

Information Note
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ALIGNING ARTICLE 6 ENGAGEMENT WITH THE 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) as well as with its Long-Term Low Emission Development Strategy (LT-LEDS) to maximise contributions to the country's overall climate and sustainable development targets. Hence, the country's NDC should be the point of departure when developing an Article 6 strategy. Aligning Article 6 with the NDC ensures that the Article 6 strategy maximises effectiveness, synergies with existing GHG mitigation strategies and overall coherence with the country's climate and development goals. Ensuring NDC alignment is a crucial building block of Article 6 readiness and should be treated with high priority e.g. to prevent possible risks of jeopardizing NDC achievement through selling too many mitigation outcomes.

To maximise benefits from Article 6 it is critical to align Article 6 activities with the mitigation measures and targets defined in the NDC and tracked in the national GHG inventory. Some countries decide to differentiate their climate ambitions into **conditional and unconditional NDC targets**. A conditional NDC target is what a country pledges to achieve if certain conditions are met, such as receiving financial assistance or technology transfer from other countries. Unconditional NDC targets, on the other hand, are commitments a country will pursue with domestic resources regardless of external support.

It is important to ensure that Article 6 activities are outside of the scope of the unconditional NDC to be considered additional to existing national policies. 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.



Key NDC Information for Article 6

- 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 identify sectors or technologies with high mitigation potential that fall within the conditional NDC targets.
- 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 6.¹
- Which sectors or mitigation activities under the conditional NDC target have received or are set to receive private investments or international climate finance (e.g., through the financial mechanism of the UNFCCC, multilateral development banks or bilateral finance institutions). This overview might provide a good starting point to define where carbon market cooperation under Article 6 might be less useful as climate finance has been secured already or where funding gaps persist that can potentially be closed through carbon finance to attract investment or scale up existing programmes.
- How well is the country on track to meet the combined (unconditional and conditional) NDC target, and which processes and systems are in place to track progress (e.g., GHG inventory, (digital) MRV systems and processes for managing data).
- How ready is the country to fully comply with the accounting and reporting requirements under the Paris Agreement (such as the initial report, annual information and the Biennial Transparency Report), especially regarding the Enhanced Transparency Framework (Article 13)

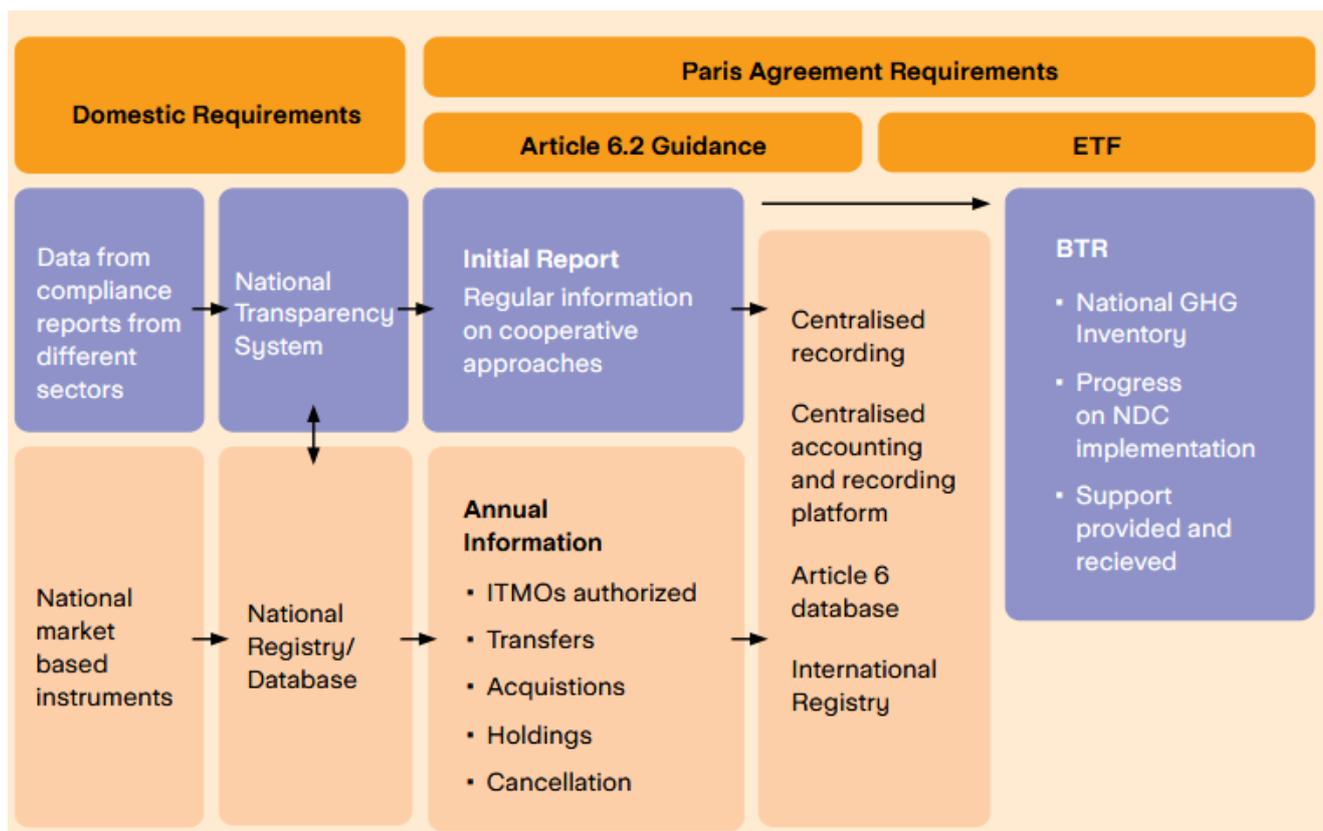
It is recommended that any Article 6 Focal Point reflects on the following key guiding elements as part of the strategic considerations related to Article 6.

1. Aligning Article 6 with international reporting requirements

In addition to Article 6 alignment with the NDC, consistency is needed with regard to reporting requirements under Article 13 of the Paris Agreement.

¹ Michaelowa, Axel; Espelage, Aglaja; Gilde, Lieke 't; Dalfiume, Sandra; Krämer, Nicole; Censkowsky, Philipp; Greiner, Sandra; Ahonen, Hanna-Mari; De Lorenzo, Federico; Hoch, Stephan (2021): ,

Figure 1: Integrating reporting requirements



Source: [Initiative for Climate Action Transparency 2023](#)

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 (e.g. single year or multi-year 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 need for and process of and approach to applying Corresponding Adjustments for authorised and first transferred mitigation outcomes: the authorisation of a MO requires the government to apply Corresponding Adjustments, i.e., deduct the mitigation from the annual emission balance of the respective NDC year²;
- Overall, understand the mitigation costs of the various mitigation activities within the country's context.
- Report progress on NDC implementation in the BTR and be prepared for the technical expert review of BTRs.

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



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 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.

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

Secondly, 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 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 and policy requirements. Also, distinguish



- between NDC activities that can be commercially viable without international carbon finance and are therefore financially not additional³;
- **'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 ITMOs⁴;
 - **'Conservative baselines'**: Make sure only methodologies for baseline calculation in line with the principles of Article 6.4 are applied. The [baseline standard](#) developed by the Art.6.4 Methodological Expert Panel (MEP) provides specific guidance. 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 policies⁵.

3. Defining national eligibility criteria for authorising ITMO transfers

To enhance transparency and ensure high environmental and social integrity of mitigation outcomes 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 NDC and other strategic objectives of the host country, representing further additional criteria. To guide project developers' host countries can publish lists of activity types that are likely/unlikely to obtain authorisation. A "green list" or "positive list" of technologies could be fast-tracked for approval or authorisation. Such a list should focus on technologies that are emerging, have high costs, offer significant abatement potential, and currently have low market penetration, and should be prioritised for implementation through international cooperation. In contrast, a "red list" or "negative list" of technologies might be excluded from Article 6, as using them for Article 6 transfers would limit the country to more costly or challenging options to achieve its NDC goals. Such a list should limit the eligibility of certain low-cost, mature technologies or actions, to guide and direct the implementation of carbon market mechanisms in the host country

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

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

⁴ 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?*

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

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 PACM (including through transition of CDM activities⁶).

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)⁷. 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., PACM, 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**.

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

⁷ 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.



- 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.
 - 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 (PACM)

- The activity contributes to the achievement of the NDC, the implementation of LT-LEDS and the long-term goals of the Paris Agreement. This must be explicitly approved and communicated by the host country for each activity.
- The activity is consistent with the national **sustainable development** objectives and adheres to the PACM methodological requirements in this regard. This involves the application of the PACM Sustainable Development [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 PACM that will be checked by the Supervisory Body are:
 - The activity applies a methodology that is approved by the Supervisory Body of the Article 6 Mechanism (SBM)

An Article 6.4 methodology necessitates regulatory and financial additionality testing, as well as a downward adjusted baseline that is 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 PACM, 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 PACM 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.
- 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 GHG 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 activities. 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 a PACM 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 mid-2026. 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 A6.4M (PACM)

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 PACM 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 A6.4 requirements).
- A share of ITMOs is voluntarily monetised to deliver finance to the Adaptation Fund (akin to A6.4 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.
- Conditions for addressing reversal risks of certain activity types
- 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.

Authors: Alicia Schmid, Kaja Weldner, Ingrid Wawrzynowicz, Stephan Hoch (Perspectives Climate Group)