

SUBMISSION OF VIEWS BY THE SDI TO INFORM DEVELOPMENT OF THE SUSTAINABLE DEVELOPMENT TOOL UNDER ARTICLE 6.4 OF THE PARIS AGREEMENT

RECOMMENDATIONS

Building on earlier [SDI analysis and views](#) we reiterate the importance of promoting sustainable development to ensure a *social license to operate* that improves the public perception of international carbon markets. Operationalizing the mechanism established in Article 6 paragraph 4 of the Paris Agreement should mirror the Supervisory Body's aspiration to develop *the* leading market mechanism framework. The A6.4 SD tool should set international best practice standards as an example for others to follow, such as voluntary carbon market standards. We recommend the mandatory A6.4 SD tool to raise the bar for promoting sustainable development by considering the following key elements:

- Including robust and reliable safeguards, assessing risks and potential impacts, including ways to mitigate the risks and related management plans, supported by monitoring and verification, as well as stakeholder involvement.
- Regarding SDG impact assessment, the use of criteria, tools and compliance procedures should ensure that synergies and trade-offs between mitigation actions and SDG impacts result in overall positive SDG impacts. Requirements for minimum standards to promote positive SDG impacts should be developed specific for types of mitigation actions.
- Referring to Annex 07 of the annotated agenda to the SB 007 meeting (A6.4-SB007-AA-A07), the SDI strongly supports Option 2 displayed in para. 19 of the Concept Note. Only taking this top-down approach ensures an internationally UN anchored system that sets a common global best practice standard for all other carbon market standards. This approach will respect Parties' national sovereignty to define their own development priorities.

1. BACKGROUND

In 2015, the Paris Agreement and the 2030 Agenda were agreed upon, two historic agreements that set both global goals for climate and sustainable development. The Paris Agreement preamble recognizes the intrinsic relationship between climate change actions, responses and impacts, and equitable access to sustainable development and the eradication of poverty.

Article 6 of the Paris Agreement allows Parties to pursue voluntary cooperation in the implementation of their NDCs with the overall objective of:

'[...allowing] for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.'

Meanwhile, the objective of the Article 6.4 mechanism is to establish a mechanism:

'To contribute to the mitigation of greenhouse gas emissions and support sustainable development'.

At COP26 in 2021, the CMA decided that the Art. 6.4 mechanism Supervisory Body (SB) shall develop a tool for the assessment of the sustainable development impacts of mitigation actions latest by the end of 2023 (decision 3/CMA.3, paragraph 5 (c)). This is further specified in the rules, modalities and procedures for the mechanism, stating that:

'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' (decision 3/CMA.3, Annex, Rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement, paragraph 24 (a), IX).

Furthermore, Parties requested the SB to establish requirements and processes to operate the mechanism, relating to, inter alia, the application of robust, social and environmental safeguards (ibid, paragraph 24 (a), X).

At its 4th meeting in March 2023, the SB decided that the A6.4 SD tool shall be mandatory to use. The SB further decided that the A6.4 SD tool shall:

- Be integrated into the activity standards, validation and verification standards and the related procedures, implying that SDG impacts get monitored and verified,
- Take into account sustainable development objectives of host Parties,
- Include positive and negative sustainable development impacts using quantitative and / or qualitative indicators, and
- Be informed on a review of sustainable development assessment procedures of other market-based mechanisms.

2. SDI VIEWS

Two elements of the A6.4 SD tool under consideration at the SB 007 meeting are crucial to promote sustainable development, namely:

- 1) Safeguards to avoid and / or mitigate negative environmental and social impacts, and
- 2) The assessment, validation and verification of overall positive impacts for sustainable development in line with nationally determined Host Party priorities.

For the development of the A6.4 SD tool, we recommend that it takes into consideration lessons learned from the voluntary CDM SD Tool (Olsen, Arens, & Mersmann, 2018) and best practice standards for quality and integrity in the voluntary carbon market (ICVCM, 2023) by building on the following:

Principles:

- Safeguards: Mandatory use of criteria, tools, and compliance procedures to ensure no negative impacts of mitigation activities,
- Sustainable development: Mandatory use of criteria, tools and compliance procedures to ensure that synergies and trade-offs between mitigation actions and SDG impacts result in overall positive SDG impacts.

Safeguards

Assessing safeguards addresses para. 24 no. X of the RMP and ensures that an Art. 6.4 mitigation activity does not lead to any negative consequences as a result of the intervention. The basic principle being that any intervention should not do harm to the societies and the environment and that they take place in a well-established, bi- and multilateral development cooperation (Verles, Braden, Taibi, & Oslen, 2018).

Requirements:

- Overall, a differentiation can be made between ‘principles’ (what to safeguard) and ‘tools’ (Arens & Mersmann, 2018)
- There are different ways of categorizing safeguarding principles and requirements. Across many standards, the following aspects are covered frequently:
 - Social safeguards:
Respect for human rights, protection of marginalized groups and indigenous peoples, protection against involuntary resettlement; benefit sharing, and gender equity; protection of public health, and core labour rights as defined by the International Labour Organization (ILO).
 - Environmental safeguards:
Protection of natural habitats, conservation of biological diversity and ecosystems, as well as pollution prevention and resource efficiency.

- The most commonly used safeguarding tools include risk categorization, environmental and social impact assessment, management of action plans, stakeholder consultations, grievance and redress mechanisms, monitoring and verification, transparency requirements, exclusion lists (Arens and Mersmann 2018).

Guidance:

- Regarding safeguarding tools, some of the approaches are interlinked with other procedural steps, such as general stakeholder consultations for the activity, or overall monitoring and verification processes. It is recommended here to integrate results of the safeguarding assessment in the stakeholder consultation and to empower stakeholders to file grievances within this consultation. A permanent open 'channel' linking the activity proponent with the locally affected communities is considered important in this context.
- In terms of process, several well-established standards have developed assessment processes that could be made mandatory. Best practice standards include the United Nations Development Programme's Social and Environmental Standards (UNDP, 2021), the Adaptation Fund's Environmental and Social Policy (Adaptation Fund, 2016), IFC Performance Standards on Social and Environmental Sustainability (IFC, 2012).
- All these standards define overall procedural steps with a varying degree of granularity; most commonly shared steps include assessing risks and potential impacts, defining ways to mitigate the risks and setting up management plans to carry out mitigation, supported by monitoring and verification, as well as stakeholder involvement.

Sustainable development

For use of the A6.4 SD tool by activity proponents building on the above principles we recommend the following requirements to ensure overall positive SDG impacts:

Requirements:

- Provide information on how the mitigation activity is consistent with the SDG objectives of the Host Party, where the country SDG objectives are available,
- Obtain a Letter of Approval (LoA) stating that the expected SDG impacts meet the Host Party's priorities for SDG impacts,
- Demonstrate through qualitative assessment that the synergies between the mitigation activity and SDG impacts outweigh the trade-offs to ensure overall positive SDG impacts,
- Provide information through the use of standardized SDG indicators on how the mitigation activity delivers positive impacts for each SDG relevant to the mitigation activity, and
- Comply with specific criteria for different types of mitigation activities to meet minimum standards for positive SDG impacts, e.g., forestry projects may be required to demonstrate positive biodiversity impacts (SDG 15).

To guide activity users and Host Party DNAs on how to implement the A6.4 SD Tool in context of the project activity cycle and standard for mitigation activities, we recommend the following:

Guidance:

- Assess ex-ante the expected SDG impacts at validation stage,
- Assess ex-post the actual SDG impacts through monitoring and reporting to what extent the expected SDG impacts are materialized at verification stage,
- Integrate results of the SDG impact assessment in the stakeholder consultation and empower stakeholders to file grievances within this consultation. A permanent open 'channel' linking the activity proponent with the affected communities is considered important in this context.

References

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