



## The Long Road to a Common Understanding Sustainable Development and Article 6 of the Paris Agreement

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# The Long Road to a Common Understanding

## Sustainable Development and Article 6 of the Paris Agreement

by Sven Braden, Independent Consultant, Karen Holm Olsen, UNEP DTU Partnership and Marion Verles, SustainCert

Article 6 of the Paris Agreement aims to increase NDC ambition by mitigating emissions through voluntary cooperation among Parties. Such cooperation is pursued in three different ways: 1) decentralized cooperative approaches that involve Internationally transferable mitigation outcomes (ITMOs, described in Art. 6.2), 2) a centralized mechanism that generates emission reductions and contributes to sustainable development (Art. 6.4) and/or 3) non-market approaches (Art. 6.8). The three approaches not only differ in scope and governance. The mandate for developing the Article 6 “rulebook” also anticipates different regulatory outcomes for each approach. While cooperative approaches (Art. 6.2) will be regulated by guidance, the Article 6.4 mechanism calls for rules, modalities and procedures. The fact that Article 6.8 only mandates a work programme reveals that the architectural determination of the framework for non-market approaches is still open.

### Sustainable Development – a common feature of Article 6 voluntary approaches

Despite the differences between the Article 6 approaches, they also share important common features. Article 6.1 suggests that Parties pursue voluntary cooperation to enable increased climate action ambition and promote SD and environmental integrity. Promotion of SD is reiterated within the paragraphs of the respective approaches.

Between 2017 and 2018 the Sustainable Development Initiative (SDI) examined the positions of all Parties on the draft Article 6 rulebook in order to seek a better understanding of SD in the context of voluntary cooperation, see CMR 03-2018.

The SDI identified six issues that were brought up by Parties and that may be relevant for SD promotion: Governance, Safeguards, Stakeholder Inclusivity, SD Indicators, SD Assessment and Transparency.

In 2018 the SDI organized a series of workshops with Article 6 negotiators and other relevant stakeholders to discuss if and how the identified issues may be implemented as provisions of the Article 6 rulebook. The SDI sees strong provisions on SD in the Article 6 rulebook as crucial in improving the credibility of future carbon markets and regaining public support for

The Sustainable Development Initiative (SDI) is a multi-stakeholder initiative which promotes the implementation of strong SD provisions in Article 6. SDI activities started in 2017 with a Party driven policy dialogue. From 2019 to 2020 the SDI includes (1) a Party driven dialogue with Article 6 negotiators, (2) the piloting of SD approaches in the field and (3) continuous outreach to relevant carbon market players. The SDI is operated by UNEP DTU and the Gold Standard Foundation and supported by the Governments of Belgium, Finland, Germany, Norway and Sweden.

**Table 1: Key issues for SD promotion**

<b>SD Issues Identified in Parties' Article 6 Submissions</b>	<b>Description</b>
1. Governance	<ul style="list-style-type: none"> <li>• National prerogative</li> <li>• Decision making</li> </ul>
2. Safeguards	<ul style="list-style-type: none"> <li>• Identify, prevent and mitigate negative, unintended consequences of Article 6 interventions</li> </ul>
3. Stakeholder Inclusivity	<ul style="list-style-type: none"> <li>• Opportunity for stakeholders to engage</li> <li>• Grievance/complaints mechanism</li> </ul>
4. Sustainable Development Indicators	<ul style="list-style-type: none"> <li>• Selection of SD indicators</li> <li>• Possible alignment with Sustainable Development Goals (SDGs)</li> </ul>
5. SD Assessment, MRV	<ul style="list-style-type: none"> <li>• Ex-ante/ex-post assessment</li> <li>• Quantification of SD contributions (incl. selection of indicators, baseline or reference scenario, monitoring of progress over time)</li> </ul>
6. Transparency and Reporting	<ul style="list-style-type: none"> <li>• Information, reporting</li> <li>• Availability of data as required under the Enhanced Transparency Framework of Article 13</li> </ul>

environmental markets. However, not all Parties agree on such a strong and common SD position.

Depending on the issue under discussion (Governance, Safeguards, Stakeholder Inclusivity, SD Indicators, SD Assessment and Transparency), the exchange with Parties revealed a wide and diverse spectrum of views and expectations. However, there is consensus between all Parties that the determination of SD is a national prerogative. Even though this argument is often used to avoid substantive discussions on SD, it is important to stress the importance of the national prerogative as a guiding principle of both the Paris Agreement and the SDGs.

On the positive side, we note that no Party has raised objections to the content under the six SD areas. Diverging views mainly occur when it comes to the role of the UNFCCC framework and whether it should provide guidance. Many Parties

see merits in international coordination on how to promote sustainable development under Article 6. They support joint elaboration of voluntary SD tools since they see them as a means to achieve much needed capacity building. Others oppose any form of international oversight, arguing this would undermine their national prerogative.

## Nationally determined sustainable development

In addition to continuing the dialogue with Parties and outreach to carbon market players, in 2019 the SDI started preparations for piloting of SD approaches in an Article 6 context. Piloting of SD approaches is based on design considerations to promote SD through the six key issues. The integration of piloting approaches will generate further knowledge on how

nationally determined SD priorities can be promoted and implemented within the framework of voluntary cooperation under Article 6.

Building on existing work by UNEP-DTU, Gold Standard and other partners, the SDI benchmarked existing SD approaches in the context of Article 6 implementation. The SDI developed an Assessment Grid to evaluate existing SD tools and approaches against criteria in each of the six SD areas. This assessment can be used to develop guidance for policy makers and implementers on which tools are suitable for SD development in the various approaches of Article 6 pilots (e.g. policies, programmes and projects). The Assessment Grid was applied to assess four existing SD tools and approaches, see table below.

The results of the evaluation concluded that Gold Standard for the Global Goals and ICAT SDM most comprehensively address the criteria in the six SD assessment areas, cp. table 3.

The main difference between the two approaches is directly attributable to their respective natures: Gold Standard for the Global Goals is managed by an independent, non-profit standards body while ICAT SDM is a procedural, technical guide for practitioners. While ICAT covers policy level interventions not covered under Gold Standard for the Global Goals, the latter includes standard requirements on verification, ex-post monitoring and SD claims management.

UNDP CLIP (see CMR 02-2018) is strong on safeguards, stakeholder inclusivity and SD objectives. However, it does not require or encourage a grievance mechanism nor does it provide detailed guidance on and requirements for MRV or

**Table 2: Range of SD tools and approaches assessed for the analysis**

SD Tools and Approaches	Description	Link
<b>Gold Standard for the Global Goals (GS4GG)</b>	A broad range of activities, covering standalone carbon mitigation projects, supply chain interventions and impact investment funds, can use Gold Standard for the Global Goals to quantify and certify their contributions to the SDGs.	<a href="https://www.goldstandard.org/project-developers/standard-documents">https://www.goldstandard.org/project-developers/standard-documents</a>
<b>UNDP Climate Action Impact (CLIP)</b>	The tool is designed to help a broad range of stakeholders in managing the design, development, implementation, financing, measurement, reporting and verification of the various types of actions. The tool seeks to enable stakeholders to identify significant impacts, define indicators, quantify impacts, set targets and track the progress of the actions towards the NDCs.	<a href="https://climateimpact.undp.org/#/">https://climateimpact.undp.org/#/</a>
<b>ICAT Sustainable Development Methodology (ICAT SDM)</b>	The methodology provides an overarching framework and process for assessing the environmental, social and economic impacts of policies and actions. The purpose is to help users assess sustainable development impacts of NDC policies and actions towards multiple SDGs.	<a href="https://climateaction-transparency.org/wp-content/uploads/2019/06/ICAT-Sustainable-Development-Methodology-June-2019.pdf">https://climateaction-transparency.org/wp-content/uploads/2019/06/ICAT-Sustainable-Development-Methodology-June-2019.pdf</a>
<b>CDM SD Tool</b>	The tool enables Clean Development Mechanism (CDM) project developers to showcase the sustainable development benefits of their projects and programmes of activities. The tool contains a short survey about the project's co-benefits, which is used to create a detailed sustainable development co-benefits report that is then published on the UNFCCC's website for public access.	<a href="https://www4.unfccc.int/sites/sdcmicrosite/Pages/SD-Tool.aspx">https://www4.unfccc.int/sites/sdcmicrosite/Pages/SD-Tool.aspx</a>

**Table 3: Overview of addressed areas relevant for SD**

Assessment areas	GS4GS	ICAT SD Methodology	UNDP CLIP Tool	CDM SD Tool
Governance: Does the approach require Host Party approval?	(✓)	✗	✗	✓
Safeguards: Does the approach provide for generic and specific safeguards to be complied with?	✓	✓	✓	✗
Stakeholder inclusivity, grievance mechanism?	✓	(✓)	(✓)	(✓)
SD impact assessment foreseen, alignment to SDG?	✓	✓	✓	(✓)
MRV and claims management addressed?	✓	(✓)	✗	✗
Transparency and Reporting: Does the approach facilitate aggregation of data?	(✓)	(✓)	(✓)	(✓)

SD claims management. The CDM SD tool appears to be lagging behind in all thematic areas – this is not unexpected and is in line with previous literature on the issue.

## SD Matrix – a tool to promote SD in ETS linking arrangements

Another part of the SDI pilot activities addresses the linking of emissions trading systems (ETS linking). ETS linking is a cooperative approach which has some major differences compared to the policies, programmes and projects usually discussed under Article 6.2. For example, ETS linking per se does not necessarily lead to GHG reductions in participating jurisdictions. In addition, there is no clear distinction between host and investor Parties. In ETS linking, all participating Parties could be considered “host” Parties. Hence, they are equally in charge of ensuring that the ETS linking pro-

mototes sustainable development and/or does not hinder such development.

Unlike other cooperative approaches under Article 6.2, ETS linking is a joint endeavour of participating Parties, hence it does not allow clear allocation of SD prerogatives to one jurisdiction. Consequently, the obligation to promote SD via ETS linking needs to be addressed by joint means (e.g. within linking arrangements, within joint commissions, etc.).

The SDI developed a matrix which puts the six high-level SD issues - Governance, Safeguards, Stakeholder Inclusivity, SD Objectives, Assessment and Transparency - into the specific context of ETS linking. The purpose of the SD matrix is to mitigate the risks and promote the benefits of ETS linking, e.g. by acknowledging domestic legislation and harmonization of ETS rules as a means to embed safeguards in ETS linking. The analysis concludes with respective recommendations on SD in ETS linking arrangements.

One of the main challenges is to determine and monitor relevant indicators on co-benefits related to ETS linking (e.g. improved air quality, increased use of renewable energy or job creation). The selection and monitoring of credible SD indicators will only deliver tangible results if the Parties ensure cross-border collaboration when developing methodologies for selecting and monitoring SD indicators. Further research and piloting is needed here.

## Sustainable development in the current negotiations draft

The six SD issues are addressed to an extent in the current draft negotiation texts of the Article 6 rulebook. Aspects of

Governance, Safeguards, Stakeholder Inclusivity, SD Objectives, Assessment and Transparency form part of the discussions that will eventually be concluded at COP 25 in Chile at the end of 2019. An examination of the draft negotiation text (26.06.2019) reveals that operationalization of SD provisions differs in the three Article 6 approaches.

For cooperative approaches under Article 6.2, elements on SD are mainly mentioned as reporting elements within the biennial transparency report. Aspects of governance and SD objectives are mentioned. The same is true for safeguards with regard to avoiding negative environmental and social impacts. However, there is no reference to any ex-post assessment/MRV of SD. Furthermore, the rulebook on Article 6.2 provides no provisions on Stakeholder Inclusivity.

**Table 4: SD high level issues in the context of ETS linking**

Areas Relevant for SD	Specific ETS Linking Issues	Best Practice Recommendation Linking Arrangements (LAs)
Governance	Are the linking arrangements (LAs) in line with national SD priorities? Are participating jurisdictions ready to assess and mitigate any negative unintended consequences?	Oversight body that represents the interests of ETS linking participants and enables conflicts resolution. Reference to national prerogative.
Safeguards	Are risks that may arise from ETS linking (e.g. increase in domestic emissions, reduction of environmental and social co-benefits, incentivization of weak GHG reduction targets) mitigated by means of safeguards?	Embedding safeguards that address risks of ETS linking through <ul style="list-style-type: none"> <li>• Harmonization of key features of participating ETS</li> <li>• Recognition of domestic safeguard to support social and environmental co-benefits (e.g. air quality provisions, training programmes to address job losses).</li> </ul>
SD Assessment	Is progress towards SD of ETS linking objectives monitored during implementation?	Establishment of MRV mechanism that assesses impacts of ETS linking (ex ante and ex post) for envisaged SD objectives. Assessment should be based on selected SD indicators (e.g. SDG indicators).
Stakeholder Inclusivity	Are stakeholders consulted (1) during linking negotiations as well as during (2) the linking phase?	Transparent and inclusive process with clear engagement rules in place, including grievance mechanism. Stakeholder consultation should allow public access to all relevant documents and official reports.
Transparency and Reporting	Do LAs provide for a process to submit appropriate information on how they promote sustainable development, as required by Art. 13 PA and Decision 18/CMA.1?	Establishment of a process to (regularly) submit information (structured summary) on how ETS linking supports progress towards achievement of SD objectives.

With regard to the mechanism under Article 6.4, SD elements are more detailed. SD areas are embedded into the architecture of the mechanism. Governance and national prerogative on SD are part of the participation requirements. SD should be ensured by a statement of the host country confirming that the activity fosters SD. Applicable SD objectives would be specified by Parties and notified to the Supervisory Body of the mechanism, and safeguards are proposed both to avoid negative environmental and social impacts and to promote human rights within the activity processes. The proposed text also addresses Stakeholder Inclusivity, including a grievance mechanism for Parties or other participants in the mechanism to appeal decisions of the Supervisory Board. The Supervisory Body could also receive complaints in cases where the safeguarding provisions of the activity design have been violated. As in the draft text for Article 6.2, there is no reference to ex-post assessment/MRV of SD in Article 6.4.

Article 6.8 contains non-market approaches to assist countries in the joint implementation of their NDCs. The draft mentions focus areas with SD relevance, such as sustainable forest management, energy efficiency schemes or integrated water management. Concrete references to specific elements that may promote SD are largely missing. However, the text on Article 6.8 contains a proposal which is not found in the other Article 6 approaches, namely a reference to SD assessment. As part of a future work programme for activities, the draft proposes the development of tools for measuring and monitoring implementation of non-market approaches in terms of their contribution to SD and poverty eradication.

## Conclusions

Though the negotiations among Parties on the rulebook for Article 6 are mainly focused on accounting of mitigation outcomes, discussions on SD clearly have matured over the last two years. The draft rulebook on Article 6 currently proposes combining voluntary cooperation with elements like environmental and social safeguards and nationally determined SD objectives. Promotion of SD, as required throughout Article 6, will not only be pursued by interested Parties within the UNFCCC process.

Experience gained by the SDI indicates that domestic policy-makers and non-party stakeholders (such as the private sector) expect SD elements to be prioritized and implemented as soon as the Article 6 rulebook is agreed – regardless of whether they are specifically mentioned in the rulebook itself. This observation suggests a considerable advancement compared to the role SD played during negotiations on the Kyoto Protocol rulebook – better known as the Marrakesh Accords. The ongoing exchange on issues relevant in promoting SD helps to achieve a common understanding on SD in Article 6. These issues may one day serve to inform a portfolio of nationally determined 'best practice' tools and approaches that will be applied under Article 6.

As our analysis has shown, existing SD tools – especially ICAT SDM and Gold Standard for the Global Goals – for use in mitigation policies and projects already address many if not all of the identified SD areas. It is also clear that further work and capacity building is necessary, particularly when it comes to assessing and monitoring SD over time. SD is a central element for many market players and for some Parties, but much needs to be done to achieve a common understanding of how it can be best implemented on the ground. Developing a common body of knowledge through piloting, cases studies and capacity building activities can help alleviate some of the concerns associated with SD and accelerate the adoption of credible SD approaches in the context of Article 6.

The level of international guidance Parties want to provide to assist such common understanding remains unclear. Having SD provisions reflected in the Article 6 rulebook will certainly help in that regard. Embracing this issue could become the legacy of the incoming Chilean COP Presidency. The SDI will continue its policy dialogue beyond COP25. In addition, work on piloting and testing SD approaches will continue with onsite implementation currently envisaged in Costa Rica, Senegal and a yet-to-be-named country in Asia.