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# Aligning the Agendas

## A Party-driven dialogue on Sustainable Development in the context of Article 6 PA

by Karen Holm Olsen, UNEP DTU Partnership, Marion Verles, Gold Standard Foundation and Sven Braden, Consultant

This article introduces the newly launched, Party-driven Sustainable Development (SD) Dialogue on Article 6 of the Paris Agreement (PA). The SD Dialogue is organised by UNEP DTU Partnership and the Gold Standard Foundation in collaboration with the International Centre for Trade and Sustainable Development (ICTSD). The SD Dialogue is made possible by contributions received from Germany, Switzerland, Belgium and Liechtenstein. The aim of the SD Dialogue is to help overcome knowledge and political barriers for Parties to promote sustainable development through Article 6 cooperative approaches. The article presents the background for the SD Dialogue to be concluded by end of 2018 as input for Parties to decide on the work programme by COP24 in Poland for implementation of the Article 6 cooperative approaches.

## Why a sustainable development dialogue?

Global goals for climate change and sustainable development (SD) were agreed in two historical agreements in 2015; the Paris Agreement (UNFCCC, 2015) to limit global warming to well below 2°C aiming for 1.5°C and the United Nations 2030 Agenda to achieve 17 Sustainable Development Goals (SDGs) (UN, 2015). The political aspiration for a transformational change to low carbon and sustainable development is recognised in both agreements.

Article 6 of the Paris Agreement covers voluntary cooperation among Parties in their implementation of nationally determined contributions (NDCs) with the unitary objectives to raise climate action ambition, promote sustainable development and ensure environmental integrity (Article 6.1). The first approach (Articles 6.2 – 6.3) covers internationally transferred mitigation outcomes (ITMOs) that promote SD (...), consistent with guidance of the CMA. The second approach (Articles 6.4

– 6.7) shall ‘contribute to the mitigation of greenhouse gas emissions and support sustainable development’. It will be supervised by a body mandated by the Parties. The third approach is a ‘framework for non-market approaches’ (Articles 6.8 – 6.9) that aims, in the context of SD, to promote mitigation and adaptation ambition, enhance public and private participation and enable opportunities for coordination across mechanisms and institutions.

The work programme to implement the Paris Agreement is to be concluded by November 2018. This includes the development of guidance, rules, modalities and procedures to implement the sustainable development provisions in Article 6 on market and non-market approaches for voluntary cooperation between Parties.

Against this background, the objective of the SD Dialogue is to explore Party and other stakeholder views on options to operationalise the sustainable development provisions in Article 6. Based on technical work, research and analysis, options will be developed and discussed on how the ‘rulebook’ for implementation of the Article 6 sustainable development provisions may look like.

## Sustainable development in Article 6 of the Paris Agreement

Sustainable development features prominently in the Article 6 preamble (para 6.1) as a unitary objective for the three approaches. In every cooperative approach under Art. 6, sustainable development is an objective to be pursued in parallel with climate actions: the text in Articles 6.2 and 6.3 clearly states that Parties can decide to enter into voluntary cooperation and transfer mitigation outcomes and in doing so “Parties shall [...] promote sustainable development and ensure

environmental integrity". In the negotiations of Articles 6.4 to 6.7, the mechanism was called the 'Sustainable Development Mechanism', though in the final text it has the cumbersome name "a mechanism to contribute to mitigation and support sustainable development". Finally, Articles 6.8 and 6.9 define a "framework for non-market approaches to sustainable development".

Moreover, the Paris Decision (para. 37b) to give effect to the Paris Agreement states that rules, modalities and procedures to develop the Article 6.4 mechanism are to be adopted by the CMA on the basis of 'real, measurable and long-term benefits related to the mitigation of climate change'. The term 'benefits of mitigation actions' here refers to both greenhouse gas emission reductions and sustainable development, as defined in the dual objective of Article 6.4. This equal treatment of climate and sustainable development objectives may serve as an indication that the Paris Agreement has moved away from a climate-centric approach evident in the Kyoto Protocol and towards a sustainable-development approach, acknowledging that climate change and sustainable development are intrinsically linked in a way that the adverse impacts of climate change undermine the ability of all countries to achieve sustainable development.

Overall, sustainable development is mentioned 23 times in the Paris Agreement and just 3 times in the Kyoto Protocol. The enhanced focus on sustainable development as the context for climate change indicates a gradual political change from the Kyoto regime in 1997 to the Paris regime in 2015, away from a 'climate-first' approach and towards a 'sustainable development' or 'climate compatible development' approach. In the Kyoto Protocol, sustainable development was framed as a 'co-benefit', a side-effect of climate actions, whereas in the Paris Agreement and with the 17 global SDGs, sustainable development is seen as leverage to raise ambition for climate action and a means to ensure that no harm is done.

## Linkages between NDCs and SDGs

There is growing research and policy available on the interconnected nature of sustainable development and climate change (DIE, 2017; Iyer et al., 2018; Obergassel, Mersmann, & Wang-Helmreich, 2017; Verles, 2016). Research shows very clearly that significant synergies can be derived from linking more closely

the two global policy Agendas, the Paris Agreement on climate change and the 2030 Agenda on the global Sustainable Development Goals (SDGs). This section provides a high-level overview of these synergies and the associated opportunities. It then looks at how these synergies are currently considered at the international and national policy levels.

The interconnected nature of sustainable development and climate change has been recognised within the research community since the first International Panel on Climate Change (IPCC) assessment reports starting in 1990/1992. Over the years, the science on sustainable development has matured and researchers now tend to focus on how to gain a better operational understanding of the nature of the linkages and how these can be leveraged to maximise synergies and minimise tradeoffs towards multiple goals for both agendas.

The interlinked nature of climate change and sustainable development is reflected in the respective global agreements through:

- a strong and visible climate change narrative (including a climate goal) in the 2030 Agenda for Sustainable Development, and
- a clear recognition of the sustainable development needs and contributions of climate action in the Paris Agreement.

A selection of the main linkages between climate change and sustainable development recognized in the research and policy literature is listed below and shown in Figure 1:

- (-/-) Climate change's adverse impacts undermine the ability of all countries to meet their Sustainable Development Agendas.
- (+/-) Persisting levels of extreme poverty require further development, which is often correlated to increased GHG. In addition, some countries pursue economic growth as a strategy to adapt to the impacts of climate change. Decarbonising development and economic growth is therefore critical.
- (+/+) Some climate change mitigation (and adaptation) measures are known to deliver development benefits (e.g. access to energy projects such as improved cooking interventions or smart-agriculture).

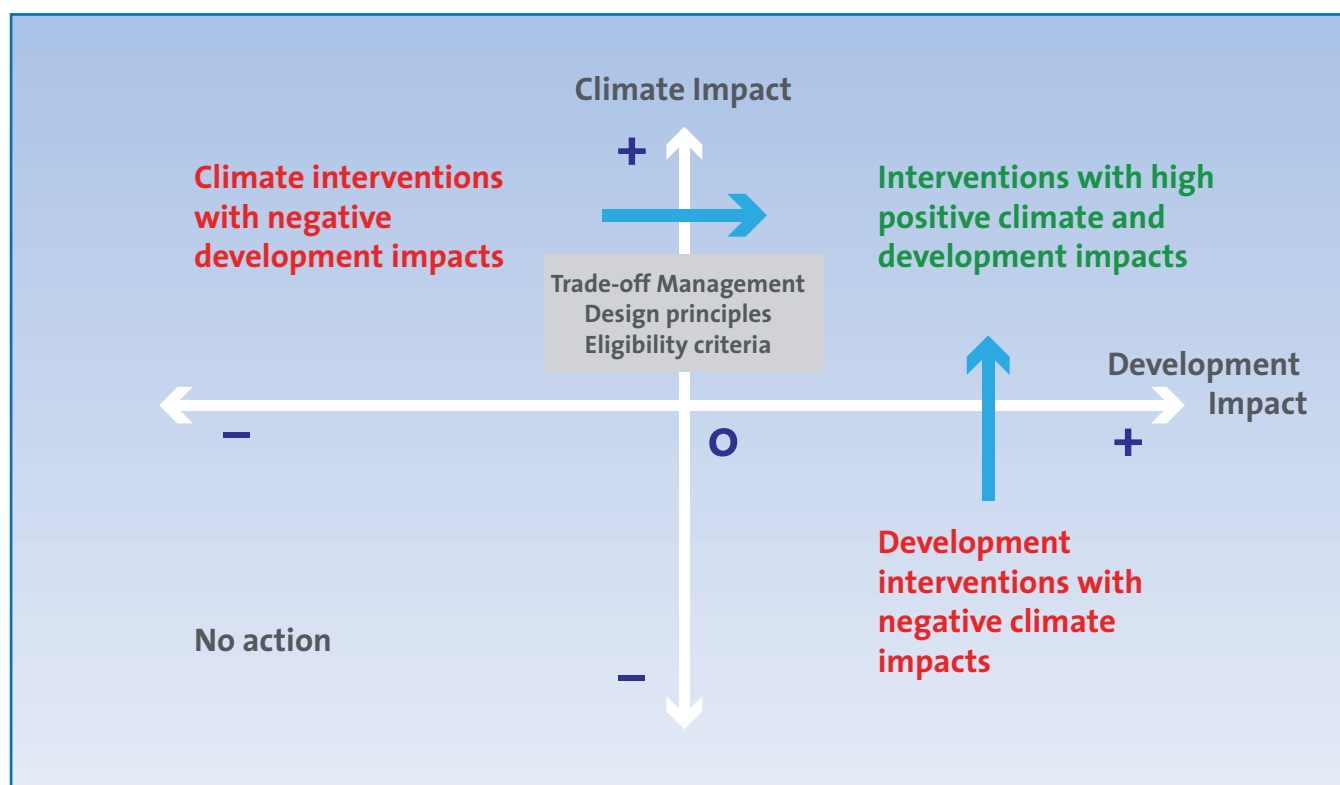


Figure 1: Linkages between climate and development impacts

- (-/+) Conversely, some climate mitigation (and adaptation) measures are known for having led to negative impacts such as loss of biodiversity or human rights violations (e.g. large scale infrastructure interventions).

Research and experiences from the field show that it is possible to mitigate negative impacts for climate or development through, inter alia:

- activity-specific risk mitigation measures,
- design principles inclusive of stakeholders, and
- eligibility criteria filtering out the most risky interventions.

Reconciling trade-offs between the promotion of climate change mitigation and sustainable development as well as adaptive capacities to the impacts of climate change is the key challenge at the interface of climate and development policies. Experiences from the field such as safeguarding principles show, however, that it is possible.<sup>2</sup>

Two important implications of the 2030 Agenda are often overlooked by climate practitioners and policy makers:

1. It is the first time that the World has agreed on an international, common framework to set goals, targets and indicators to measure progress on Sustainable Development in a comparable way enabling aggregation of impacts to the global level.
2. The 2030 Agenda endorses the principle of national sovereignty (countries develop their own national SDG plans also called 'Voluntary National Reviews') whilst also providing a clear mandate for international level coordination through the High Level Political Forum on Sustainable Development.

The Paris Agreement and Agenda 2030 processes are mutually supportive in several ways (non-exhaustive list):

- Both processes draw their principles from the Rio Principles, including CBDR and equity, and refer to the right to sustainable development.

<sup>2</sup> In order to support the Dialogue on SD under Art. 6 the Gold Standard Foundation and UNEP-DTU will provide Technical Briefing Notes to share relevant field and research experiences (throughout 2018).

- Both stress the role of human rights, and promote gender equality.
- Their timelines overlap directly, and they have mutually reinforcing objectives.
- The SDGs refer to existing financial commitments under the UNFCCC, thereby recognizing that countries will need to live up to their climate finance commitments to avoid slowing down development progress.

At country level, there is significant alignment between NDC and SDG priorities as stated in countries' Voluntary National Reviews (VNR). Indeed, two-thirds of 2017's VNRs make the link between climate change and the broader SDGs as part of the 2030 Agenda. Around half of them explicitly refer to climate plans (including NDCs) as integral elements of their strategies for achieving the SDGs.

This shows that well-designed sustainable development policies and actions deliver on both reduction GHG emissions and enhanced resilience to climate impacts, while climate policies and measures for both mitigation and adaptation can advance development objectives. The extent of alignment between the climate and sustainable development agendas at country level highlights the significant opportunities for national and subnational governments as well as other key stakeholders to approach implementation in an integrated and synergistic manner.

To realise the full extent of potential benefits from joined-up implementation of the two agendas, countries will often need to undertake a systematic process to identify the potential mutual benefits and co-benefits at the national and sector levels prior to developing their plans for implementation based on their development priorities.

## Lessons learned from the CDM and voluntary approaches to SD assessment

In the Kyoto Protocol, the CDM was established in Article 12 with the double aim to achieve cost-effective greenhouse gas emission reductions and assist developing countries in achieving sustainable development. A defining feature of the CDM 'rulebook' decided in Marrakech 2001 was the decision to delegate the responsibility for achieving sustainable development to the national level represented by host countries Designated National Authorities (DNAs). The decision was made based on the argument that international rules, modalities and procedures for sustainable development assessment would impinge on national sovereignty.

Implications of this decision led to criticism over the years that the CDM has not succeeded in fulfilling its sustainable development objective (Dialogue, 2012; Olsen, 2007; Sterk et al., 2009; Sutter & Parreño, 2007). Reasons for the critique include a trade-off between the two objectives leading to a 'race to the bottom' for nationally defined sustainable development criteria, the lack of clear and transparent criteria and decision-making procedures by participating countries, cases of registered CDM projects violating human rights and the absence of requirements and procedures to monitor, report and verify that claims about sustainable development benefits are actually achieved.

Responding to critique of the CDM's contribution to sustainable development being weak, at times negative, the Conference of the Parties, serving as the Meeting of the Parties to the Kyoto Protocol (CMP) in 2011 mandated the CDM Executive Board (EB) to develop voluntary measures to highlight the co-benefits of CDM projects. A CDM SD tool was approved by the CDM EB in Doha 2012 and went online for public use on the UNFCCC website in April 2014. Compared to earlier versions of the draft CDM SD tool, however, the final version was reduced to one element, namely voluntary declaration of sustainable development co-benefits, not including safeguards to mitigate the risks of negative impacts and leaving out enhanced requirements for stakeholder consultations.

To find out if the CDM SD tool through its use by project participants, DNAs and investors meets the objective, the UNFCCC

Secretariat conducted an evaluation based on a survey among 4,626 stakeholders (UNFCCC, 2014). Key insights are that among DNAs, 71% were aware of the tool, 83% agreed the tool highlights the co-benefits in a structured, consistent and comparable manner and 92% plan to refer to the tool when approving CDM projects at national level. Among investors, 77% agreed that the SD co-benefits are factored into investment decision-making and 69% agreed that the Sustainable Development Report helps with investment decisions. Among project participants, only 41% were aware of the tool and only 9% had accessed or use the tool. In conclusion, the SD tool was found to meet its objective as a voluntary measure to highlight the co-benefits of CDM activities, while maintaining the prerogative of Parties to define their national sustainable development criteria.

A study that examined the usefulness of the CDM SD tool (Arens et al., 2015; Olsen et al., 2015) concluded that the impact of the tool in its current form is limited compared to other mechanisms and voluntary approaches, as it has no coverage of negative impacts, safeguards are missing, there is no guidance or provisions for monitoring & independent review of claims, no stakeholder requirements and no grievance mechanism.

Lessons learned from the experience with sustainable development assessment of Kyoto and voluntary mechanisms are that inclusion of elements which represent best practice approaches and meet the needs of a broad range of stakeholder could strengthen the CDM as a whole (Olsen, Arens & Mersmann, 2017).

To that regard, assessment of SD impacts may in general lead to:

- increased trust in the overall mechanism, especially from a private sector perspective, since this sector is exposed to significant reputation risks;
- the creation of a “race to the top” with projects competing to maximise SD impacts;
- higher transparency and credibility in SD claims of participants.

It should also be noted that, based on the experiences made so far, mitigation actions with many co-benefits (i.e. charismatic projects) are reported to benefit from higher prices.

Within the discussions on how to reform the CDM and promote SD through Article 12 of the Kyoto Protocol, several elements have already been discussed (Arens et al., 2015):

- A unitary SDG indicators framework
- Monitoring and reporting guidance
- Review and verification guidance
- No-harm safeguards
- A grievance mechanism
- Stakeholder participation guidance
- Methods for quantification of sustainable development impacts
- Provisions for certification of sustainable development impacts

Building on the experience and lessons learned from sustainable development assessment in the Kyoto and voluntary market mechanisms the challenge ahead is, how the Article 6 sustainable development provisions can be operationalised to incentivise a ‘race to the top’. Racing to ‘the top’ – as opposed to a ‘race to the bottom’, known from the CDM (Sutter & Parreño, 2007) – is about designing the Article 6 ‘rulebook’ for enhanced ambition of climate actions to promote sustainable development, avoid negative impacts and ensure environmental integrity in a broader sense than avoiding double counting of emission reduction units.

## Conclusions

The overall nature of the Paris Agreement with its strong focus on nationally determined policies and measures as contribution to the overall goals of the Agreement is also reflected in Article 6, expressed through the establishment of three different approaches to governance of market and non-market cooperation as described above. It is clear that any guidance with regard to SD assessment will have to respect the national prerogative of the participating countries. What is not yet clear is the extent to which the global Sustainable Development Goals can provide an indicator and reporting framework at international level to support countries achieve their nationally determined sustainable development and climate goals.



Date - 2018	Occasion	Location
February 19	ICTSD Art. 6 Meeting	Tokyo, Japan
April 5-6	AILAC / others	Mexico City, Mexico
April 10	Africa Climate Week	Nairobi, Kenya
April 24	GA PMR / Worldbank	Kiev, Ukraine
April 29 (tbc)	Meeting of SBs	Bonn, Germany
May (tbc)	Innovate4Climate	Frankfurt, Germany
December (tbc)	COP 24	Katowice, Poland

Table 1: Schedule of SD dialogue events

How to assess and govern the synergies and trade-offs between sustainable development and climate actions has been a controversial issue for many years with diverse political and stakeholder interests constituting the main barriers to promote sustainable development benefits and avoid negative impacts. To clarify if and how guidance at international level can support Parties to implement the SD provisions differentiated across the Article 6 approaches, the SD Dialogue will develop high-level options for guidance and engage in discussion with negotiators, private sector and civil society stakeholders through events in 2018 such as negotiators informal dialogues, regional climate weeks in Africa, Latin America and Asia to explore views, experience and identify convergence and divergence. The final expected impact is to enable a robust operationalisation of the SD provisions in Art. 6 of the Paris Agreement at COP24 in Poland 2018.

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