



Handling of mitigation credits in the IKI

The German Federal Government, through the International Climate Initiative (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 Article 6.4 Paris Agreement Crediting Mechanism (PACM) serves as a quality benchmark for cooperation under Article 6.2 as well as for the voluntary carbon market (VCM) (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. Germany follows a capacity-building approach ranging from the development of policy frameworks to enabling transactions. Key areas of IKI support include the development of national Article 6 strategies to strengthen NDC implementation and increase ambition, as well as technical support, including the development of methodologies, strengthening of MRV systems, and improvement of governance structures.

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

Preparatory measures

- IKI-funded projects may include **conceptual preparations**² and **capacity building** for mitigation activities under Article 6 – primarily under Article 6.4 – until carbon market projects reach financial close. However, the **technical implementation** of climate mitigation measures leading to internationally transferable and tradable mitigation outcomes (Internationally Transferred Mitigation Outcomes – ITMOs) must not be financed with IKI funds, but instead through external financing sources independent of IKI funding. The technical implementation may take place during the IKI project period or after the project has ended. This clear separation between preparatory measures and implementation ensures that internationally transferable mitigation outcomes are generated independently of IKI funding.

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

² For example, methodology development, project design such as Mitigation Activity Design Documents (MADDs) and Mitigation Activity Idea Notes (MAINs), feasibility studies, and benefit-sharing mechanisms.

Seed funding

- **Seed funding**³ for Article 6 pilot projects (i.e. technical implementation) is possible under the condition that mitigation credits generated through IKI funding are credited towards the host country's NDC as Mitigation Contribution Units (MCUs), thereby **contributing to the implementation of the NDC**.

Blended finance and revolving instruments

- This also applies to **blended finance approaches** in which IKI funds are combined with private finance (e.g. concessional loans, equity participation, or risk-sharing instruments such as first-loss models). In such cases, the share of mitigation credits corresponding to the IKI share of the total financing of the activity must be accounted towards the host country's NDC as MCUs.
- In the case of **revolving financial instruments**, the following applies: if emission reductions are achieved through IKI investment funds, resulting mitigation credits may be internationally transferred as ITMOs. This is conditional upon revenues from the sale of such credits flowing back into the fund and being fully reinvested into new mitigation projects (**upscaling**). For IKI funds to qualify as international climate finance, the emission reductions generated by the end of the IKI project and attributable to the original IKI funding must be accounted toward the host country's NDC as MCUs.

Climate mitigation projects in the voluntary carbon market

- The German Federal Government strives to have all international market activities of the VCM, wherever possible, registered under Article 6.4 PACM (international UN registry) to ensure transparency and quality in the global carbon market and drive transformation in the implementing countries. Carbon projects under the VCM may therefore only receive IKI funding if they are implemented **qualitatively equivalent to the requirements of the PACM (quality benchmark)**. In this context, the PACM implementation framework serves as the reference framework, particularly regarding standards, methodologies, tools, and verification.
- Except for the above-mentioned exceptions, **emission reductions generated through IKI funding must generally not generate internationally transferable and tradable mitigation credits (ITMOs) on the VCM**.
- Funding for mitigation measures, whose mitigation credits are transferred exclusively to national pricing systems (voluntary or mandatory) of the host country and that are not internationally transferable, is possible and desirable in order to support ambition raising beyond the country's NDC.
- Article 6.4 certificates representing a voluntary contribution to the achievement of the host country's NDC (MCUs) should be used, in addition to IKI financing, to mobilise private capital.

³ For example, this includes the introduction of costly or high-quality mitigation technologies, such as low-emission cooling technologies or technical removals, including Bioenergy with Carbon Capture and Storage (BECCS), which result in emission reductions and the generation of mitigation credits.

Climate mitigation projects including nature-based and technical carbon removals

- For the quality requirements of removal credits in the forestry and land-use sector, as well as for technical removals supported through IKI funding, the Article 6.4 Removal Standard is mandatory. Emission avoidance activities are currently not permitted under Article 6.4 (based on a CMA decision) and are therefore excluded from funding.
- Projects in the areas of agriculture, forestry, or land use must also comply with the **IKI environmental and social safeguards**. This includes requirements relating to sustainability and equitable social benefit sharing. In addition, relevant international standards, such as the Cancún Safeguards and corresponding reporting systems, must be applied. Furthermore, the Article 6.4 Sustainability Tool should serve as guidance for assessing environmental and social impacts.
- Projects should generate the highest possible benefits for biodiversity. Activities based on large-scale monocultures that are expected to have negative impacts on biodiversity, soil functions, water resources, or local communities are not eligible for funding. This applies in particular where non-native species are used or where sufficient ecological suitability cannot be demonstrated.