



Handling of mitigation credits¹ in the IKI

To ensure a clear **separation between ODA-eligible climate finance funds and the compliance market**, the following requirements must be met:

- IKI-funded projects may aim to develop conceptual preparations for mitigation activities under Article 6 of the Paris Agreement (methodology development, project design, and feasibility studies). However, the technical implementation (i.e. after financial close) must be implemented through other funding sources and not through IKI funds. With this clear demarcation from IKI funding, it is possible to generate internationally transferable and tradable mitigation credits.
- Start-up financing for Article 6 project activities is possible under the condition that emission credits generated by IKI funds must either be set aside (proof required) or remain in the partner country and be credited to the host-country NDC (“non-authorised Article 6.4” mitigation units) and thus contribute to the NDC implementation of the country. However, this requires activity-based agreements with the partner country.

Climate protection projects in the voluntary carbon market sector: Emission reductions achieved through IKI funds are, **in principle, not allowed to generate mitigation credits that are internationally transferable and tradable on the voluntary carbon market**, and which have been authorised by the implementing states for compliance purposes. Promotion of mitigation credits for a national voluntary certification system (not internationally transferable and tradable) of the respective country of implementation in which the emission reductions occur is possible and desirable to increase ambition compared with the NDC. After finalising the UNFCCC rules on Article 6.4 for the Contribution Claims segment², the German Federal Government will decide whether and in what way internationally transferable and tradable certificates can be used outside the various compliance markets to mobilise private capital in order to supplement financing through IKI funds.

Climate protection projects in the area of technical and natural carbon sinks: Since the rules for mitigation credits from technical and natural carbon sinks under Article 6 of the Paris Agreement have not yet been developed and adopted, currently only methodology development, especially in the area of MRV (measurement, reporting, and verification), and benefit-sharing concepts in this area/these sectors can be supported with IKI funds. As soon as new developments in the international negotiations make it possible to assess the eligibility of projects dealing with technical and natural carbon sinks in the same way as other projects, a notice will be published on the IKI website. For the financing of climate protection projects in agriculture, forestry, and land use, it is also necessary to fulfil the sustainability, including social (benefit sharing), requirements of the IKI and the relevant international standards.

¹ This certifies an emission reduction (converted into the unit CO₂ equivalent) that results either from an additional mitigation or integration of greenhouse gases (compared with the baseline). These certificates should not be confused with emission allowances, which are traded in an emissions trading system and are subject to a “cap”. For the sake of clarity, we use the term (emission) mitigation credits here.

² Article 6.4 certificates that represent a contribution to the fulfilling the targets host country and which are also referred to as “mitigation contributions” are certificates that the host country does not release for target fulfilment. These certificates are not eligible for the target fulfilment of NDCs, CORSIA, and other offsets, in particular as a contribution to climate neutrality. However, these certificates can, in principle, serve other business purposes that do not conflict with the crediting in the host country and would lead to double counting of certificates. A more detailed formulation of the basically conceivable use option is

to be made after the conclusion of the UNFCCC negotiations on Article 6.4 of the Paris Agreement as well as the technical work of the Supervisory Body of Article 6.4.