table 1). This is because the host party's corresponding adjustment for the transfer (i.e., adding back these emissions reductions to the NDC GHG inventory) is not matched by any visible reduction in the GHG inventory due to the mitigation activity (or because the emission reductions occur in a sector, gas or source that is outside the scope of the NDC). Such a transfer essentially increases the host party's NDC target, because more mitigation is required for its "emissions balance" to match its original NDC pledge. To still meet its goal, the host party would therefore have to look to additional mitigation options beyond its current plan to reach the unconditional NDC and implement this action to replace the MOs transferred. These activities could be more expensive or complex than the actions included in the original plan.

A similar issue occurs when the activity type falls outside the NDC scope (i.e., covered sectors, gases, sources and sinks). If activities outside of the NDC scope are used for the transfer of mitigation outcomes, the country must still make corresponding adjustments for those transfers. There is no reduction in the emissions inside the NDC GHG inventory, however, so adding these emissions as a corresponding adjustment will increase the country's emissions balance, moving them farther away from their NDC goal.

Table 1. Screen for GHG inventory visibility

Condition	Risk
Activity type reduces emissions outside the NDC scope (gases, sources and sinks, etc.)	Very high
Activity type reduces emissions, but these reductions are not visible in the NDC GHG inventory ⁸	Very high
Activity type reduces emissions from gases and sectors covered by NDC and these reductions are visible in the NDC inventory	Continue to Step 2

Because of the very high overselling risk associated with these activity types, many host countries may choose not to authorize ITMOs from such activities. Countries could also choose to use these activities for results-based climate finance. If they did choose to authorize and wanted to require some form of compensation for the resulting risk, then the fee paid to government would have to be large enough to cover the full cost of any additional mitigation needed to still meet the NDC (i.e., mitigation options not included in the current NDC actions or plans). As discussed in the previous section, this assumes that government would be able to identify, fund and implement these mitigation activities in time to still reach the NDC targets.

For proposed mitigation activity types that are visible in the NDC GHG inventory and are inside the scope of the NDC, the screening process would then continue to Step 2.

3.3 Step 2 – Identify level of detail on specific actions in NDC

The underlying question for these remaining activity types is how likely it is that the activity type overlaps with actions the host party needs to reach its unconditional NDC goal (Box 7). The challenge with answering this question is that not all countries have NDCs or NDC implementation plans that specify the actions needed to reach the NDC goal. Even when there is some form of plan, the level of detail presented publicly may be limited. Separating NDCs into four categories makes it easier to answer the question of potential overlap:

- NDC lists specific conditional and unconditional actions
- NDC lists mitigation activities but does not specify whether they are for the unconditional or conditional NDC
- NDC does not list specific mitigation activities but has unconditional and conditional mitigation goals
- NDC does not specify whether or not the goals are conditional, or the NDC only has either conditional or unconditional goals (i.e. not both)

The screening process for each NDC type is somewhat different, but all of them lead to an assessment of low, medium or high overselling risk.

Box 7. Conditional and unconditional NDC goals and Article 6

The Paris Agreement and related rules do not define what “conditional” and “unconditional” NDC goals are. Instead, many countries chose to use this language when submitting their NDCs. In addition, some countries were explicit about what those conditions are (e.g., financing, technology transfer and capacity building), while others were not. Some also mentioned carbon finance as a condition.

Box 7. Conditional and unconditional NDC goals and Article 6 (continued)

Where countries specify conditional NDC goals, Article 6 might be used to support the actions behind these goals. However, because all transfers will require corresponding adjustments (Box 4), the transfer of ITMOs will never directly reduce a country's "emissions balance" that is compared to its NDC goals – because the host party has given up the right to this mitigation by authorizing a transfer. Nevertheless, much of the current Article 6 pilot activity focuses on actions that were identified as conditional, or at least steering clear of actions put forward as unconditional in the host party's NDC. Countries may also receive climate finance to support conditional goals, since climate finance (as opposed to carbon finance) does not involve the transfer of MOs.

3.4 Step 3 – Assess mitigation risk of the activity type

The assessment process depends on the category of NDC, as explained in the following descriptions (numbered a–d) and tables. For a given activity type and country, only one of the assessments would apply, based on the category of NDC. In all cases, this part of the risk assessment framework only applies to activity types that are inside the scope of the NDC and whose emission reductions or removals are visible in the GHG inventory covering the NDC goals (see Step 1).

a. NDC lists specific conditional and unconditional actions

The assessment of risk is easiest where a country has identified the actions preferred to meet its unconditional and conditional NDC goals. The only caveat is that some actions might be used for both goals but at different levels of implementation. Table 2 shows the risk associated with different types of mitigation activities in this type of host party.

Table 2. Assessing overselling risk where the NDC lists specific unconditional and conditional actions

Condition	Risk
Activity type is mentioned only as an unconditional action, and NDC does not specify level of implementation of this action	High
Activity type is mentioned only as an unconditional action, but NDC specifies a level of implementation of this action (e.g., MW or power or ha of land) that could be exceeded by a specific activity	Medium*
Activity is mentioned only as an unconditional action, NDC specifies a level of implementation of this action and activity will NOT exceed this level	High
Activity type is mentioned as both an unconditional and conditional action (e.g., at different degrees of implementation)	Medium
Activity type is not mentioned in either list or is only mentioned as a conditional action	Low

Notes: *Using the NDC implementation goal as the baseline for this cooperative activity would address this risk, assuming the mitigation activity was broad enough in scope to match that goal.

b. NDC lists mitigation activities but does not specify whether they are for the unconditional or conditional NDC

For countries that have unconditional and conditional goals and a list of actions but have not specified which actions are linked to each of those goals, there is more uncertainty about overselling risk. The key distinction would just be whether an activity was included in the NDC action list or not (Table 3).

Table 3. Assessing overselling risk where the NDC lists mitigation activities, but does not specify whether they are for the unconditional or conditional goals

Condition	Risk
Activity type is mentioned in list of actions	Medium
Activity type is not mentioned in list of actions	Low

c. NDC does not list specific mitigation activities but does have unconditional and conditional mitigation goals

The other scenarios make it even more difficult to establish whether a mitigation activity type overlaps with the actions needed to reach NDC goals. If no list of actions is presented and the country has both conditional and unconditional goals, it is difficult to say whether a given activity type might overlap with the country's NDC plans, so essentially all actions could potentially pose some overselling risk (Table 4). The exception would be when countries have only conditional goals because, in essence, these countries have not made a binding commitment to mitigation. Even if they do oversell MOs, they could simply argue that the conditions for reaching the NDC were not met. Ironically, the risk of overselling in that case is effectively low, only because there is no clear commitment.

Table 4. Assessing the risk of overselling where the NDC does not list specific actions but does have unconditional and conditional mitigation goals

Condition	Risk
Host party has both unconditional and conditional goals	Medium
Host party does not specify whether goals are unconditional or conditional (i.e., so goal can be interpreted as unconditional)	Medium
Host party has only an unconditional goal	Medium
Host party has only a conditional goal	Low

d. NDC does not specify whether or not the goals are conditional, or the NDC has only conditional or unconditional goals (i.e. not both)

A final combination of scenarios would be where the NDC lists specific actions, but the NDC itself does not have both conditional and unconditional goals, or does not specify conditionality. In this case, if the host party does not specify conditionality, then the goal could be interpreted

as unconditional. This would mean that any activity on the NDC list essentially presents a high overselling risk. But if the host party has only conditional goals, then, following from the logic above, none of the activities present a major risk, because the host party has not made any binding commitments.

Table 5. Assessing the risk of overselling where the NDC does not specify whether or not the goals are conditional, or the NDC only has either conditional or unconditional goals (i.e. not both).

Condition	Risk
Activity type is in the list and NDC has only an unconditional goal OR NDC does not specify conditionality of goals (i.e., so the goal can be interpreted as unconditional) ⁹	High
Activity type is not in the list or NDC has only conditional goals	Low

As a result of the screening process for activity types in the context of their own NDC, host parties will have a good overview on the level of risk of overselling for different activity types: low, medium, high, or very high. Steps 4 to 6 provide further guidance on the type of strategies that are available for host countries to address each level of risk.

3.5 Step 4 – Create a negative list

Finally, based on the overselling risk assessment of a specific mitigation activity in a given host party, the host party can consider whether and how to address any risks.

For mitigation activities with high (or very high) risk of overselling, the host party may choose not to authorize these transfers. This might be the “negative list” strategy, where the host party proactively identifies the activity types that clearly present high or very high risk and excludes them from Article 6 cooperation. Alternatively, this risk might be identified on an ad-hoc basis for a specific activity requesting authorization.

Creating a negative list means to flag all of the activity types identified as having a high risk of overselling or other unacceptable impacts. Examples include activity types that are not visible in the national inventories, or fall outside the NDC, or are part of the unconditional NDC. However, there are other indicators or parameters that host countries can use to identify additional activity types that fall in the negative list. These could include issues related to the violation of (or non-compliance with) the host party’s sustainable development goals, or environmental and social safeguards, where this is true for an entire activity type.

A negative list, in addition, would ensure that the host party did not have to replace activities with higher-cost ones if these mitigation interventions were to be used as the basis for transfers under Article 6 and therefore be subject to corresponding adjustments. Parties could also ensure that any activities that have low costs or are accessible within the country are excluded, as these measures may be used by the country to enhance the ambition of its current NDC.

Box 8. Negative list approach in Jordan and Ghana

Some host party examples are in Jordan, whose draft Article 6 framework seems to adopt the negative list approach: it lists measures that form part of the NDC achievement plan, and which are ineligible or require further assessment.¹⁰ Some of these measures that are considered to achieve the NDC target of Jordan are:

- Large-scale renewable energy projects for electricity generation > 50 MW (including wind, solar PV, hydro)
- Efficient lighting in urban areas
- Fuel switch in industry
- Bus rapid transit

Also, Ghana's Article 6 framework puts nine unconditional NDC mitigation programs of actions on a "red list" (negative list).¹¹ The list is the following:

- Cocoa forest REDD+ program
- Shea landscape emission reduction program
- Tree on-farm program
- Urban transit program
- Promotion of non-motorised transport
- Restriction of importation of over-aged vehicles
- Promotion of energy-efficient light bulbs in homes
- Switch from fuel oil to gas in thermal power plants
- Conversion of a single cycle to a combined cycle in thermal power plants

3.6 Step 5 – Create a positive list

For mitigation activities with low risk of overselling, none of the strategies are strictly necessary. In other words, even if the host party authorizes the transfers without adjusting the baseline, keeping a share of the emission reductions, or charging a fee, the transfer does not, on its own, present a risk for NDC achievement. The host party could proactively identify low-risk activity types in order to create a "positive list" of mitigation activities.

The purpose of a positive list is to signal to activity participants which activity types would either be automatically authorized or would be exempt from certain authorization or approval requirements. To create a positive list, therefore, the host party needs to identify which activity types not only have low risks overselling but also are aligned with national policies priorities and bring significant co-benefits to the country. Positive lists could include activities listed in host party's conditional NDCs (like Vanuatu's positive list), or activities that have higher mitigation costs (like India's positive list). The host party should be confident that authorizing proposed activities on the positive list would not require any additional review or further analysis, based on the fact that the impacts of these activity types have already been identified and analyzed.

Box 9. Positive list approach in Zambia

Zambia has outlined a general set of activities in its positive list, as part of its interim guidelines. These eligible activities aim at supporting the country's clean energy transition. In addition, there are activities that are part of the agriculture, transport, waste, and forestry sectors.¹²

The “categories of project interventions eligible for considerations” are:

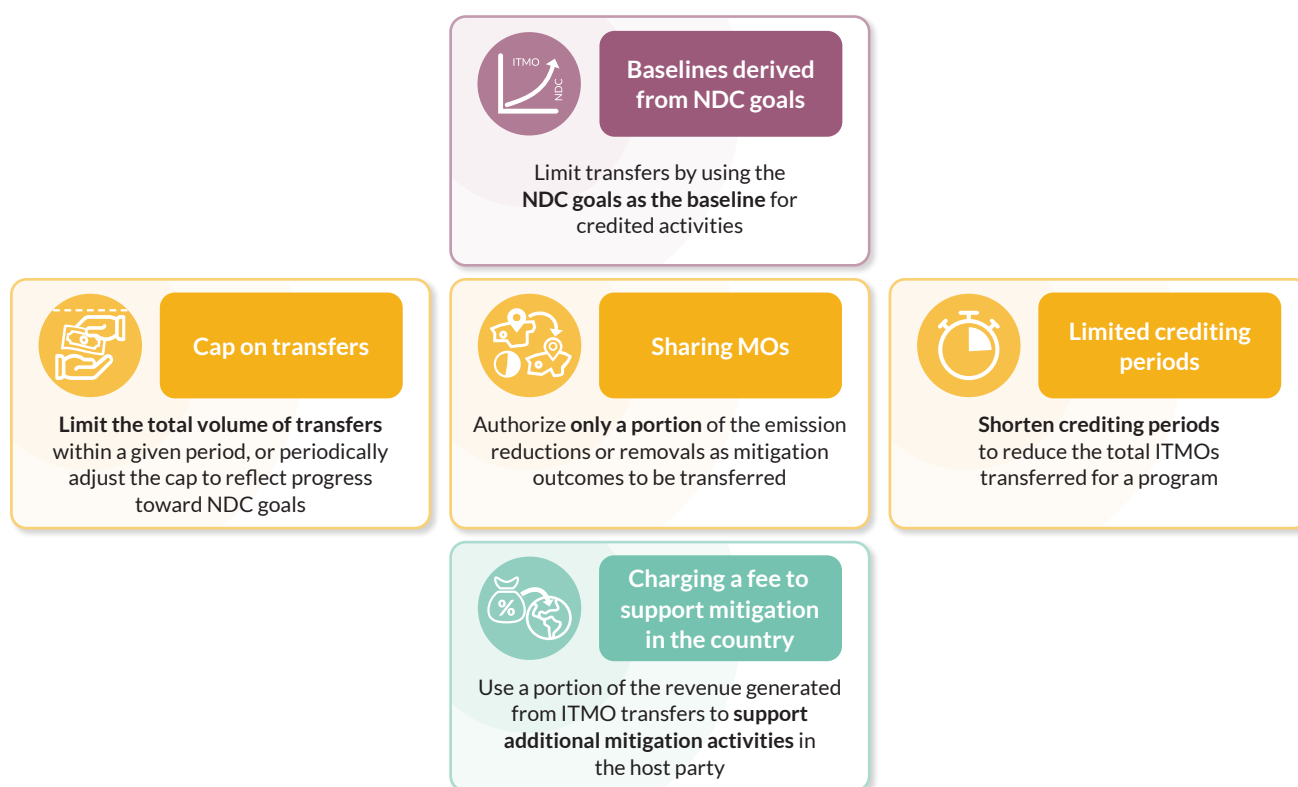
- Promotion of renewable energy sources (wind, solar, biomass, mini hydro, etc.)
- Switching from high carbon fuel to lower carbon intensive fuels
- Energy efficiency on the supply side (improving electricity transmission and distribution systems or updating)
- Energy efficiency on the demand side
- Agricultural sector projects (other than land-use change)
- Transport sector projects (electric mobility in road or rail networks)
- Reducing methane emission from landfills and other waste-handling activities
- Waste management and wastewater treatment
- Sustainable forest management, afforestation, reforestation, avoided deforestation, restoration and/or forest regeneration

Positive lists may be limited by the cooperative agreement that the party signs – therefore parties should have an understanding of cooperative agreements and how to negotiate them prior to making decisions which may be costly or time-consuming to undo.

3.7 Step 6 – Choose a strategy for medium risk activities

This leaves medium risk activities, which are likely to make up the bulk of early Article 6 activities. The section below explains key strategies to manage medium overselling risk. The strategies are not mutually exclusive and, in fact, might be used in different combinations for different types of cooperative activities (e.g., one or more strategies in the energy sector and a different strategy in the forestry sector). Compared to earlier presentations of these strategies, the figure clarifies which ones could be the preferred option for most host countries, based on their simplicity, low administrative costs, and certainty of reducing overselling risk. The rationale for the order is explained after the brief overviews of the different strategies below the figure.

Figure 13. Strategies for reducing the risks of overselling, for medium risk activities



Note: Purple = crediting restrictions; yellow = transfer restrictions; green = pricing options¹³

Baselines derived from NDC goals

MOs are calculated by comparing mitigation activity emissions to a reference scenario or baseline. This strategy uses the (unconditional) NDC goals themselves as the baseline for crediting. This ensures that only MOs beyond those identified as necessary for the NDC goal would be eligible for transfers. An example could be if a host party's NDC pledge is to implement 2000 MW of new renewable power by 2030; then transferring MOs for renewable capacity *beyond* this level (e.g., between 2000 MW and 3000 MW) would not create any risk for the country. Traditional baseline-setting approaches (e.g., for the CDM) did not consider the impact of new climate change mitigation policies. But now the policies that transferring countries are implementing – or plan to implement – to achieve their own NDC goals should be considered. The practicality of this strategy depends on how detailed the NDC is in specifying specific actions and targets, and also on whether the Article 6 mitigation activity covers the entire sector or sub-sector that has a NDC action pledge (e.g., if the country has a pledge for power sector emissions and the activity covers the entire power sector). The burden of deriving a baseline from NDC goals can fall on either the activity participant or on the government; therefore a strategy can address this by providing a bottom-up approach where proponents must identify a baseline from NDC goals and present it to the government through a call for proposals (reactive approach), for example. Alternatively, from a top-down approach this can be included in the positive list (proactive approach).

The rationale for prioritizing this first strategy is that it precisely and completely addresses potential overselling risk from a given mitigation activity, in the cases where the necessary information is available to create this type of baseline.

Sharing MOs

A host party could choose to share the MOs generated by a cooperative activity type by authorizing only a portion of the emission reductions or removals for transfer. When an activity proponent requests authorization in this case, it would need to present an analysis of the full emissions reductions or removals that would be achieved by the cooperative mitigation activity. The host party authority would then authorize only a portion of this potential as ITMOs. The remainder of the MOs could then be used by the host party to achieve its NDC or to enhance the ambition of its NDC. This approach could be flexible, in that a country might change this share over time, based on its progress toward NDC goals. It could even take the form of a “buffer” share of MOs that might eventually be released to the acquiring party once NDC compliance is clearer, such as what Ghana has proposed in its Article 6 rules. Host parties might also choose to keep a share of MOs even for activities that are low risk (e.g., to contribution to the conditional NDC), although this could impact the competitiveness of that country’s Article 6 opportunities.

Limited crediting periods

Longer crediting periods (i.e., longer periods during which MOs are generated and internationally transferred) could create higher risk for the host party to meet its future NDCs, given that the Paris Agreement requires countries to increase ambition and widen the scope of their NDCs over time. Having shorter crediting periods can limit the number of years during which a host party would transfer MOs from a given cooperative activity type and would allow the country to use any further (uncredited) MOs for the achievement of its subsequent – and more ambitious – NDC.¹⁴

Overall cap on authorizations

As with limiting crediting periods or sharing MOs, the country could set a cap (e.g., in mtCO₂) on the quantity of MOs that could be authorized for a mitigation activity type, for the sector, or for the entire country. The amount for a mitigation activity type might be much less than the expected emission reductions that could be achieved. The cap would limit the country’s exposure to transfers with greater certainty than sharing MOs or limited crediting periods, although it might also reduce investor interest in the activities. As with sharing MOs, this cap might be revised or even lifted over time based on NDC progress, with MOs held in a “buffer” until the host party was confident in achieving its NDC goals.

While all three of the transfer restriction strategies could work, in principle, finding the right level of restriction (e.g. how much sharing, what level for an annual or total cap) would be complex and challenging for many countries. Knowing the exact share of MOs that a host party should keep ensuring no overselling would require detailed analysis of a wide range of scenarios for NDC implementation. Choosing a benchmark arbitrarily (e.g., a 50/50 split) would be simple to administer, but would not necessarily be commensurate with the actual risk from a given activity. Nonetheless, this group of strategies may be a necessary fallback when the NDC is not detailed enough to create a negative list or set baselines from NDC goals.

Charging a fee to support in-country mitigation

Sometimes called “ITMO compensation”, “corresponding adjustment compensation” or a “corresponding adjustment fee”, this means that the host party charges a fee to support additional in-country mitigation activities, on top of any price for the ITMO paid to the owner of the mitigation activity.¹⁵ The levy would be collected by the government at the time of the ITMO transfer, to capture at least part of the opportunity cost of transferring the ITMOs and applying corresponding adjustments. If the government is the activity proponent (e.g., for a policy-based crediting program or a sectoral crediting program), then the transaction might be structured with one payment to cover the abatement cost of the activity underlying the ITMO transfer, and an additional fee to cover the cost of replacing the transferred MOs with new domestic mitigation activities. Together, these two elements would sum up to the cost of the “marginal costs” mitigation action in the NDC plan – the next cost-effective activity beyond the current NDC implementation plan that could be used to replace the transferred MOs. Where the activity proponent is private, the buyer would pay one price to the activity proponent to cover the abatement cost of the activity¹⁶ and another, entirely separate, price to the government to cover the difference between the abatement cost of the activity and the marginal cost of meeting the NDC.

Box 10. Fees, taxes and share of proceeds – what does it all mean?

Host party governments may choose to collect some fees on Article 6 transactions, even when the main parties to those transactions (i.e., the local activity participant and the buyers of the ITMOs) are from the private sector. There are several reasons for these fees, which have different rationales and are often confused.

- Fees to cover administration: Running the government approval and tracking process requires resources, and governments may choose to collect fees from activity participants to cover the overhead costs borne by government as part of overseeing Article 6 engagement. This is similar to the fees for activity registration and issuing carbon credits charged by the CDM executive board and voluntary carbon market standards and were generally well below USD 1/tCO₂e.
- Fees to support adaptation: Both the CDM and the Article 6.4 mechanism require a certain percentage of carbon revenue to be used as a “share of proceeds” to support adaptation to the impacts of climate change. This is 5% of the emission reductions issued under the Article 6.4 mechanism. Under the CDM, this funding went directly to the Adaptation Fund under the UNFCCC, which oversaw its distribution to developing countries to a wide variety of adaptation projects.
- Fees to fund additional mitigation or cover “opportunity costs”: As explained in chapter 1.2, if a host party agrees to transfer MOs from an activity that might have been used – at least in part – for the unconditional NDC goals, that government might choose to collect a fee to support the cost of a replacement mitigation intervention in the country (i.e., to replace the MOs that could no longer be used). This fee might be significantly higher than the previous two, since the new mitigation options would potentially have higher abatement costs (e.g. more than USD 10/tCO₂) than those that were considered for meeting the unconditional NDC.

Box 10. Fees, taxes and share of proceeds – what does it all mean? (continued)

- Supporting an overall mitigation in global emissions (OMGE): The Article 6.4 mechanism requests that 2% of the emission reductions from an activity be cancelled (i.e., not used by either party) to contribute directly to reducing global emissions. While not a fee per se, this still reduces the volume of transfers and therefore essentially (slightly) increases the price of the units that are purchased for use.
- Benefit sharing: In addition to all of these fees for specific reasons, a broader consideration in carbon markets is how the benefits of trading are shared among the different actors. For example, if the price of carbon emissions in a high-income country is USD 50/tCO₂ (e.g., if that is the price of a carbon tax in a specific sector) and the abatement cost of a mitigation activity in a low-income country (which the host party is willing to authorize) is only USD 10/tCO₂, how should these benefits be shared among the buyer, the host party, the activity participant, and even the communities or households that are participating in the underlying mitigation activity? Some host party governments are currently considering how to address this issue both at the international level (i.e., what price does the buyer pay to host party entities?) and the domestic level (i.e., how is income distributed among different actors within the country?), and this may or may not include some discussion of fees.

Once the host party has completed assessing overselling risks for different activity types and has identified the most appropriate strategies to mitigate such risks, it needs to make sure that selected mitigation strategies are clearly communicated to other stakeholders, including through translation into authorization criteria and conditions (Chapter 4).

3.8 Application of overselling risk concepts to CDM transition to Article 6.4

Amongst the most important immediate considerations for many host parties are whether or not to approve a requested transition of CDM projects and programs to Article 6.4, and what to do with them. A host party can decide to transition and issue the Article 6.4 emission reductions (A6.4ERs) but still not authorize them for transfer – the latter is referred to as “mitigation contribution units” in the Article 6.4 rules, because the emission reductions contribute to the host party’s NDC rather than being transferred. The rules outlined in Article 6.4 include guidelines for this transition and confirm that ITMO transfers based on A6.4ERs will require corresponding adjustments. Consequently, transfers based on the transitioned activities could impact the host part’s ability to achieve its NDC goals. If A6.4ERs are not going to be transferred, then they – by definition – do not create a risk of overselling. The purpose of this section is to discuss the risk of transition coupled with authorization and transfer.

Since the majority of CDM projects were registered in the early 2010s, it is highly likely that they were already considered part of the “baseline” or business-as-usual (BAU) scenario when the country analyzed its NDC options.¹⁷ Consequently, the actions undertaken through these projects and programs do not result in a reduction of the country’s GHG inventory beyond the level projected in the NDC BAU scenario. If a corresponding adjustment were made for

the transfer of these units, it would move the country further away from its NDC objectives. Therefore, it is crucial for countries to carefully assess whether an activity considered for transition was included as part of the BAU scenario in the NDC. If it was, the overselling risk is considered very high, and the host party would be taking a significant risk by authorizing transition of MOs generated by this activity to Article 6.4. If the activity is not included in the NDC BAU scenario, the host party should apply the overselling risk evaluation process described in Chapters 3.2 to 3.7 when deciding whether to authorize ITMOs based on the A6.4ERs.

Table 6. Evaluation of overselling risks for activities considered for transition from CDM to Article 6.4 and used for international transfers

NDC type/Activity type	Overselling risk
Activity is likely included in the BAU scenario of the NDC	High
Activity is not likely included in the BAU scenario of the NDC	Apply the normal screening options for all activities presented in Chapters 3.2 to 3.7



Chapter 4



Define authorization criteria and conditions

Host parties can use the assessment of opportunities (Chapter 2) and decision on risk management strategies (Chapter 3) as input for making decisions as to which authorization criteria and conditions are to be in place. These criteria and conditions include the following:

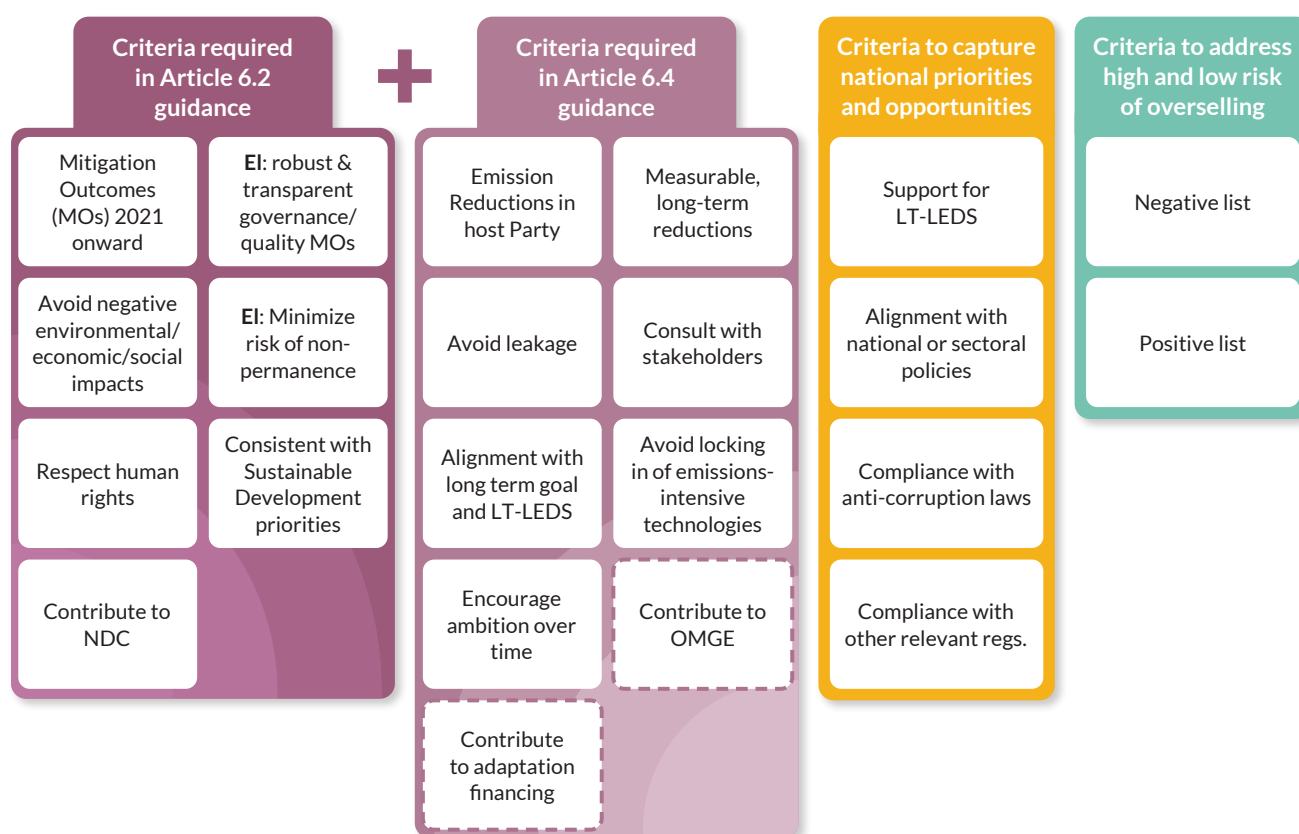
- Criteria required in Article 6.2 guidance and Article 6.4 rules (e.g., environmental integrity, avoid leakage, contribution to NDC, among others)
- Criteria to capture national priorities and opportunities (e.g., support for LT-LEDS, compliance with other relevant regulations or policies, compliance with anti-corruption laws, among others)
- Criteria to address high and low risk of overselling (i.e., negative list and positive list)
- Conditions based on managing activity types with “medium” risk of overselling (e.g., baselines derived from NDC goals, cap on transfers, sharing of MOs, among others)

To ensure a streamlined and clear procedure for the authorization and transfer of ITMOs, it is important to express mitigation strategies for managing overselling risk and ensuring that mitigation activities are aligned with national priorities, by using objective criteria and conditions, as defined in Chapter 3. These criteria can then be utilized by the designated authority responsible for authorizing ITMOs to evaluate and assess authorization requests. Ideally, these requirements should be well defined and comprehensive, minimizing the need for extensive or ad-hoc input from different authorities during the authorization process.

4.1 Authorization criteria and means of verification

This section presents different types of criteria, in addition to their means of verification. In other words, how host parties can ensure compliance with such criteria by activity participants. The first category is those that are explicitly mentioned as part of Article 6.2 and Article 6.4 rules. Second, the criteria that host countries can implement to capture their national priorities and opportunities. Finally, the criteria to reduce the risk of overselling are presented, which provides a clear indication for the development of a negative list and a positive list.

Figure 14. Authorization criteria and their different categories



Notes: El = Environmental Integrity; NDC = Nationally Determined Contributions; MO = Mitigation Outcome; OMGE = Overall Mitigation in Global Emissions; LT-LEDs = Long Term – Low Emission Development Strategy

4.1.1 Criteria required in Article 6 rules

This sub-chapter presents criteria from the official decisions on Article 6.2 and Article 6.4. Criteria from Article 6.4 rules sometimes repeat criteria from the Article 6.2 guidance, so these are not cited twice. There is not yet clear guidance on how to meet all requirements, so the means of verification provided below are some ideas on how to do so.

From Article 6.2 guidance:

- MOs are additional and verified¹⁸
- MOs from 2021 onward: ITMOs must be “generated in respect of or representing mitigation from 2021 onward”¹⁹
- Environmental integrity is ensured: A description on how environmental integrity is ensured should also include the following two items:²⁰
 - Environmental integrity: Robust, transparent governance and good quality MOs
 - Environmental integrity: The risk of non-permanence is minimized
- Negative environmental, economic, and social impacts are minimized or avoided²¹
- Human rights obligations are met²²

- Sustainable development goals are consistent with the host Party's priorities²³
- MOs "contribute to the mitigation of GHGs and the implementation of its NDC"²⁴

In addition to the criteria laid out in the Article 6.2 guidance document, there are more criteria that are enlisted in the Article 6.4 rules document, as follows:

- Emission reductions shall be achieved in the host Party²⁵
- The activity shall deliver measurable and long-term benefits²⁶
- The risk of leakage shall be minimized²⁷
- Consultation with local stakeholders shall take place²⁸
- The activities and methodologies shall be aligned with long-term Paris Agreement goals and with the host Party's LT-LEDS²⁹
- "Avoid locking in levels of emissions, technologies or carbon-intensive practices"³⁰
- Contribution to OMGE³¹
- Contribution to adaptation fund (share of proceeds)³²

Article 6.4 means of verification are to be determined by Article 6.4's own rules (e.g. individual methodologies), therefore activity participants are to follow them. However, if host parties are to implement activities outside Article 6.4 cooperative approaches and they decide to use some of these requirements, there are additional ideas presented in the following table.

Table 7. List of criteria required in Article 6 rules and their means of verification

Criteria	Means of verification
<i>Article 6.2 guidance</i>	
Additional & verified	MOs are considered additional if the host party applies and demonstrates the implementation of a validated additionality tool (e.g. the mitigation activity design document under Article 6.4, validated by a verification body or designated operational entity) or the host party develops a positive list of activity types that included additionality testing among their criteria. MOs must be verified by accredited third parties in the host party.
MOs from 2021 onward.	Information on the "vintage" of ITMOs (i.e., the year in which the mitigation occurred) should be provided.

(continued)

Criteria	Means of verification
Environmental integrity: Robust, transparent governance and good quality MOs	<p>There are two broad options for ensuring the environmental integrity of mitigation activities authorized to generate ITMOs:</p> <ul style="list-style-type: none"> • The use of an Article 6.4 methodology.³³ • If a methodology other than an Article 6.4 methodology, is used, then activity participants should demonstrate how the methodology sets conservative baselines below BAU and addresses leakage.
Environmental integrity: The risk of non-permanence is minimized	<p>Same as above – i.e., if using the Article 6.4 methodology, the host party can outsource verification of environmental integrity.</p> <p>If a non-Article 6.4 methodology is used, then activity participants should demonstrate or justify how non-permanent risk is minimized.</p>
Negative environmental, economic, and social impacts are minimized or avoided	<p>Application of a safeguard system that includes environmental and social risks assessment and a mitigation plan to prevent negative social and environmental impacts should be required (Box 9 and Annex C).</p>
Respect to human rights	<p>Existing safeguard systems that include human rights are available, such as the guidance on the Article 6.4 mechanism,³⁴ the World Bank's Environmental and Social Framework,³⁵ the International Finance Corporation's Performance Standards on Environmental and Social Sustainability,³⁶ among others.</p> <p>Application of a safeguard system, that includes the host party's regulatory framework, against human rights violations should be required (Box 9 and Annex C).</p>
Sustainable development goals are consistent with the host party's priorities	<p>Host parties should clearly identify the contributions to the SDGs and could require as means of verification one or more of the following items:</p> <ul style="list-style-type: none"> • Output of the Article 6.4 sustainable development (SD) tool • Output of the CDM SD tool • Output of the Gold Standard SD tool/approach (Gold Standard's SDG impact tool)³⁷ • Output of the SDG impact assessment tool, developed by the Gothenburg Centre for Sustainable Development.³⁸
	<p>This list of examples is not exhaustive.</p> <p>Monitoring of SD impacts may also be required; this would mean that they should be included in regulation verification reports.</p>

(continued)

Criteria	Means of verification
Contribute to the mitigation of GHGs and the implementation of the NDC	<p>The host party could require one or more of the following items to verify the contribution to the implementation of their NDC:</p> <ul style="list-style-type: none"> • The activity is the same as a conditional NDC action • The activity has a spillover effect that supports and unconditional action • The activity has a longer or larger mitigation impact than the ITMO transfer (e.g. a technical life longer than the crediting period, or maybe the baseline is very conservative and allows some MOs to stay in the country and support its unconditional NDC) <p>Host parties could include in their authorization request form a section that requires activity participants to describe how the activity contributes to NDC implementation (e.g., referencing the mitigation activity's place in the NDC or NDC implementation plan or sectoral assessments). This would allow the host parties to verify that the activity contributes to NDC implementation.</p>
<i>Article 6.4 rules</i>	
Emission reductions in host party	The location of the mitigation activity should be stated in the authorization request form. Host parties can verify the location of the mitigation activity in the verified design documentation.
Measurable, long-term reductions	The use of Article 6.4 mechanism methodologies will help ensure that mitigation activities contribute to reducing emissions levels in the host party and are aligned with the long-term temperature goal of the Paris Agreement. ³⁹ Host parties may wish to outsource verification of this criterion to the Article 6.4 supervisory body.
Avoid leakage	Using Article 6.4 mechanism methodologies will help ensure that mitigation activities avoid leakage. ⁴⁰ Host parties may wish to outsource verification of this criterion to the Article 6.4 supervisory body.
Consultation with stakeholders	Activity participants must arrange consultation processes to ensure full participation of stakeholders, ranging from high-level government to local communities, and the integration of different interests and perspectives into the A6 strategy. (See Box 9 and Annex C).
Alignment with long-term goals of the Paris Agreement and LT-LEDS	Host parties could require activity participants to show that the technology of the activity is part of the country's low-GHG emissions development strategy, LEDS, as this is something that has to be in place for a country to be on the LT-LEDS pathway.
Avoid locking in of emissions-intensive technologies	The use of Article 6.4 mechanism methodologies will help ensure that mitigation activities are additional, including by assessing that the activity avoids locking in emissions-intensive technologies or practices. ⁴¹ Host parties may wish to outsource verification of this criterion to the Article 6.4 supervisory body.
Encourage ambition over time	Host parties could require activity participants to demonstrate how the activity encourages ambition over time – e.g., demonstrating scaling-up potential.

(continued)

Criteria	Means of verification
Contribution to OMGE	Host parties are to mandate (optional under Article 6.2 rules) the cancellation of at least 2% of the issued A6.4ERs from the overall mitigation. This is to be implemented by the host party during the transfer process.
Contribution to adaptation fund (share of proceeds)	Host parties are to mandate (optional under Article 6.2 rules) a levy corresponding to 5% of A6.4ERs at issuance.

Box 11. Requirements related to environmental and social safeguards

In order to integrate some of these criteria, such as robust governance, consultation with stakeholders, and compliance with human rights, a host party must put in place a safeguarding system with a regulatory and institutional framework.

Environmental and social safeguards for carbon market transactions are based on the highest standards of human rights. The preamble of Article 6 states that: "Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity."

The requirements established in Article 6 rules include a robust and transparent governance; minimizing and avoiding negative environmental, economic and social impact; meeting human rights obligations; the contribution of carbon markets to the SDGs; and the need to consult with stakeholders.

Annex C, Environmental and social safeguards criteria for Article 6 host party strategy, has a more detailed definition of those criteria, and is an invitation to expand them to a more ambitious inclusion of social and environmental co-benefits, based on the environmental and social safeguards developed by international multilateral organizations and developers.

4.1.2 Criteria to capture national priorities and opportunities

In addition to the mandatory requirements that come from Article 6.2 and Article 6.4, there are criteria that host parties can choose to include as part of their authorization criteria. A decision to include optional criteria should be aligned with the country's priorities, existing policies and regulations, and general context. Some additional criteria might be:

- Support for the long-term low GHG emissions development strategies, LT-LEDS, or other climate strategies⁴²
- Alignment with relevant national and sectoral policies and strategies

- Compliance with anti-corruption laws and conventions
- Compliance with other local regulatory requirements relevant to the mitigation activity type (e.g., environmental impact assessment, technical standards)

Table 8 provides ideas for host parties on ways that each of the criteria could be verified. The list is not exhaustive, and there might be other options that host countries can assess and include as they find them fit and aligned with their local or regional circumstances.

Table 8. Criteria to capture national priorities and opportunities, and their means of verification

Criteria	Means of verification
Support for LT-LEDS or other climate strategies	Refer to the means of verification described for the criteria “Alignment with long-term goal of the Paris Agreement and LT-LEDS” listed under Chapter 4.1.1 “Criteria required in Article 6 rules”
Alignment with relevant national and sectoral policies and strategies	Host parties could explicitly request an indication of how activities align with relevant national and sectoral policies and strategies, including those to achieve the SDGs
Compliance with anti-corruption laws and conventions	Host parties could explicitly request an indication of how activities comply with anti-corruption laws and conventions These instruments should be listed and provided to the public to ease compliance
Compliance with other local regulatory requirements relevant to the mitigation activity type	Host parties could explicitly request an indication of compliance with other local regulatory requirements relevant to the mitigation activity type, including regulations against human rights violations These instruments should be listed and provided to the public to ease compliance

4.1.3 Criteria to address high and low risk of overselling

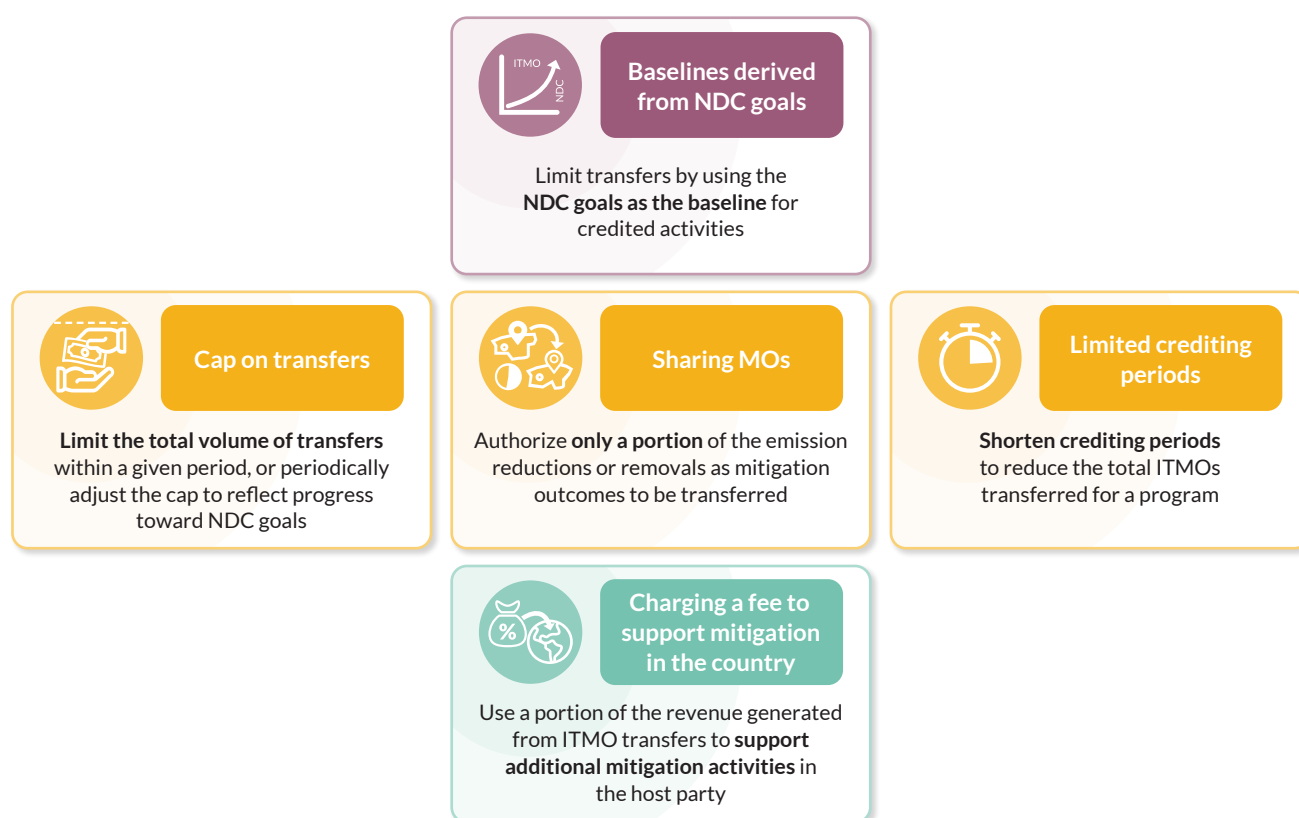
Based on the screening of activity and NDC types, presented in Chapter 3, host parties can decide to implement one or both of the following strategies:

- Negative list: A negative list aims to address those high-risk activities. An activity type could fall in the negative list if: i) the activity falls outside the scope of NDC; ii) there is no visibility of the emission reductions in the national GHG inventory (that informs on NDC compliance); or, iii) the activity is part of the unconditional NDC actions.
- Positive list: A positive list would take advantage of those identified low-risk activities. In addition, host parties could include one or several of the criteria laid out in the previous sub-chapters (4.1.1 and 4.1.2). These are to be selected based on each host party’s priorities. It is advised that at least Article 6.2 criteria are included, leaving the criterion “contribute to NDC” as optional (because host parties might want to including activities outside their NDC).

4.2 Authorization conditions to manage overselling risks

Additional conditions can be imposed by host parties to address, from a strategic perspective, the risk of overselling for those activity types and NDC types identified in Chapter 3. At this stage it is expected that the host party decides on which one(s) of them will become part of its authorization conditions and for which activity types.

Figure 15. Authorization conditions for managing risks.



Note: Purple = crediting restrictions; yellow = transfer restrictions; green = pricing options⁴³

For example, if the host party decides that certain activity types must share MOs or have shorter crediting periods,⁴⁴ then this will be specified in the letter of authorization given to the activity participant – assuming the activity passes the other requirements. As we approach the second half of this decade, host parties would need to consider how to deal with a crediting period that could overlap with more than one NDC period (e.g., 2027–2032). On the one hand, activities need a sufficiently long crediting period to earn carbon revenue that can cover their abatement costs. On the other, because all countries should raise their ambition in each NDC period, there is a risk that an activity that was beyond the NDC in one period might be part of the country's unconditional NDC in the next period.

Finally, host parties may choose to implement some optional conditions to more fully align Article 6.2 transactions with the Article 6.4 rules.⁴⁵ Article 6.4 requires a share of proceeds to support adaptation and the OMGE, but the Article 6.2 rules only “strongly recommend” these, so host parties might choose to make them conditional for all authorizations.

Chapter 5



Decide how to meet basic requirements

Host parties will need to meet the basic requirements laid out in Article 6 guidance documents. These requirements are grouped into two main categories: participation requirements, and other basic/tactical decisions. For participation requirements, these are:

- Participate in the Paris Agreement and maintain an NDC
- Provide the most recent national inventory report
- Establish institutional arrangements
- Choose tracking approach

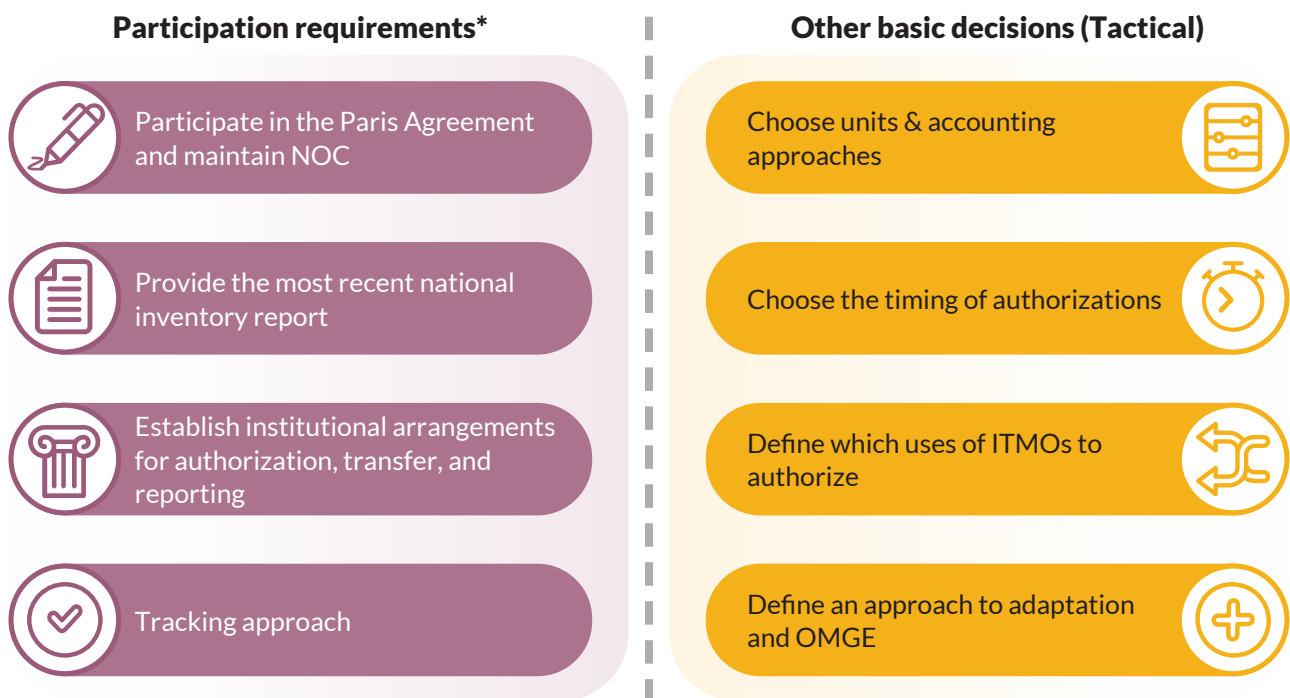
In addition, other basic or tactical decisions are:

- Choose units and accounting approaches
- Choose the timing of authorizations
- Define which uses of ITMOs to authorize
- Define an approach to adaptation and OMGE

Participating in Article 6.2 requires host parties to meet certain basic requirements: participation is a choice, not automatic. These requirements will determine the way administrative processes, technical work and tactical decisions are made. Figure 16 shows the basic requirements in two different categories: participation requirements specified in Article 6.2 rules, and other basic decisions on how to engage.

Already, most countries are participating in the Paris Agreement and have an updated NDC, but many low- and middle-income countries may not have a recent national GHG inventory report. In addition, countries are only now starting to establish institutional arrangements and evaluate registry options. Guide 3 explores institutional arrangements and tracking approach considerations in more detail. The other tactical decisions cover the decision of host parties on units, accounting approaches, timing of authorizations, ITMOs uses, and their approach to adaptation and OMGE. These basic requirements for Article 6 participation are further explained in Annex D.

Figure 16. Basic requirements for Article 6.2 participation.



* Specified in Article 6.2 rules

Chapter 6



Assess regulatory options and gaps

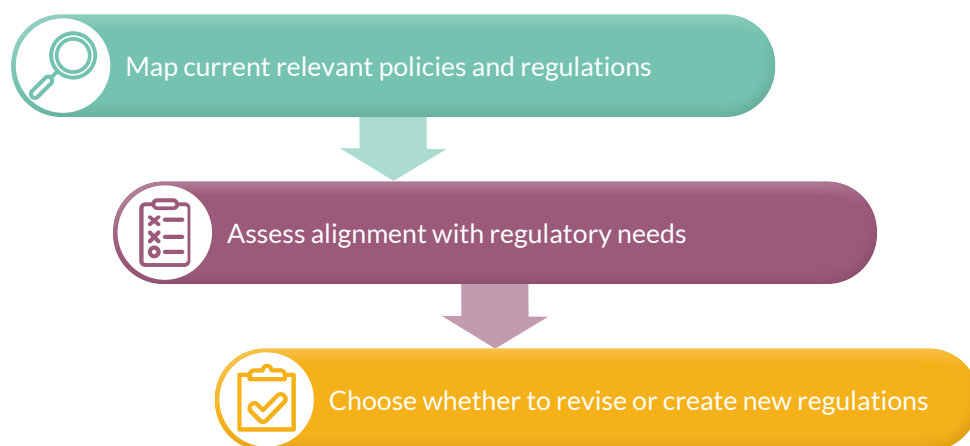
A parallel step for a host party is the assessment of how Article 6 will fit within its policy and legal framework. To do so, the host party should perform the following steps:

- Map current relevant policies and regulations
- Assess alignment with regulatory needs of the Article 6 strategy
- Choose whether to revise or create new regulations

MOs are tradable units with which it is relatively easy to commit fraud or misrepresentation, or present differences in quality that are hard to detect – more so than with other commodities. Therefore, appropriate regulation is key to make sure that all the actors in the carbon market supply chain adhere to high standards, and rectify things when they go wrong. Regulation can also provide assurances to the private sector with regard to investing in this field.

Host countries would normally have to follow a parallel process of regulatory and policy assessment. This would usually consist of two steps, and a final decision, as presented in Figure 17. The first step requires the mapping of the current relevant policies and regulations. The second assesses the alignment of those policies with regulatory needs and aspects. Finally, the decision would depend on the host party either needing to update existing instruments or create new ones, or both, and how it operationalizes the Article 6 strategy.

Figure 17. Steps on assessing regulatory options and gaps.



6.1 Map current relevant policies and regulations

Host parties may have regulatory experience with the CDM and, to some extent, with voluntary carbon markets. However, because most CDM projects and voluntary carbon projects have not been used for compliance purposes, regulation might not be robust enough.

Host parties should therefore assess the applicable and existing legal and regulatory structures and identify gaps, especially those relevant to authorization and transfer. This can be done through assessing a number of factors under domestic law relevant to Article 6 and carbon markets, including:

- Authority and competence to regulate Article 6 and carbon market issues in the country and bodies involved
- Regulation used across ministries and level of detail and prescription
- The approval process for activities, including single act or multiple approval instances, as well as the ability of the country to withdraw or void issued letters of approval
- The authorization process in the context of Article 6.3: specific or blanket approvals, as well as the possibility of adding conditionality to authorization based on NDC achievement
- The level of centralization, i.e. strong national oversight and functions, including setting national standards and accrediting and supervising auditors, or use of internationally available systems
- Incentives and types of private sector participation, e.g., direct crediting of private actors, allowing them to directly engage in carbon markets, as well as technical and administrative support for activity participants
- The existing regulatory and legal regime and eventual norms, e.g. climate change or environmental and energy laws

6.2 Assess alignment with regulatory needs

With Article 6, host and acquiring parties face numerous regulatory needs. This includes Article 6 functions and mandates stemming from the Article 6 rules. In addition, parties need to perform regulatory analysis to understand what gaps need to be filled to fulfil the obligations of the country when participating in Article 6 cooperative approaches.

We can characterize different topics for carbon market regulation that apply not only to Article 6 but also to international voluntary carbon markets and domestic compliance markets:

- First, regulations concerning the technical attributes of projects (baselines, additionality, methodologies, crediting periods, leakage, reversals, uncertainty management, among others). The host party can set the basic standard of environmental integrity with regulations, so that projects or standards not meeting this standard are not eligible. Having inconsistent methodologies may make it difficult to perform corresponding adjustments in a sound way. The regulations should indicate obligations of the projects themselves, activity participants, and auditors, as well as providing standards.

- Second, oversight and dispute resolution functions need to be created to ensure enforcement and capabilities to investigate, sanction and seek redress in case national regulations are not followed, environmental integrity is broken, carbon market actors do not fulfil their duties as expected, or complaints are raised about a particular project or entity. It is important that all market actors have some degree of oversight.
- Third, there must be transparency. Transparency does not relate solely to project characteristics. Preventing conflicts of interest and demonstrating independence between the actors (e.g. the activity participant, the verifier and the standard) are strengthened by disclosing information. Regulation on reporting is also key, so that governments have sufficient information on mitigation projects when they undertake their periodic reports to the UNFCCC.
- Lastly, countries may wish to codify some carbon market safeguards in regulation or draw attention to already existing regulation on safeguards applicable to carbon market projects, such as requirements for consulting with communities, human rights protection, or preventing specific environmental or social harm in mitigation activities.

Other topics susceptible for regulation include taxation: Are ITMO transfers subject to taxes or levies? Is income from ITMO transactions taxable and, if so, how? The host party may want to regulate a share of proceeds if it wants to institute a mandatory levy (for instance, a levy destined towards national adaptation and resilience projects) to any Article 6.2 transaction beyond the current one applicable for Article 6.4.

Not everything needs to be regulated in advance, and some regulatory needs will emerge when the market starts operating. Thorny issues such as the legal nature and ownership of ITMOs may not be fully resolved before transactions begin, and host parties may opt to operate without defining the legal nature of ITMOs. On these issues, host parties may look into parallel regulations applicable to trading in commodities, stocks or other financial products and see what analogies may be applicable to carbon markets.

Considering broader national carbon pricing strategy and regulation

As part of their national strategies to reduce GHGs, some governments have introduced, or are planning to introduce, carbon pricing instruments (CPIs) (see Guide 4 for more detail). These instruments include emission trading systems (ETs), carbon taxes, and domestic crediting mechanisms. More than one of these instruments may operate in a single jurisdiction at the same time; there are many examples of jurisdictions implementing a carbon tax alongside an ETS, and/or an offset mechanism integrated with either of them. Any government wishing to participate in Article 6 transactions will need to understand the implications this participation may have on existing or future domestic CPIs, and the different options available for successfully

integrating them. Depending on whether the country already has a CPI in place or is planning to implement one, the main issues revolve around:

- Whether to set up a new domestic crediting mechanism to generate ITMOs for export
- Whether to link an existing ETS internationally and establish it as an Article 6 cooperative approach
- Whether to allow international transfer of offsets from sectors not covered by a domestic tax or ETS, and, if so, how to assess the impact of different options on the tax or ETS
- How to design a new tax/ETS system with offset use in a way that can also facilitate offsets exported under Article 6.

6.3 Choose whether to revise or create new regulations

Finally, the host party can determine the extent to which existing policies need to be updated to accommodate the new requirements of Article 6, as well as the potential drafting of new policies or regulations, in case legal structures and government infrastructure require a more profound reform. Host parties might also find it useful to create a new policy or regulatory instrument that “connects the dots” between the updated existing policies, when operationalizing the Article 6 strategy.

Chapter 7



Consult and decide

The consultation and approval processes of the Article 6 strategy are country-dependent, and follow the basic procedures dictated by laws and regulations. However, additional items might need to be made a part of both processes, for example the inclusion of external (to government entities) stakeholders in the consultation process, such as potential activity participants and civil society.

The consultation process is a key element of policy development. In most cases, it is formally regulated in parties through statutory requirements, standard practices, and norms for public engagement. Nonetheless, key aspects are mentioned in this chapter to ensure that these are not overlooked as part of the Article 6 strategy development process.

First, it is important to involve internal and external stakeholders throughout the development of the Article 6 strategy. This means that stakeholders could be part of the Article 6 strategy from as soon as its drafting begins. Such early and open involvement could support in improving the following:

- Capacity building efforts: Stakeholders will be better informed about the details surrounding the strategy and this will allow them to provide more informed feedback.
- Smoother implementation: Together with capacity building, a smoother implementation could be expected, as stakeholders will be aware of the requirements laid out, in addition to access to a network of people that could ease the clarification of doubts more directly and provide feedback throughout the strategy's implementation.
- Consideration of multiple perspectives and interests in the strategy: As stakeholders represent different interests and backgrounds, they can provide ideas and feedback from different perspectives, allowing for a strategy that is more robustly aligned to the host party's needs.

Important external stakeholders could include activity participants, industry players, environmental regulators, auditors, climate experts, academia, NGOs, think-tanks, civil society, local communities, and similar counterpart institutions from foreign host parties.

Where Article 6 authorities and/or activity participants identify an opportunity to co-finance or collaborate with investment opportunities articulated in other stakeholder-driven

and hence nationally owned processes (e.g. the TNAs or NAPs) then it is important to liaise with the relevant national focal points (e.g. the national designated authorities to the Green Climate Fund and Global Environment Facility). These are usually housed within the ministry of environment, or sometimes the economy or finance ministries. Indicating that there are technical or financial resources on offer (either secured or potential) may even help push other activities along the pipeline. Barriers to progress are often political as much as financial, so building a strong "coalition of the willing" within and across government can have a powerful positive effect.

Several ways to facilitate the consultation process could already exist in the policies of host parties, as mentioned before. Some of these could be:

- Written submissions
- Public hearings or face-to-face meetings
- Focus-group discussions with particular types of stakeholders
- Structured surveys
- Web-based consultations and interactions (surveys, questionnaires, comments, social media tools and channels, including web forums and blogs)
- Advisory groups and expert groups⁴⁶

From the list above, written submissions, public hearings or face-to-face meetings, and online consultations are best suited for this part of the process of developing an Article 6 strategy. Other tools, such as interviews, focus groups and advisory groups, could play a more relevant role at the designing stage, since they can provide valuable input on very specific items.

The consultation process would normally have a set timeline to receive feedback, which varies according to existing regulation. For example, in California, USA, the consultation period is 45 days, while in Colombia it is 30 days. In some instances (like these two), there is a requirement and a deadline for making written responses to all comments received. In California it is 15 days, in Colombia it is 10 days.⁴⁷

After this action, the strategy can be revised to include all relevant comments.

The approval of the Article 6 strategy and institutional framework would be accomplished based on the set requirements of host parties. This could entail, for example, the final approval by the formal working group in charge of drafting the document, together with the signature of the lead minister. This is further discussed in Guide 3.

Implement

The final step is the implementation and operationalization of the Article 6 strategy by the host parties. This implies not only the publication of the strategy document itself and the submission of the initial report for Article 6, but also the development of a set of regulations and by-laws that make the strategy fully operational, such as:

- The creation or amendment of secondary regulations
- The creation of guidelines and tools
- The use of existing mechanisms (methodologies)
- The creation of internal and external capacity

The implementation phase considers the approval of the Article 6 strategy and institutional framework and combines it with the output created when assessing the regulatory options and gaps. The implementation phase puts all into practice. This section provides guidance on some of the most important short-term implementation issues that host parties are currently facing.

Chapter 8

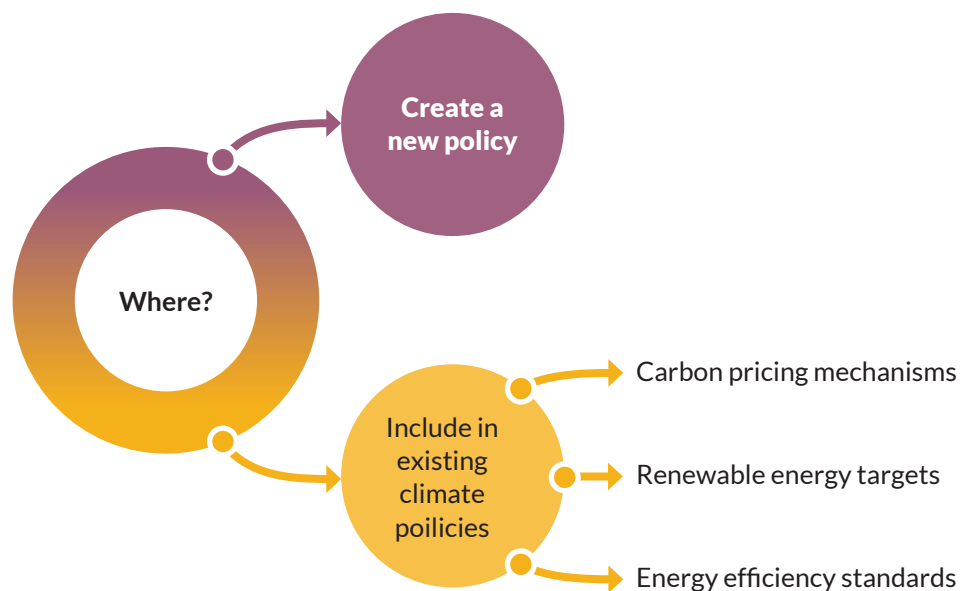


Operationalize Article 6 strategy

Operationalization of the Article 6 strategy does not only involve the publication of the strategy and institutional framework, but also the policy tools that will have to accompany the strategy in order to make it fully operational.

After assessing regulatory options and gaps, a host party can decide to either create a new policy or to amend or extend existing ones. The decision [usually] depends on whether there already exists a robust body of policies, laws and regulations that could accommodate Article 6. If a host party decides to incorporate Article 6 policies into its domestic climate policies and legislation, this would normally occur in existing carbon pricing mechanisms, renewable energy targets, and energy efficiency standards, among others. This requires careful coordination between relevant ministries and departments, as well as engagement with stakeholders.

Figure 18. Options to publish or host an Article 6 strategy: new or existing policies.



Other laws and regulations can set out the conditions and eligibility criteria. Box 11 shows a case study from Tanzania on key criteria required for carbon trading activities to be legally recognized.

Box 12. Case study: Registering a carbon trading activity in Tanzania

The Government of Tanzania issued a new environmental regulation (Government Notice Number 636) in October of 2022, stipulating the process that all carbon trading activities in mainland Tanzania should follow, and the key criteria for their legal recognition.⁴⁸ Specifically, in order to register a carbon trading activity in Tanzania there are two main requirements:

1. A person shall not operate a carbon trading activity that has not been registered with the Registrar
2. For the activity to be registered with the Registrar, it needs to have the following elements:
 - A letter of consent and participation of partners engaged in the activity
 - Clearance of ownership of the property involved in the activity
 - Local communities involved in implementing the activity
 - Disclosure of relevant activity information, including costs incurred, verified emission reductions and estimated revenues
 - An indication of expected employment creation for the national experts and local communities
 - Commitment to corporate social responsibility indicated
 - Adherence to national priority carbon trading sectors
 - Conformity with national policies laws and strategies
 - Evidence that the activity will contribute to the NDC
 - Adherence to transparency and fairness in business
 - Adherence to national investment priorities, ecological, social, cultural and economic safeguards

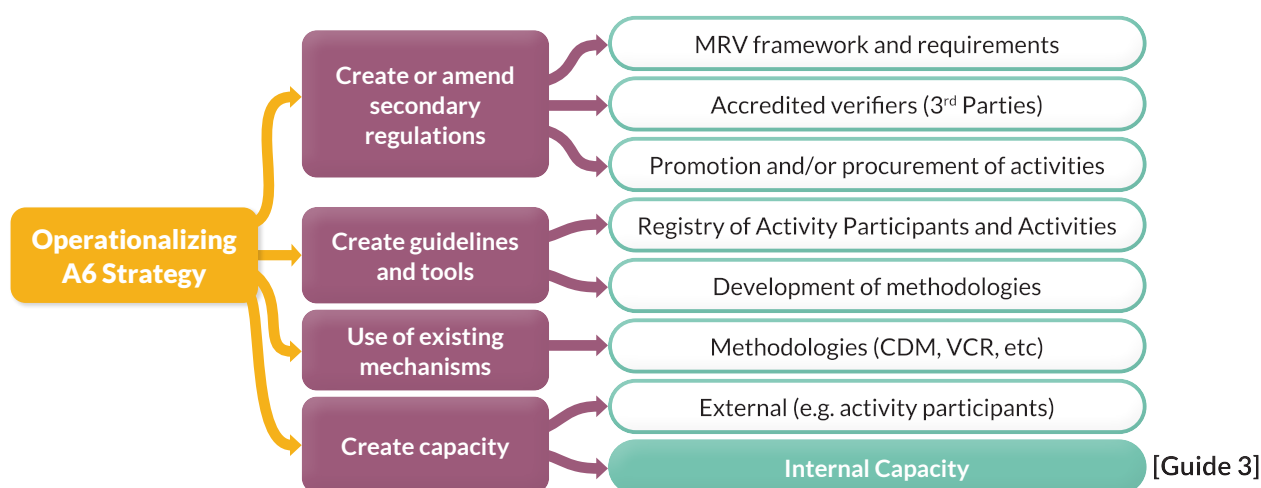
In addition, secondary tools would be necessary to make the strategy fully operational. This could mean creating or amending secondary regulations on, for example, MRV or third party accreditation. On MRV, the implementation of a monitoring and evaluation system is key to tracking progress, identifying and addressing any challenges, and continuously improving the process for identifying and prioritizing activity opportunities for Article 6 financing. On the other hand, clear rules and aligning with international best practices for accredited verifiers would enable the market to prepare for the upcoming demand. This demand could be first met by international experts, and later, once local capacity is built, by local verifiers.

Additional guidelines and tools could be created, amended, or adopted, in order to provide the right guidance on strategy compliance. For example, the creation or selection of methodologies, such as those coming from the CDM, VCR, etc.; as well as the definition of the different registries to be used for the tracking of activities and activity participants.

Lastly, capacity to implement the strategy and institutional framework for Article 6 will be necessary. Therefore, both internal and external efforts will have to be implemented. External capacity can be built from earlier stages, with key stakeholders, such as industry representatives

and potential activity participants, involved in developing the strategy. This way, they will have enough knowledge, by the time the strategy enters into force, to allow them to have a quicker and easier implementation process. Internal capacity for the proper implementation, follow-up and enforcement of the strategy is extremely relevant, so government officials should also be part of the capacity building efforts. Internal capacity development is further explored in Guide 3.

Figure 19. Operationalizing an Article 6 strategy: the need for secondary tools



8.1 Update of the Article 6 strategy

If a country's national climate policy changes significantly, it may be necessary to update the national Article 6 strategy to align with these changes. For example, if a country introduces a new carbon pricing mechanism or renewable energy target, the Article 6 strategy may need to be updated to reflect how these policies interact with international carbon markets or non-market approaches.

National Article 6 strategies may need to be updated following changes in the international context. For example, the adoption of new rules and guidance under the Paris "Rulebook" or the emergence of new market mechanisms might require an update to a country's Article 6 strategy. Or, if the rules around the accounting of emissions reductions change, a country may need to update its strategy to ensure that its activities are still eligible for international cooperation.

If a country has existing programs or activities that contribute to its climate targets, it may be necessary to review these periodically and update the Article 6 strategy as necessary. This could involve assessing the effectiveness of these programs or activities in reducing emissions and determining how they could be integrated into the country's overall approach to Article 6.

As the landscape of international cooperation under Article 6 evolves, new opportunities may emerge for countries to collaborate in achieving their climate targets. For example, a country may identify new partners with which it can exchange MOs or develop joint activities to reduce emissions. In these cases, an update to the Article 6 strategy may be necessary to take advantage of these opportunities.

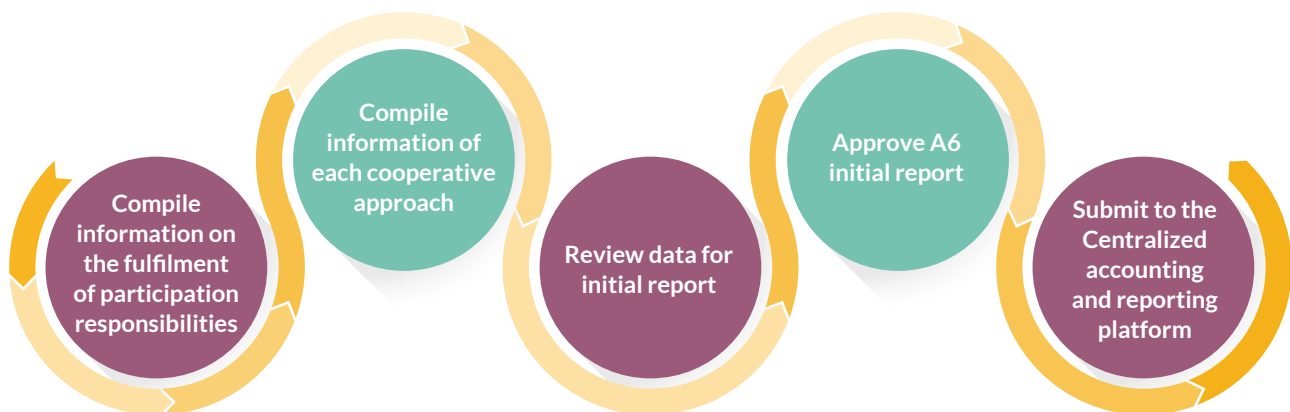
Chapter 9



Submit initial report for Article 6

Another step, as soon as the Article 6 strategy is published by the host party, is to submit the initial report for Article 6. This report will inform the UNFCCC and implementing parties about the decisions the host party government has made in regard to meeting the requirements set by the guidance in Article 6.2. This is part of promoting the host party's participation and letting the market actors know about the strategy, institutional arrangements, and other crucial strategic decisions. This topic is further explained in Guide 3, Chapter 2.3.4 "Prepare an initial report".

Figure 20. Process for creation of a host party initial report for Article 6





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Annex A. Explanation of corresponding adjustments

One of the most important differences in Article 6 mechanisms compared to those of the CDM is that, under the Paris Agreement, all countries have mitigation pledges. Under the Kyoto Protocol only the industrialized countries have quantified emission reduction commitments. The MOs achieved as a result of any mitigation activity in, say, Madagascar, therefore, could be used to move towards Madagascar's NDC goal or they could be sold to another country to use for compliance with the acquiring party's NDC – but not for both.

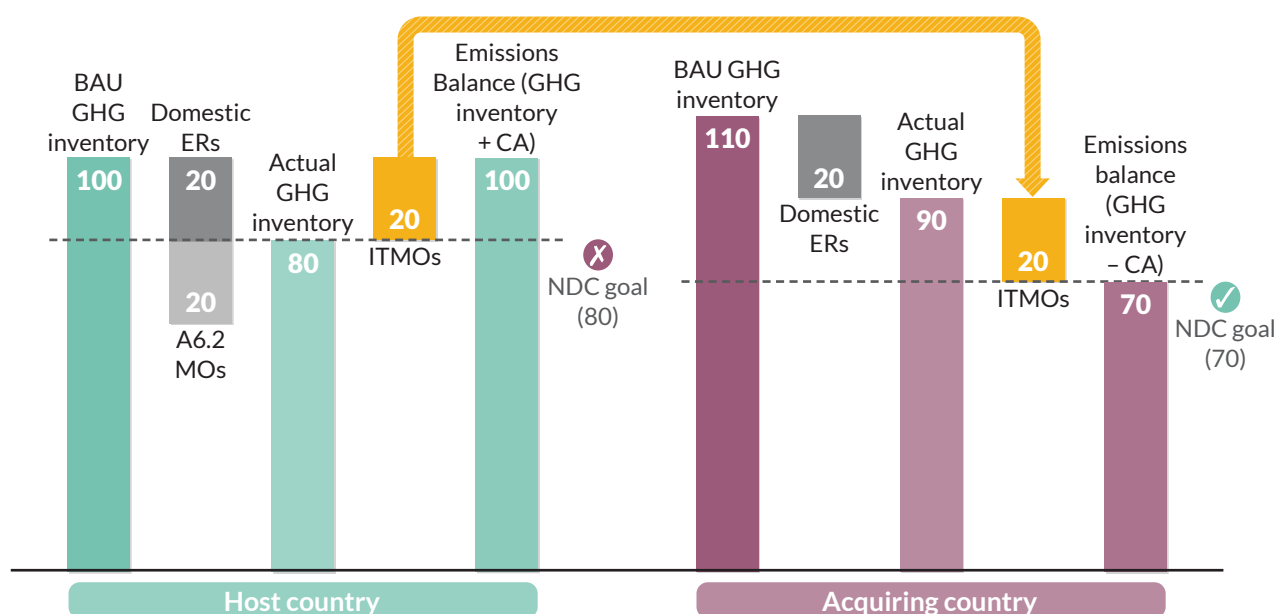
All transfers of MOs that are used by the acquiring party for NDC compliance require that the transferring (host) and acquiring (buyer) countries apply “corresponding adjustments” to avoid double-claiming, or double-counting. This is reported in an “emissions balance”.

- A country that transfers ITMOs (host party) will add back that amount to its GHG inventory covered by the NDC when reporting adjusted emissions for purposes of NDC compliance.
- The acquiring (buyer) country will subtract the ITMOs from its actual NDC covered emissions when reporting adjusted emissions for NDC compliance.
- Transfers used for other international compliance purposes (e.g., CORSIA) will also require corresponding adjustments for the transferring (host) country.

Figure 6 in the main text of the guide illustrates how the corresponding adjustment cancels out the impact of the cooperative activity – in terms of the host party reporting on NDC progress – because the volume of the ITMOs transferred and the corresponding adjustment is the same as the actual MOs from the Article 6.2 activity. In that example, the host party meets its NDC goal based on its own domestic emission reductions (i.e., not supported by external financing).

Figure A1 illustrates a different situation, which is what happens if a host party transfers mitigation outcomes based on activities *not visible* in the NDC inventory. For activities that are not visible in the NDC GHG inventory (or, similarly, are outside the scope of the NDC) the overselling risk is very high. This is because the host party's corresponding adjustment for the transfer (i.e., adding back these emissions reductions to the NDC GHG inventory) is not matched by any visible reduction in the NDC GHG inventory due to the mitigation activity (or because the emission reductions occur in a sector, gas or source that is outside the scope of the NDC). Such a transfer makes it more difficult for the host party to reach their NDC target because more mitigation is required for its “emissions balance” to match its original NDC pledge. To still meet its goal, the host party would have to look to additional mitigation options beyond its current plan to reach the unconditional NDC. These activities could be more expensive or complex than the actions included in the original plan.

Figure A1. Illustration of corresponding adjustments



In the figure, if the host party's mitigation pledge was to reach 80 units, then it would not be able to meet its goal after the corresponding adjustment is applied. This is because the ITMOs were based on mitigation activities that fall outside the NDC GHG inventory or outside the scope of the NDC. Therefore, the emissions balance will be the sum of the 80 units in the actual GHG inventory (NDC GHG inventory) and the corresponding adjustment for 20 more units.

More generally, and as illustrated earlier in Figure 6, because of corresponding adjustments, Article 6 transactions in which all of the mitigation outcomes are transferred cannot help a host party move closer to its NDC goal, because the MOs can only be used by one country (i.e., in this case, the acquiring party). Of course, a host party might utilize Article 6 cooperation to go beyond its mitigation pledges to implement more actions. Because of the corresponding adjustments, however, it will not receive “credit” for these actions in its NDC reporting – since only one country can account for the MOs.

Annex B. Environmental and social risks assessment and mitigation plan form

Question	Yes	No	Description of risk	Mitigation plan
Alignment and compliance with the law				
Have you ensured alignment with national policies? Which ones?				
Have you ensured alignment with international treaties signed by the host party? Which ones?				
Is the Article 6 strategy likely to violate any human right in the host party?				
Governance structure				
Are there legal and/or institutional frameworks in place for an Article 6 strategy? Which one?				
Reporting and information				
Is there an information system in place for reporting transactions under Article 6?				
Is the Information system in a language accessible to the population (people living with disabilities, illiterate, indigenous languages, etc.)?				
Indigenous peoples and cultural heritage				
Could the Article 6 strategy involve activities that adversely impact the dignity, human rights, livelihood systems or culture of indigenous peoples?				
Could the Article 6 strategy involve activities that adversely impact land or natural and cultural resources that indigenous peoples own, use, occupy or claim?				

(continued)

Question	Yes	No	Description of risk	Mitigation plan
Will the Article 6 strategy include areas that are of cultural importance?				
Land use and involuntary resettlement				
Could the Article 6 strategy involve activities or provide advice about an activity that will: <ul style="list-style-type: none"> displace people, either physically or economically exclude or reduce people's access to land they live on or use to generate livelihoods exclude or reduce people's access to land that is of cultural or traditional importance to them? 				
Biodiversity conservation and resources management				
Would the Article 6 strategy result in the conversion or degradation of land?				
Does the Article 6 strategy involve natural forest harvesting or plantation development?				
Does the Article 6 strategy involve significant extraction, diversion or containment of surface or groundwater?				
Would the Article 6 strategy result in the release of pollutants to the environment (including GHG emissions)?				
Community health and safety				
Could the Article 6 strategy result in the release of pollutants that affect human and nature's health?				
Could the Article 6 strategy have an impact on the food security of people?				
Stakeholder engagement plan				

(continued)

Question	Yes	No	Description of risk	Mitigation plan
Has a stakeholder engagement plan been developed? Which actors are included, when and what is their participation?				
Gender equality				
Is the Article 6 strategy likely to have variable impacts on women and men, and in particular impact women's access to and control of resources, benefits and/or services?				
Have you articulated gender responsive outcomes, outputs and/or activities?				
Have indicators been desegregated by gender where applicable and/or specific gender-responsive indicators been incorporated where applicable?				
Labor and working conditions				
Does the Article 6 strategy have implications for the working conditions of workers in the areas of impact? Which ones?				
Will the project involve contact with children or working with children?				

Annex C. Environmental and social safeguards criteria for the Article 6 host party strategy

Criterion	Safeguard	Description
Robust, transparent governance	Alignment and compliance with the law	Alignment and compliance with international and national laws and treaties signed by the host party regarding climate change, sustainable development action and human rights.
	Governance structure	Governance structure that involves stakeholders from various sectors and effectively implements and supervises transactions under Article 6.
	Reporting and information system	Periodic reporting and information system about environmental and social impacts, to ensure transparency and accountability by all the stakeholders.
Negative environmental, economic and social impacts	Environmental and social risks assessments	Environmental and social assessments throughout the whole implementation cycle to identify, avoid, prevent and mitigate unexpected negative social and environmental impacts.
	Land use and involuntary resettlement	Avoid any involuntary resettlement of local communities and the misuse of land for climate mitigation activities.
	Community health and safety (SDG 8 3)	Avoid negative impacts on the health of communities and populations, avoid illnesses associated with pollution, and promote food security.
Respect for human rights	Indigenous peoples and cultural heritage	Respect for indigenous people's cultures, inclusion of their knowledge to protect the environment and fight climate change, as well as protect cultural heritage.
	Gender equality (SDG 5)	Ensure and promote the participation of women and girls, value their contributions in decision making processes, as well as equal access to resources.
	Labor and working conditions (SDG 8)	Comply with labor rights, prevent child abuse, and ensure sustainable livelihoods of local communities.
Sustainable development goals	Biodiversity conservation and resources management (SDGs 13, 14 and 15)	Preserve the existent biodiversity, sustainably manage natural resources such as water, energy and waste.
Consultation with stakeholders	Stakeholder engagement plan (SDG 17)	Ensure full participation of different stakeholders throughout the implementation cycle, identify and integrate their interests.

Annex D. Basic requirements for Article 6 participation

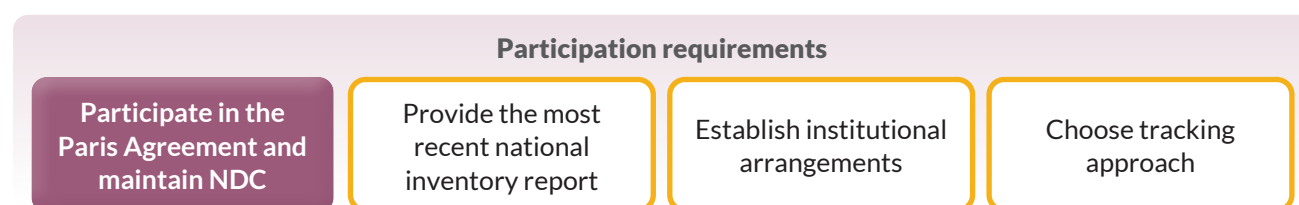
This annex presents in more detail the different basic requirements for Article 6 participation and presents suggested actions and decisions to be taken for each one.

A1. Participation requirements

In order to be part of Article 6.2 activities, host parties must meet these key participation requirements:

- Participate in the Paris Agreement and maintain an NDC
- Provide the most recent national inventory report
- Establish institutional arrangements for authorization, transfer, and reporting
- Choose a registry

A1.1 Participate in the Paris Agreement and maintain an NDC

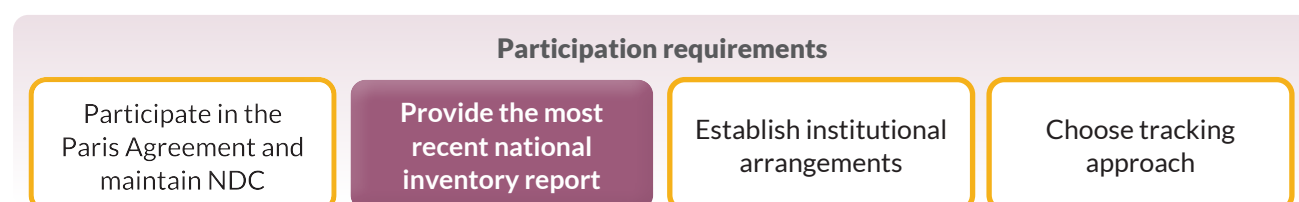


Host parties must comply with the basic requirements regarding participation set by the guidance documents published and updated by the UNFCCC. This will ensure a common commitment to the agreement and to the proper presentation and tracking of goals.

Host parties must be a Party to the Paris Agreement and must have prepared, presented and maintained an NDC.⁴⁹ NDCs, in particular, need to be recorded in the public registry managed by the UNFCCC (NDC registry).⁵⁰

Action: The host party must upload its NDC to the NDC registry.

A1.2 Provide the most recent national inventory report



National inventories are prepared and presented to the UNFCCC. To do this, host parties need to create the capacity and allocated resources for this work.

Host parties must present their most recent national GHG inventory report. The inventory report gives the annual data on emissions and reductions. It must follow the Article 13 enhanced transparency framework, which is described in the modalities, procedures, and guidelines requirements. See Box A1 for more information.

Box A1. Submitting national inventory reports following Article 13 guidance

Article 13 of the Paris Agreement outlines the transparency framework for reporting and reviewing the progress made towards achieving the goals of the agreement.

The first point of the outline of the transparency framework mentioned above is the reporting requirements. Countries are required to regularly report on their **greenhouse gas emissions**, progress towards their NDCs, and the implementation of their climate policies and measures.

Annex of Decision 18/CMA.1 provides the requirements for the National Inventory of Anthropogenic Emissions by Sources and Removals by Sinks of Greenhouse Gases (GHGs). These requirements include the following:



Coverage

All anthropogenic emissions by sources and removals by sinks of GHGs, as specified in the Intergovernmental Panel on Climate Change (IPCC) guidelines.



QA/QC

The inventory should undergo a rigorous quality control and quality assurance process to ensure accuracy, consistency, completeness, and transparency.

Timeframe

The inventory should cover a specified period, usually five years, and should be submitted annually.



Uncertainty assessment

The inventory should include an assessment of the uncertainty associated with the reported data and methodologies used to estimate emissions and removals.



Reporting format

The inventory should be submitted in a standardized reporting format, as specified in the IPCC guidelines.



Recalculation and improvement

The inventory should be subject to regular recalculations and improvements to ensure that it reflects the most accurate and up-to-date information available.

Action: The host party must submit its national GHG inventory report to the UNFCCC using the 2006 IPCC Guidelines.

A1.3 Establish institutional arrangements for authorization, transfer, and reporting

Participation requirements

Participate in the Paris Agreement and maintain NDC

Provide the most recent national inventory report

Establish institutional arrangements

Choose tracking approach

Host parties need to choose institutions to perform specific Article 6 responsibilities, ideally using existing institutions. These can be inside or outside government. Host parties must define the different roles, functions, and bodies. If institutions do not exist, host parties will need to create them. In addition, they must document and present this information to the UNFCCC.

The starting point for implementing this requirement is that the host party informs the UNFCCC as to which entity has authority for authorization, transfer, and reporting (see example from Switzerland in Box A2).

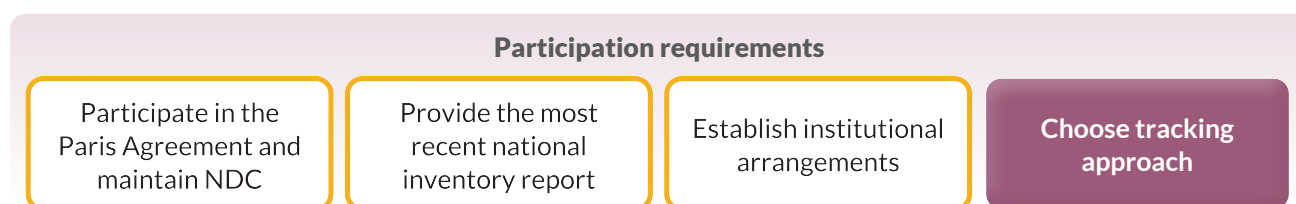
See Guide 3 for more on this topic. Guide 3 focuses on developing the topics on Article 6 institutional arrangements.

Action: The host party must identify institutions to carry out key Article 6 functions by reporting the outcome of the process presented in Guide 3.

Box A2. Case study: Switzerland's initial Article 6 report⁵¹

“Switzerland’s competent authority for authorizing the use of ITMOs is the Federal Department of Environment, Transport, Energy and Communications acting through the Federal Office for the Environment (FOEN). The competence is delegated to the FOEN through the bilateral Agreements as well as Switzerland’s national CO₂ Act. The bilateral Agreements and the national CO₂ legislation include eligibility requirements for the authorization.”

A1.3 Choose tracking approach



The Article 6.2 guidance says that host parties must have “arrangements in place...for tracking ITMOs”. In practice, for most countries this will mean choosing some form of registry system that can be used to track ITMOs. A host party can select from a variety of options. Some of those already available are able to adapt to the party’s own circumstances, while some others could present opportunities to expand tools or resources already in their national or proprietary inventory systems.

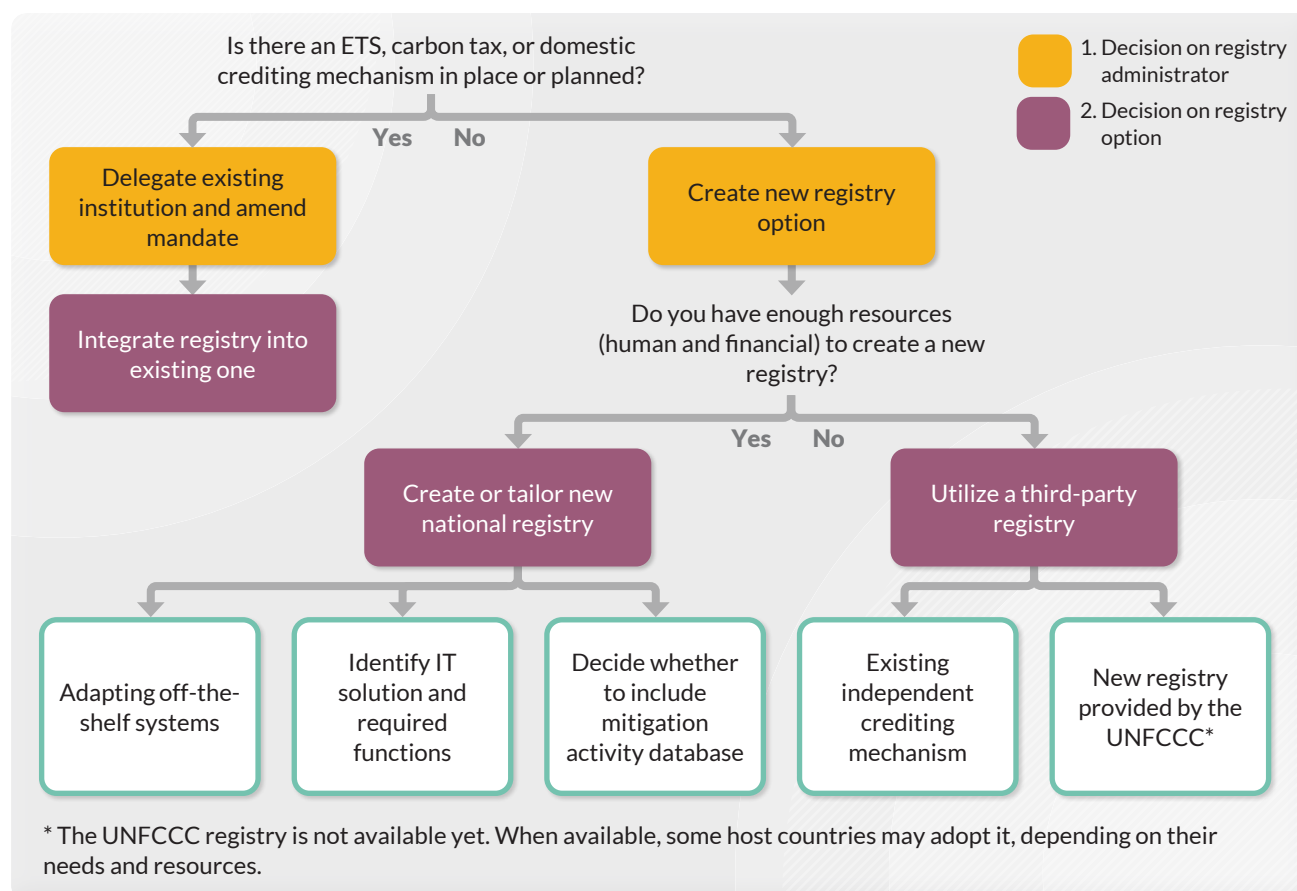
Host parties should decide on which type of tracking system for ITMOs to use. They could use:

- The registry of an existing independent crediting mechanism (e.g. SustainCert, VCS registry, among others)
- A new registry to be provided by the UNFCCC
- Their own national registry⁵²

The World Bank offers different solutions on registries that could serve as a baseline to some host parties. This is further detailed in Box A3.

The decision on which approach to take is based, in part, on whether the country already has a registry and the financial and human resources available (Box A4).

Figure A2. Decision tree for selecting a registry



If a host party chooses to create its own registry, it will need to:

- Choose the institution that will create and manage the registry (for more on this, see Guide 3)
- Decide how the registry's IT solution works and what functions it has (architecture and functionality)
- Decide whether to include a mitigation activity database and ITMO tracking in its registry

Whichever registry the host party chooses to use, the registry must be able to store, track and report authorizations, transfers, cancellations, etc.⁵³ All registries must also be able to report information needed for the compliance and presentation of the biennial transparency report. See Guide 3, Chapter 6 "Prepare a draft registry requirements" and Chapter 7 "Design a registry" for more on this topic.

Action: The host party decides how they will track ITMOs: using an existing registry, a registry that the UNFCCC provides, or its own one. If it develops its own registry, it must make further decisions.

Box A3. External registries offerings – World Bank

Host countries can find various solutions offered by international organizations, such as the Gold Standard Foundation, the UNFCCC, or the United Nations Development Program. In addition, the World Bank offers three registry systems:

1. Core registry. This is the most basic offering, allowing host countries to comply with the minimum requirements. This registry is open-source and uses blockchain technology.
2. Enhanced registry. It builds from the core registry scope, while providing additional functionalities to host countries, such as linkage with GHG inventory systems in place; allows the input of types and methodologies of activities; and allows follow-up of activity workstreams (when integrated to the MRV system).
3. Carbon assets tracking system (CATS). This registry is designed to work with the issuance and transactions of emission reductions that are generated under World Bank programs.⁵⁴

Box A4. Case study: Switzerland's registry decision

Switzerland, in its Article 6 initial report mentions the use of its own Swiss Emissions Trading Registry, as the ITMOs will be tracked as “international attestations”. However, Switzerland leaves the door open to use a joint registry in conjunction with other partner countries. The wording is the following:

“Switzerland uses the Swiss Emissions Trading Registry for the tracking of ITMOs which are recognized by Switzerland under Article 6.2. The ITMOs, which have been first transferred from Switzerland’s partner countries will be issued in the Swiss Emissions Trading Registry as “international attestations”. The Swiss Emissions Trading Registry tracks the holder of the units, transfers between accounts, use towards NDC (surrendering under the Swiss CO₂ legislation) as well as voluntary cancellations. Information on the specific mitigation purpose of a cancellation other than use towards NDC will be collected from the account holders on a voluntary basis. Furthermore, the Swiss Emission Trading Registry will serve as a central database and provide access to the authorizations of Switzerland and its partner countries underlying each international attestation that represents an ITMO and its respective cooperative approach. Switzerland may define, together with its partner countries, a jointly used registry.”⁵⁵

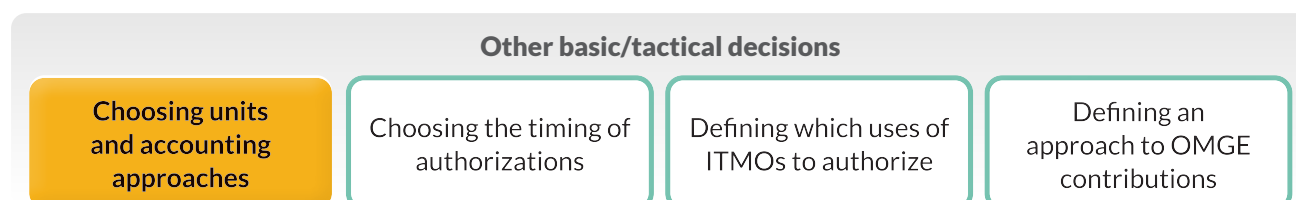
A2. Other basic or tactical decisions

At this stage, the host party has met the participation requirements and must now make tactical decisions. These tactical decisions include:

- Choosing units and accounting approaches
- Choosing the timing of authorizations
- Defining which uses of ITMOs to authorize
- Defining an approach to overall mitigation of global emissions (OMGE) contributions

Tactical decisions come from reporting requirements in the Article 6.2 guidance. These are part of the requirements for an initial report on Article, which must be presented “no later than the authorization of ITMOs ... or where practical ... in conjunction with the next biennial transparency report.”

A2.1 Choosing units and accounting approaches



This tactical decision involves the definition of three different aspects that are key to how to keep track of MOs: 1) how the host party will quantify its NDC targets; 2) which metrics are used for ITMOs; and 3) how to account for ITMO transfers against a single-year target.

Host parties must quantify their targets in tCO₂e, showing clearly how they calculated CO₂ equivalents for non-GHG metrics. Host parties also decide whether ITMOs will be only in units of CO₂e or would also include other non-GHG metrics. Finally, host parties must choose an accounting approach for single-year or multi-year targets (Box A5).

The selection of units and accounting approaches may be limited by the cooperative agreement that the country signs. Therefore it is recommendable for countries to have an understanding of cooperative agreements and how to negotiate them prior to making decisions which may be costly or time-consuming to undo.

Accounting is covered in detail in Chapter 2.3 of Guide 3.

Action: Host parties must choose a unit of measurement for their ITMOs, quantify their NDC targets, and define their accounting approach for single-year targets. They should include measures regarding social, environmental and economic co-benefits.

Box A5. Accounting approaches: Single-year and multi-year targets

Host parties must present in their initial report the accounting approach they have selected for their NDC implementation period. There are two main options: multi-year and single-year targets.

A multi-year target assumes a multi-year emissions trajectory or budget that is consistent with achieving the host party's NDC. In other words, the host party will present its different annual goals consistent with achieving the NDC target by the end of the implementation period.

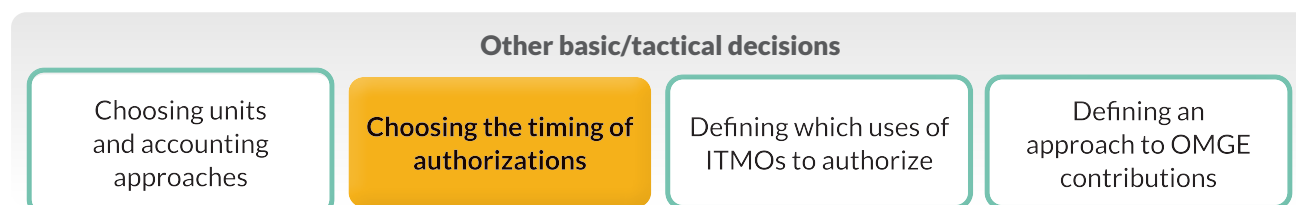
A multi-year target provides higher certainty to host parties on understanding the effect of ITMOs transfer on an annual basis, and to better deal with annual emissions fluctuations. It provides greater control.

On the other hand, a single-year target can be presented in two ways:

- **Averaging:** Averaging requires the calculation of the average annual amount of ITMOs transferred and used over the implementation period of the NDC, and applying those values to the reported emissions in the target year
- **Multi-year trajectory:** In this case, the same principle as the multi-year target is implemented

Single-year targeting is easier to implement, but has a higher level of uncertainty and less space to adapt once the target year arrives – emissions may be under or over target, and there might, as a result, be potentially less or more transfer of ITMOs.⁵⁶

A2.2 Choosing the timing for authorizations



Another important tactical decision is defining the timing for authorizations. Host parties will need to consider how this decision could impact activity participants and their potential engagement in Article 6 transactions.

Host parties must choose the timing for authorization that is best aligned with their Article 6 strategy. *Ex-ante* authorizations occur before the monitoring, reporting and verification of the MOs, in other words, before the activity is implemented.ⁱⁱ It does, however, request the

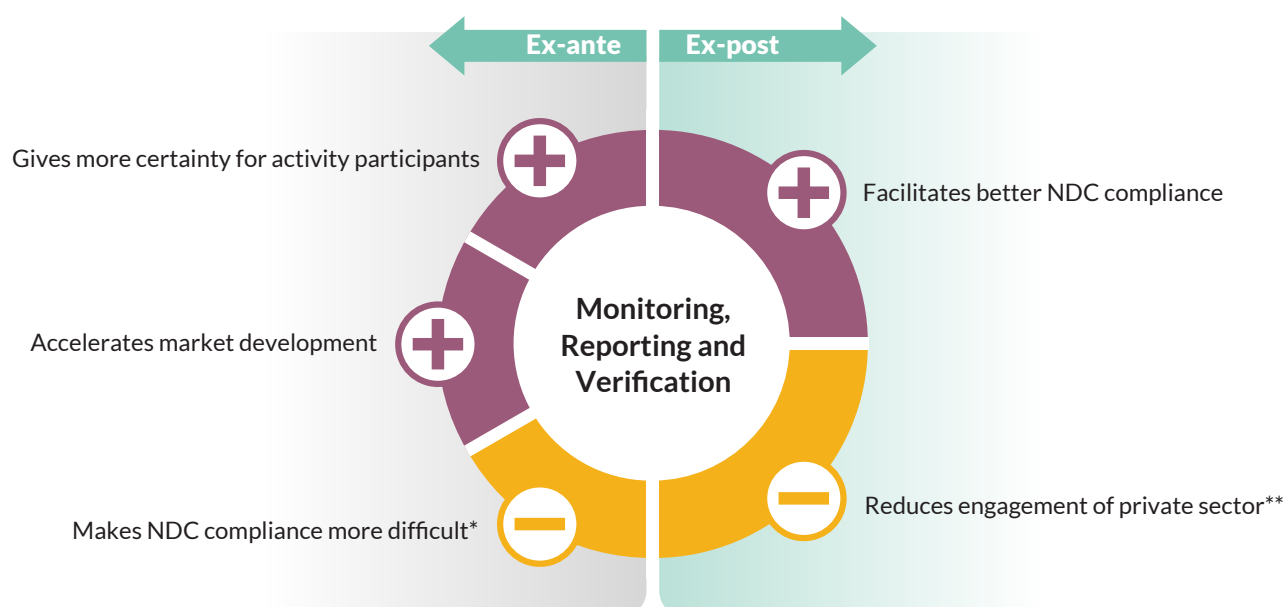
ⁱⁱ The timing of authorization and what type of early acknowledgement host parties may provide for activities, is still under discussion. While some countries (e.g., Ghana and Switzerland) have already publicly announced *ex ante* authorizations, some experts point out that, since ITMOs must be “verified”, authorization might only formally be able to happen after the mitigation outcomes are generated. This *ex ante* action from the host party could potentially be called ‘pre-authorization’, but this term does not appear in the Article 6.2 guidance.

validation of the activity by a third party (auditor). On the other hand, *ex-post* authorizations take place after the activity has completed the verification and the activity has been deployed. If the purpose is to execute a transfer, the request for authorization and the request for transfer should be carried out simultaneously, since the request should be accompanied by a verification report certifying the MOs.

Ex-ante authorizations or specific timings of authorizations may be limited by the cooperative agreement that the country signs – therefore it is recommendable for countries to have an understanding of cooperative agreements and how to negotiate them prior to making decisions which may be costly or time-consuming to undo about the timing of authorizations.

Figure A9 lists some of the main pros and cons of the two options on timing for authorizations.

Figure A3. Pros and cons for timing of authorization



* If host countries authorizes and corresponding adjustments are yet to be implemented

** There is more uncertainty on the revenue from ITMOs

Options are not limited to before and after authorizations; there could be a mix or more precise indications laid out as for each approach, for example:

- Approach over time (e.g. ex-ante authorization only until 2025)
- Mitigation activity type (e.g. ex-ante authorization only to certain key sectors)
- Activity participant (e.g. ex-ante authorization only to the private sector)

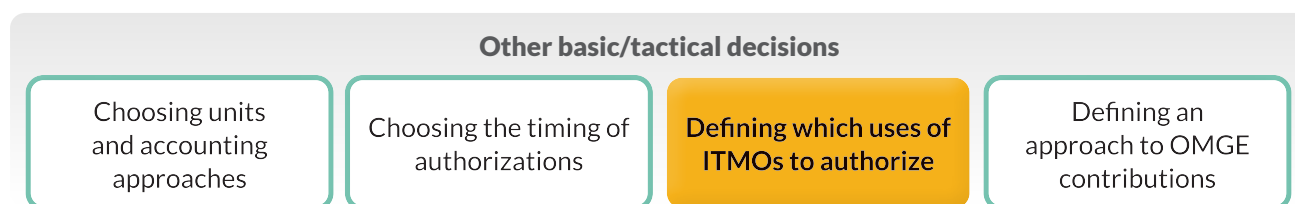
The authorization approach to take is the one that could best fit the host party's priorities and available resources.

Table A1. Short- and long-term impacts of ex-ante and ex-post timing of authorizations

	Ex-ante	Ex-post
Short-term impacts		
Private sector environment	Certain	Uncertain
Investment risk	Low, since it is certain that the activity will be implemented under certain parameters of MRV and the MOs will be recognized	High, because it is more likely that aspects that have not been considered could hinder the generation of verifiable MOs
Long-term impacts		
Participation of private sector	More participation, as mitigation activities could be developed in accordance with established conditions	Limited participation, as it is more likely that only specific activities would be considered as eligible
Market	Faster and robust market development	
NDC	NDC compliance might be at risk	NDC compliance might be ensured

Action: The host party must choose whether, or under what conditions, to authorize ITMOs ex-ante or ex-post.

A2.3 Define which uses of ITMOs to authorize



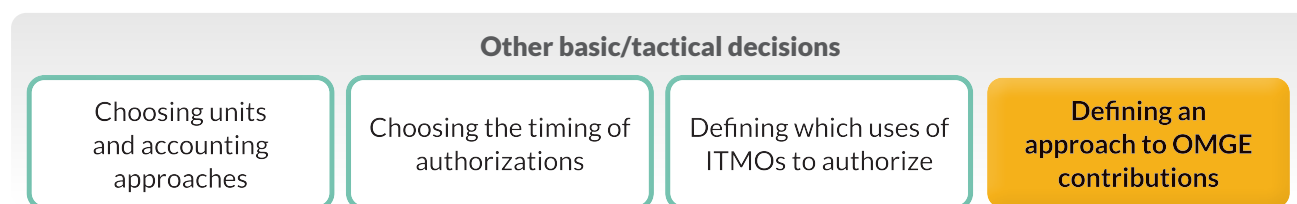
ITMOs do not only serve for meeting NDC goals; there are other roles that host parties can opt to use instead. Host parties can authorize the use of ITMOs to do the following:

- Meet an NDC goal of the acquiring party
- Be used in other international mitigation markets (which currently includes CORSIA)
- Be used for “other purposes”, which in practice means to sell into the voluntary carbon market

Therefore, the host party could opt to select one, several or all options for uses; for example: authorize ITMOs for all purposes, authorize the use or uses on a case-by-case basis, or define criteria to apply for uses other than NDC.

Action: The host party decides which ITMO uses to authorize, which might include always providing authorization for all uses as long as the necessary criteria and conditions are met.

A2.4 Define an approach to adaptation and overall mitigation in global emissions



Host or acquiring countries could include a contribution to adaptation as a share of proceeds. In addition, they could ensure that their ITMOs contribute to the overall mitigation of global emissions.

Article 6.4 makes these requirements mandatory. It requires that 5% of the A6.4ERs are dedicated as a contribution to adaptation as a share of proceeds, while 2% are a contribution to OMGE. The Article 6.2 guidance, on the other hand, strongly suggests but does not require these actions, so that host parties can decide whether or not to include them. Of course, even if the host party does not set aside ITMOs for adaptation or OMGE, an acquiring party may still choose to cancel ITMOs for this purpose and not use them towards its NDC.

OMGE contributions and share of proceeds may be limited by the cooperative agreement that the country signs, so countries should have an understanding of cooperative agreements and how to negotiate them prior to making decisions which may be costly or time-consuming to undo. In addition, some of the implications of implementing OMGE and/or share of proceeds requirements, could impact the attractiveness of activities for activity participants, especially if there is a high share taken for such requirements of by the host party itself.

Action: The host party must decide whether to include a contribution to adaptation and OMGE requirements for ITMO transfers.

Box A6. Further consideration for least developed countries and small island developing states in the context of Article 6

For the 46 least developed countries and 38 small island developing states, special and more flexible approaches are being offered as part of the Article 6.2 guidance. Some of these refer to having more access to support by the UNFCCC and implementing parties on, for example, the use of an international registry, overall capacity building, and special considerations on submitting reports and NDC updates to the secretariat.⁵⁷

Endnotes

- 1 UNFCCC, “Paris Agreement. Annex to Decision 1/CP.21, Document FCCC/CP/2015/10/Add.1. 29 January 2016.”
- 2 UNFCCC, “Decision 2/CMA.3. Guidance on Cooperative Approaches Referred to in Article 6, Paragraph 2 of the Paris Agreement.”
- 3 UNFCCC, “Decision 3/CMA.3. Rules, Modalities and Procedures for the Mechanism Established by Article 6, Paragraph 4, of the Paris Agreement.”
- 4 See also Spalding-Fecher, Macias Diaz, and Guzman Barraza, “Guidance on Governance Models for Host Country Engagement in Article 6. Version 2.0”; World Bank, “Climate Market Club Approach Paper: Developing an Article 6 Strategy for Host Countries”; Michaelowa et al., “Promoting Article 6 Readiness in NDCs and NDC Implementation Plans”; Espelage et al., “Blueprint for Article 6 Readiness in Member Countries of the West African Alliance.”
- 5 World Bank, “Ensuring Environmental Integrity under Article 6 Mechanisms. Article 6 Approach Paper Series”; Schneider and La Hoz Theuer, “Environmental Integrity of International Carbon Market Mechanisms under the Paris Agreement”; Spalding-Fecher et al., “Environmental Integrity and Additionality in the New Context of the Paris Agreement Crediting Mechanisms.”
- 6 UNEP CCC, “Technology Needs Assessment Methodology.”
- 7 Activity type here refers to a subset of activities from the same sector that use the same technology/mitigation solution and have similar characteristics. Some examples of activity types in the waste sector can include landfill gas flaring, landfill gas to energy, waste water treatment, composting, etc. This implies that the Host Party does not have to go through such evaluation process for each individual activity, but rather a group of activities (activity type).
- 8 This can happen for example, when activity reduces emissions from sources that, while they are in the a sector covered by the NDC, those specific sources are not included in the GHG inventory, or from a sector/sub-sector that has a highly aggregated GHG inventory, so the mitigation impact may not be reflected. A common example is activities that reduce the use of non-renewable biomass (e.g., energy efficiency cookstoves, biodigester for household cooking), where even though these activities do reduce deforestation and degradation of forests, the national GHG inventories are not detailed enough to capture this change in forest biomass.
- 9 The assumption here is that if the NDC specifies a goal and does not specify any conditions, then the goal is unconditional. This is not meant to be a political statement about NDC types but simply a practical approach to addressing this type of NDC.
- 10 Government of Jordan, “Draft Jordan’s Policy Framework for Cooperative Approaches under Article 6 and Other International Carbon Markets.”
- 11 Government of Ghana, “Ghana’s Framework on International Carbon Markets and Non-Market Approaches.”
- 12 MGEE, “Interim Guidelines: Handling of Carbon Markets and Trading in Zambia.”
- 13 Adapted from Spalding-Fecher et al. (2020; 2021)
- 14 Host parties could also manage this by limited the “authorization period” or the vintage of ITMOs that would be eligible for transfer to less than the standard crediting period or the life of the project.
- 15 This is distinct from any nominal fee a host party government might charge to cover the administrative costs of the national institutions and procedures for Article 6 activities.
- 16 Of course this assumes that there is no international carbon market price that is a benchmark for ITMO pricing, which is the case in the current market.

- 17 Any projects with fixed crediting period (CP) have probably expired already. However, there were many that chose 3x7 and they may even be able to ask for this renewal late.
- 18 Article 6.2 guidance, paragraph 1.a
- 19 Article 6.2 guidance, paragraph 1.e.
- 20 Article 6.2 guidance, paragraph 18.h, including 18.h.i, 18.h.ii, and 18.h.iii.
- 21 Article 6.2 guidance, paragraph 18.i.i.
- 22 Article 6.2 guidance, paragraph 18.i.ii.
- 23 Article 6.2 guidance, paragraph 18.i.iii and 22.h.
- 24 Article 6.2 guidance, paragraph 22.a.
- 25 Article 6.4 rules, paragraph 31.c.
- 26 Article 6.4 rules, paragraph 31.d.i.
- 27 Article 6.4 rules, paragraph 31.d.iii.
- 28 Article 6.4 rules, paragraph 31.e.
- 29 Article 6.4 rules, paragraph 33.
- 30 Article 6.4 rules, paragraph 38.
- 31 Article 6.4 rules, section VIII.
- 32 Article 6.4 rules, section VII.
- 33 Article 6.4 methodologies are not yet approved as of August 2023.
- 34 Article 6.4 safeguards tools are not yet published as of August 2023.
- 35 World Bank, “The World Bank Environmental and Social Framework.”
- 36 IFC, “Performance Standards”.
- 37 <https://globalgoals.goldstandard.org/sdg-impact-tools/>.
- 38 https://irp-cdn.multiscreensite.com/be6d1d56/files/uploaded/SDG-Impact-Assessment-Tool-Guide-1-0_final_ver02_mini.pdf.
- 39 Article 6.4 rules, paragraph 33.
- 40 Article 6.4 rules, paragraphs 33-34.
- 41 Article 6.4 rules, paragraph 38.
- 42 This criterion could be applicable to Article 6.2 transactions that would follow the Article 6.4 mechanisms (bilateral).
- 43 Adapted from Spalding-Fecher et al. (2020; 2021)
- 44 The Article 6.4 rules, for example, allow host parties to choose shorter crediting periods than the default provided by the crediting mechanism. Alternatively, the host party might only authorize mitigation outcomes of a limit vintage (e.g., 5 years) even though the activity might continue after that or even generate verification emission reduction units longer than that under a voluntary carbon market crediting mechanism.
- 45 The Article 6.4 supervisory board is still developing the more detailed rules for activity eligibility and approval as of August 2023.
- 46 Adapted from WeResearch, “Assessing Public Participation in Policymaking Process.”
- 47 Gomez Velasquez, “El Deber de Consulta Pública Previa a La Expedición de Reglamentos En El Régimen Jurídico Colombiano. Revista Derecho Del Estado.”; PMR, “A Guide to Carbon Crediting: Designing and Implementing Domestic Carbon Crediting Mechanisms.”

- 48 Government of Tanzania, “Government Notice Number 636 of 2022: Control and Management of Carbon Trading.”
- 49 Article 6.2 guidance, paragraph 4.
- 50 For more about the latest public NDCs, see the UNFCCC NDC registry: <https://unfccc.int/NDCREG>.
- 51 Switzerland’s Federal Office for the Environment, 2023. “Switzerland initial report Article 6.2.” <https://unfccc.int/documents/628213>
- 52 Development banks, registry providers and donor-funded capacity building initiatives are working on creating standardized registry tools that could be easily adapted to host countries.
- 53 Full list available in Article 6.2 Guidance, paragraph 29.
- 54 For more information, please visit: World Bank, 2023. “Carbon assets tracking system.” <https://cats.worldbank.org/>. World Bank, 2016. “Comprehensive guidance on developing emission trading registries from Partnership for Market Readiness.” <https://pmiclimat.org/index.php/publication/emissions-trading-registries-guidance-regulation-development-and-administration>.
- 55 Switzerland’s Federal Office for the Environment, 2023. “Switzerland initial report Article 6.2.” <https://unfccc.int/documents/628213>.
- 56 Article 6.2 guidance, paragraphs 8 and 18a,c.
- 57 Guidance on Article 6.2. Paragraph 5.
- 58 For more information, please visit: World Bank, 2023. “Carbon assets tracking system.” <https://cats.worldbank.org/>. World Bank, 2016. “Comprehensive guidance on developing emission trading registries from Partnership for Market Readiness.” <https://pmiclimat.org/index.php/publication/emissions-trading-registries-guidance-regulation-development-and-administration>.
- 59 Switzerland’s Federal Office for the Environment, 2023. “Switzerland initial report Article 6.2.” <https://unfccc.int/documents/628213>.



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