

A Toolbox series for Article 6 implementation

Promoting ambition and transformational change using Article 6

Guide 1



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Promoting ambition and transformational change using Article 6



About the Supporting Preparedness for Article 6 Cooperations (SPAR6C)

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

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

Based in Seoul, GGGI is a treaty-based international, inter-governmental organization – with over 40 Members and growing – dedicated to supporting and promoting strong, inclusive, and sustainable economic growth in developing countries and emerging economies. With operations in over 30 countries, GGGI serves the role of an enabler and facilitator of Members’ transition into a low-carbon green economy, providing policy advice and technical support in the development of green growth plans, policies and regulations, mobilization of green investments, implementation of green growth projects, and development of local capacities and knowledge sharing. Further information on GGGI’s events, projects and publications can be found on www.gggi.org.

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Preface

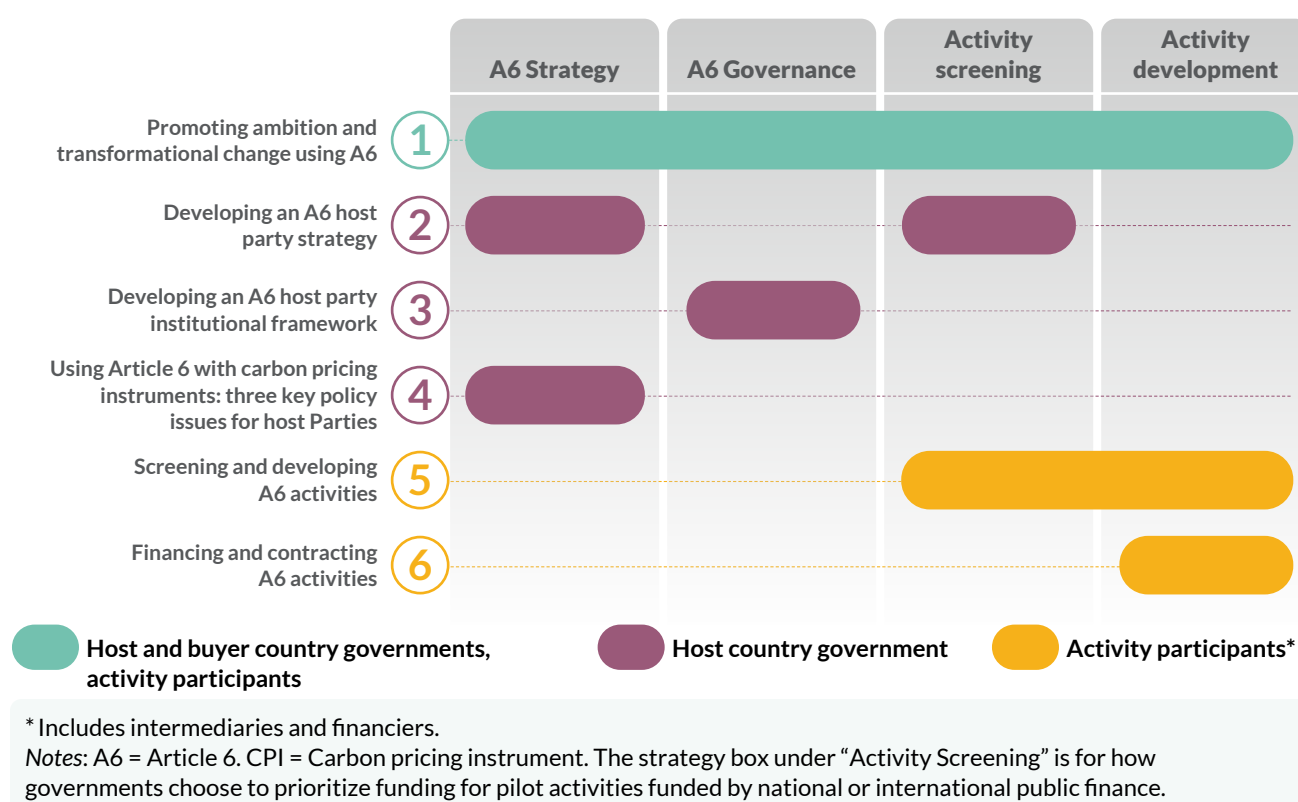
Many developing and emerging economies are keen to pursue carbon transactions under Article 6 of the Paris Agreement in the hope that they will promote ambitious climate change mitigation and generate sustainable development outcomes. However, for countries to be fully prepared to actively engage in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

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

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

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

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



Each guide delves deeper into the issues and content illustrated in Figure 1, addressing any overlaps with other guides. For example, because promoting ambition and transformational change (Guide 1) is an overarching objective of Article 6 carbon markets and a cross-cutting issue for all the other guides, the development of a host party strategy (Guide 2) refers to this objective as well.

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

About Guide 1: Promoting ambition and transformational change

The purpose of Guide 1 is to provide host parties, acquiring parties and other buyers, and activity developers with clear opportunities to take actions that promote transformational change and raise ambition utilizing Article 6 of the Paris Agreement. Article 6 goes beyond the development of mitigation outcomes. Transformational Article 6 activities ensure positive sustainable development outcomes and GHG mitigation at scale, sustained over time, that facilitate system change to raise the ambition of nationally determined contributions (NDCs) and align long-term low-emission development strategies (LT-LEDS) with the global goals of the Paris Agreement and the sustainable development goals (SDGs) of the 2030 Agenda.

Guide 1 presents how Article 6 carbon market activities can help closing the NDC and LT-LEDS action and ambition gaps to reach Paris-aligned goals to achieve net-zero emission and sustainable development by 2050. Supporting implementation, the guide provides a checklist of options and actions that the key stakeholder groups can implement to raise ambition and promote transformational change.

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Acronyms and abbreviations

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

Chapter 1



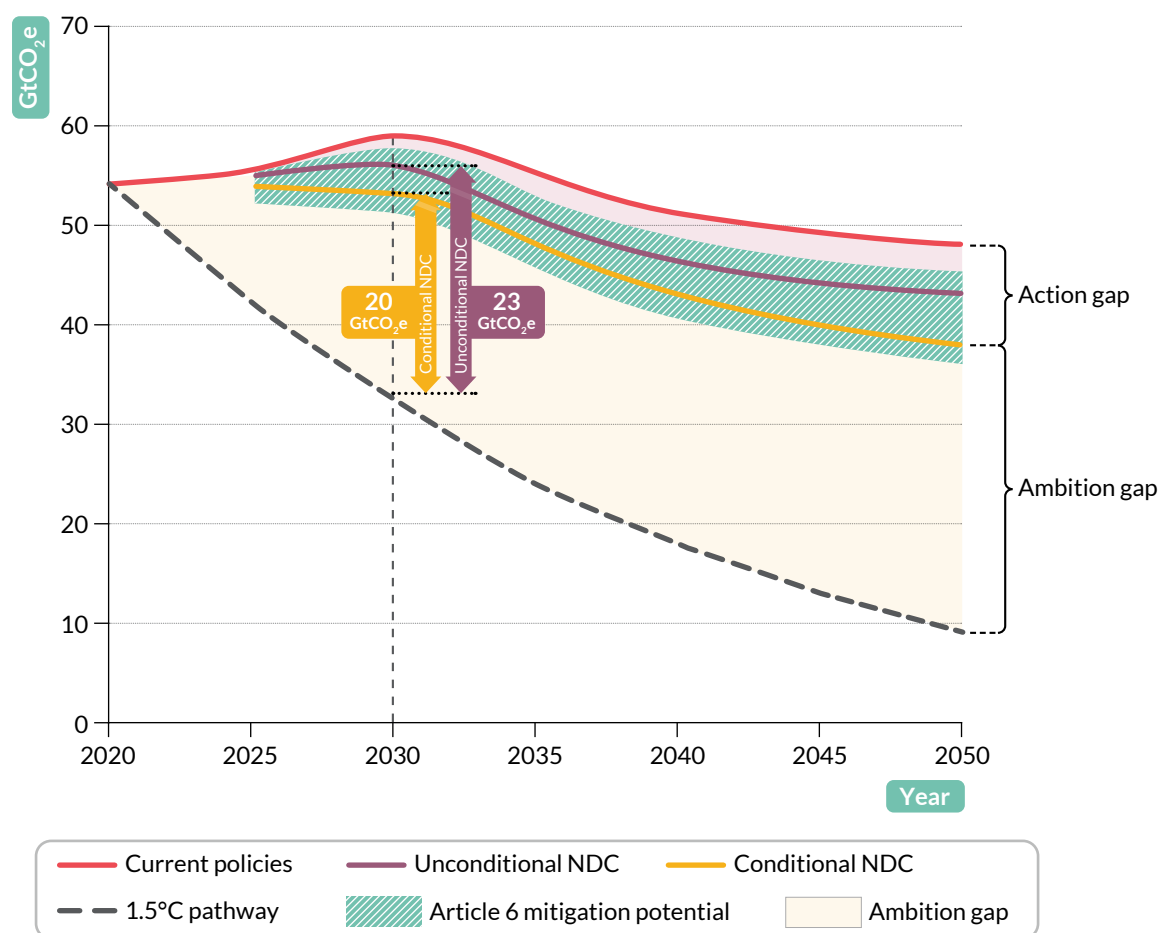
Introduction

High integrity carbon credits originating from mitigation activities with transformational impact can contribute to raising the ambition of nationally determined contributions (NDCs) and align long-term low-emission development strategies (LT-LEDs) with the goals of the Paris Agreement and the United Nations sustainable development goals (SDGs). The global governance framework established by Article 6 of the Paris Agreement is crucial to setting common standards for international carbon markets that promote environmental integrity and sustainable development (SD) while raising ambition. Along with other carbon pricing instruments, such as taxes and emissions trading schemes, carbon markets are amongst the most powerful tools to transition economies to net-zero societies by mid-century. Full implementation of carbon market mechanisms could save 40–60% of the cost of NDC implementation and could contribute to reducing 4–5 GtCO₂eq per year by 2030, hence closing the global “emissions gap”.¹

1.1 Closing the action and ambition gaps with carbon credits

The United Nations Environment Programme’s Emissions Gap Report² identifies an ambition gap between what countries have pledged in national targets and what is needed to achieve the 1.5°C global target for alignment with the Paris Agreement. The ambition gap is estimated to be 23 GtCO₂e for the unconditional NDC targets and 20 GtCO₂e for the conditional targets. Furthermore there is still an action gap between current policies and NDC targets (Figure 2). Carbon credits can contribute to closing both the action and ambition gaps, depending on the types of carbon credits generated and how they are used. If carbon credits are authorized by a host party as internationally transferred mitigation outcomes (ITMOs), the credits can be used by buyers to raise the ambition of global mitigation (if cancelled) or to comply with national voluntary targets (if counted towards ambitious targets). If the credits are not authorized, the emission reductions can contribute to closing the action gap in host parties. Figure 2 shows how the Article 6 mitigation potential can contribute to closing the action and ambition gaps. Studies of the quantitative mitigation potential estimate that, in an ideal situation with full use of carbon markets, 4–5 GtCO₂e of mitigation outcomes could be traded per year by 2030, enabling cost savings in the range of 40–60% to achieve NDC targets.³

Figure 2. Article 6 mitigation potential to close action and ambition gaps



Source: Own figure. For illustrative purposes only, building on the United Nations Environment Programme's "Emissions Gap Report 2022: The Closing Window, 2022".

There are several ways in which international cooperation can contribute to closing the action and ambition gaps. The impacts of cooperation will vary, depending, on the one hand, on whether the host party authorizes the mitigation outcomes (in which case, they can no longer use them for compliance with own NDC goals) and, on the other hand, on whether the acquiring party or entity uses the ITMOs to achieve existing goals or to go beyond those goals.

First, acquiring parties and non-state actors can buy non-authorized carbon credits and not apply these to their own climate goals (i.e., not use them as "offsets") to contribute to the host party's achievement of their NDC and LT-LEDS targets. This type of financing contributes to closing national mitigation action gaps.

Secondly, acquiring parties and non-state actors can also contribute to closing the global ambition gap by buying authorized ITMOs and voluntarily cancelling them, to make an overall mitigation in global emissions (i.e., because neither the host party nor the acquiring entity uses the ITMOs for its existing mitigation goals). These actions send a positive message to

the market in the short term and increase the demand for ITMOs in the medium-to-long term through the ambition cycle.¹

Thirdly, buyers of authorized ITMOs can reinvest the cost savings generated from trading (since it was cheaper for them to acquire ITMOs than to implement domestic abatement options) to raise the ambition of their voluntary targets and/or meet their compliance targets. This happens when updating and submitting more ambitious NDCs (for parties, through the ambition cycle) or when increasing any voluntary mitigation targets (for non-state actors).

To safeguard the integrity of carbon credits, it is essential to keep track of how carbon credits are used for different voluntary and compliance claims by ensuring robust accounting, disclosure, and transparency at all levels including corporate, sub-national, national, and global levels.⁴

1.2 Understanding the transformational impact potential of Article 6 activities

Article 6 of the Paris Agreement mandates ambition raising as an overall objective of cooperative approaches:

Parties recognize that some Parties choose to pursue voluntary cooperation in the implementation of their nationally determined contributions to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity. (Article 6.1).

Aligning carbon market activities and NDC targets with pathways consistent with a 1.5°C temperature goal requires rapid and deep systemic changes in all sectors and levels of society. Understanding and promoting Article 6 activities with transformational impact can contribute to a shift away from unsustainable and emissions intensive practices. Explained very simply, the transformational impact of Article 6 activities goes beyond mitigation outcomes to ensure positive SDG outcomes that together facilitate transformational impact for system change (Figure 3).

Figure 3. Concept of transformational impact



In the scientific literature, transformational change is defined as “The altering of fundamental attributes of a system, including value systems; regulatory, legislative or bureaucratic regimes; financial institutions; and technological or biological systems.”⁵ Defining transformational

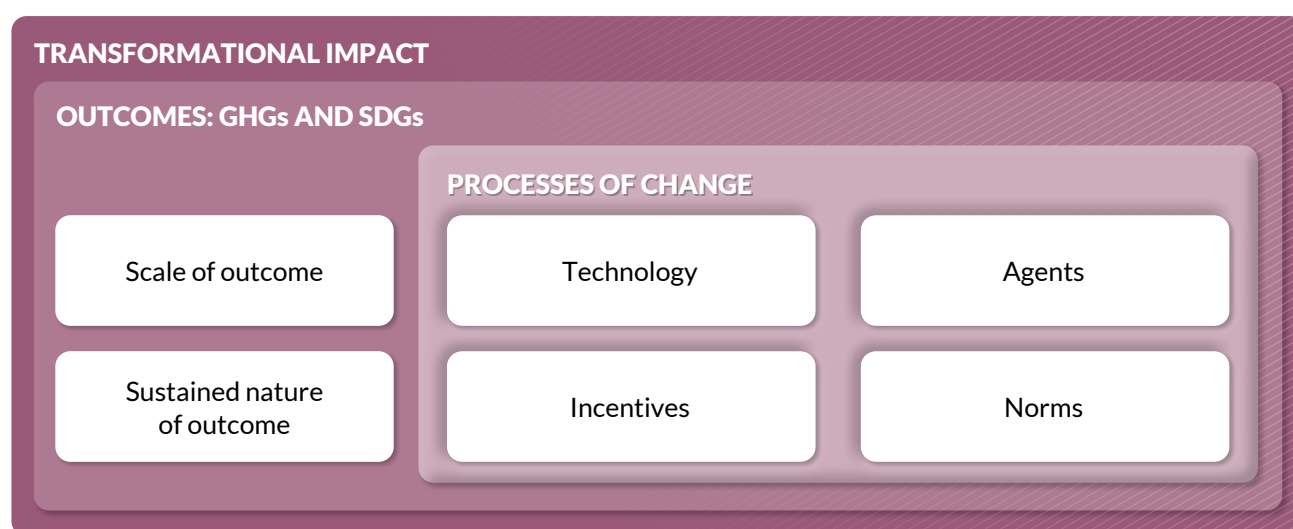
¹ The ambition cycle is defined by the UNFCCC as a “ratcheting-up” mechanism which aims to increase ambition based on regular stocktakes of information from Parties, submissions of progressive national climate plans, and the latest science on climate change.

change operationally as follows can help governments and activity participants design and implement mitigation actions with transformational impact:

A fundamental, sustained change of a system that ends established high-carbon practices and contributes to a zero-carbon society, in line with the Paris Agreement goal to limit global warming to 1.5–2°C and the United Nations Sustainable Development Goals.⁶

The definition of transformational change is operationalized for assessment of transformational impact, comprising processes and outcomes of change (Figure 4).

Figure 4. Layers of transformational impact assessment⁷



The extent of transformational impact is assessed based on the Article 6 activity's contribution to a system change towards Paris-aligned pathways to zero greenhouse gas emissions and SDGs. The outcomes of an Article 6 activity are determined by its contribution to achieving emission reductions and SDGs at scale and sustained over time. The processes of system change driven by an Article 6 activity comprise technologies, agents, incentives, and a change in norms and behavior. Transformational change management is characterized by continuous learning, involving networks of actors, co-design of activities, and an iterative approach to adjust plans and strategies to achieve the vision for transformational impact.

Understanding the characteristics of transformational change enables the design of Article 6 activities that promote climate action ambition raising. Five characteristics are identified as particularly important for carbon markets, namely digitalization, private sector actors, governments, carbon pricing, and dynamic baselines (also referred to as the baseline contraction factors; see chapter 4).⁸ Furthermore, adhering to social and environmental safeguards can mitigate or avoid negative impacts for local communities, indigenous people and the environment. Examples of activity design options that can unlock transformational change are:

- Digitalization of monitoring, reporting and verification (MRV) and payments can lower transaction costs for carbon trading

- Public-private partnerships between governments, private sector, and entrepreneurs can contribute to achieving voluntary and compliance net-zero pledges
- Application of contraction factors to baseline setting can align activities with net-zero pathways and enhance the integrity of carbon credits
- Introduction of carbon pricing can incentive a change away from high-carbon production and consumption patterns to low-carbon practices
- Compliance with international safeguard principles for climate and energy, air, land and water, ecology and natural resources, human rights, labor rights, gender equality, land acquisition and involuntary settlement, indigenous people, corruption, cultural heritage and economic impacts such as benefit sharing, can promote a change of norms towards SD and high-integrity carbon credits with transformational impact

Against this background, the guide provides practical guidance for host parties, acquiring parties and other buyers on how to promote ambition raising, and for activity participants on how to promote transformational change design and impact using Article 6 carbon market approaches.

An overview of opportunities to promote increased ambition and transformational change by different groups of stakeholders is shown in Figure 5.

Figure 5. Overview of options to promote ambition and transformational change

Host Parties	Acquiring Parties and Other Buyers	Activity Developers
• Develop LT-LEDS and plans supporting NDC ambition cycles • Facilitate investment in priority technologies • Implement governance frameworks that promote SD, TC and ambition • Strengthen transparency and accountability via MRV	• Cancel ITMOs to raise overall mitigation in global emissions • Use ITMOs to increase the ambition of NDC and LT-LEDS targets • Buy ITMO's to support non-state climate neutral and net zero targets	• Apply a baseline contraction factor • Promote sustainable development • Implement transformational activities for system change

The next chapters explain key options for three stakeholder groups to raise ambition and promote transformational change using Article 6 carbon markets. “How-to” guidance for each of the options is cross-referenced to the other SPAR6C guides, explaining how the overarching objectives of Article 6 should be mainstreamed into host party strategies and governance frameworks, activity development, carbon pricing instruments, and contracts. Opportunities for acquiring parties and non-state buyers to use carbon credits for ambition raising are not covered in the other guides and are therefore explained at a high level in this guide.

Chapter 2



Options for host parties

Host parties have a number of options as to how they govern and oversee Article 6 activities that can have a positive impact on the transformational change and ambition outcomes of their international cooperation. The options include using Article 6 in their long-term strategies, prioritizing Article 6 investments to support those strategies, creating governance frameworks that target transformational impacts, and strengthening their transparency frameworks.

2.1 Develop LT-LEDs supporting NDC ambition cycles

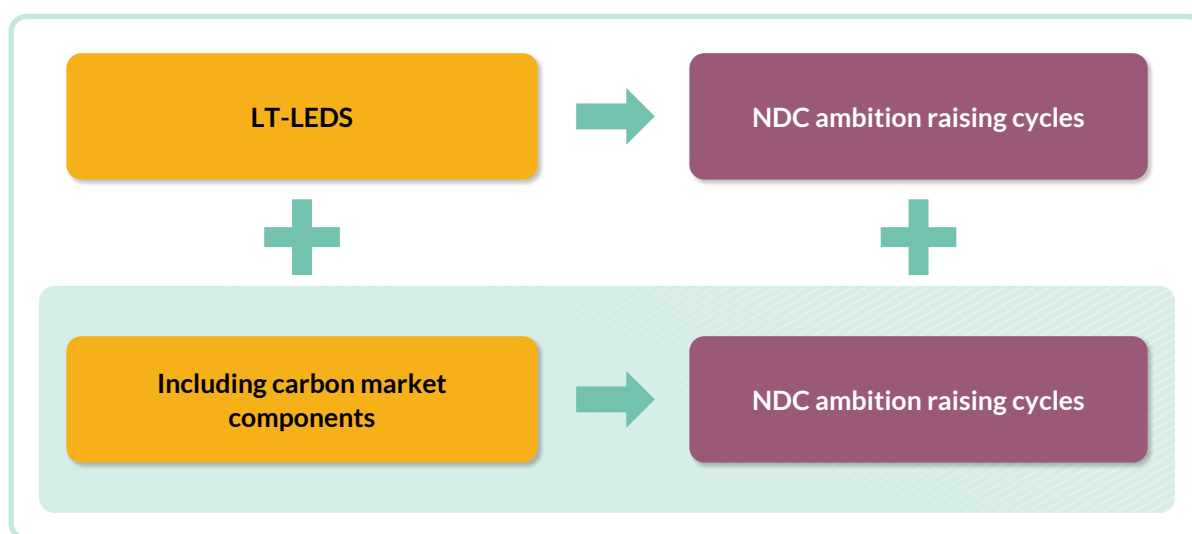
Host parties can choose to implement one or more of the following actions:

- Develop LT-LEDs and include the role of carbon markets in them to catalyze mitigation action and NDC ambition raising
- Develop quantifiable NDC scenarios and provide information on the reference indicators to support baseline development for Article 6 activities

Developing LT-LEDs could provide host parties with an opportunity to identify how they can leverage Article 6 to provide for faster and less expensive pathways towards decarbonization (Figure 6). A well-established planning process may help a party to set ambitious targets and achieve ambitious mitigation outcomes in the short as well as long term. Planning processes have been implemented in several countries in the context of their domestic climate policies and measures, including LT-LEDs or mitigation action plans and scenarios.

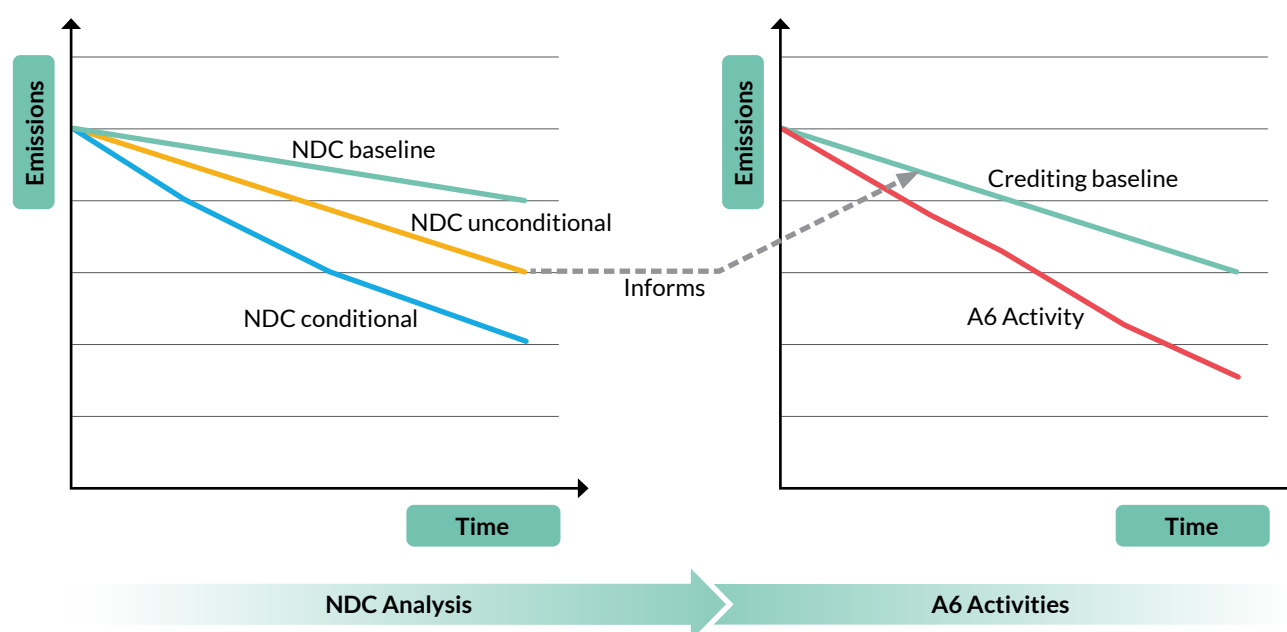
LT-LEDs are an important instrument at country level to provide the data and evidence base to assess mitigation opportunities across a range of sectors for far-reaching systemic transformations. Countries can make the role of carbon markets an explicit component of LT-LEDs and employ them as an avenue to higher ambition in future NDC cycles and enable development of aligned socio-economic opportunities.⁹ While this may not be an easy process, this will trigger generating information on GHG inventories, on defining assumptions regarding economic growth and effects, on emission sources, etc.

Figure 6. How LT-LEDs can catalyze ambition



In addition, by elaborating emissions pathways for the NDC and LT-LEDs in detail, the planning process can support Article 6 activities in developing baselines for crediting. For instance, Figure 7 shows an example of how unconditional NDCs can inform parties' crediting baselines. However, to help host parties achieve their NDC targets using mitigation outcomes from Article 6, these would need to remain in the host party (i.e. using mitigation contribution units – MCUs). Lack of data is often a major barrier to creating baselines for Article 6 activity development, particularly given that the Article 6 rules require activities to justify how they support ambition in relation to the NDC. Creating detailed sectoral and sub-sectoral roadmaps for the long-term strategies, and making this data publicly available, can promote Article 6 activity development by reducing costs and increasing the quality of baseline analysis.

Figure 7. How NDC goals can inform crediting baselines



2.2 Facilitate investments in priority technologies

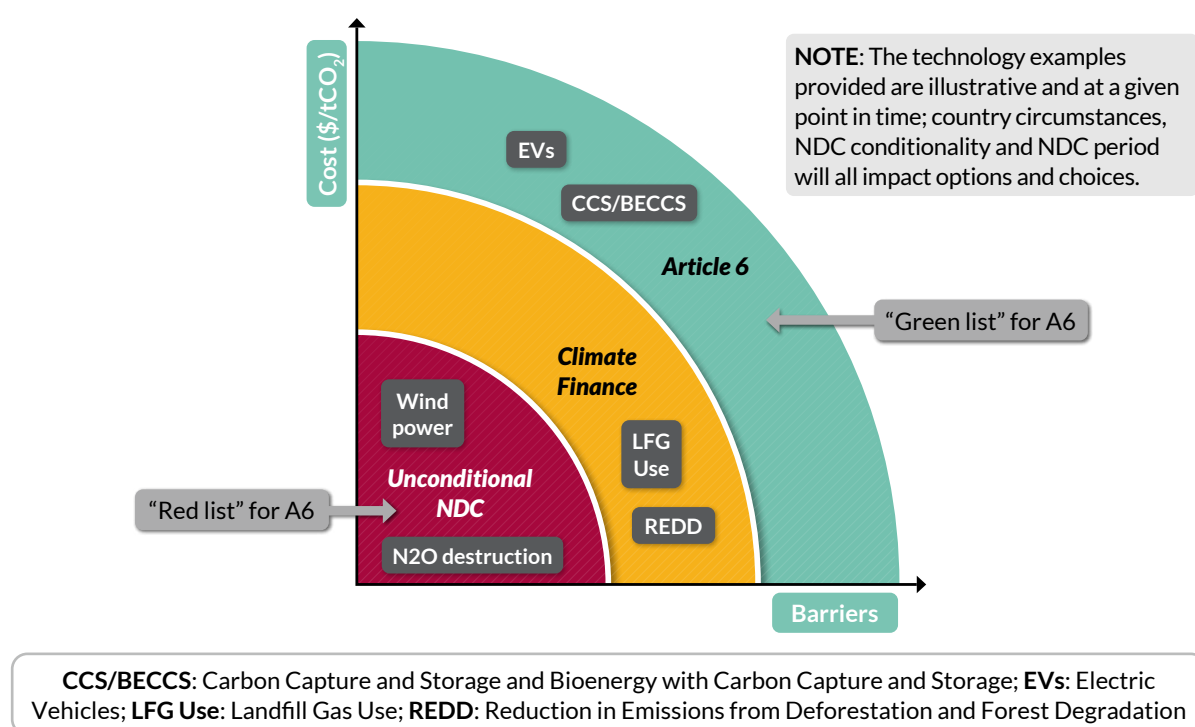
Host parties can choose to implement one or more of the following actions:

- Target technologies that are emerging, high cost, high abatement, and low market penetration to implement via international cooperation
- Restrict eligibility of certain low-cost, mature technologies or types of action; i.e., creating negative lists to signal and provide direction to carbon market implementation in the host party

Host parties can raise ambition also through identifying and targeting priority technologies based on various country-specific factors, and in alignment with national development plans and NDCs. In particular, the host party could focus on technologies that are critical for the NDC and long-term strategy, but have higher mitigation cost and/or face greater barriers (Figure 8). This contrasts with low-cost technologies and those that do not face major barriers, and so could be used by the country to meet its unconditional NDCs. These two groups could even form the basis of two technology lists. A “green list” or “positive list” of technologies could receive expedited approval or authorization. A “red list” or “negative list” of technologies, on the other hand, might be excluded from Article 6 because using these for Article 6 transfers would leave only more expensive or difficult options for the country to meet its NDC goals. For more explanation of positive and negative lists, see Guide 2: Developing an Article 6 host party strategy (chapters 2 and 3).

Prioritizing technologies can accelerate climate technology diffusion among host countries, allowing them to raise ambition in their future NDCs. This may also incentivize investments in higher-cost emerging mitigation technologies and SD.

Figure 8. Prioritizing technologies for Article 6 – a snap shot



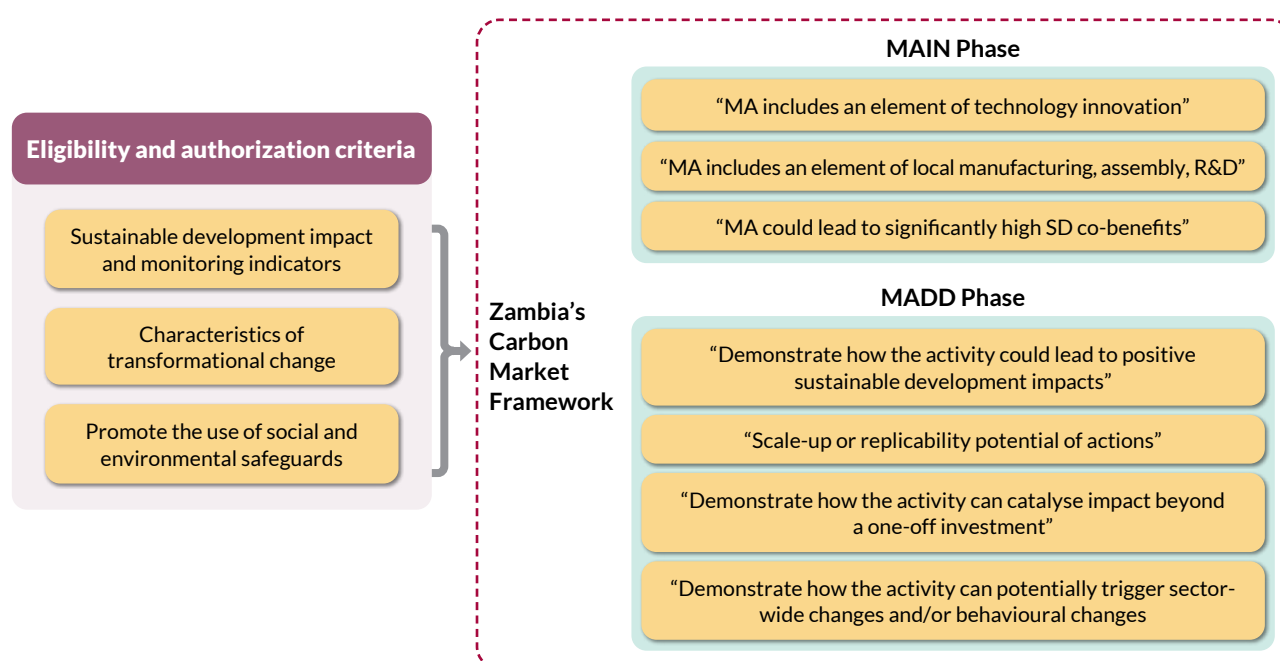
2.3 Implement governance frameworks that promote sustainable development and transformational change

Host parties can choose one or more of the following options (see also Guide 2, chapters 2 and 4):

- Incorporate SD impact and monitoring indicators into the Article 6 authorization criteria assessment process. This may also trigger a review of national legislation (e.g., environmental impact assessment, strategic impact assessment) to include further safeguards and best practices
- Incorporate concrete indicators of transformational change as part of the Article 6 authorization criteria, in order to initiate a shift towards more policy and program-oriented approaches (with economy-wide effects) and going beyond stand-alone projects
- Adopt the use of social and environmental safeguards frameworks (e.g. by the Integrity Council for the Voluntary Carbon Market) to avoid or mitigate unintended negative impacts on local communities, indigenous people and host parties

Host parties can raise ambition through raising the bar for eligibility and authorization criteria that explicitly focus on transformational change and SD (Figure 9).¹⁰ While the Article 6.2 guidance requires host parties to explain how cooperative activities avoid negative impacts and are consistent with their national SD priorities, there is no requirement for identifying and monitoring specific indicators for SD or transformational change.

Figure 9. Elements of governance frameworks that promote sustainable development and transformational change¹¹



MA: Mitigation Activity; MAIN: Mitigation Activity Idea Note; MADD: Mitigation Activity Design Document.

2.4 Strengthen transparency and accountability via MRV

Host parties could choose to implement one or more of the following actions:

- Enhance monitoring and reporting including through digital means for MRV of high data quality i.e., higher tier applied in the inventory for sectors with Article 6 activities, quantifiable information, clarity on the assumptions and methodologies, etc. (see chapter 6 of Guide 3 for more information on MRV requirements)
- Enhance tracking, reporting, and reviewing in the biennial transparency reports to convey how Article 6 mitigation actions and outcomes promote transformational change and NDC ambition raising. This implies that the tracking, reporting, and reviewing of actions go beyond what host parties must comply with, and that these actions are properly justified as to how they support ambition raising

There are several requirements set out by the Paris Agreement to enhance transparency and allow for comparability between efforts and ambition raising. Transparency frameworks with MRV provisions are important in holding parties accountable for implementing their NDCs, including how they use Article 6. The enhanced transparency framework plays an important role in the ambition cycle by defining the reporting requirements, the technical expert review process, and the multilateral facilitative process.¹² The bi-annual transparency report with common tabular formats facilitates tracking of NDC implementation. For use of Article 6 for NDC implementation the reporting requirements are submission of the initial report, the agreed electronic format, and regular information submitted as an annex. The expert review process enables learning and improvements over time and is important for tracking progress with regard to ambition raising. Host parties may choose to opt for more comprehensive reporting promoting NDC and Article 6 ambition raising, even beyond the minimum required in the Article 13 enhanced transparency framework.



Chapter 3



Options for acquiring parties and other buyers

Demand for ITMOs is driven by buyers taking advantage of the lower cost of mitigation actions in host countries than in the acquiring party. International carbon markets can reduce the overall costs of achieving NDC and LT-LEDS targets and enable acquiring parties to reinvest the cost savings in higher ambition national targets and overall mitigation in global emissions (OMGE).¹³ Other international buyers can use ITMOs as offsets to meet compliance targets such as under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Non-state actors with voluntary net-zero and climate-neutral targets can use ITMOs to compensate for their own emissions.

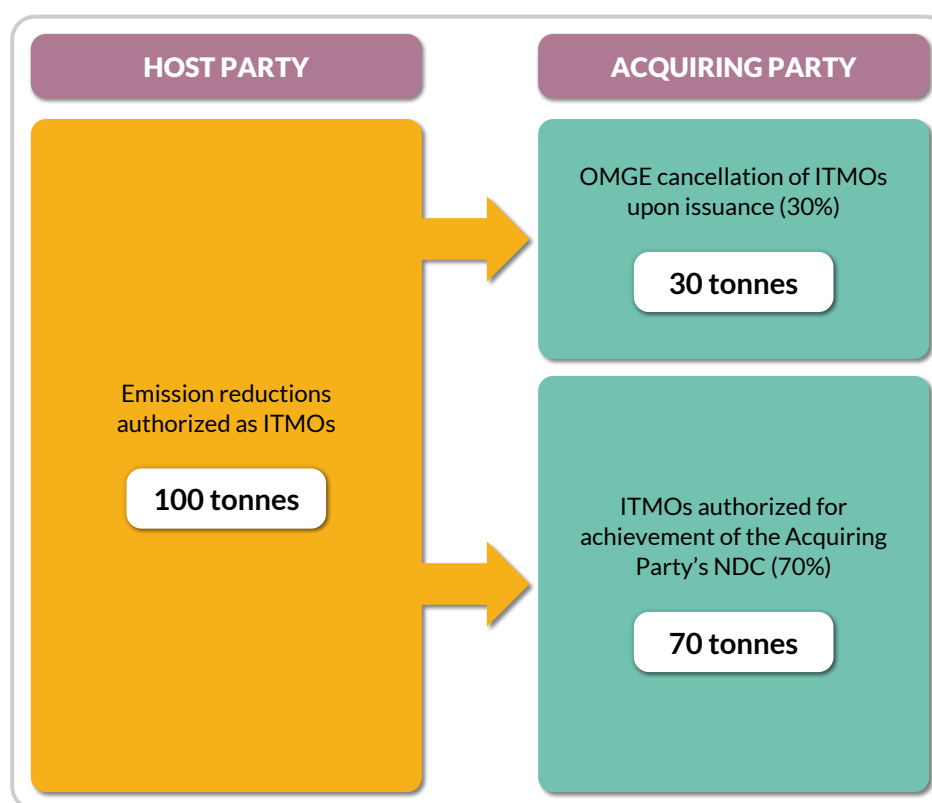
From a buyers' perspective, ITMOs can be used to promote climate action ambition and transformational change at global, national, and sub-national levels through the options described below.

3.1 Cancel ITMOs to raise overall mitigation in global emissions

Acquiring parties can choose to cancel more than the mandatory 2% of ITMOs authorized to raise ambition for OMGE

A simple way for acquiring parties to raise the ambition for OMGE is through acquiring and cancelling ITMOs. For the transfer of ITMOs, the host party must adjust its emissions balance by the amount corresponding to the number of ITMOs sold. This corresponding adjustment ensures that not more than one party will claim the mitigation outcomes. By cancelling the ITMOs, they are not counted towards the acquiring party's NDC target. The cancellation of ITMOs by acquiring parties can therefore contribute to global ambition raising (Figure 10).

Figure 10. Cancellation of ITMOs to raise global ambition



The contribution to OMGE under the Article 6.4 Paris Agreement Crediting Mechanism (PACM) is a mandatory 2% of the emission reductions issued. However, it is not mandatory under the Article 6.2 guidance for bilateral cooperation. Acquiring parties that wish to voluntarily promote the transformational impact of Article 6 carbon markets can raise the percentage of ITMOs cancelled – the higher the percentage the more impact for global mitigation.¹⁴

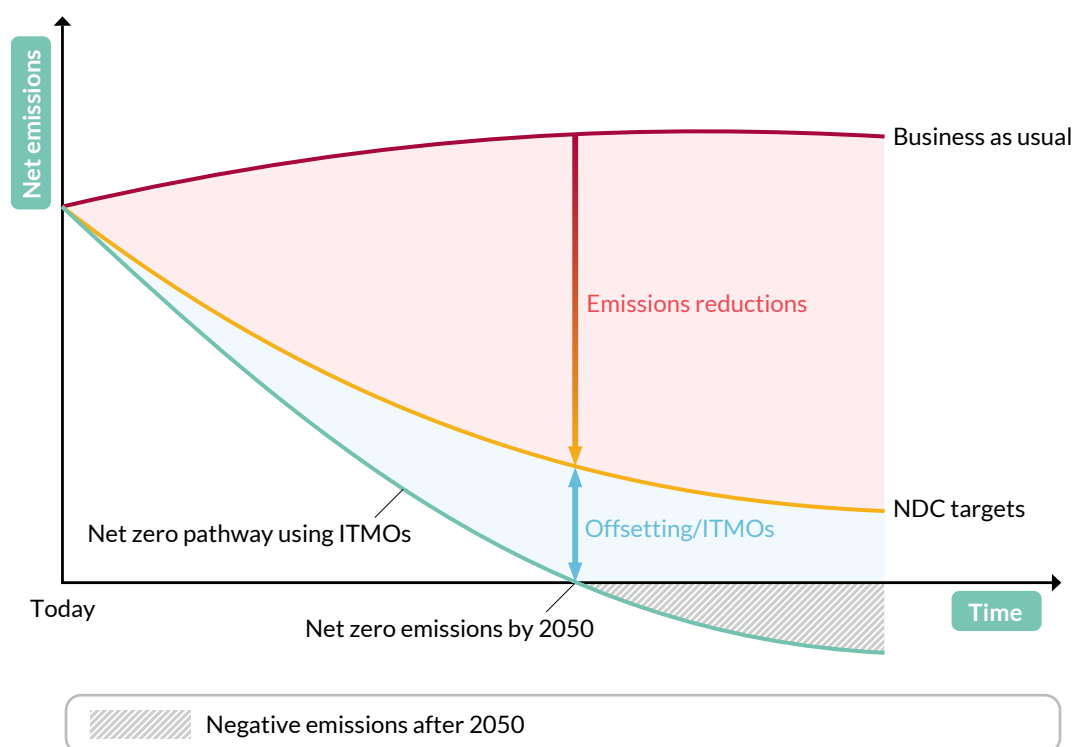
3.2 Use ITMOs to increase the ambition of NDC and LT-LEDs targets

Acquiring parties can choose to implement one or more of the following actions:

- Acquire and then cancel ITMOs beyond the level required for overall mitigation in global emissions, not using them towards any party's NDC targets
- Develop an LT-LEDs towards a net-zero target and use ITMOs to achieve the target at a lower cost and earlier than otherwise possible
- Use cost savings from trading to over-achieve ambitious national NDC targets
- When permitted by the regulation, allow entities with an emission reduction obligation under a carbon pricing scheme to offset their emissions through use of ITMOs and use the cost savings to raise the acquiring party NDC ambition
- Design a government procurement program for purchasing ITMOs that promotes transformational change characteristics of mitigation activities

All parties are encouraged to develop an LT-LEDs according to Article 4 in the Paris Agreement. The UN Race to Zero Campaign encourages an increasing number of countries to commit to achieving net-zero targets by 2050.¹⁵ An acquiring party (by using ITMOs to go beyond its NDC goal rather than just meet it) can use ITMOs to accelerate its achievement of long-term strategies to net-zero emissions by 2050 (Figure 11). ITMOs can reduce NDC compliance costs and allow acquiring parties to raise the ambition of national NDC and LT-LEDs targets.

Figure 11. Example of acquiring party long-term strategy to net-zero emissions using ITMOs¹⁶



Countries that have adopted carbon pricing schemes such as carbon taxes and/or an emissions trading scheme can allow regulated entities to purchase ITMOs for offsetting a limited part of their mitigation obligations. The cost savings enable the acquiring party to set a lower ETS cap and pledge a higher ambition NDC target. The example from Sweden (Box 1) illustrates how ITMOs are used to overachieve the country's EU target in line with more ambitious NDC and LT-LEDs national targets.

Box 1. Sweden's ambitious LT-LEDS target in context of the European Union¹⁷

Sweden's LT-LEDS target is to reach net-zero emissions by 2045. Interim targets are to reduce emissions by 65% in 2030 and 75% in 2040, compared to 1990. After 2045, Sweden will reach net negative emissions by compensating residual emissions with removals.

This is a more ambitious national target than the EU joint NDC target to reduce emissions by 55% in 2030 and reach net-zero by 2050.

Sweden will achieve its accelerated, more ambitious national targets by purchasing ITMOs as offsets for their national emissions.

To promote the transformational impact of ITMO's, acquiring parties can set up a public procurement program based on principles and criteria for high-integrity mitigation activities.¹⁸ One way is to define positive and negative lists for mitigation activities that are considered for authorization by the acquiring party. For example, positive lists can include activities that comply with criteria for safeguards against negative impacts, promote positive SD and transformational change characteristics such as using baselines aligned with the long-term goal of the Paris Agreement. Negative lists can include activities that buyers do not want to consider, such as technologies that continue to use fossil fuels and are not aligned with pathways for decarbonization to achieve the Paris Agreement long-term goal.

3.3 Buy ITMOs to support non-state climate-neutral and net-zero targets

Non-state actors can choose to implement one or more of the following actions:

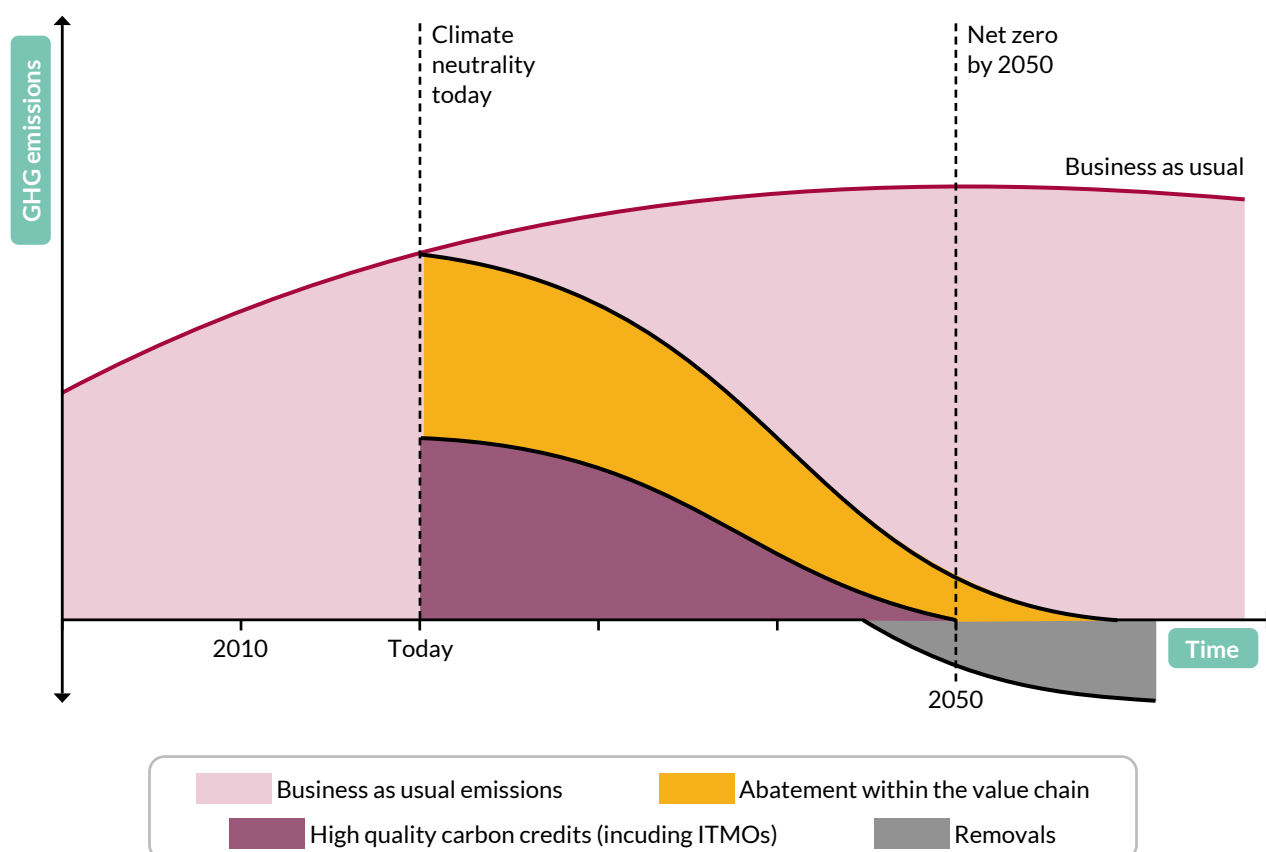
- Pledge net-zero and climate-neutral targets that contribute to transformational change and climate action ambition raising
- Follow the mitigation hierarchy (avoid, minimize, offset) to prioritize urgent and deep reductions with own means
- Purchase carbon credits that are authorized as ITMOs to compensate for residual emissions towards net-zero and climate-neutral targets
- Purchase carbon credits that are not authorized to contribute to host parties' achievement of conditional NDC targets and ambition raising over time

Non-state actors, such as businesses, financial institutions, cities, and regions can raise climate action ambition and promote transformational change at sub-national levels by pledging voluntary emission reduction targets. In 2022 the UN published a report with ten recommendations for non-state actors to set net-zero targets by 2050.¹⁹

Pathways to net-zero emissions include interim targets for 2025, 2030 and 2035 in line with the Paris Agreement long-term goal. High-integrity carbon credits authorized as ITMOs can be used to compensate for non-state actors' unabated emissions on their way to net-zero emissions provided they follow the mitigation hierarchy of "avoid, reduce, offset". The hierarchy

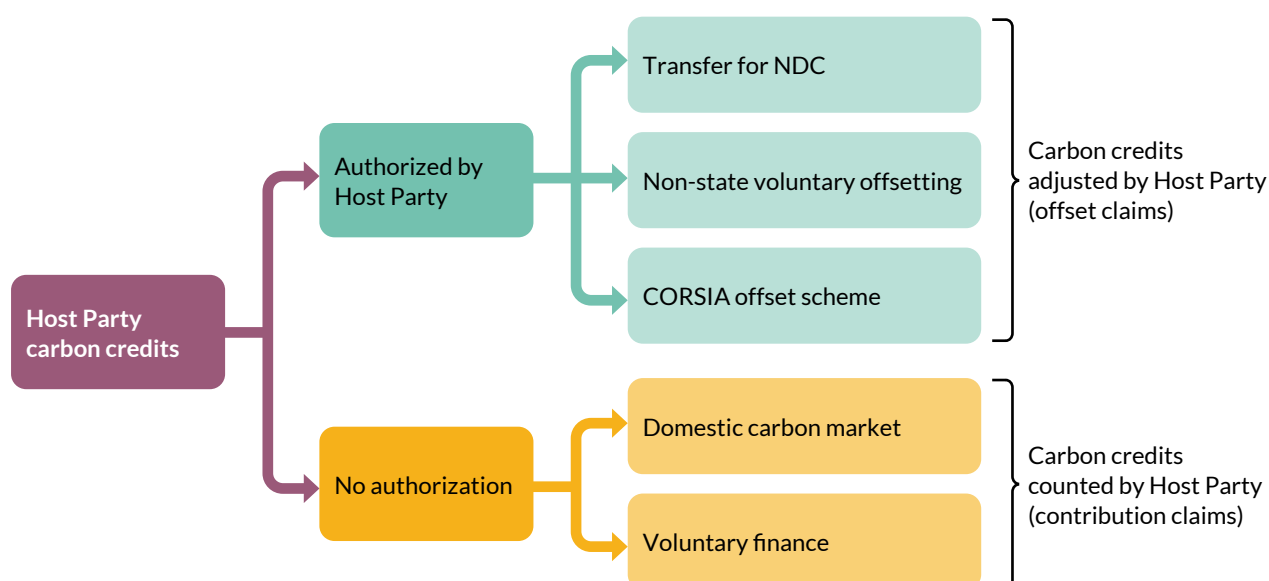
of mitigation actions means that offsets should be used as a supplement to own efforts (avoid and reduce own emissions), not using offsets as a substitute for them. The pathway to net-zero emissions in line with the global 1.5°C target starts with climate-neutrality claims (Figure 12).

Figure 12. Non-state climate-neutral vs. net-zero claims²⁰



The difference between climate-neutrality claims and net-zero claims is that net-zero can only be achieved once the non-state actor emissions are near zero. In other words, net-zero is an end-state goal, whereas climate-neutral is an interim goal on the pathway to net-zero. Carbon neutrality requires that the entity is, first and foremost, reducing its own emissions in line with a net-zero goal, and also purchasing ITMOs to offset the remaining emissions in any given year. Net-zero claims can be achieved when 90–95% of emission reductions have been reached towards the goal of net-zero emissions in 2050.²¹

The integrity of net-zero and climate-neutrality claims depends on transparent reporting to avoid double-claiming by host parties and non-state entities. In this context it is important to distinguish between two types of carbon credits, namely authorized vs. non-authorized (Figure 13).

Figure 13. Uses of authorized vs. non-authorized mitigation outcomes²²

Authorized carbon credits (i.e., ITMOs authorized for “other purposes” than NDC compliance according to the Article 6.2 guidance) can be used as offsets towards achieving voluntary goals. Authorization means that the host party must implement a corresponding adjustment and therefore cannot use the mitigation outcomes towards its own NDC goal. This avoids double-counting, and specifically the claiming of mitigation outcomes by both the host party and a non-state entity. An example of using ITMOs for “other international mitigation purposes” than NDC compliance is corporate buyers that want to offset part of their emissions as part of broader net-zero and climate-neutral strategies. By purchasing authorized ITMOs, these buyers ensure that they are not claiming the same mitigation outcomes that the host party is also claiming towards their NDC goal.

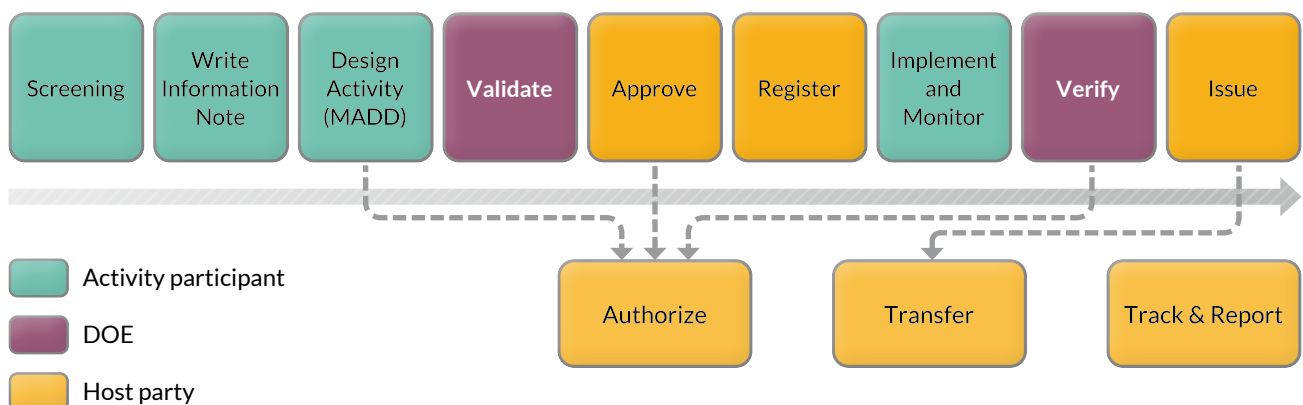
The emerging best practice in voluntary markets, both international and domestic, is to use authorized credits for offset claims and non-authorized carbon credits as contribution claims. Non-state buyers of non-authorized credits can make a contribution claim that they have voluntarily financed emission reductions beyond their own value chain responsibilities. An example of how authorized and non-authorized credits are used by corporate buyers is the Energy Transition Accelerator initiative launched at COP27.²³ The initiative aims to limit global warming to 1.5°C by driving private investment in energy transition activities that deliver GHG reductions at scale in developing countries. Another example is the Transformative Carbon Asset Facility managed by the World Bank. This fund includes two kinds of finance: carbon finance from donor countries that will purchase authorized credits as ITMOs, and result-based climate finance that will purchase non-authorized units that are mitigation contributions to the host parties. Under the Article 6.4 Paris Agreement Crediting Mechanism non-authorized credits are issued as MCUs that do not require a corresponding adjustment and can be used, inter alia, for results-based climate finance, domestic mitigation pricing schemes, and to assist the host party achieve its NDC and development goals. In summary, non-authorized carbon credits can enhance the scope and ambition of the host party NDC but should not be used as offsets to achieve corporate climate-neutrality or net-zero targets.

Chapter 4

Options for activity participants

The ambition and transformational impacts of Article 6 activities can be enhanced by activity participants in different ways. Activity developers play a role at different stages of the activity life cycle: the screening of activity options, the mitigation activity idea note (MAIN), the development of the mitigation activity design documents (MADDs), and the implementation and monitoring phases (for more information on the activity cycle stages see Guide 5: Screening and developing Article 6 activities). Each sub-section below explains how the concept or practice would be applied at different stages of activity development.

Figure 14. Activity cycle for Article 6 mitigation activities²⁴



4.1 Apply a baseline contraction factor (BCF)

Activity participants can choose to implement one or more of the following actions:

- At the screening phase, explore potential BCF-based downward adjustment methodologies and approaches (e.g., top-down, bottom-up) that could produce baselines below BAU and reflect relevant national climate change methodologies and measures²⁵
- At the MAIN phase, identify a suitable BCF-based downward adjustment methodology and estimate first BCF values with the available data
- At the MADD phase, present and justify the approach, procedure, parameters and the data chosen for the calculation of the BCF as well as the renewal period selected
- At the implementation and monitoring phase, evaluate the BCF and update it to adapt to the changing context at the end of every renewal period

One of the key elements of the Article 6 rulebook agreed in 2021 at COP26 in Glasgow²⁶, which is part of the rules, modalities and procedures for the Article 6.4 PACM, is a requirement for methodologies to estimate the GHG emission reductions from Article 6 mitigation activities. The methodologies describe how to develop baselines against which the emissions reductions are calculated. The baselines (also called crediting baselines) determine the distribution of mitigation outcomes available for trading, rather than for achieving host party NDC targets. In addition to this, they play a key role in ensuring the environmental integrity of Article 6 activities.²⁷

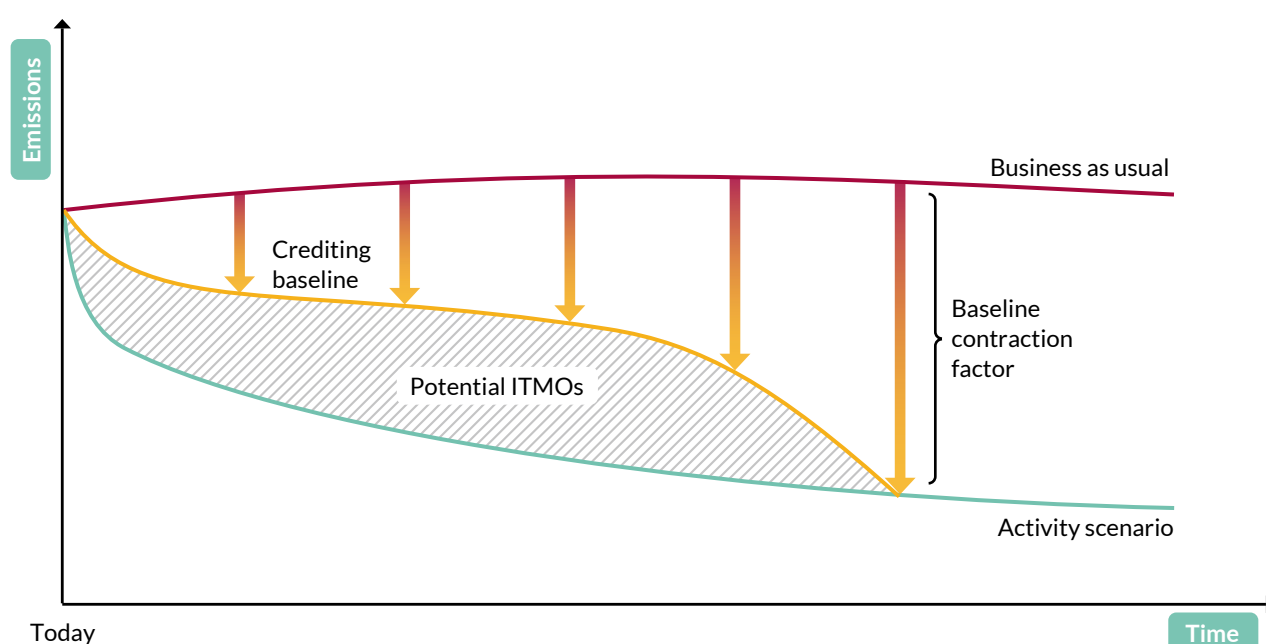
According to the Article 6 rulebook, methodologies for setting crediting baselines must be conservative, below the BAU scenario.²⁸ The baselines must be compatible with the host party's NDC and with long-term GHG emissions strategies and Paris Agreement goals, and must encourage ambition over time, be real, transparent, and credible. In addition to keeping more mitigation outcomes for the host party, setting crediting baselines below BAU (and even below the NDC scenario) promotes the adoption of lower-emission technologies and increases ambition over the long run.

According to Article 6.4 rules,²⁹ three different performance-based approaches can be used to set crediting baselines provided they fulfil the above-mentioned requirements:

- Applying a best available technologies approach
- Applying an ambitious benchmark approach considering best performing comparable activities providing similar outputs
- Applying an approach based on existing actual or historical emissions adjusted downwards

A particular case of the third approach is the baseline contraction factor (BCF), which has been discussed at the UNFCCC Article 6.4 supervisory body meetings.³⁰ This concept has been developed and presented under different names over recent years;³¹ in simple terms it consists in applying a BCF to the BAU to produce a crediting baseline that declines over time in alignment with a host party's long-term net-zero emissions targets. The application of a BCF is also possible at the level of activities (Figure 15). The resulting crediting baselines for these activities should then be aligned with the host party's long-term net-zero targets. The BCF coefficient, and the resulting baseline, are updated over time. An advantage of this approach is its capacity to reflect context-specific circumstances over time, which makes it especially suitable to comply with the Article 6 rulebook requirements for baselines. A challenge is the smaller amount of ITMOs traded, as most mitigation outcomes will remain in the host party, to comply with the NDC target. Investors and buyers, on the other hand, are assured that the credits generated have high environmental integrity and make a contribution to the goals of the Paris Agreement.

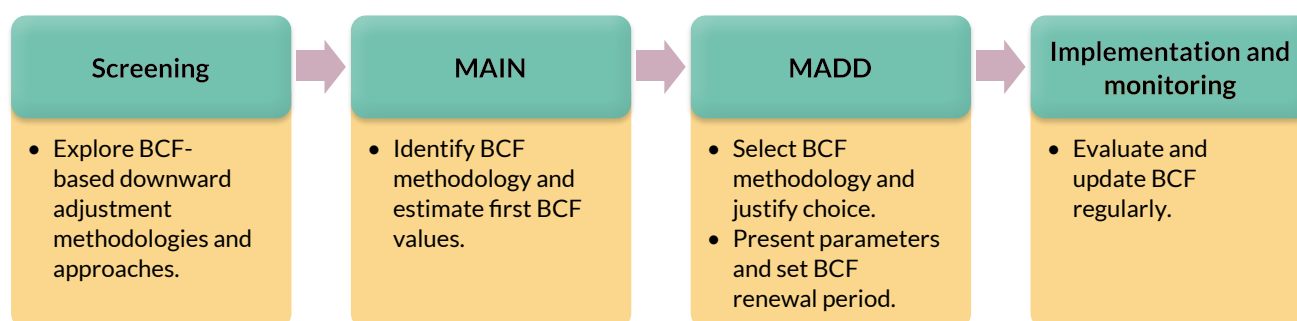
Figure 15. Activity crediting baseline using a baseline contraction factor



For estimating the BCF values, many different factors can be considered, such as NDC and long-term emissions goals, expected GDP growth, energy demand trends, best available technologies, and other inputs from local stakeholders. The frequency of renewing the BCF values also plays a role. The five-year NDC cycle could be an option. All factors will in turn determine the extent to which the crediting baseline fulfills the requirements established in the Article 6 rulebook, including transformational change pathways to net-zero and climate action ambition raising, aligned with the other Article 6 key requirements.

Within the activity cycle, the BCF approach to setting the crediting baseline would be applied with different degrees of detail at different stages (Figure 16).

Figure 16. Application of the baseline contraction factor



At the screening phase, Article 6 activities are assessed against Article 6 eligibility criteria and other requirements, such as those included in bilateral agreements. The activity participant should use conservative (below BAU) baselines that take national policies into account. Activity participants may apply the BCF approach to implement a downward adjustment of the crediting baseline in line with national long-term pathways to net-zero emissions.

At the MAIN phase, concrete information on the activity needs to be provided, in order to promote interest from potential buyers. With respect to baselines, the activity participant will identify a particular baseline methodology and apply it, using a first estimation of the potential emissions reductions expected from the activity, based on available data. Because many baseline methodologies from the CDM and independent crediting mechanisms are currently being revised to reflect the new Article 6 requirements, the BCF can provide an important tool.

At the MADD phase, a full description of the mitigation activity is required, including concrete details on the below-BAU crediting baseline methodology. This could include an explanation on the choice of a BCF approach to the methodology, parameters and renewal period, to enable a more precise calculation of the mitigation potential.

Finally, the MADD also contains information on the monitoring methodology and so would include a plan for updating the BCF regularly during the implementation phase.

4.2 Promote sustainable development at the activity level

Activity proponents can choose to implement one or more of the following actions:

- At the screening phase, assess the potential SD impacts using available SD tools, including safeguard standards to identify potential negative impacts
- At the MAIN phase, use UN SDGs and activity-specific indicators to describe the SD impacts of the activity
- At the MADD phase, use available SD tools to do an ex-ante assessment of the expected SD impacts of the activity and to explore how the activity can be designed to maximize positive impacts and minimize negative impacts
- At the implementation and monitoring phase, use available tools and templates to monitor SD impacts and risks of negative impacts

The Article 6 rulebook requires cooperative approaches to be consistent with, and contribute to, the host party's SD objectives.³² Furthermore, the Article 6.4 supervisory body will develop a tool for the assessment of SD impacts of mitigations actions. In March 2023, the supervisory body decided that using the SD tool will be mandatory for activity participants. Use of the tool will be integrated with the activity cycle and activity standards, including stakeholder consultations with local communities, validation and verification. The tool covers safeguards for do-no-harm and assessment of negative as well as positive SD impacts, to demonstrate how an activity contributes to a host party's SD priorities.³³

At the activity level, GHG mitigation and promoting SD go hand-in-hand to leverage climate action ambition and contribute to a just transition at all levels of society. An example of how the design of mitigation actions can increase ambition in the transport sector is described in Box 2 below. The example shows that, by taking a “development first” approach, the integration of SD elements in the design of ambitious mitigation activities can promote transformational change.

SD-related provisions are integrated into the activity cycle (Figure 17; see also chapter 2 in Guide 5: Screening and developing Article 6 activities).

Figure 17. Promoting sustainable development at the activity level



At the screening phase, activity participants explore which SD tool and safeguards standards are applicable to the type of mitigation action. For Article 6.4 activities, the SD tool is mandatory. For Article 6.2 activities, other SD tools and safeguards approaches can be applied, such as those developed by independent standards, by host parties, and/or acquiring parties.³⁴ Regardless of which tool or approach is used, the activity proponent will demonstrate how the activity is consistent with, and contributes to, the host party's SD objectives.

At the MAIN phase, activity participants identify the risks of negative impacts and the concrete SD impacts of the activity. They select indicators to assess the impacts and decide how to monitor risks in consultation with stakeholders.

At the MADD phase, activity proponents do an ex-ante assessment of the expected SD impacts of the mitigation activity and make a plan to monitor both the positive and negative effects. They also report on them in a format that enables validation and verification, which is mandatory under the Article 6.4 PACM.

4.3 Implement transformational activities for system change

Activity proponents can choose to implement one or more of the following actions:

- At the screening phase, focus on technologies and practices with the potential to produce a rapid shift towards zero-carbon systems
- At the MAIN phase, take into account low-carbon technologies and practices when estimating the parameters for the baseline methodologies; i.e., set the baselines so that they require transformational technologies
- At the MADD phase, apply a transformational change methodology and/or tool for ex-ante assessment to promote the activity leading to transformational impacts
- At the implementation and monitoring phase, use the transformational change assessment methodology and/or tool to track if the activity delivers the transformational impacts expected

Raising ambition of climate actions to achieve NDC and LT-LEDs targets that are Paris-aligned goes beyond site-specific emissions reductions and includes transformational system changes for a just transition at all levels of society (Figure 4). Fundamental changes of societies that

disrupt high-carbon practices and promote zero carbon and sustainable lifestyles can set economies on decarbonization pathways, provided that host parties adopt ambitious NDC targets aligned with the Paris Agreement long-term goals.

This interpretation of ambition goes hand-in-hand with the Initiative for Climate Action Transparency definition of transformational change (sub-chapter 1.2). Emissions reductions at scale and sustained over time are interlinked with SD and can be driven by Article 6 activities that promote processes of change that are deep, systemic and long-lasting. An example of a national policy and measures to promote e-bikes and increase public transport is described in Box 2.

Box 2. Developing and promoting urban cycling in the municipalities of Curridabat and Montes de Oca in San José

In 2018, Costa Rica presented a national decarbonization plan³⁵ to reach net-zero by 2050, including measures to reduce emissions in the transport sector, which accounts for around 44% of all GHG emissions in Costa Rica. The measures are focused mainly on fuel-switching, use of electric vehicles, and efficiency improvements.

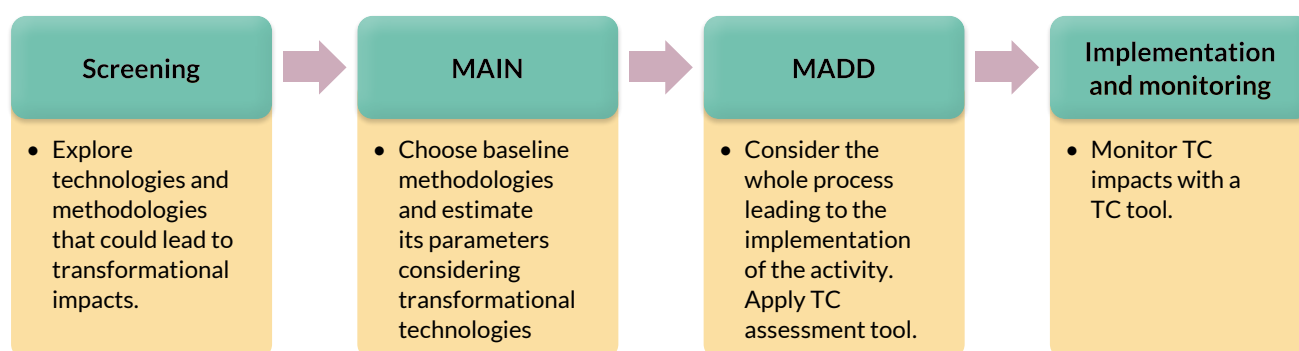
At the same time, other measures to reduce transport emissions are taken at different levels in the country. One of them is the plan to develop and promote urban cycling in Curridabat and Montes de Oca municipalities in the capital city of San José, as part of a larger plan to improve public transport. Constructing cycling infrastructure and introducing e-bikes will incentivize cycling and make streets safer for means of transport other than cars. The measures also address other urban problems, such as traffic congestion and air quality.

An assessment of the transformational characteristics of the initiative uses the Initiative for Climate Action Transparency transformational change methodology.³⁶ The results of this assessment demonstrated that the initiative was transformational, for the following reasons:

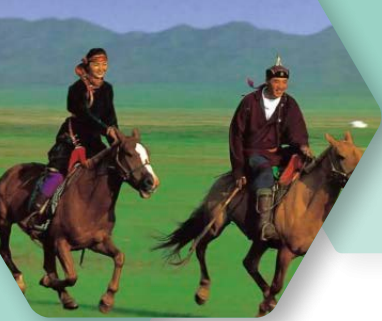
- The activity has the potential to be upscaled and replicated in other locations. The mitigation outcome is not the driving factor, as it is small-scale, rather it is a co-benefit of low-carbon, sustainable transport
- There are large SD benefits, such as for health, air quality, lower transport costs, and greening the city
- Innovative technologies and city planning are introduced, aiming at a shift to low-carbon modes of transport and with the potential of being adopted and scaled-up
- A wide range of civil society actors are involved, asking for a change in collaboration with the local governments designing the intervention and private companies building the new low-carbon infrastructure
- The initiative requires central government to approve plans and adapt current urban transport policies
- The municipal initiatives have a catalytic effect on how people think about transportation and may contribute to mitigation ambition raising in the transport sector at national level.

In the Article 6 activity cycle, information on mitigation potential and SD impacts is valuable at the screening phase and further elaborated in the MAIN inputs. Information about transformational change impacts can be provided during development of the MADD. At that stage, the activity participants can consider changes in use of technology, norms, incentives, or stakeholders' engagement as well as GHG and SDG outcomes. Many of these aspects of transformational change drivers, barriers and outcomes are related to design elements such as baselines, stakeholder engagement and safeguards against negative impacts that promote public acceptance and mitigate reputational risks. Transformational change is thus a crosscutting topic, and the actions to promote transformational change and ambition span the entire activity cycle (Figure 18).

Figure 18. Promoting transformational change across the activity cycle



Chapter 5



Checklist of options and actions

This guide describes how Article 6 carbon market activities can close the action and ambition gaps for both NDCs and LT-LEDS to reach Paris-aligned goals of net-zero emissions and SD by 2050. The guide offers a series of options and actions for host parties, acquiring parties and activity participants that could increase ambition and promote transformational change. This final chapter provides a checklist of important considerations that can help stakeholders to increase ambition and promote transformational change using Article 6 of the Paris Agreement.

Table 1. Summary of options and actions to increase ambition and promote transformational change

Options and actions for host parties	Checklist
Develop LT-LEDS supporting NDC ambition cycles	
<i>Has the host party developed LT-LEDS and quantifiable NDC targets?</i>	
Develop LT-LEDS and include the role of carbon markets in them to catalyze mitigation action and NDC ambition raising	☐
Develop quantifiable NDC targets and provide information on the reference indicators to support baseline development for Article 6 activities	☐
Facilitate investments in priority technologies	
<i>Has the host party identified priority technologies for investment?</i>	
Target technologies that are emerging, high-cost, high-abatement, and low-market penetration to implement via international cooperation	☐
Restrict eligibility of certain low-cost, mature technologies or types of action; i.e., creating negative lists to signal and provide direction to carbon market implementation in the host party	☐
Implement governance frameworks that promote sustainable development and transformational change	
<i>Does the host party's governance framework explicitly promote SD and transformational change?</i>	
Incorporate SD impact and monitoring indicators into the Article 6 authorization criteria assessment process. This may also trigger a review of national legislation (e.g., environmental impact assessment, strategic impact assessment) to include further safeguards and best practices	☐

Incorporate concrete indicators of transformational change as part of the Article 6 authorization criteria, in order to initiate a shift towards more policy and program-oriented approaches (with economy-wide effects) and going beyond stand-alone projects	☐
Adopt the use of social and environmental safeguards frameworks (e.g. by the Integrity Council for the Voluntary Carbon Market) to avoid or mitigate unintended negative impacts on local communities, indigenous people and host parties.	☐
Strengthen transparency and accountability via MRV <i>Is the host party aligned to Article 6 and Article 13 requirements for MRV, and transparency?</i>	
Enhance monitoring and reporting, including through digital means for MRV, of high data quality, i.e., higher tier applied in the inventory for sectors with Article 6 activities, quantifiable information, clarity on the assumptions and methodologies, etc. (see chapter 6 of Guide 3 for more information on MRV requirements)	☐
Enhance tracking, reporting, and reviewing in the biennial transparency reports to convey how mitigation actions and outcomes promote transformational change and NDC ambition raising. This implies that the tracking, reporting, and reviewing of actions go beyond what host parties must comply with, and that these actions are properly justified as to how they support ambition raising.	☐
Options and actions for acquiring parties	Checklist
Cancel ITMOs to raise overall mitigation in global emissions <i>Has the acquiring party decided to cancel ITMOs to raise overall mitigation in global emissions?</i>	
Acquiring parties can choose to cancel more than the mandatory 2% of ITMOs authorized to raise ambition for OMGE	☐
Use ITMOs to increase the ambition of NDC and LT-LEDS targets <i>Has the acquiring party used ITMOs to increase the ambition of NDC and LT-LEDS targets?</i>	
Acquire and then cancel ITMOs beyond the level required for overall mitigation in global emissions, not using them towards any party's NDC targets	☐
Develop an LT-LEDS towards a net-zero target and use ITMOs to achieve the target at a lower cost and earlier than otherwise possible	☐
Use cost savings from trading to over-achieve ambitious national NDC targets	☐
When permitted by the regulation, allow entities with an emission reduction obligation under a carbon pricing scheme to offset their emissions through use of ITMOs and use the cost savings to raise the acquiring party NDC ambition	☐
Design a government procurement program for purchasing ITMOs that promotes transformational change characteristics of mitigation activities	☐

Buy ITMOs to support non-state climate-neutral and net-zero targets <i>Has the non-state actor acquired ITMOs to pursue climate-neutral and/or net-zero targets?</i>	
• Pledge net-zero and climate-neutral targets that contribute to transformational change and climate action ambition raising	☐
• Follow the mitigation hierarchy (avoid, minimize, offset) to prioritize urgent and deep reductions with own means	☐
• Purchase carbon credits that are authorized as ITMOs to compensate for residual emissions towards net-zero and climate-neutral targets	☐
• Purchase carbon credits that are not authorized to contribute to host parties' achievement of conditional NDC targets and ambition raising over time	☐
Options and actions for activity participants	Checklist
Apply a baseline contraction factor <i>Has the activity participant implemented a BCF-based downward adjustment baseline methodology?</i>	
• At the screening phase, explore potential BCF-based downward adjustment methodologies and approaches (e.g., top-down, bottom-up) that could produce baselines below BAU and reflect relevant national climate change methodologies and measures	☐
• At the MAIN phase, identify a suitable BCF-based downward adjustment methodology and estimate first BCF values with the available data	☐
• At the MADD phase, present and justify the approach, procedure, parameters and the data chosen for the calculation of the BCF as well as the renewal period selected	☐
• At the implementation and monitoring phase, evaluate the BCF and update it to adapt to the changing context at the end of every renewal period	☐
Promote SD at the activity level <i>Has the activity participant developed and implemented the activity considering SD and GHG mitigation outcomes in an integrated way?</i>	
• At the screening phase, assess the potential SD impacts using available SD tools, including safeguard standards to identify potential negative impacts	☐
• At the MAIN phase, use UN SDGs and activity-specific indicators to describe the SD impacts of the activity	☐
• At the MADD phase, use available SD tools to do an ex-ante assessment of the expected SD impacts of the activity level and explore how the activity can be designed to maximize positive impacts and minimize negative impacts	☐
• At the implementation and monitoring phase, use available tools and templates to monitor SD impacts and risks of negative impacts	☐

Implement transformational activities for system change

Has the activity participant considered transformational change aspects and impacts during the development and implementation of the activity?

• At the screening phase, focus on technologies and practices with the potential to produce a rapid shift towards zero-carbon systems	☐
• At the MAIN phase, take into account low-carbon technologies and practices when estimating the parameters for the baseline methodologies; i.e., set the baselines so that they require transformational technologies	☐
• At the MADD phase, apply a transformational change methodology and/or tool for ex-ante assessment to promote the activity leading to transformational impacts	☐
• At the implementation and monitoring phase, use the transformational change assessment methodology and/or tool to track if the activity delivers the transformational impacts expected	☐

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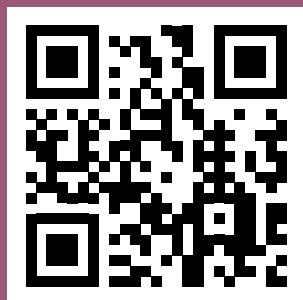
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