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# ALIGNING ENGAGEMENT IN ARTICLE 6 WITH A COUNTRY'S NDC

The design of a country's Article 6 strategy should be in line with its NDC and its respective NDC implementation plan (if available). Hence, the country's NDC should be the point of departure when Focal Points commence their work on the Article 6 strategy.

## Key NDC Information

- The mitigation potential and mitigation pathway of the NDC target until the NDC's target year, preferably disaggregated by sectors and technologies. Ideally, these mitigation pathways are based on GHG modelling done as part of the NDC or NDC implementation plans. The Article 6 strategy can then make use of these pathways and align to them. In case such pathways do not exist, GHG modelling capacities would be required.
- Which mitigation activities can be supported with domestic financing capacity to achieve the unconditional NDC targets, and which ones underpin the conditional NDC targets that require international support. Only mitigation activities that go beyond the unconditional NDC targets are generally eligible for Article 6.<sup>1</sup>
- Which mitigation activities under the conditional NDC target have received or are set to receive international climate finance (e.g., through the financial mechanism of the UNFCCC, multilateral development banks or bilateral finance institutions).
- How well the country is on track to meet the combined (unconditional and conditional) NDC target, and which processes and systems are in place to track progress (e.g., MRV systems).

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<sup>1</sup> Michaelowa, Axel; Espelage, Aglaja; Gilde, Lieke 't; Dalfiume, Sandra; Krämer, Nicole; Censkowsky, Philipp; Greiner, Sandra; Ahonen, Hanna-Mari; De Lorenzo, Federico; Hoch, Stephan (2021): [Promoting Article 6 readiness in NDCs and NDC implementation plans](#), final report.



- How on track the country is to fully comply with the accounting and reporting requirements under the Paris Agreement, especially regarding the ETF, starting in 2024.

Aligning Article 6 with the NDC ensures that the Article 6 strategy maximises effectiveness, synergies with existing GHG mitigation strategies and overall policy coherence. Ensuring NDC alignment is a crucial building block of Article 6 readiness and therefore more in-depth guidance is warranted. It is recommended that any Article 6 Focal Point reflects on the following key guiding elements as part of the strategic considerations related to Article 6:

## 1. Indicate the intention and/or strategy of the country to use Article 6 (seller/buyer/mixed)

Firstly, the Article 6 strategy should clearly indicate the intention and/or strategy of the country to use Article 6. We identify three main types of strategies:

- (1) **'Pure seller'**, i.e., country uses Article 6 to access international carbon finance by generating mitigation outcomes that are all internationally traded as ITMOs;
- (2) **'Pure buyer'**, i.e., country uses Article 6 to buy ITMOs and meet its own mitigation targets; or
- (3) **'Mixed strategy'**, i.e., country uses Article 6 both ways, allowing ITMOs generated in the country to be sold internationally and contributing to own mitigation targets through the utilisation: and purchase of mitigation outcomes.

Most members of the West African Alliance may select (1), however, over the longer-term, all three types of strategy may be relevant and intra-regional emission trading could emerge.

## 2. Consistency on the three levels of implementation, reporting and governance

Secondly, the Article 6 Focal Point needs to ensure consistency on various levels to achieve effective NDC integration. This concerns, aligning Article 6 activities with the mitigation measures and targets defined in the NDC. It is important to ensure that Article 6 activities are outside of the unconditional NDC and are aligned to other prioritised mitigation activities/sectors that are not part of the unconditional NDC. For activities outside the unconditional part of the NDC, ideally, this should take into consideration existing and planned mitigation activities, financing already secured or available and be guided by insights on where mitigation actions are most effective and scalable. The active support of potential Article 6 activity developers including private sector companies 'championing' a certain innovative climate-related activity is strongly recommended. Here, the Article 6 Focal Point should early on build up relationships, reduce information asymmetries between public and private actors



(e.g., regarding authorisation) and generate trust in the emerging new generation of carbon markets under Article 6.

In addition, consistency is needed with regards to reporting requirements under Article 13 of the Paris Agreement. Several important aspects emerge that the Focal Point needs to ensure to integrate into a country's NDC implementation strategy:

- Familiarise with the approach to accounting for NDC targets and ensure collaboration with authorities responsible for the compilation of GHG inventories and achievement of the NDC;
- Consider that the mitigation outcomes that are sold as ITMOs cannot be used for the attainment of the unconditional NDC target;
- Understand the process of and approach to applying CAs for authorised and first transferred mitigation outcomes: the authorisation of a MO requires the government to apply CAs, i.e., deduct the mitigation from the annual emission balance of the respective NDC year<sup>2</sup>;
- Overall, understand the mitigation costs of the various mitigation activities within the country's context.

Consistency is also needed with the host country's NDC on a governance level. Integrating the governance structure of the Article 6 strategy with overall governance of NDC implementation, reporting and updates is crucial. Concretely, this can be achieved by ensuring, e.g., that dedicated Article 6 staff within the Focal Point and/or the ministry is formally connected/aligned to other NDC-related personnel (e.g., through a seat on relevant committees, the same department, physically close offices, networks, etc.). Moreover, Article 6 staff should ideally be well versed in other NDC-relevant areas, such as international climate finance, or UNFCCC reporting to understand the interdependencies. Lastly, a well-functioning and integrated NDC governance system, including Article 6, will best work with experienced and dedicated staff. To achieve this, the responsible ministry should actively encourage synergetic internal exchanges, e.g., through secondments, early career development and diversity of tasks.

### 3. Safeguards against overselling, double counting and hot air to avoid adverse outcomes

Thirdly, an Article 6 strategy should foresee safeguards that generally apply to NDCs, i.e., provisions that guarantee safeguarding the environmental integrity of an Article 6 transaction.

These safeguards shall prevent:

- **'Overselling'**: Ensure no authorisation of mitigation outcomes as ITMOs that are needed to achieve the unconditional NDC target. A clear Article 6 strategy based on comprehensive analysis, proper accounting of mitigation

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<sup>2</sup> This strategic orientation is further detailed the Information Note *Applying Corresponding Adjustments on the Article 6 page What is needed for national implementation?*



actions and GHG emissions and thorough domestic governance are highly recommended to mitigate risks related to overselling.

- **'Double counting and double claiming'**: Ensure that mitigation outcomes authorised and sold as ITMOs abroad are not being used more than once (e.g. for achieving its own NDC). This can be avoided by applying corresponding adjustments and ensure accounting, tracking and reporting of mitigation activities and resulting mitigation outcomes.
- **'Hot Air'**: Ensure no authorisation of mitigation outcomes as ITMOs that are not additional. Crediting of non-additional activities jeopardises NDC achievement and undermines integrity of carbon markets. Applying thorough and regular additionality assessments in line with the Article 6 rules are to be applied, to avoid this.

An Article 6 strategy should foresee safeguards that generally apply to NDCs, i.e., provisions that guarantee safeguarding the environmental integrity of an Article 6 strategy. To avoid adverse outcomes introduced above, the following aspects are recommended to follow:

- **'Sell additional mitigation only'**: Clearly identify mitigation activities that are additional to existing legal requirements. Also, distinguish between NDC activities that can be commercially viable without international carbon finance and are therefore financially not additional<sup>3</sup>;
- **'Sharing of mitigation outcomes'**: Negotiate the exact terms and conditions for a legitimate split of generated mitigation outcomes between host country and buying entity, e.g., in bilateral agreements (Article 6.2), where the host country may retain a share and the remainder is authorised to become ITMOs<sup>4</sup>;
- **'Conservative baselines'**: Make sure only methodologies for baseline calculation in line with the principles of Article 6 are applied. It is especially important to consider that the crediting baseline of an Article 6 activity is below the business-as-usual (BAU) scenario including considering existing policies<sup>5</sup>.

## 4. Defining national eligibility criteria

Then, the country should define and establish generic eligibility criteria for activities and for ITMO authorisation. The eligibility criteria should reflect and encompass the Article 6 requirements that the host country must fulfil under the Paris Agreement, constituting the minimum criteria. Additionally, they should align with the strategic objectives of the host country, representing further

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<sup>3</sup> This strategic orientation is further detailed the Information Note *Determining additionality* on the Article 6 page *What is needed for national implementation?*

<sup>4</sup> This strategic orientation is further detailed the Information Note *Fee structure and benefit-sharing* on the Article 6 page *What is needed for national implementation?*

<sup>5</sup> This strategic orientation is further detailed the Information Note *Approving methodologies* on the Article 6 page *What is needed for national implementation?*



additional criteria. The following are indicative steps a country can undertake to carefully think through the appropriate national eligibility criteria.

## Step 1

The initial step involves determining the **criteria for approving of an activity prior to its commencement** under Article 6.2 cooperative approaches (bilateral, unilateral) or for registration under the Article 6.4 Mechanism (including through transition of CDM activities<sup>6</sup>).

### Minimum criteria under the Article 6.2 guidance

- The activity applies a **robust methodology** that is aligned with guidance by the Intergovernmental Panel on Climate Change (IPCC)<sup>7</sup>. A robust methodology must also be applied to ensure that:
  - The activity is **additional**. This means at the very least that the activity is not mandated by law and not financially viable without the revenue from sale of the mitigation outcomes (including considering any incentives from policy instruments). The host country may rely on the results of additionality tests as mandated under international crediting standards (e.g., CDM/A6.4M, Gold Standard, Verra) if they are deemed robust (see below).
  - The activity **does not lead to an increase in emissions** in the NDC implementation period and contributes to NDC achievement. This means that the activity must deliver **credible and real emission reductions** against a robust baseline that is more stringent than the business-as-usual baseline (and is aligned or more conservative than assumptions and scenarios that were used to develop the NDC for consistency). Even if the activity lowers the emission intensity of a product or service but increases absolute emissions, it is not eligible. Current existing and approved methodologies by the CDM, or other standards, may not adequately address this issue, necessitating each host country to assess the activity's link to the NDC.
- If the activity relates **to carbon removal, robust safeguards must be in place to ensure permanence and address the risks of reversals** for at least three NDC implementation periods (i.e., 30 years).
- A thorough assessment must confirm that the activity will have **no adverse environmental, economic, and social impacts**. Identified impacts should be addressed and monitored through robust safeguards. The host country may mandate the use of **MRV** standards for environmental and social safeguards (e.g., IFC performance standards) and for sustainable development.

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<sup>6</sup> This strategic orientation is further detailed the Information Note *CDM Transition on the Article 6 page How to assess activities and cooperation approaches?*

<sup>7</sup> For a transitional period, this could relate to methodologies approved under the CDM, Gold Standard and Verra. Over the medium term, methodologies must undergo revisions to be aligned with Article 6 principles.



- The activity does **not lead to a violation of human rights**, including the right to health, the right of **indigenous peoples, local communities**, migrants, children, persons with disabilities and people in vulnerable situation.
- The activity, where applicable, **should promote gender equality**, empowerment of women and intergenerational equity.
- The activity is consistent with, and contributes to, the national **sustainable development (SD) objectives**. Clear communication of these objectives to interested activity developers is recommended.

### Minimum criteria under the Article 6.4 mechanism

- The activity contributes to the achievement of the NDC, the implementation of LT-LEDS and the long-term goals of the PA. This must be explicitly approved and communicated by the host country for each activity.
- The activity is consistent with the national SD objectives and adheres the A6.4M methodological requirements in this regard. This likely involves the application of the A6.4M SD tool to assess and report information on sustainable development. Clear communication of national SD objectives and priorities to interested activity developers is recommended.
- Additional requirements under the A6.4M that will be checked by the Supervisory Body are:
  - The activity applies a methodology that is approved by the A6.4M or a CDM methodology that it may continue to apply until 2025, if the activity in question is a transitioning CDM activity.

An Article 6.4M methodology necessitates regulatory and financial additionality testing, as well as baseline setting approaches that are below-business as usual. These approaches should follow a performance-based approach, leading to higher stringency over time.

- The activity contributes to **reducing emission levels in the host country**.
- A robust assessment has shown that the activity will have **no negative environmental, economic, and social impacts**. Relevant impacts are identified, safeguards applied and monitored.
- The activity has undergone local, and where appropriate, subnational **stakeholder consultation** consistent with domestic arrangements regarding to public participation, local communities, and indigenous peoples.
- The activity **ensures no violation of human rights**, including the right to health, the right of **indigenous peoples, local communities**, migrants, children, persons with disabilities and people in vulnerable situation.
- The activity promotes **gender equality**, empowerment of women and intergenerational equity where applicable.

If an activity is submitted to the Article 6.4 mechanism, its compliance with the rules, modalities and procedures of the mechanism is verified by a designated operational entity (DOE) and approved by the Supervisory Body. Therefore, the host country is not required to independently check against these minimum





criteria. The Article 6 strategy working group may however consider applying (some of) the A6.4M requirements to any activity seeking approval under Article 6.2.

### Additional potential criteria

- The activity incurs higher mitigation costs than deemed appropriate for use in achieving the (unconditional) NDC target, serving as a safeguard against overselling.
- The activity applies a methodology approved by the host country or from a specific standard approved by the host country.
- The activity can credibly justify that it goes beyond the activities the host country needs to reach its (unconditional) NDC target or the activity directly contributes to a conditional NDC target of the host country (if the host country plans to achieve its conditional targets also through Article 6).

The mitigation achieved by the activity is reflected in the emission balance retrieved from the inventory to prevent disproportional negative impact from corresponding adjustments.

The same criteria for approval of activities can similarly be employed when evaluating transition requests from CDM activity developers. However, additional factors may be taken into consideration when assessing transition requests such as:

- Is the activity's mitigation potential still relevant for the post-2020 period? What is the maximum number of years the activity can generate credits based on crediting period rules?
- Will the activity remain viable and attractive when updating its methodology in 2025 and adopting an A6.4M methodology? It is expected to pass an updated additionality test that scrutinises existing policies, regulations and links to the NDC?

Host countries must approve requests for CDM transition by 31 December 2025. A swift and efficient processing of such requests is important to increase activity developer trust in market-based cooperation and in cooperation with the host country institutions.

## Step 2

The second step involves **deciding on criteria for the authorisation of mitigation outcomes of an activity to become ITMOs under Article 6**. Authorisation implies that the emissions reduction/removal transferred as ITMOs can be used for another Party's NDC, for the Carbon Offsetting and Reduction Scheme for International Aviation ([CORSIA](#)) or on the VCM. With the authorisation, the host country commits to undertake a corresponding adjustment and fulfil the participation and reporting requirements under the Article 6.2 guidance. Criteria for these various types of authorisation can be developed based on options:



## Minimum criteria under the Article 6.2 guidance

- The mitigation outcome for which authorisation is requested stems from an activity meeting the activity eligibility criteria.
- The **mitigation was achieved on or after 1 January 2021** and is clearly attributable to a calendar year. This is a crucial aspect, as the corresponding adjustment must be performed according to the annual emission balance of the respective vintage year.
- The mitigation outcome must have been **verified** ideally by an independent third-Party auditor, based on a robust methodology.

## Minimum criteria under the Article 6.4 mechanism

If an Article 6.4 emission reduction (A6.4ER) is issued by the mechanism, it has undergone verification by a DOE. Therefore, there is no need for the host country to check against these minimum criteria. However, the Article 6 strategy working group may want to apply the A6.4M requirements to any ITMO requesting authorisation under Article 6.2. In addition, the Article 6 strategy working group may want to establish additional criteria for A6.4ERs before they can obtain an authorisation to also become an ITMO.

## Potential additional criteria

- A share of the mitigation outcomes remains unauthorised and thus stays in the host country. This is connected to the issue of equitable distribution of mitigation outcomes discussed above. The share remaining in the host country may depend on the mitigation cost of the activity, the degree of certainty regarding the activity's additionality, the replication potential, etc.
- A share of the ITMOs is voluntarily cancelled for Overall Mitigation in Global Emissions (OMGE), even if stemming from an Article 6.2 cooperative approach (akin to A6.4M requirements).
- A share of ITMOs is voluntarily monetised to deliver finance to the Adaptation Fund (akin to A6.4M requirements).

It is important to note that the approval of transition of a CDM activity does not impose an obligation to the host Party to authorise resulting A6.4ERs from this activity to become ITMOs. The same criteria for authorisation of A6.4ERs can be applicable to such activities in a subsequent step.

## Step 3

As a third step, the Article 6 authority may **establish further conditions for approval of activities and authorisation of units**. The Article 6 strategy working group should determine the conditions the host country wishes to use and provide general guidance to the Article 6 authority.





A non-exhaustive list of options for such conditions is listed below:

- Shortened crediting periods / stipulations on the renewal of crediting periods / stipulations of the alignment of crediting periods with NDC implementation periods.
- Default discount parameters in baselines or use of national/regional standardised baselines for specific technologies.
- Positive/negative lists of activities and technologies.
- Stipulations for use of mitigation stemming from activities.
- The activity provides capacity building to (national) stakeholders.
- The activity facilitates technology development and transfer.
- The activity contributes to adaptation finance/administrative finance to cover costs for the Article 6 institutions, staff, and infrastructure.

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