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# GOOD PRACTICE PRINCIPLES AND GUIDANCE FOR ACTIVITIES WITHIN COOPERATIVE APPROACHES UNDER ARTICLE 6.2



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# INTRODUCTION

## Context

The Paris Agreement marks a step-change from previous international efforts to address climate change. Amongst the main changes is its bottom-up nature, as seen most notably in the self-determining nature of Nationally Determined Contributions (NDCs) – the effort that each country decides and commits to undertake towards achievement of the goals of the Paris Agreement.

The bottom-up nature of the Paris Agreement is also present in Article 6, which recognises that Parties may choose to voluntarily cooperate towards the achievement of their NDCs, including through use of market mechanisms. While Article 6.4 of the Paris Agreement establishes a centralised crediting mechanism akin to the Clean Development Mechanism that has existed under the Kyoto Protocol, Article 6.2 gives Parties more flexibility to cooperate by other means, including but not necessarily limited to baseline-and-crediting arrangements and emissions trading schemes.

Guidance underpinning Article 6.2, adopted at COP26, is primarily focused on accounting methods, reporting procedures and several core principles, with the design of ‘cooperative approaches’ under Article 6.2 left to a large extent to Parties to determine and shape. While this flexibility enables self-determination and innovation, it means there is a greater level of uncertainty as to the quality and integrity of cooperative approaches that Parties will adopt.

How Article 6.2 is implemented matters: the difference between high-integrity application of Article 6.2 guidance and bare minimum compliance could translate into a difference between Article 6 genuinely acting to raise ambition under the Paris Agreement while driving transformational change in host countries, and Article 6 acting – intentionally or otherwise – to undermine progress towards the Paris Agreement’s goals.

## Guidance

This document is intended to provide a good practice framework for Parties seeking to establish cooperative approaches under Article 6.2 that comply with the principles set out in Article 6, support low-emission development in the host country, and contribute positively to global climate and development goals under the Paris Agreement and 2030 Agenda for Sustainable Development.

It is focused primarily on the selection and implementation of activities that generate mitigation outcomes, rather than other important considerations such as institutional arrangements in and between Parties involved in cooperative approaches, and contributions to adaptation finance<sup>1</sup>. It is written with project-level activities (and programmes of activities) in mind, though many of the principles will translate across to other crediting approaches, such as at the policy-level.

The guidance, by intention, does not seek to duplicate formal Article 6.2 guidance adopted at COP26. It is for instance taken for granted that, in line with Article 6.2 guidance, Parties will apply corresponding adjustments as required to avoid double counting and will fulfil all relevant reporting requirements.

Instead, this guidance is intended to fill in the 'blank space', where international guidance has left elements to the discretion of Parties, including certain elements on which they are required to report information but are not provided with detailed instruction. It could effectively act as a checklist for Parties wishing to adopt good practice in the selection and implementation of mitigation activities. While Parties are encouraged to follow the overarching principles outlined in the document, the solutions offered for each principle may be treated as indicative. There may be others that can achieve the same end-goal, either available now or identified in the future.

Finally, the guidance draws heavily on existing principles, practice, and research. It does not try to 'reinvent the wheel' where good ideas and solutions have already been identified, but instead seeks to bring together best practice from existing market activity, including rules in place under existing market standards, as well as emerging best practice concepts and approaches from literature and pilots. While Article 6 remains new, there is already an extensive body of literature that Parties and other stakeholders can refer to and learn from, as the authors have sought to do to prepare this guidance. Towards this end, a non-exhaustive list of recommended further reading has been provided for each principle.

The steps and principles outlined in this document are summarised in the table on the following page. In practice, none of the principles stands alone; each principle reinforces at least one other principle, and so they should be treated as a 'package' for good practice approaches rather than applied individually.

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<sup>1</sup> For further reading on institutional arrangements, see for instance: GGGI, Swedish Energy Agency (2021) [\*Summary Report: Designing Governance Structures and Transactional Documentation for Mitigation Outcome Transactions under Article 6 of the Paris Agreement\*](#).

# Good practice principles for activities generating mitigation outcomes under Article 6.2

STEP	ISSUE	PRINCIPLE
<b>1</b> 	<b>LONG-TERM MITIGATION STRATEGY</b>	Activities generating mitigation outcomes should align with and directly support achievement of the host country's long-term emissions development strategy
	<b>SUSTAINABLE DEVELOPMENT</b>	Activities should make a positive, measurable contribution to sustainable development in the host country, consistent with its development objectives
	<b>ADDITIONALITY</b>	Activities should achieve emission reductions that are additional to those that would be realised under policies and measures in the host country, and business-as-usual conditions
<b>2</b> 	<b>ROBUST METHODOLOGY</b>	Activities should follow an independently expert reviewed, approved and maintained methodology in line with relevant good practices
	<b>CONSERVATIVE BASELINE-SETTING</b>	The crediting baseline should be set below business-as-usual and updated frequently to account for changing conditions
	<b>INDEPENDENT VERIFICATION</b>	Activity design and impacts should be verified by a qualified, independent entity
	<b>SAFEGUARDING</b>	Robust and appropriate safeguards should be in place to prevent and mitigate negative social, economic or environmental consequences
	<b>STAKEHOLDER INCLUSIVITY</b>	All relevant stakeholders should be consulted meaningfully prior to and on an ongoing basis through the activity's operation
<b>3</b> 	<b>AVOIDING OVERSELLING</b>	Mitigating steps should be in place to manage the risk that activities lead to 'over-selling' by the host country
	<b>AVOIDING PERVERSE INCENTIVES</b>	Perverse incentives for climate ambition as a result of activities should be identified and appropriately managed
	<b>ADDRESSING REVERSALS</b>	Where a risk of reversals exists, robust mitigations should be in place to fully address this
	<b>ACCURATE ATTRIBUTION</b>	Where relevant, mitigation outcomes should be accurately and uniquely attributed to the using entity
<b>4</b> 	<b>OVERALL MITIGATION IN GLOBAL EMISSIONS</b>	Overall mitigation in global emissions Additional impact can be achieved through the cancellation of a portion of mitigation outcomes achieved by activities, enabling emission abatement beyond the NDC of either Party
	<b>BUILDING FUTURE CAPACITY</b>	Steps should be taken to build capacity of the host government or other stakeholders associated with the activity or overall cooperative approach





# Section 1

## ACTIVITY SELECTION

This section outlines principles that should be considered and applied in the selection of activities that will generate mitigation outcomes for transfer under Article 6.2.

- 1.1 **Long-term mitigation strategy** Activities generating mitigation outcomes should align with and directly support achievement of the host country's long-term emissions development strategy
- 1.2 **Sustainable development** Activities should make a positive, measurable contribution to sustainable development in the host country, consistent with its development objectives
- 1.3 **Additionality** Activities should achieve emission reductions that are additional to those that would be realised under policies and measures in the host country, and business-as-usual conditions

## 1.1 LONG-TERM MITIGATION STRATEGY

### Principle

*Activities generating mitigation outcomes should align with and directly support achievement of the host country's long-term emissions development strategy.*

### Rationale

By the nature of Article 6, a country transferring mitigation outcomes from activities within its jurisdiction will not be able to count the same mitigation outcomes towards its Nationally Determined Contribution (NDC).

It is therefore important that activities generating mitigation outcomes for transfer are not relied on by the host country to achieve its NDC. But beyond that, one of the values of cooperative approaches under Article 6 is that they can support and enable longer-term climate mitigation in the host country, beyond the action that will be taken to achieve the country's current NDC. Where this is the case, the host country's involvement in a cooperative approach means that while it is transferring mitigation outcomes now, it stands to benefit from a greater longer-term return.

It is recommended that Parties identify activities that will support longer-term climate mitigation in the host country, directly supporting achievement of its long-term emissions development strategy where available. This, in combination with the following principle on sustainable development, are seen by some as necessary conditions to achieve 'transformation' through Article 6.

### Solution(s)

Parties can implement this principle by requiring activities to demonstrate that their implementation:

- Is consistent with the long-term emissions development strategy of the host country, where available
- Will contribute to a transformational impact within the host country by enabling at least one of the following factors:
  - Ambition raising: Enabling or incentivising the adoption of new or more ambitious climate mitigation policies and goals.
  - Size and scalability: Achieving impact at a large scale within the host country, and/or providing a model that is scalable and replicable.

- Barrier addressing: Addressing financial, technical or other barriers inhibiting similar climate mitigation activity, to unlock opportunities for further investment.

It is expected that the host Party will be best placed to identify and approve activities that support long-term mitigation. Ideally, the host Party may choose to proactively identify and publicly communicate a list of sectors (and/or geographic regions) in which they would encourage activities generating mitigation outcomes, to ensure that their use of Article 6 is as valuable and efficient as possible in supporting the achievement of the host Party's long-term emissions development strategy.

### References and further reading

#### REPORT



Carbon Limits, Infrast, Oeko Institute,  
Stockholm Environment Institute (2020)  
***Practical strategies to avoid over-selling***

#### REPORT



INFRAS, Carbon Limits, SEI (2019)  
***Article 6 in the Paris Agreement as  
an ambition mechanism: Options and  
recommendations***



## 1.2. SUSTAINABLE DEVELOPMENT

### Principle

*Activities should make a positive, measurable contribution to sustainable development in the host country, consistent with its sustainable development objectives.*

### Rationale

Article 6.2 of the Paris Agreement specifies that, where Parties are engaging in cooperative approaches, they shall, amongst other objectives, “promote sustainable development”. In addition, Parties are required under Article 6.2 guidance to include, as part of their regularly reported information, an explanation of how each cooperative approach “is consistent with and contributes to the sustainable development objectives of the Party, noting national prerogatives”.

The promotion of sustainable development serves multiple purposes, in particular:

1. It ensures a direct host country benefit from mitigation activities under Article 6: while mitigation outcomes may be transferred, sustainable development benefits will remain within the host country.
2. It may ensure the longer-term sustainability of the activity beyond the duration of the crediting period, by providing benefits for local communities and the natural environment that there is an interest in sustaining.
3. Finally, it ensures a higher level of value achieved through investments: the benefit of activities is not only the mitigation outcomes achieved, but also the social/natural value of, for instance, improved health, job creation or enhanced biodiversity.

It is therefore recommended that Parties support activities that make a meaningful, positive and ideally quantified contribution to sustainable development in the host country. This should be coupled with robust safeguarding and stakeholder engagement provisions, as described in later sections.

### Solution(s)

Parties can implement this principle by ensuring all activities meet certain core requirements, which collectively can help to ensure a positive contribution to sustainable development while avoiding the risk of negative impacts. These are that mitigation outcomes must originate from activities that:

1. Are consistent with and support sustainable development objectives of the host country and any respective strategies and policies
2. Prevent environmental-related negative impacts and respect national and international environmental regulations
3. Positively contribute to multiple UN Sustainable Development Goals, with impacts monitored through the duration of the activity following a methodology mutually agreed by the two Parties

These could be reflected in bilateral agreements signed between Parties, or otherwise reflected in requirements for activities within cooperative approaches.

### References and further reading

REPORT



Sustainable Development Initiative  
(2020) ***Good Practice Guidance for the Preliminary Assessment of Sustainable Development in Article 6 Actions***

REPORT



Sustainable Development Initiative  
(2022) ***Co-operating for the SDGs: Article 6 through a Sustainable Development Lens***

### 1.3. ADDITIONALITY

#### Principle

*Activities should achieve emission reductions that are additional to those that would be realised under current policies and measures and business-as-usual conditions.*

#### Rationale

The demonstration of 'additionality' ensures that mitigation outcomes would not have been achieved without the financial incentive provided by carbon finance. This is a core principle of carbon markets, intended to ensure finance is targeted at activities that rely on carbon revenues to proceed. It is essential for ensuring the efficiency and effectiveness of carbon finance, and to the environmental integrity of carbon market applications.

Additionality tests are in effect a test of the probability of the above being true, since the actual counterfactual scenario is replaced by the targeted action. In this sense the job of robust additionality approaches is to mitigate the risk of 'false positive' decisions - those that pass but are not genuinely additional. This can be achieved through clear 'threshold' tests and financial additionality assessments.

Guidance underpinning Article 6.2 simply states that internationally transferred mitigation outcomes must be 'additional', with no further information as to how this should be ensured. This minimal instruction masks the importance of additionality under Article 6. In light of the need for urgent action to achieve the Paris Agreement's temperature goals, there is a significant opportunity cost if scarce carbon finance goes to activities that would have occurred anyway. Meanwhile it is now, more than ever, in the interest of host countries that mitigation outcomes are additional, to avoid raising the cost of achieving their own NDC.

It is therefore recommended that Parties ensure the additionality of activities from which mitigation outcomes are generated, to make sure they are supporting and enabling mitigation outcomes that would not have otherwise occurred.

#### Solution(s)

Parties can implement this principle by applying a credible, best practice tool or approach to demonstrate additionality, which includes:



1. Regulatory assessment: Demonstration that the activity would not achieve the same level of mitigation outcomes as a result of policies or measures in the host country.
2. Financial assessment: Demonstration that the activity would not proceed without the financial incentive provided by carbon finance.

It is recommended that the application of additionality tests is subject to third-party verification, as detailed further in a later principle on 'independent verification'.

In addition, Parties may choose to complement such assessments through the use of a 'priority list' established by the host country, a list of sectors and activity types that the host country has identified for Article 6 activity, taking into account how they intend to achieve their NDC. The use of such a list, or a similar approach, should not be considered as a replacement to a formal additionality assessment but can provide greater confidence that carbon finance will be channelled to mitigation that goes beyond levels that would otherwise be achieved.

### References and further reading

REPORT



Perspectives Climate Group (2019)  
***Additionality revisited: guarding the integrity of market mechanisms under the Paris Agreement***

REPORT



Gold Standard (2022) ***Additionality under Article 6.2 of the Paris Agreement***



# Section 2

## ACTIVITY DESIGN

This section outlines principles that should be considered and applied in the design of activities that will generate mitigation outcomes for transfer under Article 6.2.

- 2.1 **Robust methodology** Activities should follow an independently expert reviewed, approved and maintained methodology in line with relevant good practices
- 2.2 **Conservative baseline-setting** Crediting baselines should be set below business-as-usual and updated frequently to account for changing conditions
- 2.3 **Independent verification** Activity design and impacts should be verified by a qualified, independent entity
- 2.4 **Safeguarding** Robust and appropriate safeguards should be in place to prevent and mitigate negative social, economic or environmental consequences
- 2.5 **Stakeholder inclusivity** All relevant stakeholders should be consulted meaningfully prior to and on an ongoing basis through the activity's operation

## 2.1. ROBUST METHODOLOGY

### Principle

*Activities should follow an independently expert reviewed, approved and maintained methodology in line with latest relevant good practices.*

### Rationale

Monitoring and reporting, in line with a robust methodology, is what determines the accuracy, efficacy and credibility of reported mitigation outcomes. It is closely tied to other principles, for example conservative baseline-setting, but takes them further by generating the requirements that should be followed for calculation. It is also important that independent scrutiny, through expert review, approval and ongoing maintenance of methodological approaches, is applied. This can mitigate the risk of intentional or inadvertent bias in methodology setting, which could result in more mitigation outcomes being reported, transferred and used under Article 6 than actually occurred.

Article 6.2 guidance does not provide explicit instruction on the application of methodologies within cooperative approaches, though it does specify that ITMOs must be ‘real’ and ‘verified’ and requires Parties to report on certain elements of methodology design, such as conservative reference levels and baseline-setting. The rules, modalities and procedures for Article 6.4, on the other hand, lay the foundation for robust methodologies. They, for instance, require methodologies under Article 6.4 to:

*“encourage ambition over time; encourage broad participation; be real, transparent, conservative, credible, below ‘business as usual’; avoid leakage, where applicable; recognize suppressed demand; align to the long-term temperature goal of the Paris Agreement, contribute to the equitable sharing of mitigation benefits between the participating Parties; and, in respect of each participating Party, contribute to reducing emission levels in the host Party; and align with its NDC, if applicable, its long-term low GHG emission development strategy if it has submitted one and the long-term goals of the Paris Agreement.”*

These provisions will act as a reference as new methodologies are adopted for use within the Article 6.4 mechanism, and existing CDM methodologies are revised.



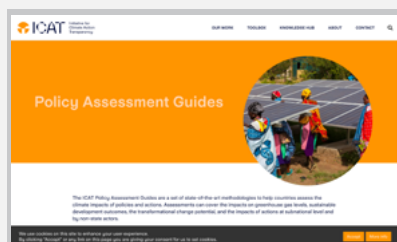
## Solution(s)

Methodologies for use within cooperative approaches can build upon the body of knowledge and good practices already in place in carbon markets, such as those developed under the CDM and other carbon market programmes. These examples both include independent expert input and governance and approvals, meaning that activity proponents, buyers and sellers are not decisive in the setting of the methodology itself.

It is likely that many existing methodologies will need to be revised, to align with new realities under the Paris Agreement as reflected in the above provisions for the new Article 6.4 mechanism. It is also likely that new methodologies, for emerging activities, sectoral level activities and assessments of policy will need to emerge over time.

## References and further reading

### WEB RESOURCE



Initiative for Climate Action  
**Transparency Policy Assessment  
Guides**

### REPORT



Perspectives Climate Group (2020) ***CDM  
method transformation: updating and  
transforming CDM methods for use in an  
Article 6 context***

## 2.2. CONSERVATIVE BASELINE-SETTING

### Principle

*Crediting baselines should be set below business-as-usual and updated frequently to account for changing conditions.*

### Rationale

Guidance underpinning Article 6.2 requires Parties to report in their biennial transparency reports on how each cooperative approach ensures environmental integrity, including through 'baselines set in a conservative way and below 'business-as-usual' emission projections (including by taking into account all existing policies and addressing uncertainties in quantification and potential leakage)'. This provides a good basis for Parties seeking to ensure the environmental integrity of their cooperative approaches with respect to baseline-setting.

Baseline-setting is closely linked to two other principles in this guidance: additionality and the avoidance of over-selling. If a baseline is set too loosely, it would lead to the crediting of mitigation outcomes that would have occurred anyway or that do not in fact occur. This in turn could mean that the host country 'over-transfers' mitigation outcome to the buying country, which could put at risk the achievement of its NDC.

In line with Article 6.2 guidance, Parties should therefore ensure the baseline used by each activity is set below a business-as-usual trajectory, and also that it is updated frequently to reflect changing conditions.

### Solution(s)

Parties can implement this principle by requiring all activities to follow these principles in the setting of crediting baselines. Baselines should:

1. Be set below business-as-usual emissions projections
2. Take into account all existing policies
3. Be updated at least every five years, with dynamic baselines used where practicable.
4. Be independently verified by a third-party entity with the capability to do so.

Different approaches are available to determine the level of the baseline. In some cases, it may be possible and sensible to set a baseline linked to the NDC ([World Bank, 2020](#)). In others, a performance benchmark-based approach may be advised, under which the baseline is set

by considering emissions performance across the sector and basing the benchmark on the performance of the top X% of activities ([Perspectives, 2021](#)).

### References and further reading

REPORT



World Bank (2020) ***Ensuring Environmental Integrity Under Article 6 Mechanisms***

REPORT



Perspectives Climate Group (2021) ***Best available technology and benchmark baseline setting under the Article 6.4 mechanism***



## 2.3. INDEPENDENT VERIFICATION

### Principle

*Activity design and impacts should be verified by a qualified, independent entity.*

### Rationale

Independent verification and validation is an important principle followed by leading standards operating in the carbon market. It is also a necessary underpinning of many of the other principles included in this guidance.

It is, for instance, important that the information provided by a project developer, for instance related to additionality, is validated prior to an activity beginning operations. Third-party review is also important with respect to the stakeholder consultation procedures and safeguards put in place by an activity, as well as, of course, to verify that mitigation outcomes have been achieved over the duration of the activity's monitoring period.

The guidance underpinning Article 6.2 states that internationally transferred mitigation outcomes must be 'verified' but is not explicit about the need for third-party verification and validation. It is though recommended that Parties involve a qualified third-party body (or bodies) to provide independent verification with respect to activities.

### Solution(s)

Parties can implement this principle in two ways:

1. Parties can use independent carbon market programmes as 'gatekeepers' for activities under their cooperative approaches, meaning that activities are required to register with an approved programme, apply an approved methodology and fulfil its requirements. Well-established programmes work with third-party verification and validation bodies.
2. If Parties choose not to use independent carbon market programmes in this way, they may still appoint one or more third-party verification and validation bodies to perform key functions, such as the validation of baselines and overall project design, and the verification of emission reductions. Generally accepted good practice is to appoint validation and verification bodies that hold an ISO14065 accreditation conferred by an International Accreditation Forum member, though other accreditation approaches may be equally or more robust, particularly in the context of specific sectoral experience.

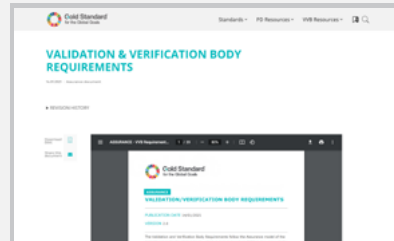
## References and further reading

### WEB RESOURCE



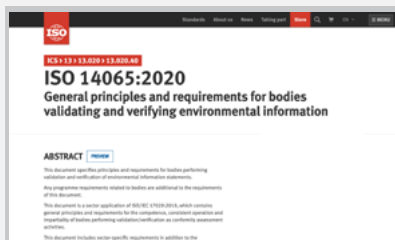
Clean Development Mechanism –  
**Designated Operational Entities**  
webpage

### GS4GG CORE DOCUMENT



Gold Standard for the Global Goals VVB  
Assurance Document (2021) **Validation/  
Verification Body Requirements**

### ISO DOCUMENT



ISO (2020) **General Principles and  
Requirements for Bodies Validating  
and Verifying Environmental  
Information**

### REPORT



Partnership for Market Readiness (2021)  
***A Guide to Developing Domestic Carbon  
Crediting Mechanisms***

## 2.4. SAFEGUARDING

### Principle

*Robust and appropriate safeguards should be in place to prevent and mitigate negative social, economic or environmental consequences.*

### Rationale

The principle that activities should ‘do no net harm’ is long-held in carbon markets. Safeguards to avoid negative impacts are critical to the overall impact of the activity within the host country, to trust in market-based approaches and to the long-term sustainability of activities. Protection of human rights, in particular, featured prominently in negotiations to agree Article 6 guidance at COP26, as a priority for many Parties and civil society groups.

There is an implicit expectation in guidance underpinning Article 6.2 that Parties will adopt safeguarding approaches. The guidance requires Parties to report in their regular information on how each cooperative approach “minimizes and where possible avoids negative, environmental, economic and social impacts”, as well as how they reflect the eleventh preambular paragraph of the Paris Agreement, including the need to consider human rights, the rights of indigenous people and gender equality.

It is therefore recommended that Parties adopt robust safeguarding requirements for activities generating mitigation outcomes, to ensure negative impacts are avoided.

### Solution(s)

Parties can implement this principle by applying safeguarding requirements that robustly address the following:

- Negative social impacts, including:
  - Do not lead to social conflict and violation of human rights
  - Do not reinforce gender-based discrimination and/or inequality
  - Avoid perverse impacts on the health and safety of affected communities
  - Foster full respect for indigenous peoples’ human rights, and support the protection and preservation of cultural heritage
  - Do not contribute to or reinforce corruption of any kind

- Negative economic impacts, including:
  - Promote equitable economic growth while protecting workers' rights and ensuring no forced labour and child labour.
- Negative environmental impacts, including:
  - Avoid contributing to an increase in greenhouse gas emissions over the baseline scenario
  - Avoid negative impacts on energy, food or water supply, as well as any negative impacts on water quality.
  - Avoid negative impacts to the affected landscape, habitats and endangered species
  - Avoid – or when not possible minimise - the release of pollutants and hazardous waste.

These can be developed by or for the Parties, or Parties may choose to adopt existing stakeholder consultation requirements or use an independent programme as a gatekeeper.

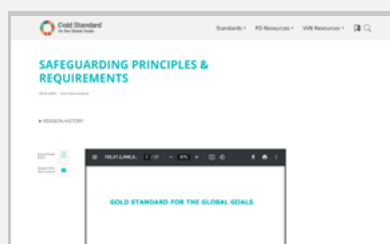
### References and further reading

#### WEB RESOURCE



UNDP (2021) ***Social and Environmental Standards***

#### GS4GG CORE DOCUMENT



Gold Standard for the Global Goals - Core Document (2019) ***Safeguarding Principles & Requirements***

## 2.5. STAKEHOLDER INCLUSIVITY

### Principle

*All relevant stakeholders should be consulted meaningfully prior to and on an ongoing basis through the activity's operation.*

### Rationale

The long-term sustainability of activities, their thoughtful design and the avoidance of negative impacts relies on inclusive engagement with affected stakeholders throughout the lifecycle of an activity. Stakeholder consultation can and should inform the design of activities. It also provides affected stakeholders with a route to understand the project, express concerns and participate in decision-making.

Stakeholder consultation is, like safeguarding, an established principle in carbon market programmes. While Article 6.2 guidance is silent on this issue, consultation is required under the rules, modalities and procedures for the Article 6.4 mechanism, which states that activities shall “undergo local and, where appropriate, subnational stakeholder consultation consistent with applicable domestic arrangements in relation to public participation, local communities and indigenous peoples, as applicable”.

It is recommended that Parties ensure all activities are required to conduct effective, meaningful stakeholder consultation and establish an ongoing grievance mechanism.

### Solution(s)

Parties can implement this principle by applying stakeholder consultation requirements that ensure:

- All affected stakeholders (local or otherwise) are identified and provided with an opportunity to participate in consultations.
- Particular consideration is given to the inclusion of stakeholders that are often marginalised, such as women, indigenous peoples or ethnic minorities.
- The design of stakeholder consultation is appropriate and inclusive for the situation.
- Consultation is meaningful, with reasonable comments are fully considered.
- A grievance mechanism is established, with ongoing monitoring of stakeholder feedback.



These can be developed by or for the Parties, or Parties may choose to adopt existing stakeholder consultation requirements or use an independent carbon market programme as a gatekeeper.

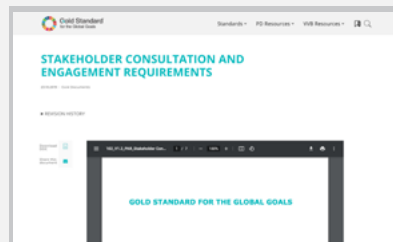
### References and further reading

#### REPORT



Carbon Market Watch (2018)  
***Practitioner's guide for local stakeholder consultation***

#### GS4GG CORE DOCUMENT



Gold Standard for the Global Goals  
- Core Document (2019) ***Stakeholder Consultation and Engagement Requirements***

# Section 3

## ATTRIBUTION AND UNINTENDED EFFECTS

This section outlines principles that should be considered and applied to ensure accurate attribution of mitigation outcomes and avoid unintended effects resulting from activities within cooperative approaches.

- 3.1 **Avoidance of overselling** Mitigating steps should be in place to manage the risk that activities lead to 'over-selling' by the host country
- 3.2 **Avoidance of perverse incentives** Perverse incentives for climate ambition as a result of activities should be identified and appropriately managed
- 3.3 **Addressing reversals** Where a risk of reversals exists, robust mitigations should be in place to fully address these
- 3.4 **Accurate attribution** Where relevant, mitigation outcomes should be accurately and uniquely attributed to the using entity

### 3.1. AVOIDANCE OF OVER-SELLING

#### Principle

*Mitigating steps should be in place to manage the risk that the activity leads to ‘over-selling’ by the host country.*

#### Rationale

Inherent to Article 6 is the concept that when a Party agrees to transfer mitigation outcomes for use by another Party or entity, the same mitigation outcomes cannot be used towards the host Party’s NDC. As such, there is a prospect that a transferring Party could compromise achievement of its own NDC by ‘over-selling’ mitigation outcomes and not retaining enough to achieve its NDC target.

This is not in the interest of the transferring country, the acquiring country or the environment. For both the transferring and acquiring country, over-selling may have reputational and diplomatic impacts. For the acquiring country, the potential for over-selling also creates a risk that the host country may decide not to apply corresponding adjustments for mitigation outcomes in order to protect the achievement of its own NDC. For the environment, it means that the cooperative approach may have contributed to a worse mitigation outcome, with at least one NDC target not achieved.

It is therefore recommended that Parties establish arrangements to protect against the risk of over-selling. There is no one solution to this challenge; it should instead be considered at different stages in the implementation of a cooperative approach, by officials that have sufficient capacity (and, where needed, support) to consider and manage over-selling risks.

#### Solution(s)

Applying strategies developed by Carbon Limits et al (2020), Parties could implement this principle by applying a combination of approaches such as:

- *Ensuring mitigation outcomes* are generated from activities identified as not required to achieve the host country’s NDC. This is closely linked to other principles in this guidance, including long-term transformation, additionality and conservative baseline-setting. By following these and focusing on activities that represent ‘higher-hanging fruit’ beyond the host country’s current NDC, the risk of over-selling can be minimised.
- *Sharing mitigation outcomes between the host and acquiring country.* Parties could agree

terms that would ensure the host country can count some mitigation benefit from activities towards its NDC. This could be achieved in several ways, including through a fixed portion of achieved mitigation remaining in the host country, conservative baseline-setting or limiting the duration of crediting periods.

- *Funding a 'reserve' for additional mitigation.* Application of a levy or 'opportunity cost' price by the host country, with revenues available to the host country to fund additional domestic mitigation activity or acquire mitigation outcomes from another country to ensure its NDC is met.

Other options exist, such as making the transfer of mitigation outcomes conditional on progress towards the host country's NDC. However the benefits of this option (and others) for avoiding over-selling may be outweighed by its drawback as a deterrence to investment.

### References and further reading

#### REPORT



Carbon Limits, Infrast, Oeko Institute,  
Stockholm Environment Institute (2020)

***Practical strategies to avoid over-selling***

## 3.2. AVOIDANCE OF PERVERSE INCENTIVES

### Principle

*Perverse incentives for climate ambition should be identified and appropriately managed.*

### Rationale

Voluntary cooperation under Article 6 is intended to allow for higher ambition in Parties' mitigation (and adaptation) actions. This can be enabled, for instance, through the principle that activities should support long-term transformation in the host country. There is though the potential that the use of Article 6 has the opposite effect, creating perverse incentives that deter the host country from raising ambition.

For instance, the requirement to demonstrate regulatory additionality could deter the host country from introducing policies and measures in a sector, if this were to mean that international carbon finance under Article 6 were no longer possible. At a higher level, the potential for investment under Article 6 could incentivise a host country to set a lower NDC, if this were seen as a way to make more mitigation available for transfer internationally.

It is recommended that Parties consider potential perverse incentives and put in place measures to ensure these are appropriately managed. This may require distinct action by acquiring and transferring Parties, and is likely to be a systemic consideration rather than specific to any individual activity.

### Solution(s)

It is recommended that Parties proactively identify potential perverse incentives continuously throughout the duration of a cooperative approach. The solutions that Parties adopt will then depend on the issues identified, but could include:

- To avoid creating a disincentive to increased domestic effort in sectors where activities generating mitigation outcomes are taking place, crediting periods could be kept relatively short, and where practicable aligned with the NDC cycle of the host country.
- As described in Section 4 below, the acquiring Party could fund capacity-building support for host government officials and other relevant stakeholders, so the host country is positively supported in its efforts to implement its NDC and to raise ambition.



- While challenging to apply in practice, acquiring Parties may choose to consider the level of ambition of host countries before entering into cooperative approaches. Parties will, it is expected, want to avoid a signal being sent, intentionally or not, that by setting a less ambitious NDC, a Party can attract more investment under Article 6.

### References and further reading

REPORT



INFRAS, Carbon Limits, SEI (2019)  
***Article 6 in the Paris Agreement as  
an ambition mechanism: Options and  
recommendations***

REPORT



World Bank (2020) ***Ensuring  
Environmental Integrity Under Article 6  
Mechanisms***

### 3.3. ADDRESSING REVERSALS

#### Principle

*Where a risk of reversals exists, robust mitigations should be in place to fully address this.*

#### Rationale

Some activity types have an inherent risk that an emissions impact will be reversed, including natural carbon sequestration and storage in biomass or soil organic carbon. Where such a reversal takes place, it puts at risk the integrity of any mitigation outcomes that have been transferred unless steps are taken to address the reversal. In the context of Article 6, a reversal also has a specific accounting risk to the host country. A reversal of a transferred mitigation outcome, if not addressed, would put the host country in a worse position in terms of its NDC implementation than if it had not used Article 6 in the first place.

The guidance underpinning Article 6.2 requires Parties to report on how each cooperative approach is ‘minimizing the risk of non-permanence of mitigation across several NDC periods and when reversals of emissions removals occur, ensuring that these are addressed in full’. This is standard practice under established carbon market programmes, which have mitigating measures in place to ensure reversal risks are robustly managed. This is typically through a risk buffer pool – a reserve of credits set aside and drawn down as required to compensate for material reversals.

It is recommended that Parties, in line with Article 6.2 guidance, ensure that robust mechanisms are in place to fully address any risk of reversal of mitigation outcomes generated by activities. Reversals, if not addressed, would both undermine the use of associated mitigation outcomes by the acquiring country, and at the same time could cause difficulties for the transferring country by increasing its inventory emissions.

#### Solution(s)

The risk of reversal is not present for all activity types, and Parties could choose to only select activities to generate mitigation outcomes where the risk of reversal is not relevant. This would though come at the cost of reduced investment into such activity types and so may not be desirable.

Where Parties select activities where a risk of reversal exists, it is recommended that they follow proven procedures and mechanisms as adopted by an established carbon market programme, for instance by requiring activities to register with the relevant programme. These procedures and mechanisms differ between programmes but might include assessing the risk inherent in a particular activity, and using a buffer system, under which a portion of mitigation outcomes are transferred to a buffer account, and accessible in the case of a reversal due to unforeseen circumstances / 'force majeure', such as fire or disease.

Parties should also give consideration to how the risk of reversal and use of buffer systems is reflected in the application of corresponding adjustments. This could involve mitigation outcomes transferred to a buffer account being correspondingly adjusted for by the host country, but not by the buying country as they would not be used towards an NDC unless required to compensate for the reversal of mitigation outcomes that had been used.

### References and further reading

REPORT



TREES and Gold Standard (2021)

***Nature-based Solutions in Carbon Markets***

### 3.4. ACCURATE ATTRIBUTION

#### Principle

*Where relevant, mitigation outcomes should be accurately and uniquely attributed to the using entity.*

#### Rationale

In some, possibly many cases, activities will have a combination of funding sources, which could include both carbon finance as payment for a transfer of mitigation outcomes, and 'climate finance' under Article 9 of the Paris Agreement for which no transfer from the host country is required.

Where this is the case, Parties must ensure an accurate, proportional attribution of mitigation outcomes between the sources of climate finance and carbon finance. This is consistent with the requirement and principle adopted by Parties in [Decision 18/CMA.1](#) at COP24, that Parties must report on how double counting has been avoided between resources reported as provided or mobilized climate finance, and resources used by the acquiring Party under Article 6 of the Paris Agreement.

As identified by [Fuessler et al \(2019\)](#), a proportional attribution can also avoid risks related to environmental integrity and economic efficiency which may exist if the providers of carbon finance are able to claim mitigation outcomes achieved as a result of climate finance.

#### Solution(s)

Parties can implement this principle by:

- Identifying activities which will be co-funded by a blend of carbon and climate finance
- Calculating a proportional attribution of mitigation outcomes to the carbon finance from the acquiring Party, in line with the approach proposed by Fuessler et al. (2019) or another robust methodology intended to achieve the same purpose in a conservative way
- Transparently communicating and, as required, reporting the approach the Parties have taken to ensure a proportional attribution of mitigation outcome

In some countries, governments have established or plan to establish a public registry through which they can track activities supported by both carbon and climate finance investments. Such a registry may be an additional support to Parties seeking to ensure proportional attribution, and to be transparent about how this has been achieved.

## References and further reading

REPORT



Carbon Limits, INFRAS, Oeko Institute, SEI (2021) ***Attribution: A practical guide to navigating the blending of climate finance and carbon markets***

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Fuessler, J., Kansy, T., Spalding-Fecher, R. (2019) ***Blending climate finance and carbon market mechanisms: CPF/TCAF Discussion Paper***





# Section 4

## ADDITIONAL IMPACT

This section outlines principles that can enable cooperative approaches to deliver an additional positive impact beyond those achieved directly through an activity.

- 4.1 **Overall mitigation in global emissions** Additional impact can be achieved through the cancellation of a portion of mitigation outcomes achieved by activities, enabling emission abatement beyond the NDC of either Party
- 4.2 **Building future capacity** Steps should be taken to build capacity of the host government or other stakeholders associated with the activity or overall cooperative approach

## 4.1. OVERALL MITIGATION IN GLOBAL EMISSIONS

### Principle

*Additional impact can be achieved through the cancellation a portion of mitigation outcomes achieved by activities, enabling emission abatement beyond the NDC of either Party.*

### Rationale

A number of principles in this guidance help to ensure that activities generating mitigation outcomes provide a benefit for the country hosting the activity, as well as the country acquiring the mitigation outcomes. This is achieved, for instance, through the selection of activities that contribute to long-term transformation and sustainable development, and through some of the steps suggested to avoid over-selling.

Cooperative approaches may however go further to deliver a mitigation benefit that is not counted by either the host or acquiring country, but instead represents an additional mitigation contribution beyond that achieved through either country's NDC. This is referred to as an 'overall mitigation in global emissions', and would enable Parties to help close the emissions gap between current NDCs and the emissions levels needed to achieve the temperature goals of the Paris Agreement.

Guidance underpinning Article 6.2 includes a strong encouragement to Parties and stakeholders "to cancel ITMOs that are not counted towards any Party's NDC or for other international mitigation purposes, to deliver an overall mitigation in global emissions, and to take into account the delivery of overall mitigation in global emissions under the mechanism established by Article 6, paragraph 4". In line with this, it is encouraged that Parties introduce provisions to achieve an overall mitigation in global emissions with respect to activities generating mitigation outcomes.

### Solution(s)

Parties could implement this principle by agreeing a percentage of the achieved mitigation outcomes that will be correspondingly adjusted for by the host country but will not be used by the acquiring country towards its NDC. Where doing so, it is encouraged that this percentage is the same if not higher than the percentage specified in the rules, modalities and procedures for the Article 6.4 mechanism. Parties may adopt different approaches, for instance a percentage that increases over time.

Depending on the arrangements to manage activities under the cooperative approach, this could be enacted in several different ways.

If activities under the cooperative approach are recorded within a registry, for instance run by a carbon market programme, the registry could have in place a protocol by which a reduced volume of credits are issued to the relevant account, with the remainder transferred to a cancellation account for the purposes of achieving an overall mitigation of global emissions (and a corresponding adjustment applied by the host country for both sets of credits). Alternatively, or in addition, there could be registry functionality that allows a using Party to retire a percentage of credits for the purpose of overall mitigation of global emissions, rather than use towards its NDC.

### References and further reading

#### REPORT



Wuppertal Institute for Climate,  
Environment, Energy (2019) ***Achieving  
Overall Mitigation of Global Emissions  
under the Paris Article 6.4 Mechanism***



## 4.2. BUILDING FUTURE CAPACITY

### Principle

*Steps should be taken to build future capacity of the host government or other stakeholders associated with the activity or overall cooperative approach.*

### Rationale

A number of principles in this guidance help to ensure that activities generating mitigation outcomes provide a benefit for the country hosting the activity, as well as the country acquiring the mitigation outcomes. This can be further enhanced by the incorporation of meaningful efforts to build the capacity of the host government and other stakeholders associated with activities.

Capacity-building can take a number of different forms. With respect to officials within the host government, it can for instance support efforts to build robust institutional arrangements to manage inward investment under Article 6, as well as to support the identification of activity types that will contribute to long-term transformation and sustainable development beyond current plans under the country's NDC. It can also support efforts to establish new policies or measures in a sector in which an activity generating mitigation outcomes is taking place.

With respect to other stakeholders, capacity-building can build specific expertise among affected stakeholders (for instance local businesses or farmers) to help ensure activities are sustainable and continue after the end of their crediting period, and where possible that they foster the broader development of new practices and markets within the country.

While such capacity-building may not be inherently essential to the integrity or quality of an activity generating mitigation outcomes, it is recommended that Parties take steps to build capacity as a means to deliver a more lasting positive impact.

### Solution(s)

Parties can implement this principle in a number of ways, which could include:

- Requiring activity proponents to establish a capacity-building component, and monitor progress in its implementation.
- Identifying capacity/knowledge gaps among host government officials and establishing a capacity-building programme for which the acquiring country contributes funding. This may be taken forward on a multilateral basis rather than through bilateral support.



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INFRAS, Carbon Limits, SEI (2019)  
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Global Green Growth Institute (2021)  
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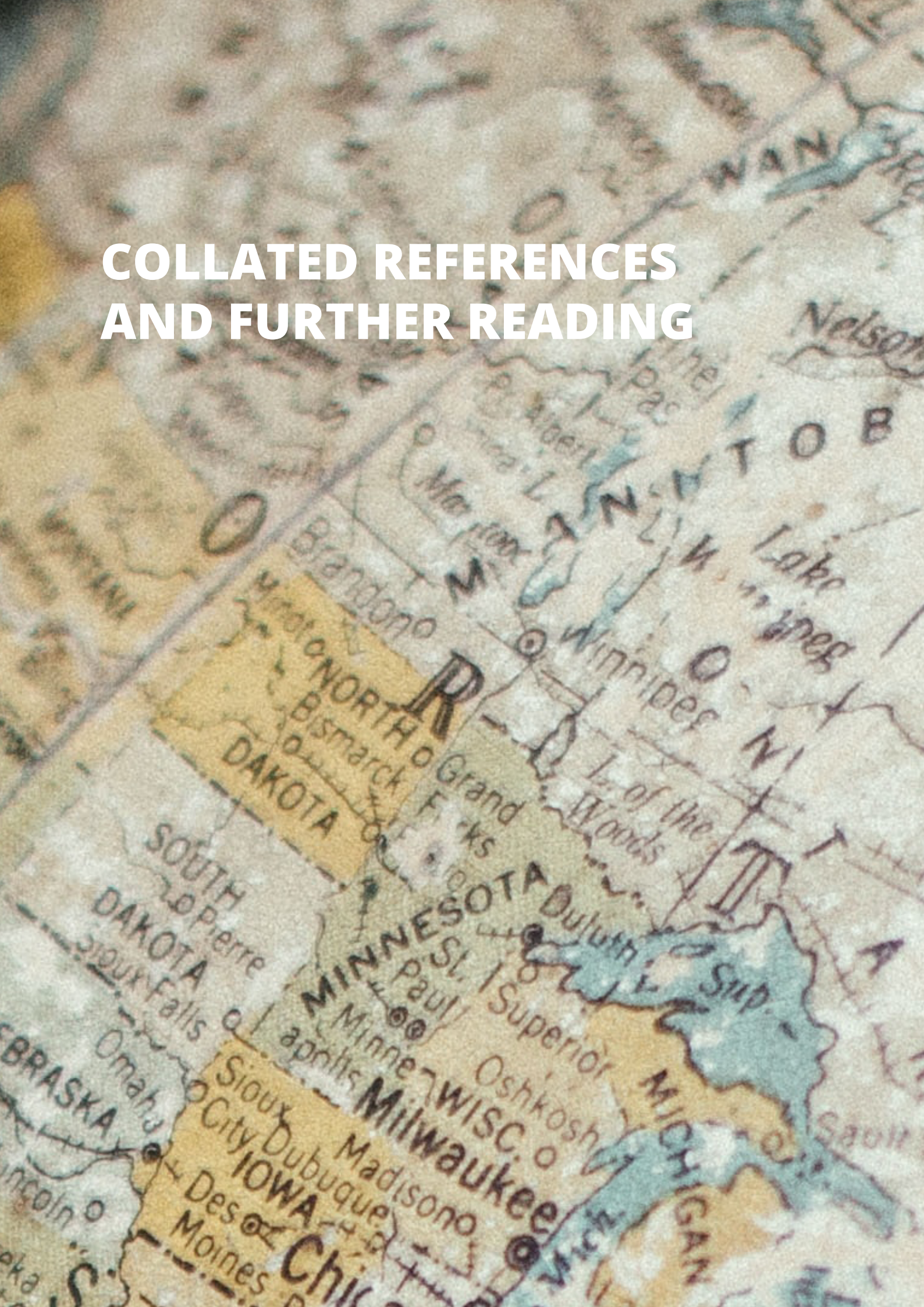
### WEB RESOURCE



**Paris Committee on Capacity-Building**



# COLLATED REFERENCES AND FURTHER READING





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- REPORT** Carbon Limits, INFRAS, Oeko Institute, Environment Institute (2020)  
***Practical strategies to avoid over-selling***
- REPORT** Carbon Market Watch (2018)  
***Practitioner's guide for local stakeholder consultation***
- WEB RESOURCE** Clean Development Mechanism  
***Designated Operational Entities***
- REPORT** Fuessler, J., Kansy, T., Spalding-Fecher, R. (2019)  
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- GS4GG DOCUMENT** Gold Standard for the Global Goals - Core Document (2019)  
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Perspectives Climate Group (2020)

***CDM method transformation: updating and transforming CDM methods for use in an Article 6 context***

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Swedish Energy Agency

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***Good Practice Guidance for the Preliminary Assessment of Sustainable Development in Article 6 Actions***

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***Co-operating for the SDGs: Article 6 through a Sustainable Development Lens***

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