LONG-TERM ARTICLE 6 PARTICIPATION
STRATEGIES FOR NDC AND SDG FINANCE

ARTICLE 6
Capacity Building

CONTENT

SUMMARY

The Paris Agreement promotes voluntary cooperation in the implementation of Parties' Nationally Determined Contribution (NDC) "to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity". Multiple options for cooperation to mobilize significant resources towards achieving these objectives are introduced by Article 6 (paragraphs 1 and 2). Article 6 cooperation should support short-term climate action and contribute to attaining long-term sustainable development goals of participating countries, such as those stated in long-term low-emission development strategies (LT-LEDS), development priorities as reflected in the Sustainable Development Goals (SDGs) of countries, and Net Zero Emissions (NZE) targets.

To this end, Article 6.2 guidance covers both short-term contributions and long-term impacts. However, the guidance lacks specificity on how the long-term aspects link to NDC implementation and Article 6 participation. Such links are important for accounting for the long-term impacts of mitigation activities in decision-making processes to advance sustainable development globally.

This note aims at strengthening countries' ability to utilize the international carbon market, specifically Article 6, for achieving long-term climate and development targets. The note:

- Discusses the existing guidance for participation in Article 6.2. This guidance includes elements relating to both the short-term and long-term perspectives.
- Addresses how the long-term impacts of international carbon market engagement can be integrated into the criteria for determining eligible mitigation activities.
- Discusses how eligibility criteria can address sustainable development impacts beyond SDG 13, i.e., beyond climate change mitigation outcomes (MOs).

In brief, countries hosting Article 6 mitigation activities can enhance the positive impact of participation in cooperative approaches in three main areas:

A. Integrate the long-term view into the strategy for Article 6 participation. This can be done through:
   - » Using LT-LEDS goals, NZE targets, and SDG priorities to guide Article 6 participation (e.g. prioritization of technology and identification of financing needs) - not only considering short-term NDC conditions.
   - » Ensuring internationally transferred mitigation outcomes (ITMOs) come from activities within the NDC-covered sectors.
   - » Establishing a percentage of ITMOs to contribute to domestic mitigation targets.
   - » Considering the use of Voluntary Carbon Markets (VCM) for unconditional NDC achievement without corresponding adjustments but ensuring transparency about claims (i.e., ensuring carbon credits being claimed are contributing to the host country's NDC). This could be strategic for countries striving towards higher ambition over time to reach a net zero scenario.

B. Ensure the sustainability of mitigation activities beyond the crediting period. This can be achieved by:
   - » Ensuring mitigation projects that will result in the transfer of ITMOs are focused on activities that extend beyond the crediting period so that a transferring country can account for those emission reductions against its long-term targets.
   - » Continuing a cooperation agreement after the crediting period has ended into a next phase that does not include ITMOs but other forms of collaboration between the Parties.

C. Mitigation activities should contribute to SDGs beyond climate change. This can be done through:
   - » Ensuring that sustainable development is covered in bilateral (or multilateral) agreements under Article 6.2.
   - » Integrating SDG targets with policy frameworks and using nationally established indicators.

The short-term and long-term perspectives of participating in Article 6 activities are positively linked insofar as a cooperative agreement does enable the transferring country to achieve the targets of its current NDC, therefore allowing it to develop a subsequent NDC that is progressive (as required by Article 4 of the Paris Agreement). For instance, besides the technical measures for ensuring that mitigation activities genuinely contribute to emission reductions serving to achieve the temperature goal of the Paris Agreement, a cooperative agreement and Article 6 activity design may include provisions to ensu-

re long-term contribution to the transferring country's mitigation strategies and targets. Provisions may relate to the financial sustainability of the mitigation project (including measurement, reporting, and verification (MRV) process) after the cooperative approach support ends, and requirements focused on contributing to the Sustainable Development Goals (SDGs) beyond climate change. This may help maximize social and ecosystem benefits and gain broader support from local populations.

1 INTRODUCTION

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, establishes 17 SDGs. The 2030 Agenda was adopted simultaneously with the Sendai Framework for Risk Reduction, the Addis Ababa Action Agenda, and the Paris Agreement. These agreements provide a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social, and environmental priorities, including SDG implementation and greenhouse gas emission targets. It serves as a guide for further actions by governments, international organizations, the business sector, civil society, and philanthropists.

Article 6 (paragraphs 1 and 2) of the Paris Agreement specifically refers to the need for cooperative approaches to promote sustainable development. Countries are at varying stages of developing Article 6 participation strategies and the relevant frameworks. In any case, Article 6 participation brings immediate financial benefits (such as support for carbon project implementation) while also facilitating carbon finance for the achievement of NZE and sustainable development targets in countries that have set them up.

Cooperation must not undermine the Paris Agreement but rather contribute to the required transformation, catalyze countries' transitions to low-emissions climate-resilient pathways, support the short- and long-term processes under the Paris Agreement, and proactively respond to evidence and opportunities to address needs in developing countries.[1] In addition, countries that participate in cooperative approaches must report on how the cooperative approach „is consistent with and contributes to the sustainable development objectives of the Party, noting national prerogatives".[2]

In the development of carbon markets strategies and frameworks, it is reasonable for countries to prioritize those Article 6 activities that are aligned with readily available international finance for support, lower implementation risk, and known business models. However, this prioritization should not jeopardize achieving the NDC targets through the export of carbon credits from „low-hanging fruits" that most likely are needed for achieving the NDC.

1 OECD (n.d.) What does Paris alignment mean for development co-operation?

2 Decision 2/CMA.3 - Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, Annex. Para-graph 22 (h)

2 ARTICLE 6.2 GUIDANCE FOR SHORT-TERM AND LONG-TERM CONTRIBUTION

Article 6.2 guidance provides support for discerning requirements for short- and long-term contributions to the mitigation strategies and targets of the country. The short-term perspective means assessing proposed mitigation activities and how these relate to the implementation of the NDC. For this purpose, there is specific guidance under Article 6.2, for example, for the development of baseline and monitoring methodologies, and to ensure that there is no net increase in global emissions within and between NDC implementation periods.

There is guidance also for the long-term impacts of carbon market engagement, including reporting requirements on how the cooperative approach contributes to achieving the long-term goals of the Paris Agreement and ensuring that the cooperative approach is „consistent with the sustainable development objectives of the Party, noting national prerogatives“.[3] Ultimately, Article 6 participation should promote a more ambitious subsequent NDC. Effective NDC implementation and use of Article 6 can contribute to higher ambition and thus to the achievement of the long-term goals of the Paris Agreement. However, this guidance is quite general and there are no specific provisions on how the long-term aspects link to NDC implementation and the participation in Article 6.

2.1 The Link between Article 6 and Ambition Raising

The Paris Agreement includes an ambition cycle or "ratcheting-up" mechanism which aims to increase ambition based on regular stocktakes of information from Parties and other stake-holders, submissions of progressive NDCs, and the latest science on climate change. The ambition cycle is defined in the Paris Agreement in three main parts:

- Regularly updated Nationally Determined Contributions (NDCs, Article 4).
- The Enhanced Transparency Framework (ETF, Article 13), which requires countries to report on their progress toward achieving their NDCs.
- The global stocktake (Article 14), which assesses the collective effort considering the latest scientific evidence, and a facilitative review and consultation process (Article 15).

International cooperation can have an important role in the achievement and implementation of NDCs, promoting higher mitigation ambition, and creating other benefits like ensuring the cost-effectiveness of climate actions. For instance, research shows that using carbon markets at a global scale can reduce the global cost of delivering the emission reductions identified in the current NDCs by approximately 30% by 2030, and more than 50% by 2050.[4] Higher ambition is an explicit objective of Article 6.[5]

Creating cost-effective approaches to climate change mitigation is one of the reasons countries support international cooperation through carbon markets. For some (purchasing countries), using Article 6 is a means to reduce their costs for compliance; for others (transferring countries), international cooperation through Article 6 is a means for attracting foreign finance or low-carbon technologies.

For a transferring country, the benefit of engaging in Article 6 is that the sharing of mitigation outcomes (not exporting all mitigation outcomes from an activity) will contribute to the achievement of its current NDC. As for the mitigation outcomes that will be exported and which cannot therefore be counted to the current NDC, emissions level will decrease, contributing to lower emissions and a lower emission baseline for the next NDC period. However, this requires that emission reductions are sustained over time.

The short-term and long-term perspectives are linked

3 Decision 2/CMA.3 - Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement.

4 Edmonds, Jae, Dirk Forrister, Leon Clarke, Stefano de Clara, and Clayton Munnings (2019) The Economic Potential of Article 6 of the Paris Agreement and Implementation Challenges. International Emissions Trading Association (IETA), University of Maryland, and Carbon Pricing Leadership Coalition. Washington, DC.

5 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.

insofar as achieving the current NDC is the first step that may provide for a country to develop a subsequent NDC that is progressive (as required by Article 4 of the Paris Agreement). The basic argument here is that positive experiences for the transferring country regarding the achievement of the current NDC, as well as seeing that mitigation activities undertaken under Article 6 in the current NDC period are reflected into the next NDC period, impact the process of updating the NDC. On the contrary, a transferring country that struggles to achieve its NDC due to misjudgments and less-informed decision-making when engaging in Article 6, may define a subsequent NDC that is less progressive.

As shown in Figure 1, several issues are essential for effectively using Article 6 in the implementation of the NDC (particularly for the host country): avoiding overselling, accepting the corresponding adjustment of transfers, and ensuring that activities are additional and permanent, methodologies are conservative and robust, mitigation outcomes and financial benefits are shared between the host country and the buyer, and that mitigation outcomes are captured by the greenhouse gas inventory.

Contribution to the long-term goals of the Paris Agreement, which is required by Article 6 guidance,[6] falls into two broad categories. First, there are technical measures for ensuring that mitigation activities contribute to real emission reductions serving to achieve the temperature goal of the Paris Agreement (as above, ensuring that activities are additional and that methodologies are conservative and robust). Second, there are provisions in cooperative approaches agreements and design features of Article 6 activities that a host country can propose to ensure a long-term contribution to national mitigation strategies and targets as well as to the long-term goals of the Paris Agreement. These relate to i) the continuation of the project after the cooperative approach support ends, including the financial sustainability of the activity and the monitoring, reporting, and verification process over time and, ii) requirements related to the need to contribute to SDGs beyond climate change.

Existing and emerging national Article 6 frameworks typically address those aspects related to NDC implementation to ensure that mitigation activities contribute to real emission reductions by emphasizing environmental integrity and selecting standards to be used for the generation of carbon credits. Countries establish Article 6 activity eligibility criteria that often result in negative and positive lists to ensure activities are additional to what is pledged through the unconditional targets of NDC measures. The identification of eligible sectors and mitigation activities is directly tied to several issues that can be covered by the concept of avoiding overselling, as shown in Figure 1 below. A major concern of transferring countries is the risk that participation in cooperative approaches could compromise achieving their NDCs due to "overselling" emission reductions.[7]

6 Decision 2/CMA.3 - Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement, Annex. Paragraph 4 points out „Each participating Party shall ensure that: f) Its participation contributes to the implementation of its NDC and long-term low-emission development strategy, if it has submitted one, and the long-term goals of the Paris Agreement.“

7 See for instance Spalding-Fecher, Randall, Anik Kohli, Juerg Fussler, Derik Broekhoff, and Lambert Schneider (2020) Practical strategies to avoid overselling.

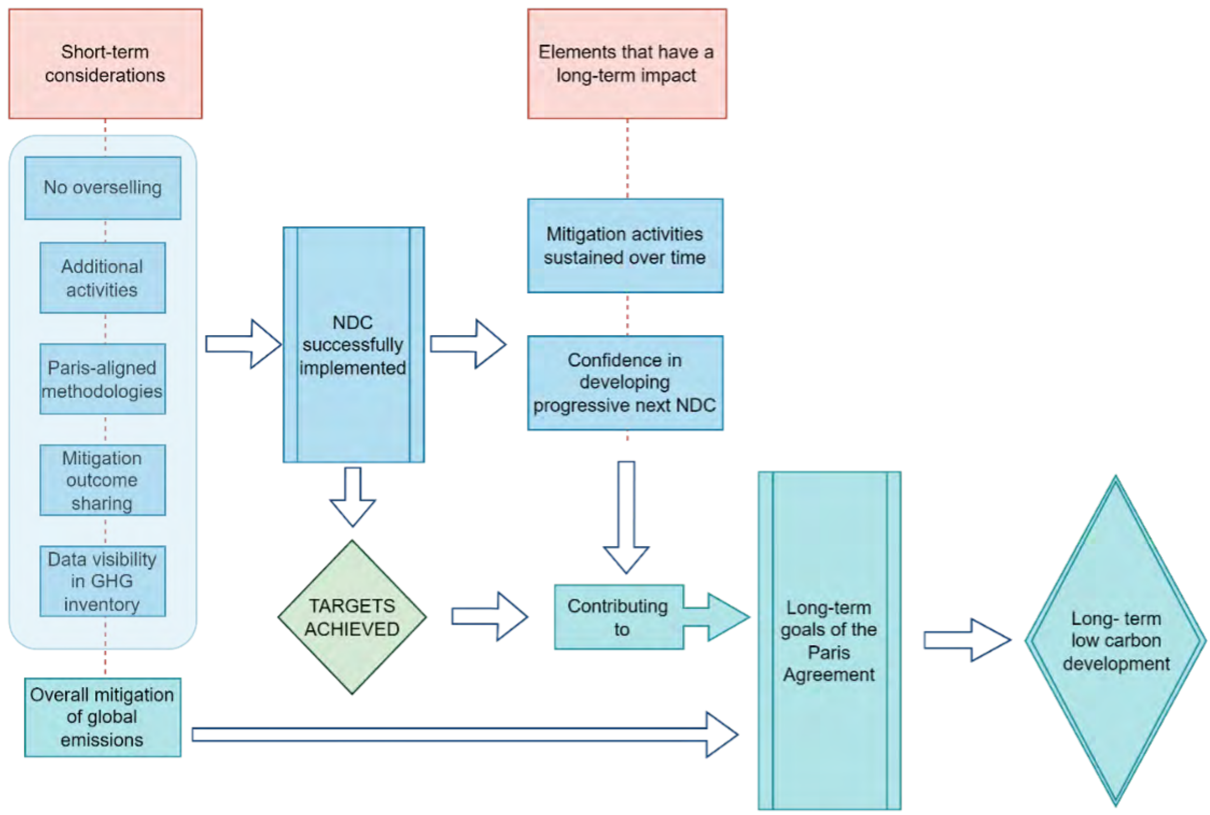

Figure 1. Key elements for ensuring contribution to Paris Agreement‘s long-term goals.

The overarching issue of avoiding overselling relate to the type, scale, and scope of activities that a host country may consider for ITMO transfer. As shown in Figure 1, addressing this issue is essential for NDC implementation since allowing transfers from the "wrong" sector or type of activity may lead to overselling and to additions to the emissions balance that are not reflected in the GHG inventory. As a result, the host country would need to compensate for the inconsistency.

2.2 Avoiding Overselling

Article 6 requires countries transferring mitigation outcomes to other countries to adjust their emissions levels to avoid double counting of mitigation outcomes. This is to avoid the mitigation outcomes in the transferring country being counted both by the transferring and the receiving country. Countries must apply "corresponding adjustments" to their emissions or other indicators used to track NDC progress. A major concern of prospective transferring countries under Article 6 is the risk that participation in cooperative approaches could compromise achieving their NDC, due to "overselling" mitigation outcomes.

The issue of overselling risks is complex because it involves several different types of risks, which will require different policy responses. There are four main kinds of overselling risks:[8]

- Selling low-cost mitigation outcomes, which could compromise NDC achievement if remaining mitigation opportunities turn out to be too expensive (selling "low-hanging fruit").
- Selling mitigation outcomes that do not represent real reductions (selling "fake fruit").
- Selling mitigation outcomes for which the reduction in emissions will not be captured by the transferring country's GHG inventory (selling "uncounted fruit"), which is elaborated in the next section.
- Selling mitigation outcomes generated outside the scope of the NDC – since the international rules require corresponding adjustments for these transfers ("trying to sell peaches from an apple farm").

Considering the amount of ITMOs to sell and from what sectors, while also ensuring that activities under Article 6.2 go beyond the unconditional NDC should be part of the overall approach for determining mitigation activity eligibility and the national strategy for Article 6 participation. A strategy can include:

- Ensuring that activities that the country intends to use for the NDC are not part of the mitigation activities used for Article 6 cooperation.
- Not transferring all of the mitigation outcomes that are generated from cooperative mitigation actions.
- Implementing pricing strategies that create a pool of funds to invest in additional mitigation if necessary.

2.3 NDC alignment of Article 6 methodologies

Countries must describe how environmental integrity is covered by each cooperative approach. A key point of this explanation is how baselines are set in a conservative way, considering existing policies. Calculation of baselines and projection of mitigation outcomes must rely on transparent data that must also be consistent with NDC reference year(s) and target(s). If the basline has not been set in a conservative way,[9] it could lead to an overestimation of mitigation outcomes. This could in turn undermine the global goal of avoiding net emissions increases, affect how ITMOs impact the host country's NDC achievement, and allow the issuing Party to transfer MOs that are not real.[10]

One challenge in this regard is that carbon crediting is often a result of mitigation relative to an estimation of higher future emissions levels. Hence, a counterfactual baseline needs to ensure that the acquiring country is receiving real ITMOs and safeguard the host country's NDC achievement. As for the last requirement, for instance, a transferring country can set ambitious baselines by stating mitigation levels that go beyond its commitments, as baselines need to reflect countries' NDCs.

A conservative approach guarantees that greater actual emission reductions are achieved rather than credited and accounted for by the corresponding adjustment. The uncredited mitigation automatically accrues to the host country and is subsequently counted towards its NDC (if reflected in the NDC emission balance).

8 Spalding-Fecher, Randall, Anik Kohli, Juerg Fussler, Derik Broekhoff, and Lambert Schneider (2020) Practical strategies to avoid overselling.

9 If a baseline is not conservatively set, it reflects mitigation activities that would have been undertaken anyway.

10 Michaelowa, Axel, Hanna-Mari Ahonen, and Aglaja Espelage (2021) Setting crediting baselines under Article 6 of the Paris Agreement. Discussion Paper. Perspectives GmbH.

2.4 Data Visibility

Under the Enhanced Transparency Framework (ETF) of the Paris Agreement, it is essential for Parties that the outcomes of mitigation actions are reflected in the indicators used to track progress toward achieving their greenhouse gas (GHG) reduction targets. Since GHG emissions are a key indicator, one issue is how accurately outcomes from aggregated mitigation actions are captured and become visible in national GHG inventories. Some mitigation activities, for instance, may not be visible in a country's GHG inventory if the method used to calculate the inventory is not granular enough. That is why the methods, data sources, and assumptions used to estimate GHG inventories should offer sufficient accuracy and granularity to pick up the emission reductions resulting from the mitigation actions.[11]

Acknowledging these aspects is relevant given that the methods for estimating the emissions for the national GHG inventory can be different from those used for carbon markets. One example is that for carbon market activities that include landfill gas flaring, the emissions are typically measured directly, while the approach for estimating emissions from landfills in national GHG inventories is typically based on the amount of waste deposited.

Corresponding adjustments are made to an emissions balance where tons of CO2e are added to the emissions from NDC-covered sectors. When tracking the progress towards NDC achievement, the adjusted emissions balance is compared to the NDC target. If the mitigation outcomes from an Article 6 activity cannot be observed in the national GHG inventories when accounting is made through the emissions balance, the country could face a shortfall in mitigation outcomes which may impact the possibility of achieving the NDC target. Inconsistencies between the quantification under carbon market mechanisms and national GHG inventories could have two effects:

- If the transferring country has an ambitious NDC (mitigation) target and the actual emissions reductions visible in the GHG inventory are smaller than the mitigation outcomes transferred internationally, the country would face a mitigation gap and would need to implement more mitigation actions to achieve its NDC.
- If the transferring country has a less ambitious NDC target and the emission reductions visible in the GHG inventory are smaller than the mitigation outcomes internationally transferred, the country would not face a mitigation gap, but global emissions may increase resulting from the transfer.

The risk of inconsistencies leading to data invisibility calls for an improvement of the GHG inventory over time and taking extra precautions when authorizing transfers of ITMOs from sectors where GHG inventory data is of bad quality or very generic.

Ensuring both data visibility and conservative baselines are methods to guarantee that overselling is avoided and that the country will benefit from engaging in Article 6 in the short term.

11 This section is based on ICAT (2023) Transparency for cooperative approaches under the Paris Agreement: A guide to navigating the links between Articles 6 and 13; Schneider, Lambert, Felix Weber, Jürg Füssler, Lorenz Moosmann, and Hannes Böttcher (2020) Visibility of carbon market approaches in greenhouse gas inventories Carbon Management. Vol. 13, No. 1, 279-293; Spalding-Fecher, Randall and Hilda Galt (2023) The Invisible Activity. Challenges for Clean Cooking Programs under Article 6. Carbon Mechanisms Review, Vol. 11, No. 2, Summer 2023.

3 LONG-TERM CONTRIBUTION OF ARTICLE 6 PARTICIPATION

For the long-term perspective, there is hardly any guidance on how to develop, implement and finance Article 6 activities. As introduced above, there are cooperative approach requirements and Article 6 design features that relate to this long-term contribution.

3.1 Integrate the long-term view into the strategy for participation

Use the long-term strategy and development priorities as the reference

Consider beyond the short-term NDC achievement conditions, using the country's LT-LEDS, NZE targets, and SDG priorities to guide Article 6 participation. If this is done, stakeholders as well as ITMOs buyers will know the preferences of the country in terms of technology and mitigation activity types, and they will understand the role of Article 6 in implementing the long-term strategy. The LT-LEDS, NZE, and SDGs should be used to identify technology and financing needs over time, which will make it possible to also identify gaps and explore the co-benefits from mitigation actions as part of prioritizing the country's strategy to reach net-zero emissions.

Align cooperative approaches support to sectors within the NDC

The emissions balance is established based on the sources of emissions that are covered by the NDC. Subsequently, if ITMOs that result from mitigation activities outside the NDC are transferred, additional emission reductions have to be made within the NDC-covered sectors, otherwise the emissions balance will receive additions of tons that are not matched by emission reductions that show in the GHG inventory for the NDC covered sectors (see section data visibility above).[12]

Establish a percentage of ITMOs to contribute to domestic mitigation

The strategy for participation could include the need for cooperative approaches to accept the contribution of any ITMO transaction to domestic target achievement. This will account towards the NDC achievement and the long-term goals. Sharing mitigation outcomes is a key element in the negotiation process between the countries since the price may be determined based on the opportunity cost and the benefits the mitigation activity delivers.

Consider the use of VCM for NDC achievement without corresponding adjustments but ensure transparency about claims

Countries striving towards higher ambition over time to reach a net zero scenario will have to significantly increase the ambition of future NDCs unconditional targets to get closer to the net zero pathway and it may require a significant amount of investment to achieve the NDC, perhaps beyond what it can commit to with domestically available resources. In this scenario, countries should be strategic in their participation in the VCM and should consider the use of the VCM to achieve the unconditional NDC. This translates into not requiring corresponding adjustments for VCM projects. Requiring authorization and corresponding adjustments for VCM activities where this is not required by the independent standard nor the buyer, may seem like an unduly restrictive policy, provided that the carbon credits are claimed as contributing to the host country's NDC achievement (contribution claims) and not claimed for offsetting purposes. VCM mitigation activities are already contributing to NDC achievement in many developing countries, for instance in Rwanda. These activities have been registered with standards such as VERRA and Gold Standard without consideration of Article 6.

This approach implies certain risks. On the one hand, a country may lose out on private sector finance flow through the VCM if it applies a strict NDC accounting approach requiring corresponding adjustments in all cases. On the other hand, it may lose the interest of countries that want to acquire ITMOs from a country that has a strict NDC accounting approach. It can be then suggested that the country's policy context clearly states that any emission reduction that does not include corresponding adjustments will be counted towards the NDC of the host country. With such a signal, the risk of making a

12 Decision 2/CMA.3, Annex, paragraph 14 requires that corresponding adjustments are made also for emission reductions and removals that take place outside the NDC.

specific type of claim will lie with the buyer who will be encouraged to make a „contribution claim".

3.2 Sustainability of the activity beyond the crediting period

To date, cooperative approaches financially support mitigation activities during a crediting period that is limited to the NDC period of five years. The transfer of mitigation outcomes during this period is subject to a corresponding adjustment, with emissions reduction contributing to the acquiring party's NDC achievement. There are key considerations to be integrated by a host country in the requirements for Article 6 cooperation and activities to ensure these are sustainable over time and that will keep abating emissions beyond the crediting period:

Focus on activities that extend beyond the NDC period

It is important to ensure the financial sustainability of the Article 6 activities that have resulted in the transfer of ITMOs beyond the NDC period. This means focusing on activities that can be paid off within the crediting period, such as those which require upfront equity investment, and activities that are not fully dependent on carbon finance for their operation. By ensuring the long-term sustainability of the activity, the host country can, beyond the time period in which corresponding adjustment is done, account for those emissions reductions against its long-term targets.

Long-term contribution integration into cooperative approaches

Cooperative approaches should be long-term. Hence, cooperative agreements could consider whether cooperation should continue after the crediting period has ended. This would mean that cooperation would continue into a next phase that replaces international transfers of mitigation outcomes with other forms of collaboration between the Parties, which may have to be defined after the cooperative agreement ends.
In this long-term cooperation perspective, corresponding adjustments should be limited to a crediting period that aligns with an NDC cycle. Collaborations that allow the host country to account for the emissions reductions of the activity after the NDC period should be promoted. This implies the requirement of monitoring and reporting of the mitigation activity in the long term. How MRV is performed after the bilateral agreement has ended may need to be discussed and defined.

It must be noted that there are no monitoring and reporting requirements in the Article 6.2 guidance that go beyond the duration of the cooperative approach. This could become an additional reporting burden since a country in the biennial transparency report (Decision 2/CMA.3) must "provide, for each cooperative approach… its duration, the expected mitigation for each year of its duration….". However, if the activity is included in the set of measures that are included in the long-term strategy, then there is a "hook" for continuous monitoring of the activity.

3.3 Contribute to SDGs beyond climate change

Article 6 activities with long-term SDG contribution take an integrated view across multiple outcomes; they maximize social and ecosystem benefits and are likely to enjoy broader support in local populations and thus be sustained much longer.[13] In the voluntary carbon market, high-quality projects with multiple co-benefits are typically paid a premium, which can become a practice for government or private sector buyers of ITMOs for compliance purposes.

Ensure sustainable development is covered in cooperative agreements under Article 6

Host countries should integrate the need for alignment with their development priorities, as reflected in their SDGs, when negotiating bilateral agreements and defining eligibility criteria for Article 6 activities.

For bilateral agreements, this can include specific references to national SDG targets and a confirmation by the purchasing country to support contribution to SDG target achievement. Bilateral agreements typically contain provisions for sustainable development. For instance,

13 Streck, Charlotte, Haseeb Bakhtary, Robert Müller, Prajal Prahan, and Daniela Rey Christen (n.d.) Shades of REDD+. Beyond carbon – evaluating the sustainable development co-benefits of carbon projects.

the Implementation Agreement between Switzerland and Thailand states the following:

"Mitigation Outcomes for which transfer, and use are authorized shall be generated from activities that comply with the following requirements, noting national prerogatives:

1. *Promote sustainable development;*
2. *Apply appropriate measures to minimize and, where possible, avoid any negative environmental, economic, and social impacts including on, where relevant, air quality, biodiversity, social inequality, and the discrimination of population groups based on gender, ethnicity, or age;*
3. *Respect applicable national and international environmental regulations; and*
4. *Respect the human rights obligations applicable to the Party under the jurisdiction of which the Mitigation Outcomes are generated."*[14]

Integrate SDG targets with policy framework and use nationally established indicators

For eligibility criteria, the long-term perspective and SDG alignment should be incorporated into Article 6 policy framework when defining positive lists, and into any catalogue of criteria or screening tool countries use to assess Article 6 potential activities (at the Project Idea Note (PIN) and Mitigation Activity Design Document (MADD) submission stages). Also, it is important to provide clarifications on what is expected by the mitigation activity proponent to include in terms of contributions (including monitoring and reporting) to national SDG targets.

Regarding monitoring and reporting of SDG progress, there are several tools for assessing sustainable development impacts and monitoring quantifiable co-benefits. However, these are not always tied to the sustainable development targets and indicators of a specific country. It is relevant that host countries, when they agree to use a standard under a cooperative approach, and when they set criteria for approval and authorization of ITMO projects, include key indicators for national SDG targets as part of the Article 6 framework and relevant processes. This is a requirement, for instance, in the Gold Standard approach to developing project documentation.

If mitigation activities include monitoring of SDG target indicators, this can also be used to track the finance flow for specific SDG targets. However, there are also challenges in estimating such flows. Current research on integrating sustainability criteria or co-benefits into sustainable investing shows that:[15]

- While it is simple to calculate the cost of projects, the co-benefits are much harder to measure or estimate because these benefits are often intangible or non-monetary (such as health co-benefits).
- Standards to measure these bottom-up or distributed co-benefits are undefined and inconsistent.
- There is a lack of globally comprehensive reporting and assessments for the different co-benefits that map onto the different SDGs, due to inadequate co-benefit data disclosure standards and performance metrics.

Sustainable development impacts should be long-term. Monitoring activities under cooperative approaches is important, and, to monitor efficiently, the SDG target indicators need to be defined as part of the mitigation activity design (and thus assessed by the host country before approving the activity).

14 Swiss Confederation and Kingdom of Thailand (2022) Implementing Agreement to the Paris Agreement between the Swiss Confed-eration and the Knigdom of Thailand.

15 Lou, Jiehong, Nathan Hultman, Anand Patwardhan, and Yueming Lucy Qiu. Integrating sustainability into climate finance by quanti-fying the co-benefits and market impact of carbon projects. Commun Earth Environ 3, 137 (2022). https://doi.org/10.1038/s43247-022-00468-9.

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