



## Transparency and Reporting for Sustainable Development

Transparent reporting of sustainable development elements within voluntary cooperation of Article 6 of the Paris Agreement

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*Publication date:*  
2018

*Document Version*  
Publisher's PDF, also known as Version of record

[Link back to DTU Orbit](#)

*Citation (APA):*  
Braden, S., Taibi, F-Z., Verles, M., & Olsen, K. H. (2018). *Transparency and Reporting for Sustainable Development: Transparent reporting of sustainable development elements within voluntary cooperation of Article 6 of the Paris Agreement*. UNEP DTU Partnership.

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# Transparency and Reporting for Sustainable Development

Transparent reporting of sustainable development elements within voluntary cooperation of Article 6 of the Paris Agreement

Version: 24 August 2018

This policy brief is produced by the Sustainable Development Dialogue ('Dialogue') on the implementation of Article 6 of the Paris Agreement under the UNFCCC process. It provides a summary of Party and stakeholder views expressed during a series of six engagement events held between January - June 2018. Views stated in this document are those of the authors<sup>1</sup> and do not represent any consensus among the Parties involved. The Dialogue is currently supported by Belgium, Germany, Liechtenstein, Norway, Sweden and Switzerland and receives technical assistance from UNEP-DTU Partnership and the Gold Standard Foundation.

## Part 1 - Unpacking the issue: Transparency and Reporting

### Transparency and Reporting

The Paris Agreement regulates the topics of transparency and reporting in the so-called Enhanced Transparency Framework (ETF), Article 13. The purpose of the framework is to provide a clear understanding of climate change action considering the objective of the Convention as set out in its Article 2, including clarity and tracking of progress towards achieving Parties Nationally Determined Contributions under Article 4, and Parties' Adaptation Actions under Article 7,

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including good practices, priorities, needs and gaps to inform the global stocktake under Article 14.

This framework requires Parties to the Paris Agreement to regularly submit

- A national inventory report of anthropogenic emissions by sources and removals by sinks of greenhouse gases (GHGs); and
- Information necessary to track progress made in implementing and achieving its Nationally Determined Contribution (NDC) under Article 4.

Parties should also provide information related to climate change impacts and adaptation under Article 7. Developed country Parties shall, and other Parties that provide support should, provide information on financial, technology transfer and capacity-building support provided to developing country Parties, while developing country Parties should provide information on financial, technology transfer and capacity-building support needed and received.

While Article 13 specifically provides for Parties reporting on mitigation co-benefits resulting from Parties' Adaptation Actions and/or Economic Diversification Plans to be accounted for under the Enhanced Transparency Framework, it is silent when it comes to monitoring and reporting the contributions to sustainable development of the cooperative approaches under Article 6.

It is therefore questionable whether Article 13 provides for an appropriate mandate to track and report sustainable development contributions in Article 6.

Article 6 however clearly states sustainable development as its second objective and makes it clear that mitigation activities need to contribute or foster sustainable development. It is therefore implicit that those contributions are to be transparently tracked and reported.

Regardless which article provides the mandate for transparency of sustainable development in Article 6, it is to be noted that transparency and tracking of mitigation outcomes in Article 6 are not, for the time being, included in the

discussions of the modalities, procedures and guidelines for the Enhanced Transparency Framework. Therefore, this gives the opportunity for Article 6 negotiators to develop appropriate provisions which better fit the purpose and the unique nature of the cooperative approaches both in terms of mitigation outcomes to ensure environmental integrity and in terms of sustainable development to ensure adequate reporting and achievement of the second objective of Article 6.

Appropriate provisions on SD reporting also need to reflect the different nature of Article 6 approaches, e.g. in Article 6.2 project activities (crediting) and programme activities (trading/linking).

### **Why it matters**

Lessons learned from sustainable development assessment in the context of compliance and voluntary carbon markets show that a lack of transparency on SD contributions and do-no-harm principles of project activities can be very harmful. The reputation of the Clean Development Mechanism (CDM) has suffered from its inability to provide transparent information on its contributions when it came under scrutiny. Attempts were made to correct this issue through the development of the SD tool. However, the voluntary nature of the tool has not led to a significant uptake. In addition, the tool didn't contain all information that buyers or participating parties may wish to see. Furthermore, the reported information were mere claims that were not independently verified by any third parties.

It is thus important to learn from the lessons of the past and ensure that the new cooperative approaches of Article 6 avoid such issues. SD contributions should therefore be transparently reported and reviewed to ensure that Article 6 achieves both its objectives.

## Part 2 - Considerations relevant to the Article 6 work programme to be decided at COP24

### Party submissions

In advance of COP23 Parties were invited to submit their views on the Article 6 approaches to the UNFCCC Secretariat by October/November 2017. The Secretariat received a total of 22 submissions. A summary of the views with respect to reporting/transparency are summarised in Table 1 below.

*Table 1: High-level options and issues differentiated across the three Article 6 approaches*

High-level option	Art. 6.2	Art. 6.4	Art. 6.8
Reporting/ Transparency	<p>Reporting by Parties on the sustainable development criteria they apply to investment in Article 6.2 activities or to the hosting of Article 6.2 activities, including any specific tools or criteria they apply</p> <p>Reporting by Parties on how sustainable development is being promoted through their engagement in cooperative approaches</p>	<p>Responsibilities of Parties hosting/transacting mitigation activities:</p> <ul style="list-style-type: none"> <li>- Contribution to fostering SD</li> <li>- Conformity with SDGs</li> <li>- Conformity with human rights</li> </ul>	

	<p>How the use of Internationally Transferred Mitigation Outcomes (ITMOs) towards the Nationally Determined Contributions (NDCs) promotes sustainable development</p> <ul style="list-style-type: none"> <li>• In the context of the Party's national prerogative</li> <li>• In the context of the Party's implementation of the Sustainable Development Goals</li> </ul> <p>Parties report under Article 13.7, in accordance with guidance developed under APA<sup>2</sup> agenda item 5, on how their use of cooperative approaches promotes sustainable development.</p> <p>An Article 6.2 sub-</p>		
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<sup>2</sup> Ad Hoc Working Group on the Paris Agreement (APA)

	mechanism shall demonstrate that its operations are in accordance with environmental integrity and sustainable development and report any relevant information under the transparency framework.		
	Information used to demonstrate that the emission reductions are real, measurable, additional and verified, including the determination of the baselines and additionality, ensure environmental integrity, foster sustainable development, including environmental impact assessments, is not to be considered as proprietary or confidential.		

Most parties have included in their submissions elements of SD reporting. They nevertheless differ on the modalities of implementation of such provisions. Some parties place it in the voluntary sphere under the host party national prerogative while others attribute it to either the Supervisory Body and/or the participating Parties. Many Parties call for such reporting to provide information on how the mitigation activities promote/foster SD, how they contribute to SDGs and how they conform with a Parties obligation in human rights.

Some Parties see the reporting and transparency provisions developed under Article 13 while the majority see them hosted under the texts being developed for Article 6 approaches.

## **Analysis of Party and stakeholder views – convergence and divergence**

This section presents analysis of feedback from Parties and stakeholders during the six Dialogue events with an aim to identify key areas of convergence and divergence of views. All events followed Chatham House Rules, which mean that views can be documented but not ascribed to a particular Party or stakeholder.

One objective of the discussions during the events was to find out if further elements on reporting and transparency would be required to address the overarching goal of Article 6 to promote sustainable development.

With regards to Article 6.2 Parties were asked if templates are needed to report on how the use of Internationally Transferred Mitigation Outcomes (ITMOs) towards the Nationally Determined Contributions (NDC) promotes sustainable development. The participating Parties were not united in their positions on the need of SD templates. Although many Parties highlighted that a common template could serve the integrity of Article 6.2 activities, they also required it to be voluntary for Parties to use it. The information to be provided should also allow for broad communication and enough leeway to respect national circumstances. Templates, if required, could be used mutually between the Parties involved. Some Parties, however opposed templates generally, since they could never be designed in a completely objective manner. They also raised concerns that it would be doubtful if all Parties (especially developed country Parties) would stick to the use of such templates. It was also argued that a template could impose certain policies and views with regards to SD and ITMOs and thereby interfering with the national prerogative of national policies.

With respect to Article 6.4 the Sustainable Development Dialogue aimed to identify whether guidelines or tools would be needed to support Parties involved in hosting and/or buying Article 6.4 units to demonstrate a contribution to fostering sustainable development, conformity with SDGs and compliance with human rights? The majority of participating Parties favoured some level of international SD guidance in Article 6.4. Proponents argued with the role of the Supervisory Body and its responsibility to ensure some level of coherence with SD and the mechanism. The main argument for SD guidelines/tools was that buying countries would call for transparent information on sustainable



development. One Party restricted the usefulness of such tools to cases where only private sector participants would be involved in the project implementation. Opponents of guidelines/tools argued that patterns like Human Rights, sustainable development and “do-no-harm” provisions could provide a dangerous ground for arbitrary decisions from third parties. The experience within the Clean Development Mechanism Executive Board (CDM EB) has shown that such provisions are highly controversial when working out the mechanisms rules. It should be left to the market to decide the good projects from the bad.

Besides the feedback from the Parties on potential reporting requirements of the specific approaches of Article 6.2 and Article 6.4 the Sustainable Development Dialogue raised the question whether the Article 13 transparency framework is sufficient to report on SD contribution for Article 6 approaches – or if additional guidance on Article 6.2 and Article 6.4 is needed. To that regard, Parties tended to ask for additional reporting guidance on sustainable development beyond Article 13 for activities under Article 6.4. Some of Parties denied this for Article 6.2 and stressed that the report in question would have no effect on the approach itself (only informing purposes). However, many Parties identified challenges with the SD reporting under the Enhanced Transparency Framework. SD reporting could create an additional burden for the ETF and it would be questionable if the ETF has the mandate to deal with national SD information since the focus is more on national climate goals, temperature goals etc. Parties also questioned whether reporting sustainable development aspects of Article 6 would add value to the ETF process.

In short, the majority of Parties shared the view that the ETF might not be the most appropriate place to serve as the only official source of information on sustainable development related to Article 6 activities.

## Part 3 – The Subsidiary Body for Scientific and Technological (SBSTA) Chair informal notes and Dialogue text recommendations

### The SBSTA Chair informal notes

Draft elements of transparency and reporting are contained in the SBSTA Chair revised informal notes issued 8 May 2018. The approaches to these elements differ depending on the respective Article 6 approach.

**Article 6.2 guidance on cooperative approaches:** The note provides for an overarching requirement of transparency including in governance. It further requires, in one of the options, for the reporting by the host party on:

- How the use of Internationally Transferred Mitigation Outcomes promotes sustainable development in the creating Party;
- How the creation, first transfer and use and/or transfer and acquisition of Internationally Transferred Mitigation Outcomes promotes sustainable development within the context of the national prerogatives of that Party and/or within the context of its implementation of the Sustainable Development Goals; avoided environmental harm and violation of human rights and negative social or economic impacts.

There is, however, no mention of how the information provided will be used and whether any process to check for completeness, adequacy or appropriateness would apply.

**Article 6.4 rules, modalities and procedures for the mechanism:** The text provides an overarching requirement of transparency by stating that the implementation of the mechanism has to be transparent. The text also provides for the creation of an information registry related to the proposed and registered Article 6.4 activities to support the transparency of the mechanism. These provisions apply to the whole mechanism and should consequently include information related to sustainable development and safeguards. The text

contains extensive reporting and transparency requirements, which would allow, if implemented adequately, a good level of transparency of the mechanism, e.g. reporting obligations of Parties towards the Supervisory Body such as conformity statements on certain safeguards or SDG implementation of Article 6.4 activities. The text however does not specify the extent, appropriateness, completeness and quality of the information required for meeting the reporting and transparency requirements.

### **Text recommendations**

The following recommendations have been produced by the SD dialogue experts, please note the proposed text does not reflect consensus.

#### **Article 6.2:**

- Highlighting the importance for a coherent and transparent SD process to provide for credible reporting and verification procedures for assessing and verifying sustainable development claims.
- Include a provision that requires evidence based reporting on sustainable development, based on the same principles to be applied for the mitigation outcomes (for ex-ante reporting and ex-ante-review).
- Encourage Parties to nominate national bodies to check whether reported sustainable development information of Article 6 activities is complete and adequate (verification of claims)

#### **Article 6.4:**

- Clearly state that the transparency requirements equally apply to both emissions reductions and sustainable development contributions.
- The Supervisory Body to develop and elaborate requirements ensuring monitoring, reporting and verification of the sustainable development contributions of a mitigation activity.
- Include provisions for the Supervisory Body to check the reported information for completeness and adequacy and for requesting further evidence where appropriate.

**Thanks:**

The Sustainable Development Dialogue acknowledge and give thanks to the reviewers of the Sustainable Development Transparency and Reporting policy brief.

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