

Climate Policy Department
International Climate Cooperation Unit

Strategic guidelines for the selection of partner countries and activities within the Swedish Energy Agency's programme for international climate cooperation under Article 6 of the Paris Agreement

1 Introduction

This document aims to provide general guidelines for the selection of partner countries as part of the implementation of Sweden's Article 6 measures. Closely connected to this, the document also describes the selection of initiatives and activities. The aim is to create conditions for an effective and well-grounded selection of cooperations.

1.1 Assignment - appropriation letter and budget

According to the appropriation letter for 2023, the Swedish Energy Agency has been assigned the task of financing measures that develop international cooperation and result-based climate funding within the framework of the Paris Agreement, particularly Article 6 that regulates international trade with emission reduction units.

The aim is to contribute to a system that creates incentives for countries and other parties to raise climate ambitions and achieve larger emission reductions. The aim is also to, through supplementary measures¹, contribute to the fulfilment of the Swedish climate goals for 2030, 2040 and 2045. As well as climate benefit, the Agency shall especially follow up how the measures contribute to economic, social and environmental sustainability in the host country and thereby strengthen their development.

According to the appropriation letter, the measures shall, in the first instance, be focused on low- and middle-income countries and concern energy related emissions. The measures shall contribute to sector-level transition. The Agency has currently been allocated an authorisation framework of SEK 1.5 billion, that runs until 2032.

¹ According to Sweden's climate policy framework, there are three supplementary measures that Sweden can use to achieve the climate goals, namely increasing carbon sinks in land-use and forestry, verified emission reductions through investments in other countries, and separation and storage of biogenic carbon dioxide (Government Communication 2017/18:238 A Climate Strategy for Sweden, in Swedish).

1.2 Current status regarding partner countries

During the initial phase of Article 6, interest has been relatively limited amongst potential partner countries, so called host countries. Sweden's bilateral cooperation has therefore primarily been established with other countries and parties where there has been an early interest for market-based cooperation through Article 6. Currently, the Agency has signed memoranda of understanding with three countries: the Dominican Republic, Ghana, and Nepal. The Dominican Republic and Ghana are countries that have been identified directly by the Agency (via project tenders submitted in an early call for activity proposals) whereas Nepal has been identified via the Agency's cooperation with Global Green Growth Institute (GGGI).

Since finalisation of the rulebook for Article 6 following COP26, interest for Article 6 has grown significantly amongst both purchasing countries and potential host countries. This became especially clear during COP27 where Sweden was contacted by a number of countries expressing interest in bilateral cooperation. The range of potential host countries has in other words increased during 2022 and this has highlighted the need for a clearer strategy for the selection of host countries.

1.3 Bilateral or multilateral

In addition to bilateral cooperation with host countries, the Agency shall also work towards scaling up the implementation of Article 6 cooperation through global partnership, for example with multilateral carbon funds.

Currently, the Agency is involved in two multilateral climate funds² for the acquisition of emission reduction units. The growth of new climate funds and other multilateral Article 6 facilities is closely monitored. Amongst other things, the Agency is investigating the possibilities for establishing cooperations within the framework of the GGGI's new climate fund and the UN development programme's (UNDP) Carbon Payments for Development Facility.

It is still too early to say how the division between bilateral and multilateral work within the Swedish Energy Agency's Article 6 portfolio will be. The Agency expects however, that strategic cooperation with different international parties will form an important part of this work. Regardless of whether we work bilaterally or multilaterally, the Swedish Energy Agency needs to take a position regarding different host countries and activities. The guidelines in this document regarding the choice of host countries and activities are therefore relevant regardless of the type of cooperation.

² The funds that the Agency is currently involved in are: Ci-Dev and TCAF, that are managed by the World Bank.

2 Host countries - priorities and choices

2.1 General position regarding host countries

During the initial phase of Article 6, cooperation has been established primarily with low-income countries and lower-middle income countries. However due to the growing interest for Article 6, there are now good possibilities for a diversification of the types of countries with which the Agency can establish cooperation to include, to an increasing degree, middle income countries with large and growing emissions of greenhouse gases. The Agency should strive towards a good balance between risk-taking, geographical diversification, and different types of activities.

Before the Agency takes a decision regarding a partner country, relevant parties shall be consulted, including the Government Offices and the Swedish International Development Cooperation Agency (Sida), primarily concerning risk assessment. It is the Swedish Energy Agency that takes the final decision regarding the choice of partner countries.

2.2 Factors to take into consideration in the choice of partner countries

Alongside the basis that the general focus is on low-income countries and above all middle-income countries with large and growing greenhouse gas emissions, the following factors are also of great importance in the assessment and evaluation of a potential host country:

- Political interest and institutional capacity
- NDC commitments
- Potential impact on energy related emissions
- Experience with international emissions trading
- Status of democracy, corruption and human rights
- Economic status and financial stability
- Swedish presence/Swedish relationships with the country

2.2.1 *Political interest and institutional capacity*

The host country's political interest and institutional capacity to implement Article 6 activities are decisive. The Swedish Energy Agency can provide support in the form of focused capacity-building measures (for example via GGGI and UNDP) to develop Article 6 infrastructure in the country, however this is under the assumption that the country has the capacity to meet these needs relatively quickly themselves. It is therefore important to take the host country's institutional capacity and prerequisites into consideration.

2.2.2 **NDC commitments**

A cooperation within the framework of Article 6 shall be in accordance with the host country's national priorities and contribute to surpassing the country's climate goals beyond the unconditional commitment in the country's NDC³. Even the issue of a country's general climate ambition should be taken into consideration; it can be questioned if countries that continue to have a large-scale and long-term commitment to fossil fuels with a high lock-in effect, are suitable host countries. An individual judgement needs to be made in each case.

2.2.3 **Potential impact on energy related emissions**

There is a potential to contribute to significant reductions in emissions for countries with large and growing emissions from the energy sector. This is above all relevant for countries with a large use of fossil fuels that have adopted ambitious goals related to energy transition. A broad energy-sector analysis and assessment of suitable Article 6 activities that can be implemented within the relevant NDC-period, is an important basis for the choice of host country.

2.2.4 **Experience with international emissions trading**

Previous experience of (national or international) emissions trading can contribute to the effective establishment of the institutional framework necessary for the implementation of an Article 6 cooperation. Such experience can be either bilateral, or multilateral via funds.

2.2.5 **Status of democracy, corruption and human rights**

Many developing countries face challenges associated with democracy, corruption and human rights, and this can potentially complicate a possible cooperation and imply a higher risk associated with the implementation of a project. An individual evaluation should be undertaken, together with the Government Offices and Sida, for each country.⁴

2.2.6 **Economic status and financial stability**

A country's economic status can provide an early indication of whether the prerequisites are present for participating in an Article 6 cooperation. The recent global financial and economic crises have had particularly significant impacts on many developing countries. Resulting in high levels of inflation and defaulted payments to foreign lenders. The Swedish Energy Agency should carefully weigh up the risks of entering into an Article 6 cooperation with countries with a lower economic status that are also experiencing an economic and financial crisis. With regards to this, EKN's country risk analyses provide important information.⁵

³ [Art 6 readiness and NDCs \(perspectives.cc\)](https://www.perspectives.cc/)

⁴ [Reports regarding global human rights, democracy and principles of the rule of law - Regeringen.se \(in Swedish\)](https://www.regeringen.se/4b1d4d8d-849d-4682-b561-19e229104494)

⁵ [Country Risk Analyses | Countries | EKN](https://www.ekn.se/landriskanalys)

2.2.7 **Swedish presence/Swedish relationships with the country**

A Swedish presence in a country, in the form of an embassy or similar, facilitates for the Swedish Energy Agency both in connection with the choice of host country and the resulting host country process, but also when it comes to the implementation and follow-up of diverse Article 6 activities and measures. In general, Sweden's relationship to the country should be taken into consideration⁶, particularly in the case of bilateral cooperation.

3 Activities

3.1 **General position regarding activities**

A concrete Article 6 activity⁷ is a technology or measure that is implemented and leads to a reduction of emissions in the host country. The Swedish Energy Agency does not develop such activities, rather they can only work in their capacity as a purchaser of emission reductions in order to facilitate for other parties (in general private companies) to implement activities that are in line with the chosen direction. According to the appropriation letter, the Swedish Energy Agency shall focus its Article 6 measures on the area of energy related emissions.

In the selection of activities, the Swedish Energy Agency uses five fundamental criteria: environmental integrity, sustainable development, transformative effect, feasibility, and price. The different criteria are presented in more detail in section 3.2 below. As it is not possible to predict future technological progress or what will have a transformative effect, it is preferable to spread risks through diversification.

3.1.1 **Scale, sector and technology**

The portfolio can be diversified in a number of ways. Three aspects that need to be considered in an evaluation of activities are what scale the activity has, which sector it focuses on, as well as what forms of technology are used.

With regards to scale, an activity can be either project, programme or policy-based. A project is characterised as a limited intervention of varying size, whereas a programme covers several similar projects that are grouped together into an administrative entity. Our current position is that so called policy crediting, where emission reductions are generated by a policy change that the purchasing country has contributed to, is too complex. Within the framework of certain climate funds, the issue of policy measures can however be relevant. Our position is that the Swedish Energy Agency should strive to find a balance between the advantages of working on a large-scale with the manageability of working with more limited measures. In summary, the portfolio should contain programmes and/or relatively large projects.

⁶ [Sweden's relations with the world - Regeringen.se \(in Swedish\)](#)

⁷ We use the term "activity" as it is more general than for example "project". An Article 6 activity can be of any type or scale.

The appropriation letter states that the measures shall contribute to a transition at the sector level and, as previously mentioned, be focused on energy-related emissions. We regard emissions within the transport sector, for example, as energy-related and therefore within our scope.

The appropriation letter does not provide guidance regarding the type of technology that can, or should, be selected. The starting point is technological neutrality and therefore no single form of technology should be prioritised or avoided in advance. The host country can, however, have limitations regarding which technologies can be included in an Article 6 activity and we, as a purchaser, need to take this into consideration. At the same time, we must not turn a blind eye to the fact that all forms of technology have advantages and disadvantages, something that should be possible to identify in an objective and neutral way in accordance with the five fundamental criteria/principles.

3.2 Principles for the selection of activities

The most important general principles that need to be considered when selecting a specific activity are, as mentioned previously, the following five criteria:

- The activity has ensured a high level of **environmental integrity**
- The activity contributes in a positive way to **sustainable development** in the host country and the local community, and minimises the risks of negative impacts
- The activity has a **transformative effect**
- The activity is clearly **feasible**
- The activity has a reasonable **cost** per emission reduction (measured in tonnes of carbon dioxide equivalents)

3.2.1 Environmental integrity

Environmental integrity is defined as the absence of any increase in global aggregated greenhouse gas emissions as a result of the activity and/or collaboration. This means in practical terms that the Swedish Energy Agency can only consider Article 6 activities that can demonstrate that they contribute to surpassing the unconditional commitment in the country's NDC, as well as being financially additional, credited against a conservative baseline, and avoid double counting and double claiming. To ensure environmental integrity, established methods shall be used and, in the cases where we contribute to the development of established or new methods, strengthened environmental integrity shall be central.

3.2.2 Sustainable development

Article 6 activities that are funded by the Swedish Energy Agency shall promote sustainable development and take in to account social, economic and environmental aspects – especially gender equality. This means that firstly, the activities shall not result in, or exasperate, any negative environmental, economic or social impacts. Secondly, the activities shall have ambitious targets for their

contribution to sustainable development and actively improve local conditions as well as, to the greatest possible extent, contribute to transformative changes. A specific sustainability policy for Article 6 measures is currently being compiled and is expected to be completed in the middle of 2023.

3.2.3 **Transformative effect**

The Swedish Energy Agency strives towards obtaining emission reductions from activities that contribute to transformative changes in the host country. The term "transformative" is interpreted in this context as contributing to system changes, over and above the specific project results. This primarily entails that the activity shall contribute to the host country's transition to a fossil-free and sustainable economy, but it also relates to the host country's general development. Transformative effects can for example be that the activity contributes to: 1) facilitating for the host country to adopt more ambitious emission targets; 2) promoting carbon pricing or other climate policies; 3) removing barriers that inhibit the transition to sustainable energy technology. Transformative effects can also entail that the activity is large-scale, national or sectoral, as well as scalable and replicable.

3.2.4 **Feasibility**

Article 6 activities must be feasible. In practical terms, this means that a technical and economic pre-study, including a plan for the installation phase, should show that it is reasonable to believe that the agreed volume of emission reductions can be generated during the contract period or crediting period. Our position is that Article 6 is more suitable for the implementation and up-scaling of mature (but not commercially viable) technology rather than for testing new and untested technology.

3.2.5 **Price per emission reduction**

The fundamental reasoning behind why emission trading should be used is that the price for emission reductions varies between countries. Countries where emission reductions are expensive strive towards paying less per emission reduction than they would in their own country. As there is not yet a working market for emissions reduction units within the Article 6 regulations, there is also no market price to start from. The Swedish Energy Agency wants to contribute to the establishment of a market, and is committed to the market having a high environmental integrity where a host country's unconditional NDC targets are not jeopardized⁸. Therefore, price is only one of several evaluation criteria. It is important that both parties have a positive outcome from each transaction, as we judge that this is best for the climate in the long-run. A benchmark for price levels has been given in the report *Pricing of Verified Emission Reduction Units under Article 6*.⁹

⁸ The climate goals are defined here as the unconditional goals in the host country's NDC.

⁹ [Pricing of Verified Emission Reduction Units under Art. 6 \(energimyndigheten.se\)](#)

4 Synergies and cooperation within the framework for strategic climate initiatives

The Agency can see a great potential for scaling up Swedish and global climate measures through innovative cooperation and funding solutions. This can for example be a mix of climate finance and Article 6 carbon finance, but also the use of Article 6 funding for the mobilisation of private capital. By coordinating funding, but also capacity support, measures can be scaled up and have a greater impact.

To enable synergies, there is reason to coordinate measures in line with the strategic global climate initiatives that Sweden has joined either directly, or indirectly through the EU. Several of these initiatives focus on countries with large and growing emissions and the importance of replacing the use of coal with clean energy. Some of these initiatives are described below:

- **IEA Clean Energy Transitions Program (CETP)** was launched in 2017 where Sweden was one of the initiators, together with Denmark and the United Kingdom. The programme is focused on countries with large and rapidly growing emissions. Within the framework for the programme, there is an initiative planned for 2023 to evaluate the conditions for countries to engage in Article 6 cooperation.
- **Just Energy Transitions Program (JETP)** was launched as an initiative during COP26 by, amongst others, South Africa, USA and the EU with the aim of accelerating the phase-out of coal while at the same time addressing the negative social transitions associated with this. Sweden supports this initiative indirectly via the EU.
- **Leadership Group for Industry Transition (Lead-IT)** was launched by Sweden and India in conjunction with the UN Climate Action Summit 2019. The initiative is supported by the World Economic Forum and gathers countries and companies that want to lead the way in energy transition. The initiative has a particular focus on heavy industry with the aim of achieving zero-emission in the sector by 2050.

In addition to global climate initiatives, there are opportunities for Team Sweden to create synergies within established partner countries¹⁰, for example countries where Business Sweden, EKN/SEK, Swedfund and Swedish embassies have a strong presence and work specifically with supporting climate measures.

As previously stated, the development of new climate funds and other multilateral Article 6 facilities is closely monitored. The Agency is exploring the

¹⁰ Team Sweden is a network of government agencies, organisations and companies that promote Swedish exports and investments.

possibility of establishing cooperation within the framework of GGGI's new climate fund as well as UNDP's Carbon Payment for Development Facility.

The Agency shall take the following assessment criteria into consideration when selecting strategic cooperations with multilateral collaborative organisations and global climate initiatives: relevance and efficiency; risk assessment; as well as other decisive factors. As a basis for an assessment, the Agency shall review the organisation strategies and organisation assessments that have been compiled by the Government, as well as other relevant parties such as Sida, MOPAN¹¹ and similar-minded donor/purchaser countries of emission units.

¹¹ MOPAN stands for Multilateral Organisation Performance Assessment Network and is an independent evaluation body for multilateral organisations. MOPAN | Multilateral Organisation Performance Assessment Network (mopanonline.org).