

## NEWS/ ON THE ADOPTION OF THE SUSTAINABLE DEVELOPMENT TOOL UNDER ARTICLE 6.4 OF THE PARIS AGREEMENT

At its 14<sup>th</sup> meeting, the Supervisory Body of the Paris Agreement's A6.4 mechanism adopted the Sustainable Development tool. This decision not only marks a major milestone in the operationalization of the mechanism, it is also a quantum leap on the road to high-integrity international carbon markets promoting sustainable development while at the same time keeping the do-no-harm principle.

*The SDI welcomes the opportunity to comment on this ground-breaking decision reached by the Supervisory Body. The SDI's views are presented below, beginning with a description and technical analysis of the tool's main features and functionality. We then provide policy and historical context behind the tool, and explain why and how it matters as the 'Gold standard' for SD and safeguards in both compliance and voluntary markets, including for A6.2 bilateral agreements. We conclude by outlining the Sustainable Development Initiative's work ahead on supporting the piloting of the tool as well as capacity building measures.*

### 1. TECHNICAL ANALYSIS OF THE A6.4 SD TOOL

The A6.4 SD Tool (Sustainable Development Tool) ensures that activities under Article 6.4 of the Paris Agreement comply with the principles of 'do no harm', promote sustainable development, and contribute to the 17 Sustainable Development Goals (SDGs). For activities under Article 6.4, using the Sustainable Development Tool is mandatory and part of the activity circle. The tool is divided into three main areas: 1. Environmental and Social Safeguards, 2. Impact on Sustainable Development and 3. Validation and Verification. The A6.4 SD Tool provides a structured approach to risk assessment, the development of a risk management, and the assessment of impacts on the SDGs. Validation and verification by a DOE ensure that the activities fulfill the requirements of the tool.

#### Environmental and social safeguards

To minimize the potential risks from a proposed A6.4 activity, the risk assessment shall ensure that the respective activities comply with environmental and social safeguarding elements. Project proponents are asked to conduct a structured risk assessment. This helps to identify potential negative impacts of the activity based on 11 safeguards elements, including environmental safeguards (Energy / Air, land and water / Ecology and natural resources). The social safeguards comprise human rights, labour, health and safety issues, gender equality, land acquisition and involuntary resettlement, Indigenous Peoples, Corruption, and cultural heritage.

Based on the risk assessment, the activity participants are to develop an environmental and social management plan. This plan contains measures to avoid, minimize, and mitigate the identified risks. As

part of the environmental and social management plan, the activity participants define activity-related indicators, which are then used to monitor compliance with environmental and social safeguards throughout the implementation of the activity.

## Impact on sustainable development

Activity participants are asked to identify and assess potential positive and/or negative direct impacts of their A6.4 activities on the SD of the host Parties and the SDGs. In a first step, the activity participants must identify the relevant sustainability goals and priorities of the host party and document them in the form A6.4-FORM-AC-017. In a second step, activity participants must identify the affected SDGs that are positively and/or negatively affected by the activity. In a third step, the activity participants are expected to establish A6.4 activity-level SD indicators and to identify the direct impact on SDG resulting from the activity. A6.4 activity-level SD indicators can be qualitative or quantitative and shall be monitorable over the crediting period. Negative impacts should refer to the outcomes of the risk assessment.

## Validation and verification

Validation and verification of the outcome of the A6.4 SD Tool is carried out by a Designated Operational Entity (DOE). The DOE validates the information provided by the activity participants in the relevant A6.4 forms. It checks the appropriateness, relevance, and sufficiency of all the information provided in the forms and ensures that the activity fulfills the requirements of the A6.4 SD Tool. The DOE later also verifies the monitoring of the environmental and social indicators as well as the activity-related sustainability indicators. It ensures that the activity participants accurately monitor and report the results in the monitoring report.

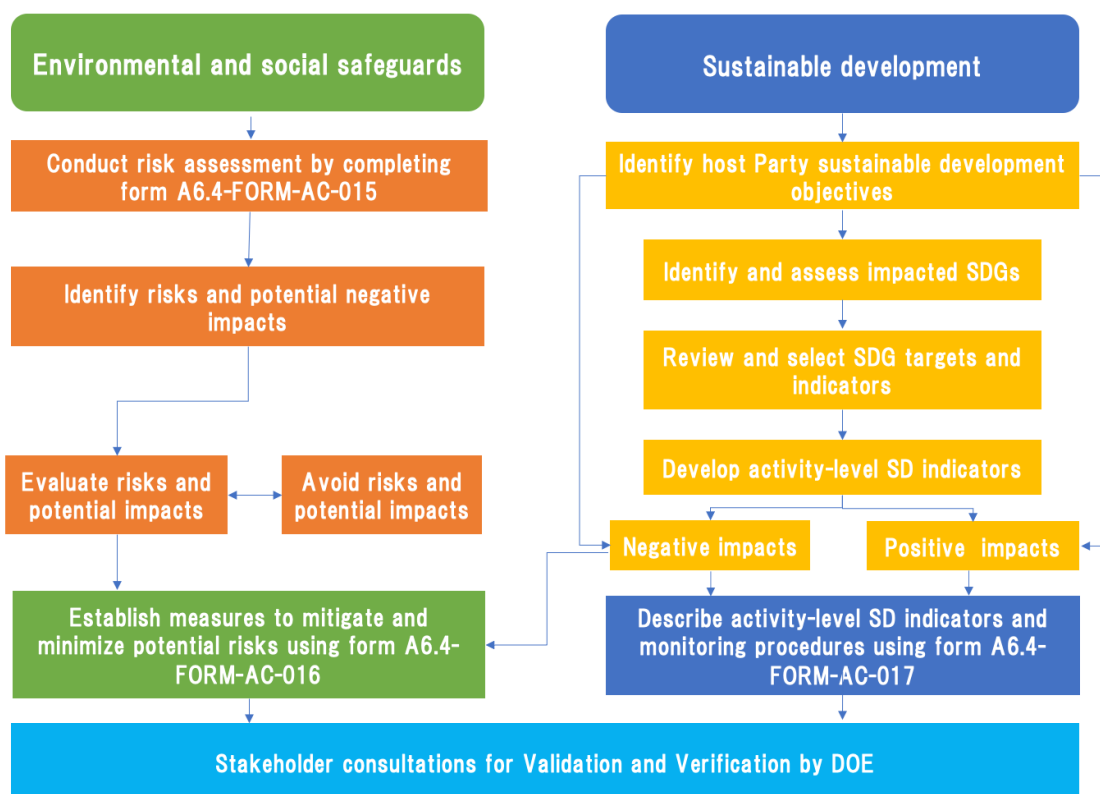


Figure 1 SD Tool flow chart (based on Draft Tool UNFCCC 2024, p. 13)

The A6.4 SD Tool uses three forms to be completed by the activity participants.

1. A6.4-FORM-AC-015: Environmental and Social Standards Risk Assessment Form.
2. A6.4-FORM-AC-016: Environmental and Social Management Plan Form.
3. A6.4-FORM-AC-017: Sustainable development impact assessment form.

These forms will be developed by the UNFCCC Secretariat in due course.

## 2. WHY AND HOW THE A6.4 TOOL MATTERS

Adoption of A6.4 SD Tool matters for the Paris Agreement Crediting Mechanism to deliver on its overall objectives to promote sustainable development, increase ambition and ensure environmental integrity. According to Article 6 of the Paris Agreement, promoting SD is a shall requirement, also applying to A6.2, and Parties are obliged to report on each cooperative approach in the Initial Report and subsequent Biennial Transparency Reports.

### Raising the bar compared to the CDM SD tool

Compared to the Kyoto Protocol CDM voluntary SD tool, the A6.4 SD tool raises the bar. The A6.4 SD tool is mandatory to use for project developers to report how each activity is consistent with the SD objectives of the host Party, avoids negative impacts and respects human rights and other rights. Several elements of the A6.4 SD tool mark a much stronger approach to sustainable development impact assessment as a key driver of climate action ambition raising. Quantitative and qualitative assessment of positive and negative SDG impacts, risk assessment against safeguards for no-harm-done, integration of stakeholder participation, monitoring and reporting and third-party verification are new elements compared to the CDM SD tool. Use of the 2030 Agenda global SDG framework facilitates the assessment of interlinked development and climate goals at local, national and global levels. The tool enables a bottom-up approach for project developer to identify activity level SDG indicators to track the contribution of mitigation actions to host Party SDG priorities. Host Parties are not obliged to use the tool, but shall make information about their SD objectives publicly available according to both the A6.2 guidance and A6.4 rules.

### Promoting convergence of best practice SD assessment in voluntary and compliance markets

While the UNFCCC Secretariat and A6.4 SBM developed the SD tool during 2023-24, the Integrity Council for the Voluntary Carbon Market (ICVCM) developed and launched the core carbon principles and assessment framework criteria to set industry best practice for integrity and quality of carbon credits. Sustainable development benefits and safeguards are one of the core carbon principles. For compliance with ICVCM principles and criteria, carbon crediting programs are required to ensure SD tools and guidance for mitigation activities to deliver positive SD impacts and avoid or mitigate negative impacts. A continuous improvement work program is ongoing to explore best practice elements both in the voluntary and compliance markets. The aim is to recommend how SD assessment can be further developed specific to categories of mitigation activities.

Approval of the A6.4 SD tool marks the UN Party driven process global best practice standard. It presents an opportunity to raise the bar for high integrity and drive convergence in the A6.2 compliance market, voluntary and domestic carbon markets. Capacity building to test and improve the A6.4 SD tool in competition with existing SD tools and approaches can contribute to continuous improvement for a race to the top.

### 3. SDI SUPPORT TO PILOTS AND CAPACITY BUILDING FOR THE APPLICATION OF THE SD TOOL

The piloting of activities for the SD tool to be used under Article 6.4 Paris Agreement Crediting Mechanism, and potentially under Article 6.2 as well, are crucial for assessing its real-world applicability. The activities of the Sustainable Development Initiative (SDI) in this regard aim to support the practical application of the SD tool to pilot sustainable development assessments within Article 6.2 and Article 6.4 activities. This process also involves considering the sustainable development policies and tools of both host and acquiring countries (when in place), ensuring that all parties' national frameworks and best practices are taken into account.

To this end, the SDI will provide support to one or two countries that intend to host Article 6.2 and Article 6.4 PACM activities. The SDI's aim is to align the use of the SD tool with the national policies of both the host and acquiring parties. This involves supporting project developers or activity participants to integrate the SD tool to their project or activity, and align it to national frameworks and policies, ensuring it reflects the goals of the participating countries. In addition to this, the SDI aims at collaborating with designated national authorities (DNAs) and key stakeholders within host countries. This collaboration includes capacity development and training efforts aimed at building familiarity with the SD tool and integrating it into national requirements and procedures. These capacity-building activities are essential for ensuring that host parties can use the SD tool effectively and align it with their sustainable development objectives.

The SDI's plan for piloting includes testing the now approved SD tool through an initial use case. This test case will involve applying the SD tool to a project within the voluntary carbon market or a Clean Development Mechanism (CDM) activity that has requested transition to Article 6.4 PACM. The SDI, in collaboration with partners, will conduct a desktop analysis using existing project data. The goal of this analysis is to explore the practical aspects of applying the SD tool, including understanding the level of effort and data required to complete the forms and requirements set by the tool. Importantly, the SDI will investigate how these forms and requirements could be digitized to streamline the process, potentially developing a web-based tool that makes the use of the SD tool more efficient.

In addition to this first use case, the SDI is considering a second pilot study in collaboration with parties that both have established sustainable development and safeguard policies. This case study would aim to explore the usefulness of the Article 6.4 SD tool within the context of a bilateral agreement under Article 6.2. Specifically, it will assess whether the SD tool provides benefits over existing voluntary standards' sustainable development assessment tools, and whether it meets the needs of both the host and acquiring parties as well as project developers.

By piloting these use cases, the SDI hopes to gather insights that will inform the further development of the SD tool. Ultimately, these activities will help refine the tool's forms, ensuring that they can be integrated into national procedures and making the tool more useful for capacity building. In the long term, these efforts will enhance the effectiveness of carbon market activities in achieving sustainable development outcomes under the Paris Agreement.

## References

UNFCCC (2024): Article 6.4 sustainable development tool, A6.4-SBM014-A04. Download at <https://unfccc.int/sites/default/files/resource/A6.4-SBM014-A04.pdf>

The Sustainable Development Initiative (SDI) for Article 6 aims at promoting strong provisions on sustainable development for the rulebook of Article 6 and its implementation. The initiative is a collaboration between the UNEP Copenhagen Climate Centre and the Wuppertal Institute, supported by Germany, Norway and Sweden (2023-2026). Views stated are those of the authors and do not represent any consensus among the Parties involved.

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