



Promoting Sustainable Development in Article 6 pilot activities

Olsen, Karen Holm; Arens, Christof

Publication date:
2021

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

[Link back to DTU Orbit](#)

Citation (APA):
Olsen, K. H., & Arens, C. (2021). *Promoting Sustainable Development in Article 6 pilot activities*.

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

Promoting Sustainable Development in Article 6 pilot activities

Party and expert views on good practice SD assessment and reporting to implement the Glasgow COP26 decisions

Karen Holm Olsen, UNEP DTU Partnership

Christof Arens, Wuppertal Institut

Imprint

This paper is part of a collaborative effort by Wuppertal Institute and the Sustainable Development Initiative.

It is part of the "Carbon Mechanisms" project, formerly known as JIKO, implemented by the Wuppertal Institute on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety. The positions expressed in this paper are strictly those of the authors and represent neither the opinion of the Wuppertal Institute nor of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety.

To find out more, please go to www.carbon-mechanisms.de

The Sustainable Development Initiative (SDI) for Art. 6 aims at promoting strong provisions on sustainable development for the rulebook of Art. 6. The initiative is a collaboration of UNEP DTU Partnership and the Gold Standard Foundation supported by Germany, Norway and Sweden 2021-22. Views stated are those of the authors and do not represent any consensus among the Parties involved.

Find out more at <https://unepdtu.org/project/sustainable-development-dialogue-on-the-implementation-of-article-6-of-the-paris-agreement-under-the-unfccc-process/>

Autors

Karen Holm Olsen, UNEP DTU Partnership
Christof Arens, Wuppertal Institut

Acknowledgements

The authors would like to thank Hugh Salway for review comments, Supanut Chotevitayatarakakor, Puttipar Rotkittikhun, Felipe De Leon, Simon Fellermeier, and Kristian Holmberg for their time to give interviews and Jorge Ortigosa for note taking. We thank Thomas Forth, Malte Krieger, Nora Wissner and Marion Verles for speaking, sharing views and experience in a workshop.

Version

November 2021

The texts of this publication are licensed under Creative Commons | Attribution-NonCommercial-NoDerivatives 4.0 International license | The license is available at <http://creativecommons.org/licenses/by-nc-nd/4.0/>



Contents

	Summary	4
1	Introduction	5
2	Glasgow COP26 decisions to promote sustainable development in Article 6 activities	7
3	Views by Parties and experts on good practice guidance for SD assessment in Art. 6 pilot activities	14
	3.1 Activity governance	14
	3.2 SD criteria and indicators	15
	3.3 Safeguards	16
	3.4 Stakeholder involvement	17
	3.5 Transparency and Reporting	18
4	Conclusions and next steps	19
5	References	21
6	Annex 23	

Summary

COP 26 finally brought agreement and adoption of the Article 6 rulebook. Regarding provisions to promote sustainable development (SD), the Glasgow decisions include:

- for Article 6.2 information on SD in the Initial Report and in subsequent BTRs. Activity developers are required to report how each cooperative approach is consistent with and contributes to the SD objectives of the host Party, avoids negative impacts and respects human rights and other rights.
- for Article 6.4 the same information as in Article 6.2 shall be reported, supported by operational means provided by the Supervisory Body. Information about SD shall be made publicly available. Activity design requirements specify stakeholder consultations and public participation and a grievance mechanism to appeal SB decisions is established.
- For Article 6.8, the importance of a holistic approach is recognized to enable cooperation for NDC implementation in the context of SD. A focus area for the work programme on non-market approaches is mitigation measures to address climate change and contribute to SD.

The Glasgow decisions for SD in Article 6 represent a major step forward compared to the CDM, primarily due to the mandate for international level harmonization and support to SD assessment and reporting integrated with GHG assessment and reporting.

Putting SD assessment and reporting into practice, without undue burdening and raising costs, will require considerable capacity building for developing country host Parties and other stakeholders. This is included in the Art. 6 rulebook cover decision, which requests the UNFCCC secretariat to conduct a capacity building program to assist Parties in participating in the mechanism.

Mandated capacity building efforts could build on or be complemented by knowledge sharing and practitioner networks of the likes of the Community of Practice developed by the SDI. Such informal networks can help promote good practice, sharing of experiences and elevate the importance of the issue by making tools and knowledge more accessible.

1 Introduction

Avoiding dangerous anthropogenic climate change must be accompanied by a development path safeguarding sustainable economies, diverse environments and healthy societies. This interconnection is recognized several times in the Paris Agreement (PA), notably in Article 2 (objectives), Article 4 (mitigation) and Article 6 (cooperative approaches). One characteristic feature of all activities under Article 6 is that they shall contribute to sustainable development (UNFCCC 2015).

The alignment of the two agendas offers more synergies than trade-offs to be harnessed between GHG mitigation actions and sustainable development impacts. This applies also to market-based international cooperation, where aligning sustainable development and NDC ambition raising can support the transformation required to achieve both the 2030 agenda as well as the Paris Agreement's objectives. Such alignment will provide consistency and add legitimacy for mainstreaming of sustainable development and transformational change in carbon markets.

However, the 2018 Katowice climate package on the implementation rules of the Paris Agreement, the so-called rulebook, did not cover decisions on operationalizing Article 6 (Oberghassel et al 2019). Decisions on the Art. 6 rulebook were delayed because Parties could not agree on crucial aspects of the rulebook including how CDM projects and CERs should be allowed to transition to the Art. 6 world. In the meantime, early activities under Art. 6 by different actors went ahead in the absence of clear-cut rules. In many of them, sustainable development is mentioned.

Crucial questions regarding SD assessment in Art. 6 pilots therefore include: How will actors carrying out Art. 6 pilots feature SD assessment in their practical work? Do buyers' regard the issue as important? How do host countries approach the issue, is there an alignment of SDG and climate mitigation processes in the countries? What framework for SD assessment is used? How are practical issues regarding governance being solved? What are countries' experiences, and capacity building needs?

This paper aims to advance the discussion on these questions. To address the matter, we conducted an online expert workshop as well as an interview series. The workshop "The Next Steps: Promoting Sustainable Development in Article 6 pilot activities after COP 26" took place on October 26, 2021, and featured, among other things, inputs and views from Parties, Practitioners and Researchers (see Agenda in the Annex). The authors are thankful to the speakers and workshop participants for sharing their experience and insights. Interview requests were sent to both buyers / donors of piloting programs from Sweden and Switzerland as well as selected host country representatives from Costa Rica and Thailand. Four semi-structured interviews were conducted in order to obtain on-the-ground information on their respective views regarding the assessment of SD impacts in practice, cp. questionnaire in the annex. For confidentiality reasons, it was agreed that if a statement by an interviewee or expert is used, we reference the country/Party/agency interviewed, not the person(s) name. This is complemented by insights from a desktop-literature review.

While finalizing this paper, the Glasgow climate pact was adopted including a robust Art. 6 rulebook. The rules on how to deal with SD issues in Art. 6 activities are much clearer now. Yet application in concrete Art. 6 activities will take time to translate the rules into common SD tools and good practice implemented nationally appropriate.

The early activities and pilots will continue, now with more guidance but still no practical experience on how to implement new elements of market-based cooperation that go beyond CDM Kyoto Protocol experience.

The paper starts with depicting the SD-related provisions in the Art. 6.2 guidance and the rules, modalities and procedures for Art. 6.4. We then present the insights gained from the interviews, the workshop and the literature. Based on this, recommendations are developed for the next steps, structured according to the different actors.

2 Glasgow COP26 decisions to promote sustainable development in Article 6 activities

Paris Agreement SD objectives and negotiations leading up to Glasgow

The intrinsic relationship that climate change actions and impacts have with sustainable development and poverty eradication are recognized in the preamble of the Paris Agreement, in the 2030 Agenda and the IPCC 1.5°C special report (UNFCCC 2015; UN General Assembly 2015; IPCC 2018).

Article 6 of the Paris Agreement enables voluntary cooperation between Parties, the private sector and other stakeholders and has the twin objective to allow for higher ambition in NDC mitigation and adaptation actions and to promote sustainable development and environmental integrity (UNFCCC 2015). Each of the three market and non-market approaches to voluntary cooperation state sustainable development as a key objective. In Article 6.2 activities agreed bi- or multilaterally Parties shall promote sustainable development. In Article 6.4 a UN-governed mechanism is established for the mitigation of greenhouse gas emissions and to support sustainable development. Regarding non-market approaches, Art. 6.8 stipulates that these are to take place “in the context of sustainable development and poverty eradication”.

Over the six years it has taken Parties to negotiate and agree the 'rulebook' for Article 6 implementation, draft text provisions to promote sustainable development from Paris 2015 to Madrid 2019 have been quite inadequate to ensure that the Paris Agreement objectives are translated into adequate implementation rules (Sustainable Development Initiative 2020; United Nations Environment Programme 2021). Likewise, in the past under the Kyoto Protocol 1997-2020, promoting sustainable development was a key objective of the Clean Development Mechanism (CDM). However, it was not enabled by sufficiently strong text provisions at international level, which led to disappointing and ambiguous results for sustainable development with much room for improvement (Arens et al. 2015; Olsen et al. 2017).

Against this background, the Glasgow decisions for the Article 6 rulebook mark a good starting point to promote sustainable development in Article 6 activities. In the following, we give an overview of the Glasgow text provisions to promote sustainable development for the different cooperative approaches.

Glasgow decisions to promote SD through Article 6 cooperation

Article 6.2

For the Article 6.2 guidance on cooperative approaches for internationally transferred mitigation outcomes (ITMO) transactions, the Glasgow text mandates reporting of **information about sustainable development in the initial report** and in subsequent **regular biennial transparency reports** under the enhanced transparency framework (ETF) (UNFCCC 2021a).

The decision states that **SD reporting is mandatory**, in the form of a 'shall' requirement with regard to information to be provided by developers, how each cooperative approach is **consistent with and contributes to the sustainable devel-**

opment objectives of the host Party, avoids negative impacts as well as **respects human rights and other rights** to health, indigenous people, women, local communities and others.

Table 1 below shows the exact wording relevant to SD of the Glasgow decision for Article 6.2.

While Parties are free to use own tools and existing approaches for SD assessment and reporting agreed bilaterally, the opportunity exists for developers, buyers and host Parties to use the same guidance and tools to be developed by the Supervisory Body for the 6.4 mechanism. The text provisions for what information to report on SD is exactly the same for Article 6.2 cooperation and for the Article 6.4 mechanism. This similarity enables that common frameworks for good practice SD assessment and reporting can be informed by the global SDG framework tailor made to meet the needs of nationally determined SD objectives.

Table 1: SD provisions in the Article 6.2 guidance on cooperative approaches; Source: UNFCCC 2021a

ELEMENTS	ISSUES	TEXT PROVISIONS
Cover decision	Cognizant of decision- /CMA.3,	2. Clarifies that the annex requires information to be reported in the structured summary pursuant to decision 18/CMA.1 (Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement), annex, paragraph 77(d), including, the information to be reported as per paragraph 77(d)(iii); <i>Note by the authors: The §77(d)(iv) of the ETF (FCCC/CP/2018/L.23) specifies that each Party that participates in cooperative approaches... shall also provide... 'Information on how each cooperative approach promotes sustainable development... consistent with decisions adopted by the CMA on Article 6'.</i>
Annex: III. Reporting	A. Initial report 18. The initial report shall contain comprehensive information to:	(i) Describe how each cooperative approach will: (i) Minimize and, where possible, avoid negative environmental, economic and social impacts; (ii) Reflect the eleventh preambular paragraph of the Paris Agreement, acknowledging that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity, (iii) Be consistent with the sustainable development objectives of the Party, noting national prerogatives;
	C. Regular information 22. Each participating Party shall also include, as an annex to its biennial transparency reports that are submitted in accordance with paragraph 10(b) of the annex to decision 18/CMA.1 and no later than 31 December of the relevant year, the following information on how each cooperative approach in which it participates:	(f) Minimizes and where possible avoids negative, environmental, economic and social impacts; (g) Reflects the eleventh preambular paragraph of the Paris Agreement, acknowledging that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity; (h) Is consistent with and contributes to the sustainable development objectives of the Party, noting national prerogatives;

Article 6.4

The Annex to the Article 6.4 decision describes the rules, modalities and procedures for the mechanism and mention sustainable development seven times:

With regard to governance functions, the Supervisory Body is requested to establish the requirements and processes necessary to operate the mechanism with regard to the same information about SD as requested under the Article 6.2 mechanism.

Namely, to provide the **operational means for project developers to report how each cooperative approach is consistent with the sustainable development objectives** of the host Party, avoids negative impacts as well as respects

human rights and other rights to health, indigenous people, women, local communities and others.

According to the participation responsibilities, each **Host Party** needs to communicate publicly to the Supervisory Body **how its participation in the mechanism contributes to sustainable development**. This provision is similar to the CDM requirements for Designated National Authorities (DNAs) to indicate national priorities for sustainable development as a basis for the assessment, if each cooperative approach is aligned with Host Party national priorities for sustainable development, noting national prerogatives.

The new aspect for the Article 6.4 mechanism is to require that this information is made **publicly available**. In the experience of CDM, host country approval by the DNA through a Letter of Approval (LoA) was sufficient for a developer to proceed with a project. However, as no information was required regarding how a CDM project contributed to national priorities for sustainable development, this lack of publicly available information was the basis for a 'race to the bottom' for SD in the early days (see, p.ex., Sutter and Parreno 2007). Rumours about corruption as a barrier for project development also circulated, as the process was non-transparent without information being available, what a DNA decision was based on. Hence, the Glasgow text provisions provide a clear improvement compared to the CDM.

The activity design requirements specify provisions **to avoid or minimize negative impacts** including for **stakeholder consultations** and public participation in line with national arrangements. Similar to the CDM rules, the Host Party is requested to approve to the Supervisory Body that an activity fosters sustainable development in the host country, however, now based on based on a confirmation of information by the developer.

Moreover, there is for the first time a provision for an independent grievance process that can be requested by stakeholders, activity participants and participating Parties, who can also appeal decisions by the Supervisory Body. This is a major improvement compared to the CDM framework, where the term 'grievance' was not included and subject to endless fierce debates in the context of the CDM reform agenda.

Furthermore, the Glasgow decision provides brief requirements for **validation, registration, monitoring, verification/certification** and **issuance** of credits. As information about how an activity promotes sustainable development is now part of activity design requirements, we understand that this information will be subjected to the same - or similar - MRV requirements as for emission reductions.

This would be another major improvement compared to the CDM. However, if this understanding is correct **needs to confirmed**, possibly in relation to the review of the CDM SD tool by the Supervisory Body, as this was not required under the CDM rules.

This request to the Supervisory Body to review the CDM sustainable development tool and other tools and safeguard systems as a basis to develop similar tools for the mechanisms by end 2023 is contained in the cover decision to the rules, modalities and procedures, making it a concrete task of the body's work programme.

Table 2 below shows the exact wording relevant to SD of the Glasgow decision for Article 6.4.

Table 2: SD provisions in the Article 6.4 rules, modalities and procedures; Source: UNFCCC 2021b

ELEMENTS	ISSUES	TEXT PROVISIONS
Cover decision	5. Requests the Supervisory Body to:	(c) Review the sustainable development tool in use for the clean development mechanism and other tools and safeguard systems in use in existing market-based mechanisms to promote sustainable development with a view to developing similar tools for the mechanism by the end of 2023;
	14. Requests the secretariat, including through its regional collaboration centers and in consultation with the Supervisory Body, to design and implement, in consultation with Parties, a capacity-building programme to assist Parties wishing to voluntarily participate in the mechanism to, inter alia:	(a) Establish the necessary institutional arrangements to implement the requirements contained in the annex; (b) Develop the technical capacity to design and set baselines for application in host Parties; <i>Note by the authors: Under the CDM the Designated National Authorities (DNAs) played a key role to approve projects/programmes contribution to sustainable development objectives of Host Parties. DNAs will have enhanced responsibilities for the mechanism incl. to build technical capacity for SD assessment, reporting and approval as part of institutional arrangements for the mechanism.</i>
Annex: III. Supervisory Body	24. The Supervisory Body shall, in accordance with relevant decisions of the CMA:	(a) Establish the requirements and processes necessary to operate the mechanism relating to, inter alia: (ix) The eleventh preambular paragraph of the Paris Agreement, acknowledging that climate change is a common concern of human-kind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity; (x) The application of robust, social and environmental safeguards; (xi) The development of tools and approaches to assess and report information about how each activity is fostering sustainable development, while acknowledging that the consideration of sustainable development is a national prerogative.
IV. Participation responsibilities	26. Each host Party of Article 6, paragraph 4, activities shall, prior to participating in the mechanism, ensure that:	(d) It has indicated publicly to the Supervisory Body how its participation in the mechanism contributes to sustainable development, while acknowledging that the consideration of sustainable development is a national prerogative;
V. Article 6, paragraph 4, activity cycle	31. The activity:	(d) Shall also: (iv) Minimize and where possible, avoid negative environmental and social impacts; (e) Shall undergo local and, where appropriate, subnational stakeholder consultation consistent with applicable domestic arrangements in relation to public participation , local communities and indigenous peoples, as applicable;
	40. The host Party shall provide to the Supervisory Body an approval of the activity, prior to a request for registration. The approval shall include:	(a) Confirmation that and information on how the activity fosters sustainable development in the host Party <i>Note by the authors: The subsequent sections C (Validation), D (Registration), E (Monitoring), F (Verification and certification) and G (Issuance) all apply to the activity requirements set out in the above rules, modalities and procedures incl. to promote sustainable development.</i>
	62. Appeal/grievance	Stakeholders, activity participants and participating Parties may appeal decisions of the Supervisory Body or request that a grievance be addressed by an independent grievance process.

Article 6.8

For the framework on non-market approaches (NMAs) to sustainable development the cover decision recognises the importance of an integrated and holistic approach to enable voluntary cooperation for NDC implementation in the context of sustainable development and the Paris Agreement. Specific focus areas for the work programme on NMAs include mitigation measures to address climate change and contribute to sustainable development.

The Annex details what the work programme under the framework shall focus on. Each NMA is meant to assist participating Parties in implementing their NDCs in a holistic and integrated manner including by contributing to sustainable development and poverty eradication. Specific work programme activities will start in 2022 and include development and implementation of tools as well as identifying and sharing information, best practices, lessons learned and case studies relevant to NMAs. It seems possible and likely that this work could include support for development, implementation and sharing of experience related to sustainable development tools, as such work and SD impact assessment is not (yet) driven by market forces.

In the past, CDM projects were likely to get a premium price for credits with sustainable development impacts. However, diverse SD impacts for health, biodiversity, jobs, women empowerment etc. are not yet priced in the carbon market, though demand is there for carbon credits with a 'social face'. The willingness to pay for other impacts for sustainable development remain an open question. The carbon market has only started to embrace SD impact assessment as part of new business models under the voluntary market in response to corporate demand for certified sustainability impacts. Hence, further work on development of tools and approaches to assess SD and transformative impacts of mitigation and adaptation actions might fit under the NMA work programme, subject to confirmation.

Table 3 below shows the exact wording relevant to SD of the Glasgow decision for Article 6.8.

Table 3: SD provisions in the Article 6.8 framework for non-market approaches (NMAs);
Source: UNFCCC 2021c

ELEMENTS	ISSUES	TEXT PROVISIONS
Cover decision	Recognizing that the work programme is to be implemented in the context of the Paris Agreement in its entirety, including its preamble,	Recognizes the importance of integrated, holistic and balanced non-market approaches to enable voluntary cooperation being available to Parties to assist in the implementation of their nationally determined contributions, in the context of sustainable development, in a coordinated and effective manner; (c) Decides that initial focus areas of the work programme activities, referred to in decision 1/CP.21, paragraph 8(a)(i)a of the annex, include but is not limited to the following: (ii) Mitigation measures to address climate change and contribute to sustainable development
Annex: II. Non-market approaches under the framework	2. Each NMA facilitated under the framework, in the context of Article 6, paragraph 8:	(b) Assists participating Parties in implementing their NDCs in an integrated, holistic and balanced manner, including through, inter alia: (ii) Contribution to sustainable development and poverty eradication.
V. Work programme activities	8. The work programme will be initiated in 2022 and include, but not limited to, the following activities:	(i) Developing and implementing tools, with the assistance of the secretariat, including a UNFCCC web-based platform for recording and exchanging information on NMAs, including information identified through the work programme, and supporting the identification of opportunities for participating Parties to identify, develop and implement NMAs; (ii) Identifying and sharing information, best practices, lessons learned and case studies in relation to developing and implementing NMAs, including on how to: (d) Leverage and generate mitigation co-benefits resulting from adaptation actions and /or economic diversification plans that assist the implementation of NDCs;

3 Views by Parties and experts on good practice guidance for SD assessment in Art. 6 pilot activities

Good practice guidance to promote SD in Article 6 pilot activities was developed by the SDI in 2020 (available [here](#)) to assist activity proponents and others involved in developing agreements for ITMOs to understand and establish the key elements for successful cooperation. The guidance is simple and short, intended for ex-ante, desk-based assessment of a pilot activity at concept development stage, before a detailed Mitigation Action Design Document (MADD) is developed.

The five good practice elements of the guide are informed by a Party driven policy dialogue since 2017 to help overcome knowledge and political barriers to promote SD in Article 6 cooperation. Each of the good practice elements were published in 2018 as a Policy Brief (available [here](#)) and are briefly described below, updated with comments how the Glasgow decisions for Article 6 relate to the elements. The good practice guidance is followed by Party and expert views and experience to inform development of a community of practice for implementation of pilot activities after COP26.

3.1 Activity governance

Good practice guidance

Host Party approval that a cooperative approach contributes to the SD priorities of a country is a national prerogative. The sovereignty of a country to decide on SD priorities is the most prominent aspect of activity governance to promote SD. This was the case under the Kyoto Protocol CDM (Verles et al. 2018) and continues to be so under the Paris Agreement Article 6 rulebook. Yet, the major new approach to activity governance for SD assessment after COP26 is that the international level, particularly the Supervisory Body (for A6.4), the UNFCCC Secretariat (for A6.2 reporting in BTRs) and other experts (through capacity building), are now allowed to support host Parties with the development of tools and approaches to enable good practices for SD assessment and reporting. SD assessment is no longer seen as exclusively a national issue, which enables information to be better aligned with the SDG 2030 Agenda framework and shared transparently and publicly as the basis for the Host Party approval. Good practice guidance to implement the new activity governance provisions is to map and explain, which institutions, stakeholders and other interested and affected Parties are involved in what roles and capacities. This includes a description of how information flows, contractual relationships and who provides the functions for monitoring, reporting, review, validation, issuance validation and Host Party approval.

Party and expert views

Host country experts were generally of the view that international guidance for SD assessment and reporting would be helpful to assist governments with national approval. A harmonization of existing SD and other co-benefit tools to be aligned

with the global SDG framework was welcomed, noting concerns that country conditions and flexibility to accommodate these would be needed through development of nationally appropriate tools. Another concern was to keep transaction costs for SD assessment and reporting manageable, not overly complex and demanding in terms of capacity and resources required for national approval.

Government buyers saw the adoption of a clear-cut SDG process & priority setting by the host country as a pre-condition for meaningful SD assessment. The steps to also monitor, verify and certify SD impacts was noted as a new aspect of implementation compared to CDM. Some buyers have already integrated MRV of SD impacts as a mandatory element in procurement for Article 6 pilots. Capacity building in developing countries was seen as very important to enable that Host Parties can participate in Article 6 activities and approve ITMO transactions incl. their contribution to national priorities for SD.

3.2 SD criteria and indicators

Good practice guidance

Selecting SD criteria and indicators is a core task in the SD assessment process. A common framework for host Parties, buyers and other stakeholders are the Sustainable Development Goals of the 2030 Agenda, consisting of 17 goals, 169 targets and 232 indicators (Olsen et al., 2018). A first step for host Parties according to the COP26 rulebook is to define and report, first the time in the Initial Report to the UN-FCCC (for Article 6.2) and/or directly to the Supervisory Body (for Article 6.4), what are the SD objectives of the host Party and how participation in the mechanism contributes to SD. As almost all Parties in the world have signed up to the 2030 Agenda in 2015 and have subsequently developed national SDG plans, strategies and Voluntary National Reviews, the SDG framework can serve as a common reference and starting point. Good practice guidance for Article 6 pilot activities is to follow a simple five step process to identify indicators specific to the activity and the national context (SDI Guide, 2020). Alternatively, the activity developer can screen available SD tools and approaches to select one that fits the purpose of the pilot activity (Braden et. al. 2019).

Party and expert views

Host Parties have different approaches and experience with use of SD criteria and indicators. In Thailand, for example, the domestic system focuses on two aspects, co-benefit assessment and safeguards against negative social impacts. Indicators and criteria were developed prior to agreement on the SDG framework and most templates for reporting are in Thai only. From bilateral engagements between Thailand and Japan, Switzerland as well as Germany different tools and requirements apply for co-benefit assessment. The strategy going forward is to align with international guidance and good practice, while ensuring consideration for national conditions. A challenge to align SD assessment at activity level with the national SDG framework is

that responsibilities for MRV of the SDGs is split across many different national agencies.

In Costa Rica, the approach is to optimize the use of Article 6 cooperative approaches for the kind of world they would like to have, not only for carbon or finance. SDGs are part of the national evaluation, which is based on setting up the infrastructure for transparency to track progress of NDC implementation as well as Article 6 pilots including indicators for SD assessment aligned with national priorities.

Buyer views are that SD priorities are to be set in the host country and that priority will be given to Article 6 pilot proposals, where it is shown that the activity aligns with the host country NDC, Agenda 2030 plan and other national strategic sustainability policies.

Experts highlighted that the quality of carbon credits also depends on how ITMOs and other units contribute to sustainable development. According to the [Carbon Credit Quality Initiative](#), it is important to not only assess the positive and negative impacts for SD but also the synergies, trade-offs and linkages between SDGs. The issue is complex and multi-dimensional, which is why a community of practice can help promote good practice, sharing of experiences and elevate the importance of the issue by making tools and knowledge more accessible.

3.3 Safeguards

Good practice guidance

Safeguards or 'do-no-harm' principles serve the objective of prohibiting negative or harmful outcomes of an activity (Arens and Mersmann 2018 and Verles et. al.). Key questions to solve are:

- What to safeguard (p.ex. human rights, labour rights, prohibiting negative economic impacts, gender equity, conservation issues)
- How to safeguard (p.ex. risk categorization, action plans, impact assessments, monitoring and verification)

In the Glasgow decision, safeguards to avoid negative impacts and to ensure that pilot activities respect human rights and other rights (for health, indigenous people, women, local communities and others) feature prominently as 'shall' requirements both in the Article 6.2 guidance and the 6.4 mechanism. Good practice guidance is to design, implement and carry out MRV for no harm done or to follow international safeguards, ranging from the IFC Performance Standards, the UNDP, the ADB or the Gold Standard for the Global Goals safeguard standards.

Party and expert views

Both from host Party and government buyer perspectives, compliance with human rights is regarded as an important aspect that needs to be addressed internationally to ensure no violation of rights, also for indigenous people, women and others. Yet,

in Thailand support is needed to ensure that safeguards are developed and implemented, as this aspect is not yet integrated into domestic arrangements.

Experts also agree that safeguards are important to avoid negative impacts. The challenge is to enable implementation through integration of international good practice with local and national standards in countries without too much administrative burden and costs.

3.4 Stakeholder involvement

Good practice guidance

Stakeholder inclusivity can help optimize the positive impacts of an activity and ensure that stakeholders affected, especially local communities, are not adversely impacted. An open exchange of information about possible risks, impacts, benefits and opportunities is at the heart of inclusive stakeholder involvement (Verles et. al. 2018). External as well as local risks can be identified and addressed by adapting and improving activity design. The Article 6 'rulebook' from Glasgow provides for stakeholder consultations and public participation in line with national arrangements as part of activity design requirements for the Article 6.4 mechanism. An independent grievance mechanism is also established for stakeholders, activity participants and participating Parties to appeal decisions by the Supervisory Body. Both of the Glasgow provisions are in line with good practice guidance for stakeholder involvement. Further guidance is to identify and list all stakeholders affected by the activity regardless of proximity and to design consultation processes to capture stakeholder views and ensure a transparent process for ongoing stakeholder feedback (SDI guide + ICAT Stakeholder guide).

Party and expert views

In the workshop discussions, practitioner insights were shared about SDG mapping as part of a feasibility study. Experience indicated that considerations for unemployment, gender and other SDG issues have the ability to impact the project design. From a government buyer perspective, a stakeholder engagement strategy and action plan, including a plan for consultation with key stakeholders is required for procurement. Stakeholder participation can help identify and address especially the negative impacts, which project proponents otherwise overlook, as it is not in their self-interest to highlight risks of negative impacts. Generally, stakeholder consultations matter for quality assurance throughout the project cycle and may influence results for the better, if done well.

3.5 Transparency and Reporting

Good practice guidance

Transparency and reporting of climate change actions are facilitated by the Paris Agreement (Article 13) Enhanced Transparency Framework (ETF). Objectives of the ETF are to track progress towards achieving Parties Nationally Determined Contributions (NDCs) and inform the global stocktake towards achieving the Paris Agreement long-term global temperature goal (Braden et al. 2018). Included in the ETF modalities, procedures and guidelines (MPGs), there is a requirement (§77 d) that each Party shall provide information on how each cooperative approach promotes SD.

The Glasgow decision for Article 6.2 guidance specifies what information shall be provided in the Initial Report to the UNFCCC Secretariat and in subsequent regular information provided through Biennial Transparency Reports (BTRs). This information is the same as required for the Article 6.4 mechanism, though governance and oversight is determined bilaterally for 6.2 and by the Supervisory Body for the 6.4 mechanism.

The good practice elements for SD assessment described above can assist Parties to report the information in line with host Party SD priorities. Additional good practice guidance is to seek synergies at national level for MRV, data collection and reporting under multiple international agreements incl. the Paris Agreement, 2030 Agenda and others.

Party and expert views

Assessment and reporting on SD in context of domestic transparency systems is a new feature for most countries. Costa Rica is among the most advanced developing countries, taking a systemic approach through their national climate change metric system ('Sistema Nacional de Métrica de Cambio Climático', SINAMECC), to integrate assessment of impacts for SD, GHG and transformational change of NDC and Article 6 policies and actions to achieve a sustainable, net zero society. Thailand's experience with SD reporting is more linked to CDM and activity level assessment of impacts as well as bilateral initiatives designed to meet buyer requirements.

As mitigation actions and SD outcomes need to scale up and speed up to meet the Paris Agreement and 2030 Agenda global goals in time, experts indicated that a community of practice can help drive a consensus on technical solutions on the ground to promote good practice for SD assessment.

4 Conclusions and next steps

The Glasgow decisions can be considered a decisive step forward for the consideration of SD benefits in Art. 6 activities. The guidance for Art. 6.2 and the Art. 6.4 rules, modalities and procedures form a robust basis on which further work can now build.

This applies to the UNFCCC level, where the Art. 6.4 activity cycle details need to be further developed including SD assessment. Some decisions, especially with regard to MRV of SD benefits, require further interpretation.

The mandate for the Art. 6.4 Supervisory Body to evaluate and develop SD tools and safeguard systems opens the door to learn from previous experience and to develop an integrative but flexible framework for SD assessment. Care needs to be taken to strike a balance between a harmonized international approach and enough flexibility for host countries to accommodate national preferences and conditions. A menu approach can be a promising way forward, cp. earlier evaluations and reports (Arens et al. 2015, Olsen et al. 2017, Kachi et al. 2020).

With regard to host countries, a concrete alignment of the 2030 Agenda and Paris Agreement for the climate at national and global levels is crucial. This is reflected in the Glasgow decisions, which call for reporting of the SD objectives of the host Party and how participation in the voluntary cooperation and/or mechanism contributes to SD, either in the Initial Report to the UNFCCC (for Article 6.2) and/or directly to the Supervisory Body (for Article 6.4).

Promoting SD assessment and reporting in practice, however, will not only require further work on governance and further practical issues, but also considerable capacity building for developing country host Parties and other stakeholders. This is also included in the Art. 6 rulebook cover decision, which requests the UNFCCC secretariat to design and implement a capacity building program to assist Parties to establish institutional arrangements and develop technical capacity to participate in the mechanism. Buyer countries are encouraged to contribute to or complement these capacity building efforts with further resources.

Mandated capacity building efforts could build on or be complemented by knowledge sharing and practitioner networks of the likes of the Community of Practice developed by the SDI. Such informal networks can help promote good practice, sharing of experiences and elevate the importance of the issue by making tools and knowledge more accessible.

With a view to buyer countries and pilot programme developers, next steps include to make SD requirements concrete, when it comes to implementation and to clearly flag buyer interest in high-quality activities that do no harm and carry sustainable development benefits in line with the preferences stated by the host country. This should be accompanied by supporting further development of the respective capacities in the host countries.

Aligning sustainable development and NDC ambition raising in the design and implementation of international carbon markets will help exploit synergies and contribute to enabling the societal and systems transformations needed to limit global

warming to 1.5°C. A joint effort by all stakeholders will now be needed to make assessment of sustainable development benefits in Art. 6 come alive. The adoption of the Art. 6 rulebook marks a promising starting point in this regard.

5 References

- Arens, C., Mersmann, F., Beuermann, C., Rudolph, F., Olsen, K. H., Bakhtiari, F., Fenhann, J. (2015). Reforming the CDM SD Tool. Recommendations for improvement. Berlin
- Braden S., Olsen K. H., Verles M., (2019). GSF Blogs. Commentary: The current state of sustainable development provisions in the Article 6 'rulebook' negotiations. <https://www.goldstandard.org/blog-item/commentary-current-state-sustainable-developmentprovisions-article-6-rulebook>
- IPCC (2018): Summary for Policymakers. In: Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [V. Masson-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)]. In Press, available at: <https://www.ipcc.ch/sr15/> [accessed 8 December 2021]
- Kachi, A., Mooldijk, S. and Dransfeld, B. (2020). Indicators for sustainable development under Article 6 of the Paris Agreement. Berlin.
- Obergassel, W., Arens, C., Hermwille, L., Kreibich, N., Ott, H., & Wang-Helmreich, H. (2019): Paris Agreement: Ship Moves Out of the Drydock. *Carbon and Climate Law Review*, 13(01), 3–18. <https://doi.org/10.21552/cclr/2019/1/4>
- Olsen, K. H., Arens, C., & Mersmann, F. (2017). Learning from CDM SD tool experience for Article 6.4 of the Paris Agreement. *Climate Policy*, 1-13. doi: 10.1080/14693062.2016.1277686
- Olsen, K. H., Verles, M., & Braden, S. (2018). Aligning the Agendas: A Party-driven dialogue on Sustainable Development in the context of Article 6 PA. *Carbon Mechanisms Review*, (1), 27-32.
- Sustainable Development Initiative (2020): Good Practices Preliminary Assessment Guidance Version 1.1, available at: https://www.goldstandard.org/sites/default/files/1.1_sdi_2020_good_practices_preliminary_assessment_guidance_v1.1.pdf [accessed 8 December 2021]
- Sutter, C., & Parreño, J. C. (2007). Does the current Clean Development Mechanism (CDM) deliver its sustainable development claim? An analysis of officially registered CDM projects. *Climatic Change*, 84(1), 75-90
- UNEP DTU Partnership (2021): Position paper by the Sustainable Development Initiative to inform COP26 negotiations on Article 6 of the Paris Agreement, available at: <https://unepdtu.org/project/sustainable-development-dialogue-on-the-implementation-of-article-6-of-the-paris-agreement-under-the-unfccc-process/> [accessed 8 December 2021]
- UNFCCC (2015): Paris Agreement to the United Nations Framework Convention on Climate Change, Dec. 12, 2015, available at: https://unfccc.int/sites/default/files/english_paris_agreement.pdf [accessed 8 December 2021]
- UNFCCC (2021a): Guidance on cooperative approaches referred to in Article 6, paragraph 2, of the Paris Agreement. *cma_auv_12a_PA_6.2*, available at: <https://unfccc.int/documents/310510> [accessed 8 December 2021]
- UNFCCC (2021b): Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement. Proposal by the President. *FCCC/PA/CMA/2021/L.19*, available at: <https://unfccc.int/documents/309980> [accessed 8 December 2021]
- UNFCCC (2021c): Work programme under the framework for non-market approaches referred to in Article 6, paragraph 8, of the Paris Agreement. Proposal by the President. *FCCC/PA/CMA/2021/L.20*, available at: <https://unfccc.int/documents/309985> [accessed 8 December 2021]

- UN General Assembly (2015): Transforming our world: the 2030 Agenda for Sustainable Development, 21 October 2015, A/RES/70/1, available at: <https://www.refworld.org/docid/57b6e3e44.html> [accessed 8 December 2021]
- United Nations Environment Programme (2021): Emissions Gap Report 2021: The Heat Is On – A World of Climate Promises Not Yet Delivered. Nairobi, available at: <https://www.unep.org/resources/emissions-gap-report-2021> [accessed 8 December 2021]
- Verles, M., Braden, S., Taibi, F.-Z. & Olsen, K. H. (2018): 'Safeguarding Principles and Do-No-Harm Approaches for Climate Actions.' 9. UNEP DTU Partnership & Gold Standard Foundation.

6 Annex

Interview questionnaire

Questionnaire | Sustainable Development in Art. 6 Activities

Background

On behalf of the German Environment Ministry, Wuppertal Institute and the Sustainable Development Initiative are currently conducting research on Sustainable Development issues in Art. 6 activities. The following questions form the basis of a series of interviews supporting this research. Further background can be obtained from the SDI's Good Practice Guidance for assessing SD in Art. 6 actions:

<https://unepdtu.org/wp-content/uploads/2021/02/11-sdi-2020-good-practices-preliminary-assessment-guidance-v11-final.pdf>

The questions

- 1 | You are involved in Art.6 piloting activities. To what extent do sustainable development impacts of Art.6 activities matter in your piloting work and why?
- 2 | COP 26 will hopefully deliver on adopting the Art. 6 rulebook. What are your expectations regarding the consideration of sustainable development impacts in the final UNFCCC Art. 6 texts?
- 3 | Taking a look at the time after the COP: what are your views on measuring SD impacts in practice, what would application look like in your opinion, and what capacities would be needed for implementation?
- 4 | Regarding implementation, the SDI has compiled Good Practice Guidance for the Preliminary Assessment of Sustainable Development in Article 6 Actions (2020, see above). What is your experience regarding the following elements to promote sustainable development through Article 6 piloting activities:
 - *Activity governance*
Approval based on the biennial transparency report (BTR) that each cooperative approach is consistent with the sustainable development objectives of the host Party, noting national prerogatives.
 - *Safeguards*
Ensure no-harm-done for negative environmental and social impacts of Article 6 activities.
 - *Stakeholder inclusivity*
Enable stakeholder engagement and a grievance mechanism.
 - *Sustainable development impact assessment*
Provide guidance and/or tools to assess the contribution to sustainable development goals (SDGs) aligned with host Party national prerogatives.
 - *Transparency*
Monitoring, reporting and verification (MRV) of sustainable development impacts of NDC policies and actions reported in an integrated way with mitigation outcomes under the 2030 Agenda and the Enhanced Transparency Framework (ETF) to identify NDC-SDG synergies and tradeoffs.
- 5 | The SDI is currently establishing a community of practice to develop and apply common good practice tools and approaches to promote sustainable development. Do you have any views and / or recommendations on this process?

Workshop Agenda



The Next Steps: Promoting Sustainable Development in Article 6 pilot activities after COP 26

Joint workshop conducted by Wuppertal Institute
and the Sustainable Development Initiative on behalf of BMU

Online Event | 26 Oct 2021, 15:00 – 16:30 hrs CET
via Google Meet, <https://meet.google.com/pqg-byqm-qiy>

Agenda

Moderator: Christof Arens / Wuppertal Institute

- 1 | **Setting the scene** – Karen Holm Olsen, UNEP DTU
- 2 | **Introduction** – Hugh Salway, The Gold Standard
Presentation of the SDI's Good practice guide for SD in Art. 6 Actions
- 3 | **Views from Parties, Practitioners and Researchers** on elements of the guide
 - Supanut Chotevitayatarakorn, Thailand
 - Thomas Forth, Germany
 - Malte Krieger, GFA Group
 - Nora Wissner, Oeko Institute
- 4 | **Comments & Questions from the audience**
- 5 | **Discussion of a possible Community of Practice**
Promoting good practice through exchange
Interview with Marion Verles, SustainCert
- 6 | **Wrap up, Reflections** – Karen Holm Olsen, UNEP DTU

Participation is by invitation only. Please register at <https://forms.gle/Jw2omMhmD2WgXLh5A>

If you encounter technical difficulties while registering or during the event, please contact Franziska Jüde at franziskaju@wupperinst.org.

This joint WI / SDI workshop is part of the "Carbon Mechanisms" project, implemented by the Wuppertal Institute on behalf of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, www.carbon-mechanisms.de. The Sustainable Development Initiative (SDI) for Art. 6 aims at promoting strong provisions on sustainable development for the rulebook of Art. 6. The initiative is a collaboration of UNEP DTU Partnership and the Gold Standard Foundation supported by Germany, Norway and Sweden 2021-22. Views stated are those of the authors and do not represent any consensus among the Parties involved. Find out more at <https://unepdtu.org/project/sustainable-development-dialogue-on-the-implementation-of-article-6-of-the-paris-agreement-under-the-unfccc-process/>