The Federal Government

IKI INTERNATIONAL CLIMATE INITIATIVE

Regulation on the Handling of Mitigation Credits in the IKI

The German Federal Government, through the IKI, strives at the global level for high integrity of carbon markets and for aligning them with the goals of the Paris Agreement. The German Government's position is that, in the use of international carbon markets, the interaction of market actors must be oriented towards the Paris Agreement goals so that markets contribute to a global increase in ambition and advance the necessary transformation towards net greenhouse gas (GHG) neutrality. For this, qualitative requirements must be met on both the supply and demand side of the market.

As part of the IKI, the German Government supports the further development and piloting of market-based instruments under Article 6 of the Paris Agreement. This includes, in particular, activities to introduce and strengthen GHG pricing instruments and to promote the integrity of carbon market use within the framework set by Article 6. The German Government aims to have all voluntary carbon market activities established under Article 6.4 (cf. German Government position on the role of the voluntary carbon market).

IKI funds are intended to contribute to promoting quality and transparency in the carbon market, leveraging private capital to scale up IKI projects, and ensuring the financing of mitigation actions beyond the end of the project. A priority for the IKI is to integrate measures and methodologies into the future NDCs of partner countries.

To ensure a clear separation between **ODA-eligible climate finance and compliance markets for mitigation credits**[1], the following requirements must be met:

- IKI-funded projects may aim to **develop conceptual preparations** (methodology development, project design, and feasibility studies) and **build capacities for mitigation activities under Article 6** – and primarily under Article 6.4 – until carbon market projects reach financial close. However, the **technical implementation** of mitigation measures that lead to internationally transferable and tradable mitigation outcomes (ITMOs) or removal certificates must not be financed with IKI funds, but must be financed independently of IKI funding using other sources. Such technical implementation may take place simultaneously with or after the IKI project. Ensuring hereby a clear separation from IKI funding, it may be possible to generate ITMOs.
- **Seed funding**[2] for Article 6 pilot projects (i.e. technical implementation) is possible under the condition that any mitigation credits generated with IKI funds must either a) be **cancelled/retired** (proof of ITMO cancellation required), or b) **remain in the host country** and be credited towards the host country's NDC ("Mitigation Contribution Units – MCU"), and thus contributing to the NDC implementation of that country. However, both - ITMO cancellation or MCUs – require activity-specific agreements with the partner country.

[1] This certifies a carbon removal or emission reduction (converted into the unit CO2 equivalent) compared with a set baseline.

[2] E.g., the introduction of costly or high-quality mitigation technologies, such as green cooling or technical carbon sinks, which lead to emission reductions and the generation of mitigation credits.

Mitigation projects in the voluntary carbon market

- The German Federal Government strives to have all international market activities of the voluntary carbon market (VCM) registered under Article 6.4 (UN international registry) to ensure transparency and quality in the global carbon market and drive transformation in the host countries. Climate mitigation measures through the VCM may therefore only be funded with IKI funds if they are implemented under the Article 6.4 crediting mechanism of the Paris Agreement (PACM).
- Emission reductions achieved through IKI funds **must not generate mitigation credits on the voluntary carbon market that are internationally transferable and tradable** and that have been authorised by the host country for compliance purposes (e.g. NDC or CORSIA).
- Funding for mitigation credits under a purely national certification system (not internationally transferable or tradable) of the respective host country where the emission reductions occur is possible and desirable to raise ambition beyond the NDC (see above).
- Article 6.4 certificates representing a voluntary contribution to the achievement of the host country's NDC (MCUs) should be used to mobilise private capital in addition to IKI financing.

Mitigation projects in the area of technical and natural carbon sinks

For quality requirements of credits in the forestry and land use sector as well as for technical sinks funded with IKI funds, the **removal standard under Article 6.4** is mandatory. For financing climate action projects in agriculture, forestry, or land use, the sustainability requirements of the IKI, including social (benefit-sharing), and the relevant international standards such as the Cancún Safeguards and reporting systems must also be met.