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CO-OPERATING FOR THE SDGS: ARTICLE 6 THROUGH A SUSTAINABLE DEVELOPMENT LENS

This paper is dedicated to Sven Braden, a founding partner of the Sustainable Development Initiative who sadly passed away in the summer of 2021. Sven's commitment to the inclusion of sustainable development within Article 6 was, and remains, an inspiration to us all.

1 - Introduction

When adopting the Paris Agreement in 2015, governments acknowledged the interrelationship between climate action and sustainable development. This is reflected in the preamble to the Paris Agreement, which emphasises the *“intrinsic relationship that climate change actions, responses and impacts have with equitable access to sustainable development and eradication of poverty.”*¹

Sustainable development is also featured prominently in the text of Article 6 of the Paris Agreement, for good reasons. Article 6 activities represent a significant opportunity to achieve positive impacts towards both the goals of the Paris Agreement and the goals of the 2030 Agenda for Sustainable Development.

This paper considers Article 6 through the lens of sustainable development, highlighting the positive outcomes that well-designed cooperative approaches and activities can deliver beyond climate action, and how Parties and other actors can design and implement cooperation under Article 6 to maximise these positive outcomes for local citizens, communities and the natural environment.

2 - Article 6

The Paris Agreement provides a global framework for action to limit the increase in global temperatures. At the heart of this framework is the Nationally Determined Contributions (NDCs) that each Party must regularly submit, implement and report against. Article 6 of the Paris Agreement acknowledges that some Parties may choose to cooperate voluntarily in the implementation of their NDCs, to allow for higher ambition and to promote sustainable development and environmental integrity.

Voluntary cooperation under Article 6 is primarily envisioned to involve the transfer of ‘mitigation outcomes’, under which one Party transfers the right to emission reductions achieved within their jurisdiction to another Party or non-state entity and agrees not to account for that emission reduction towards their own NDC. This provides flexibility to Parties in the achievement of their NDCs, and can enable Parties to transition towards a global low-carbon economy in a more cooperative and cost-effective way.

1 [UNFCCC \(2015\) Paris Agreement](#)

For a country hosting activities and transferring mitigation outcomes, it is therefore not the direct mitigation impact that provides most value from activities that operate under Article 6. The benefit for a host country comes instead primarily through three routes

1. **Non-transferred mitigation** The contribution that activities can make to the country's climate objectives beyond the mitigation that is transferred. The country may, for instance, require that a portion of mitigation outcomes achieved by an activity is retained for use towards its NDC and not transferred. The country may also stand to benefit in the long-term, if activities under Article 6 pave the way for further mitigation in the future, for instance by contributing to a reduction in technology costs, addressing investment or behavioural barriers, or introducing new technologies or skills.
2. **Direct revenue** Any revenue that the host country might choose to accrue as a result of Article 6 activities, for instance through taxation.
3. **Sustainable development outcomes** The additional sustainable development outcomes that activities achieve alongside their climate mitigation outcomes. Activities, especially when deliberately designed for this purpose, can have a significant additional positive impact within a host country, contributing to a range of sustainable development goals such as good health, clean water, decent work and reduced inequalities. The direct benefit of, and the accounting for, these non-carbon outcomes are felt and retained within the host country, with no corresponding adjustment required.

This paper focuses on this final category of benefits, with information, recommendations and case studies to inform and be used by Parties and other stakeholders seeking to apply or better understand Article 6.



Figure 1 – Goals adopted in 2015 under the 2030 Agenda for Sustainable Development

3 - Sustainable development under Article 6

Sustainable development features prominently in the text of Article 6 itself, reflected as a primary goal of voluntary cooperation. The underlying Article 6 guidance adopted by governments at COP26 included further provisions related to sustainable development, to guide how governments incorporate the achievement of sustainable development objectives into their use of Article 6. The key provisions are summarised in Box 1 below.

Box 1

Sustainable development in Article 6 guidance

The objective of fostering sustainable development is reflected in the text of Article 6 of the [Paris Agreement](#). Article 6.1 recognises that some Parties may choose to pursue voluntary cooperation in the implementation of their NDCs:

...to allow for higher ambition in their mitigation and adaptation actions and to promote sustainable development and environmental integrity.

A similar objective is reflected in:

- Article 6, paragraph 2:

Parties shall, where engaging on a voluntary basis in cooperative approaches...promote sustainable development...

- Article 6, paragraph 4:

A mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development is hereby established...

- And Article 6, paragraphs 8 and 9:

A framework for non-market approaches to sustainable development is hereby defined to promote the non-market approaches referred to in paragraph 8 of this Article.

This objective is also reflected in [Article 6.2 guidance](#) adopted by Parties at COP26. Under the guidance, Parties are required to provide information in their Biennial Transparency Reports on how each cooperative approach:

Is consistent with and contributes to the sustainable development objectives of the Party, noting national prerogatives.

The [rules, modalities and procedures](#) for the Article 6.4 mechanism also require:

- The Supervisory Body to develop:

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.

- Parties to provide information on how their participation in Article 6.4 contributes to sustainable development, and how each activity that they approve fosters sustainable development in the host country.

If the achievement of sustainable development objectives is properly integrated into the design and implementation of activities under Article 6, its use has the potential to deliver mutually beneficial outcomes for both the host country and the government or entity that uses the transferred mitigation outcomes.

By the nature of Article 6, a using Party or entity – the one that will take the claim to the transferred mitigation outcome - is likely to be primarily interested in the climate mitigation outcomes that an activity will achieve, to use these towards their NDC or towards another target. Meanwhile if the transferring Party has a clear plan for the implementation of its NDC and applies an evidence-based approach to consider whether or not to agree to a transfer of mitigation outcomes, it should be able to identify the mitigation that will go beyond what is required to achieve its own NDC. In other words, it should be able to transfer mitigation outcomes that it does not itself need.

Yet the transferring Party, including its citizens and local environment, would still benefit from the sustainable development outcomes that activities will achieve, beyond climate mitigation. By identifying activities that generate both mitigation outcomes beyond those needed for the transferring Party's NDC as well as additional development outcomes, Article 6 cooperation can therefore represent a win-win for both Parties.

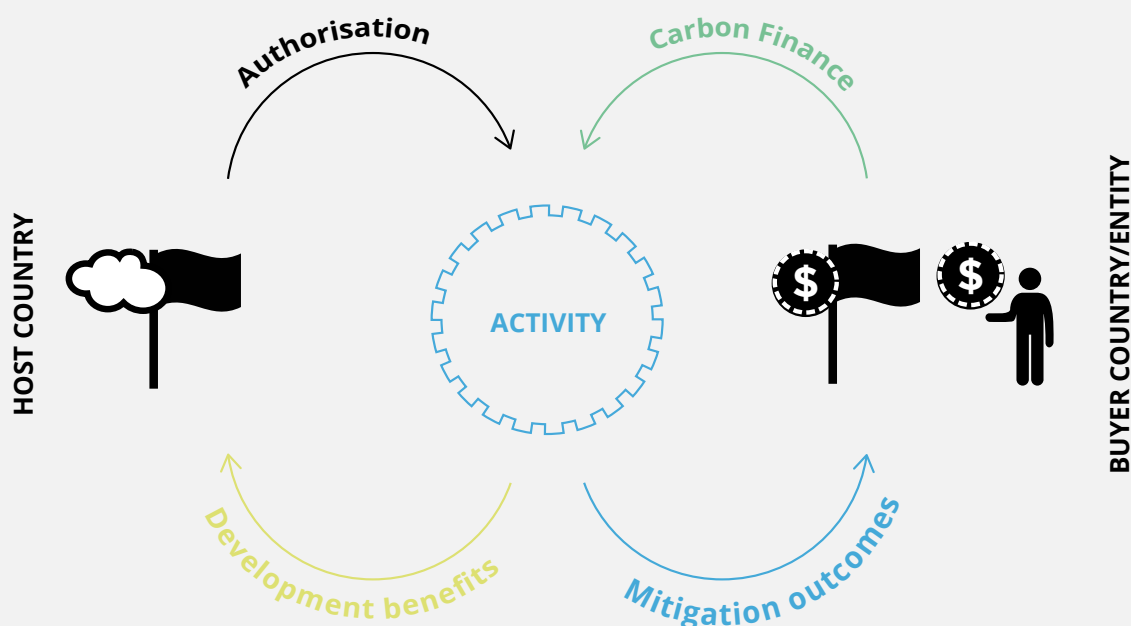


Figure 2 – Illustration of how both the host and buying Party can benefit from Article 6 activities, considering their sustainable development impacts

Carbon markets have been in operation for around twenty years. There is, therefore, evidence available to demonstrate the potential for carbon market activities under Article 6 to positively contribute to sustainable development within host countries, working inclusively with affected stakeholders while safeguarding against negative impacts. Examples from two crediting programmes are reflected in Boxes 2 and 3.

Box 2

Sustainable development under Gold Standard

Under its [Principles & Requirements](#), all activities registered with Gold Standard activities are required to contribute positively to at least three of the Sustainable Development Goals, which must include SDG 13 (Climate Action). Activities are required to identify SDGs towards which they will directly contribute, monitor progress towards the selected SDGs and report on this progress. This monitoring is being enabled through an [SDG Impact Tool](#) launched in December 2021 which is being further enhanced to enable monitoring against a host country's national-level objectives.

Gold Standard has commissioned several research reports to assess and better understand the overall value created by investments into Gold Standard activities.

Most recently, a [report was prepared by Vivid Economics](#) in 2019, analysing the value generated by improved cooking solutions activities. The report found that each individual credit represented an average quantified net benefit of USD\$358, with an expected total net benefit of \$11.6 billion over the lifetime of the 289 improved cooking solutions projects in Gold Standard's portfolio at the time.

This value reflects a variety of direct benefits, including financial savings from avoided fuel purchase, improved health prospects, and increased time available for education and income-generating activities, with less time spent by family members collecting fuel.

Box 3

Sustainable development achievements under the Clean Development Mechanism

In 2019, the CDM Executive Board published a [report highlighting the achievements](#) of the Clean Development Mechanism from 2001-2018. Across the CDM's portfolio of 7,803 registered projects, the report estimated that 152 million new trees were planted, 1 million efficient cookstoves were installed, 840,000 people were provided with clean drinking water, and that 25% of projects improved, projected and/or efficiently used natural resources. The CDM has also [collated examples](#) of individual projects that are contributing to the achievement of sustainable development.

4 - From paper to practice

If the full sustainable development potential of Article 6 is to be realised, this must be built into how Parties prepare to cooperate under Article 6, and how activities are designed. Some of the primary ways in which sustainable development can be integrated into Article 6 cooperation are outlined below.

4.1. Bilateral/plurilateral agreements

Where two or more Parties cooperate under Article 6.2, it is likely that this will often be within the framework of a bilateral agreement, or potentially a plurilateral agreement between multiple

Parties. Such agreements provide a legal framework to support commercial arrangements on the transfer of mitigation outcomes and can include modalities and requirements for cooperation that represent a level of detail beyond Article 6.2 guidance. The earliest examples of such bilateral agreements are between [Switzerland and partner countries](#), including Peru, Ghana, Senegal and Georgia.

Bilateral or plurilateral agreements provide an opportunity for Parties to adopt conditions for mitigation outcomes related to sustainable development, to ensure that all activities generate tangible positive benefits for sustainable development while preventing negative impacts. The Sustainable Development Initiative has outlined recommendations for the inclusion of sustainable development provisions in bilateral agreements in a separate paper published in 2022¹.

Box 4

Bilateral agreements between Switzerland and Peru, Ghana, Senegal and Georgia

In each of the first four bilateral agreements that Switzerland has adopted with partner countries, it has included the following conditions related to sustainable development:

ARTICLE 4 - SUSTAINABLE DEVELOPMENT

Mitigation Outcomes for which transfer and use is authorised shall originate from activities that:

1. Are in line with sustainable development and any respective strategies and policies;
2. Are in line with the long-term low emission development strategies, as applicable, and promote low emission development;
3. Prevent other environmental-related negative impacts and respect national and environmental regulations;
4. Prevent social conflict and respect human rights.

¹ [Promoting Sustainable Development through Article 6 – The Role of Bilateral Agreements](#)

4.2. Host country preparation

Participation in Article 6 is voluntary, and Parties may choose which mitigation outcomes they are willing to authorise for use by other Parties or entities¹. Host countries therefore have the ability to determine the types of activities that they are willing to authorise mitigation outcomes from. They could choose to use this authority to explicitly incentivise investment in a targeted way into activities that align with their national climate and sustainable development objectives and therefore deliver strategically important benefits.

Parties could choose to formalise this, establishing either:

1. A 'priority list' (or similar guidance) outlining the sectors, activity types, or even development benefits that will be prioritised when the host country is determining whether to authorise mitigation outcomes achieved by particular activities. Such a list would help project developers and investors to understand the activities that the host country either will, or is more likely to, issue authorisations for. With respect to development benefits, the host country could, for instance, specify that it will prioritise activities that promote, promote objectives such as, gender equality, life on land, or the creation of decent work and economic growth in particular regions.
2. A set of criteria that the host country will apply to determine whether to authorise mitigation outcomes from activities. This could, if used, include criteria related to the contribution an activity will make to sustainable development, and the rigour of the safeguards it has established to prevent negative impacts.

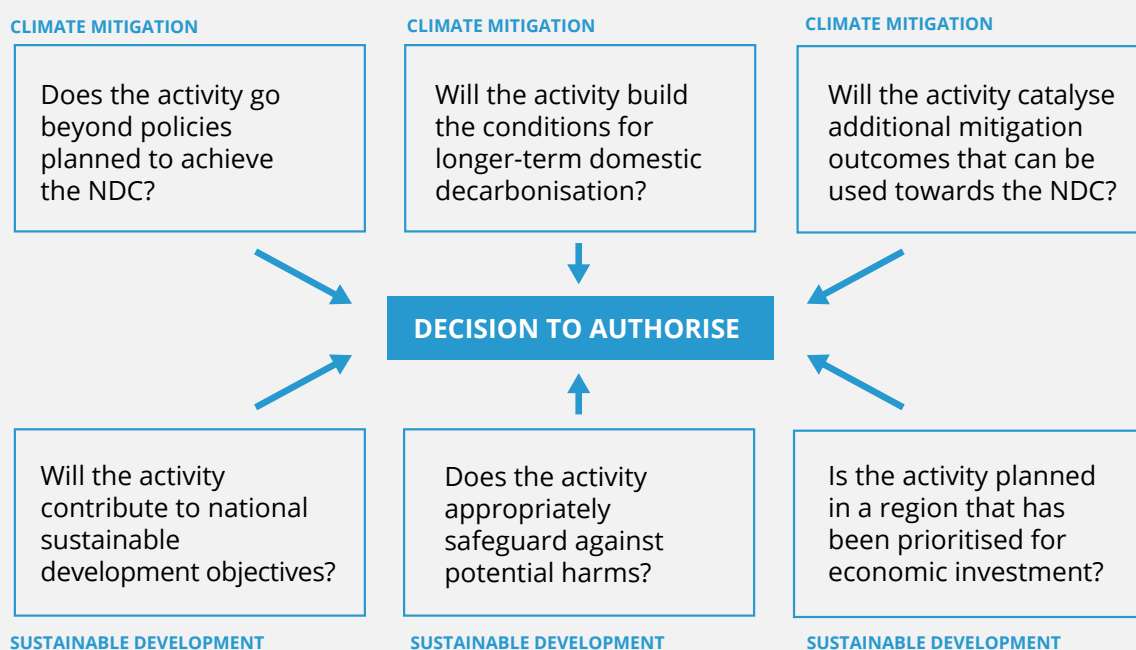


Figure 3 – Illustrative factors that could inform a host country decisions on Article 6 authorisations

¹ Article 6.3 of the Paris Agreement states: *The use of internationally transferred mitigation outcomes to achieve nationally determined contributions under this Agreement shall be voluntary and authorized by participating Parties.*

4.3. Buying country criteria

Similarly, a buying country (or entity) could establish criteria to determine whether to accept mitigation outcomes from activities, which could include consideration of their contribution to sustainable development. This can be implemented in different ways, depending on the approach the buyer is taking to acquire mitigation outcomes.

If a buying country is directly identifying activities and procuring mitigation outcomes, it could establish a set of criteria used to differentiate between submitted activities. An example of this is Evaluation Parameters established by the Swedish Energy Agency, which are described in the box below.

If a buying country or entity is working with one or more certification standards to enable its acquisition of mitigation outcomes (such as the Article 6.4 mechanism or an independent standard), it could:

1. Decide whether to use a particular standard on the basis of whether it has in place requirements related to sustainable development that the buying country or entity considers sufficient, and/or
2. Acquire mitigation outcomes from activities that meet additional criteria, such as a monitored contribution to a certain number of SDGs, or a contribution to specific SDGs that align with the priorities of the buying country or entity.

Box 5

Swedish Energy Agency's Evaluation Parameters

The Swedish Energy Agency has published parameters that it is taking into consideration when assessing and determining the initial activities it will procure emission reduction units from under Article 6 of the Paris Agreement. Under these parameters, 20% of the score given to an activity relates to its promotion of sustainable development. Activities must be ambitious in their contribution to sustainable development and provide for transformational change, and at the same time must not create or exacerbate any negative environmental, economic or social impacts.

The parameters specify that preference will be given to activities that demonstrate certain factors, including alignment with the host country's NDC or other national

strategic sustainability policies; potential positive impacts on the SDGs; the implementation of safeguards during and beyond the activity's crediting period, active contribution to equality and the prevention of discrimination against population groups, and the existence of modalities to monitor, report and verify contributions to sustainable development.

Box 6

SDI Good Practice Guidance

In 2020, the Sustainable Development Initiative published [*Good Practice Guidance for the Preliminary Assessment of Sustainable Development in Article 6 Actions*](#). The intention of the guidance is to allow Parties or other actors to undertake an upfront, desk-based assessment of the potential or proposed activities to deliver sustainable development benefits.

The guidance specifies five 'good practices' that should be assessed, with criteria for each:

- 1. Activity governance:** where relevant, whether the activity is aligned with national priorities and endorsed by appropriate authorities (where relevant).
- 2. Safeguarding and Do No Harm:** Whether key risks of negative impacts and dis-benefits are identified, and mitigation measures in place.
- 3. Stakeholder inclusivity:** Whether local and affected stakeholders are engaged, and mechanisms in place for ongoing feedback and to report grievances.
- 4. SDG Impacts:** Whether potential sustainable development impacts are identified, and quantification and monitoring approaches in place.
- 5. Transparency:** Whether results are shared publicly and assessed.

5 - Monitoring sustainable development benefits

The considerations listed above all relate to the upfront assessment of activities, and the incorporation of sustainable development into decision-making on Article 6 activities. This alone is not enough: it is also important that sustainable development benefits are then realised as the activity is implemented, and that these are monitored over the life of the activity.

A number of tools have been developed to support the monitoring, verification and reporting of sustainable development impacts, including under the Clean Development Mechanism, Gold Standard and a sustainable development methodology developed by ICAT, the Initiative for Climate Action Transparency. The Supervisory Body for the new mechanism established by Article 6.4 is also expected to develop a new tool (or tools) for use within the new mechanism, learning from those developed under the CDM and other market-based mechanisms.

When it comes to the emission reductions or removals achieved by an activity, stringent methodologies, monitoring and verification provisions are in place to ensure that emissions have in fact been achieved, and that the issuance of credits is accurate. The same principle should apply for the broader sustainable development benefits achieved by activities, and tools such as those described above should be integral parts of any cooperation under Article 6.

Box 7

Gold Standard SDG Impact Tool

In 2021, Gold Standard launched a new SDG Impact Tool, to help project developers to more efficiently monitor, quantify and verify a project's contribution to the Sustainable Development Goals.

The Tool provides a standardised template which project developers can use to monitor SDG impacts over the duration of a project. Project developers are able to indicate the SDGs against which they wish to monitor data, the indicator that will be used, and to track progress against a baseline. The tool enables the monitoring of sustainable development outcomes in a more efficient and standardised way, as well as underpinning the communication of such outcomes.

During 2022, Gold Standard will further enhance the SDG Impact Tool to enable the impacts of projects to be tracked against national SDG priorities of the project's host country. In this way, national governments and other actors will be able to better understand the contribution that individual activities are making to sustainable development, which can inform decision-making and enable accurate reporting.

Box 8

Asian Development Bank – Co-benefit Assessment Tool

Under its [Future Carbon Fund](#), the Asian Development Bank (ADB) undertook qualitative and quantitative analysis of the social, environmental and economic co-benefits delivered by projects in its portfolio, mapping these against 16 UN Sustainable Development Goals and gathering lessons for an enhanced model for new market mechanisms under Article 6 of the Paris Agreement.

The ADB is in the process of developing a new co-benefits methodology and tool, with significant enhancements. The tool will be digital, globally applicable, usable through the project cycle by a range of users including host countries, investors, project implementers and civil society, and will track co-benefits across 630 indicators mapped to the Sustainable Development Goals.

The intention of the methodology and tool is to help users to thoroughly assess, report and monitor the sustainable development impacts of projects, policies and programmes in a standardised, straightforward manner, to support investment decisions into areas with inherent co-benefits and to provide learnings to inform the scaling up and replication of interventions that achieve sustainable development outcomes.

6 - Conclusion

There is a reason that sustainable development is featured so prominently in the text of Article 6 of the Paris Agreement itself. Article 6 activities represent a significant opportunity to achieve positive impacts towards both the goals of the Paris Agreement and the goals of the 2030 Agenda for Sustainable Development.

By building the achievement of sustainable development outcomes into decisions to authorise the transfer of mitigation outcomes under Article 6, and into the design and monitoring of Article 6 activities, Parties can generate significant positive benefits beyond the reduction of emissions, and to ensure that cooperation under Article 6 represents a genuine 'win-win' situation for both transferring Parties and using Parties or entities. They can ensure that host countries, and the citizens and environment impacted directly by activities experience direct and lasting benefits.

The implementation of Article 6 is just beginning, but there are already models to draw on from early examples of cooperation under Article 6, as well as substantial experience generated through market activities to date through the Clean Development Mechanism and the voluntary carbon market. By adopting and learning from these, and by continuing to share knowledge and experience to enable harmonised good practice approaches, it is hoped that Parties will realise the full potential for shared value and mutual benefits through Article 6 cooperation, fully integrating sustainable development into the assessment, design and implementation of Article 6 activities.

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



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