

Working Paper; May 2017

# SDG-proofing the Paris market mechanisms to unlock mitigation and sustainable development synergies

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## Abstract

The Paris Agreement and the 2030 Agenda for Sustainable Development both adopted in late 2015 highlight the need and political will for synergetic efforts to tackle climate change and sustainable development (SD). The SDGs could provide a useful normative framework for operationalizing key provisions of the climate treaty, in particular in the context of market mechanisms (MMs). Addressing SD in the context of MMs means to put in place rules and guidance that ensure *ex-ante* that positive SD impacts occur while negative ones do not. On the other hand, addressing SD can also mean to *ex-post* measure, report and evaluate the SD performance of activities as done in the market for voluntary offsets. However, definitions of SD and evaluation procedures have historically varied between mitigation policy instruments and the international development policy field, thus potentially undermining the benefits of such synergies. Ongoing negotiations on MMs under Article 6 of the Paris Agreement offer an opportunity to align definitions and procedures under the 2030 Agenda and the Paris climate change regime: the mechanism established in Article 6.4 frequently dubbed Sustainable Development Mechanism (SDM) and the Cooperative Approaches (CAs) described by Article 6.2 will require rule-setting and guidance including on how their contribution to SD will be ensured or monitored. Explicit reliance of MM rules on the operationalization of the SDGs could result in development of policy instruments that unlock synergetic progress on mitigation and sustainable development.

## International cooperation on climate mitigation and sustainable development

The international community in 2015 found agreement on two important issues of international cooperation – on climate change and Sustainable Development (SD): Negotiations under the UNFCCC culminated in the historical Paris Agreement<sup>1</sup> and in the adoption of the 2030 Agenda for Sustainable Development<sup>2</sup> with its 17 Sustainable Development Goals (SDGs). Both instruments call for a greater harmonization of efforts to achieving SD and climate action, in particular efforts to curb greenhouse gas (GHG) emissions. It is widely recognised that international cooperation is an important driver for both effective climate mitigation and successful development policies. Developing countries often have to rely on international support to address poverty at home and to put in place modern technologies that may also reduce the environmental footprint of their economic progress. Besides a necessity for learning and technology transfer between countries, oftentimes additional financial support may be required to overcome barriers such as elevated capital costs in high-risk developing country contexts. Given that climate change mitigation is a global public good<sup>3</sup> it needs to be addressed in a cost-effective manner. For this reason, reducing GHG emissions requires international cooperation to mobilize emission reductions where they are most affordable in order to be efficient.

International efforts to address both objectives of climate mitigation and sustainable development in a synergetic manner have often been hindered by the necessity to define and measure SD in international cooperation. This normative obstacle is particularly apparent in the context of mitigation market mechanisms. By contrast, efforts to reduce GHG emissions generally result in well measurable outcomes

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<sup>1</sup> UNFCCC, Adoption of the Paris Agreement, Decision 1/CP.21, Annex, FCCC/CP/2015/L.9/Rev.1.

<sup>2</sup> Transforming Our World: The 2030 Agenda for Sustainable Development (UNGA Resolution A/RES/70/1, 25 September 2015)

<sup>3</sup> See I. Kaul, 'Putting climate finance into context: A global public goods perspective', in A. Markandya, I. Galarraga and D. Rübbelke (eds.), *Climate Finance: Theory and Practice* (World Scientific Publishing, 2017), 129-156, at 132.

(GHG cuts). If this obstacle can be overcome by building on the normative framework of the SDGs, significant progress could be made for both causes.

## The problem of defining sustainable development

The concept of sustainable development entered the international policy arena emerged in the late 1980s as a framework designed to balance the pursuit of economic growth with imperatives of environmental protection and social welfare.<sup>4</sup> An often cited definition is that of the Brundtland Report of 1987 which describes SD as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.<sup>5</sup> Due to its vague and ambiguous wording, this definition has been met with some criticism and has led some to question the existence and utility of a universal definition of SD.<sup>6</sup> On the other hand, it has been argued that it is precisely this constructive ambiguity which has led to a wide uptake of the principle in the first place.<sup>7</sup> To date, varying interpretations of SD prevail<sup>8</sup> and the concept has been described as elusive, an oxymoron<sup>9</sup> and a catchy buzzword.<sup>10</sup>

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<sup>4</sup> Commonly referred to as the three ‘pillars’ of sustainable development, as prominently formulated in the Johannesburg Declaration, see Report of the World Summit on Sustainable Development, Annex, Resolution 1, Johannesburg Declaration on Sustainable Development (UN Doc. A/CONF. 199/20, 4 September 2002), 1–5.

<sup>5</sup> World Commission on Environment and Development, *Our Common Future* (Oxford University Press, 1987), at 43. This definition has been criticized as vague and ambiguous by some commentators, calling into question the utility of a universal definition.

<sup>6</sup> See J. Verschuuren, ‘The growing significance of the principle of sustainable development as a legal norm’, in D. Fisher (ed.) *Research Handbook on Fundamental Concepts of Environmental Law* (Edward Elgar Publishing, 2016), 276-305; and R.E. Kim, ‘The Nexus between International Law and the Sustainable Development Goals’, *25:1 Review of European, Comparative & International Environmental Law* (2016), 15-26, at 25.

<sup>7</sup> See for example D. Hunter, J. Salzman, and D. Zaelke, *International Environmental Law and Policy*, 3rd edn. (Foundation Press, 2007), at 148.

<sup>8</sup> As Atapattu relevantly states: “Sustainable development has been interpreted in various ways: As an objective, a concept, a legal principle, a legal term, an interstitial norm, a principle of reconciliation, an umbrella concept encompassing both substantive and procedural components, a concept with legal implications, an ambiguous creature, and, at the other extreme, as giving rise to its own body of law, called international sustainable development law”. S. Atapattu, ‘The Significance of International Environmental Law

## Synergies between the UNFCCC, the Paris Agreement and the SDGs

In the international policy context, climate action and sustainable development have often been characterized by a mutually reinforcing relationship.<sup>11</sup> Early linkages between development and climate mitigation, in particular, have been recognized under the 1992 United Nations Framework Convention on Climate Change (UNFCCC).<sup>12</sup> The Convention, which aims at stabilizing greenhouse gas concentrations at a non-dangerous level, emphasizes the Parties' right to sustainable development and asks them to integrate climate policies and measures with their national development programmes, expressly "taking into account that economic development is essential for adopting measures to address climate change".<sup>13</sup> A similar approach was taken under the 1997 Kyoto Protocol to the Convention,<sup>14</sup> which calls on Annex I Parties (i.e. developed country Parties) that have adopted GHG emission reduction commitments to implement and further

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Principles in Reinforcing or Dismantling the North–South Divide', in S. Alam *et al.* (eds.), *International Environmental Law and the Global South* (Cambridge University Press, 2015), 74-108, at 88.

<sup>9</sup> See for example M. Redclift, 'Sustainable development (1987–2005): an oxymoron comes of age', 13:4 *Sustainable development* (2005), 212-227; and V. Spaiser *et al.*, 'The sustainable development oxymoron: quantifying and modelling the incompatibility of sustainable development goals', *International Journal of Sustainable Development & World Ecology* (2016), 1-14.

<sup>10</sup> See for example the discussion by O. Renn *et al.*, 'A normative-functional concept of sustainability and its indicators', 9:4 *International Journal of Global Environmental Issues* (2009), 291-317, at 291.

<sup>11</sup> Beg, N., Morlot, J. C., Davidson, O., Afrane-Okesse, Y., Tyani, L., Denton, F., Sokona, Y., Thomas, J.P., La Rovere, E.L., Parikh, J.K. and Parikh, K. (2002). Linkages between climate change and sustainable development. *Climate policy*, 2(2-3), 129-144.

<sup>12</sup> United Nations Framework Convention on Climate Change (New York, 9 May 1992; in force 21 March 1994)

<sup>13</sup> *Ibid.* Article 3.4.

<sup>14</sup> 1997 Kyoto Protocol to the UN Framework Convention on Climate Change (Kyoto, 11 December 1997; in force 16 February 2005).

develop policies and measures to promote SD,<sup>15</sup> where possible in cooperation with other Annex I Parties.<sup>16</sup>

In its Article 12 the Kyoto Protocol famously put in place the Clean Development Mechanism (CDM), the purpose of which was to assist Parties that did not have mitigation commitments “in achieving sustainable development” alongside reducing GHG emissions. Already then, there was an emphasis on *development* as it was a precondition of developing countries that emissions reductions efforts on their end would be connected to international support for development<sup>17</sup>. The CDM’s rulebook for assessing SD outcomes of proposed activities was such that the decisions on defining SD-criteria and the decision over acceptance or rejection of specific proposals was almost entirely up to the host country (its designated national authority) with hardly any international oversight.

In the Paris Agreement, the principle of sustainable development plays an important role as it provides a broader policy context for climate action.<sup>18</sup> More specifically, the core objectives of the Paris treaty, namely the long-term temperature and climate risk mitigation goals in Article 2.1, are to be achieved “in the context of sustainable development and efforts to eradicate poverty”.<sup>19</sup> This reference reflects a recognition that meaningful climate mitigation ultimately depends on countries shifting toward more sustainable low-emission development pathways. That being said, the uncertainty stemming from the definitional ambiguity of the concept of sustainable development and the resulting variation in its interpretation could pose a serious challenge for the operationalization of the Paris Agreement. Yet it would be a breakthrough, if approaches to measure SD-outcomes based on the SDGs can be

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<sup>15</sup> Ibid. Article 2.1.a.

<sup>16</sup> Ibid. Article 2.1.b.

<sup>17</sup> Dransfeld, B., Honegger, M., Michaelowa, A., Bagh, T., Bürgi, P., Friedmann, V., Hoch, S., Puhl, I., Warland, L., Wehner, S. (2017). SD-Benefits in Future Market Mechanisms under the UNFCCC, Umweltbundesamt (UBA), Dessau-Roßlau, Germany.

<sup>18</sup> For relevant analysis, see F. Sindico, n. 10 above, at 131.

<sup>19</sup> Paris Agreement, Article 2.1. Further references to sustainable development can be found in many other core provisions, including Articles 4.1, 6.1, 6.4, 7.1, 8.1, and 10.5.

elaborated within climate mitigation policy instruments with broad international acceptance.

## Climate action under the 2030 Agenda for Sustainable Development

An important development in relation to sustainable development and the Paris Agreement concerns the adoption of the 2030 Agenda for Sustainable Development ('2030 Agenda') and the Sustainable Development Goals (SDGs) therein by the UN General Assembly just two months before the Paris climate summit.<sup>20</sup> The relationship between the SDGs and the climate regime has generally been described as mutually reinforcing.<sup>21</sup> Goal 13 on climate action, in particular, expressly acknowledges the primacy of the UNFCCC regime in "negotiating the global response to climate change"<sup>22</sup> and efforts are underway in the UN policy machine to strengthen synergies in implementing the two agendas.<sup>23</sup>

Nevertheless, Goal 13 and its corresponding targets have also been criticized for their ambiguous wording and their added value to global climate governance has been called into question.<sup>24</sup> Most of the targets under Goal 13 reiterate commitments made elsewhere.<sup>25</sup> Market mechanisms are not mentioned among the targets of

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<sup>20</sup> Transforming Our World: The 2030 Agenda for Sustainable Development (UNGA Resolution A/RES/70/1, 25 September 2015). Hereinafter 'The 2030 Agenda'.

<sup>21</sup> For an analysis, see F. Sindico, 'Paris, climate change, and sustainable development', 6:1-2 *Climate Law* (2016), 130-141. Sindico further argues that since sustainable development and poverty eradication can be considered overarching objectives of the SDGs, any references in the Paris Agreement to sustainable development may "well have said 'in the context of the SDGs'", at 132.

<sup>22</sup> The 2030 Agenda, n. 9 above, paragraph 31.

<sup>23</sup> See, for example, the recent high-level SDG action event convened by the President of the UN General Assembly in New York discussed potential synergies of action to implement the Paris Agreement and the SDGs. See International Institute for Sustainable Development (IISD), Earth Negotiations Bulletin, 'Summary of the High-Level SDG Action Event: Climate Change and the Sustainable Development Agenda: 23-24 March 2017', IISD, ENB No. 27, Vol. 32, 26 March 2017. Online: <<http://enb.iisd.org/download/pdf/enb3227e.pdf>> (accessed 30 March 2017).

<sup>24</sup> See for example R.E. Kim, n. 2 above, at 18.

<sup>25</sup> For example, Target 13.A on climate finance calls on States to implement the pledge made by developed countries under the UNFCCC at COP16 in Cancún in 2010 to jointly

Goal 13, neither are other substantive issues linked to climate mitigation. Instead, the focus of the targets lies on the less controversial issues of disaster risk reduction (13.1), education (13.3) and capacity-building (13.B). Target 13.2, on the other hand, is where the true value of Goal 13 and the SDGs more generally lies with regard to climate change mitigation. Read in conjunction with its corresponding indicator, the target calls for enhanced policy integration by asking countries to ensure their climate policies and measures do not impact food production.<sup>26</sup> While there may be other potential goal conflicts between Goal 13 on climate action and other SDGs, the explicit reference to policy integration can be considered a step in the right direction, recognizing the importance of policy coherence in implementing the two agendas.

An important way to ensure that the SDGs can provide a useful normative framework for climate mitigation [in the context of market mechanisms] lies in ensuring their measurability. The 17 SDGs and their 169 targets have been complemented by an extensive framework consisting of 232 indicators to measure progress on all targets by 2030.<sup>27</sup> This indicator framework has been subject to criticism both in terms of the selection procedure as well as the limited scope of some of its indicators.<sup>28</sup> Over 80 UN Member States reportedly expressed concern with the first list of indicators

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mobilize \$100 billion annually by 2020. Note that paragraph 53 of the Paris COP Decision goes further by reiterating a commitment to set a future floor exceeding \$100 billion annually.

<sup>26</sup> Indicator 13.2.1 reads: “Number of countries that have communicated the establishment or operationalization of an integrated policy/strategy/plan which increases their ability to adapt to the adverse impacts of climate change, and foster climate resilience and low greenhouse gas emissions development in a manner that does not threaten food production (including a national adaptation plan, nationally determined contribution, national communication, biennial update report or other)”.

<sup>27</sup> United Nations Statistical Commission, ‘Revised list of global Sustainable Development Goal indicators’, Annex III in Report of the Inter-agency and Expert Group on Sustainable Development Goals (E/CN.3/2017/2) (United Nations Statistics Division, 2017), online: <<https://unstats.un.org/sdgs/indicators/Official%20Revised%20List%20of%20global%20SDG%20indicators.pdf>>.

<sup>28</sup> For critical commentary, see B. Adams *et al.* (eds.), *Spotlight on Sustainable Development 2016: Report of the Reflection Group on the 2030 Agenda for Sustainable Development* (DAWN, Third World Network, Social Watch, GPF and ANND, 2016), online: <<https://www.2030spotlight.org/>>.

proposed by the Inter-Agency Expert Group (IAEG-SDGs) in March 2016.<sup>29</sup> Indeed, several SDG targets were limited to one or two indicators each in order to keep the indicator framework manageable.<sup>30</sup> Consequently, the framework fails to capture in many instances the interconnections and many cross-cutting elements across different goals and targets, falling short of the “integrated approach” set forth by the 2030 Agenda.<sup>31</sup> The revised list of indicators published in early 2017 has failed to resolve many of these concerns, which may cast a shadow on the legitimacy of the process and could create significant uncertainty as to whether and how some countries will measure progress on some of these targets. This is particularly important since the 2030 Agenda primarily relies on national governments to contribute to the evaluation and review of their progress on the targets by means of national communications and international exchange of experiences. The High-Level Political Forum (HLPF) mandated by the UN has a role to coordinate this exchange and to oversee progress at the global level. While the HLPF is mandated to conduct both national reviews and thematic reviews of SDG implementation,<sup>32</sup> state participation in such reviews is voluntary and the reviews itself are unlikely to lead to any rigorous forms of compliance enforcement beyond encouragement.

There is a clear need to strengthen the policy relevance of SDG 13 which may not be achieved by solely revising the current indicator set. This is because the targets to which the current indicators are tied already have such a narrow scope that other important aspects of climate mitigation, such as market mechanisms, are not covered. At the same time, duplication may be avoided altogether by localizing this

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<sup>29</sup> United Nations Statistical Commission, ‘List of proposed Sustainable Development Goal indicators’, Annex III in Report of the Inter-agency and Expert Group on Sustainable Development Goal Indicators (UN Doc. E/CN.3/2016/2, 17 December 2015), online: <<https://unstats.un.org/unsd/statcom/47th-session/documents/2016-2-IAEG-SDGs-E.pdf>>. See also United Nations Statistical Commission, *Report on the forty-seventh session* (UN Doc. E/2016/24-E/CN.3/2016/34, 23 March 2016), online: <<https://unstats.un.org/unsd/statcom/47th-session/documents/Report-on-the-47th-session-of-the-statistical-commission-E.pdf>>.

<sup>30</sup> B. Adams *et al.* (eds.) at 143.

<sup>31</sup> 2030 Agenda, paragraph 17.

<sup>32</sup> Format and organizational aspects of the high-level political forum on sustainable development (UNGA Resolution A/RES/67/290, 23 August 2013), paragraph 7 and 8.

task under the UNFCCC – as is already the case with the omission of addressing specific mitigation policy instruments under SDG 13.

## **Policy instruments for mitigation and sustainable development under the Paris Agreement: The meaning of Article 6**

The Paris Agreement – after long and difficult negotiations – finally contains an entire article dedicated to policy instruments that facilitate international cooperation on GHG emissions reductions and sustainable development.<sup>33</sup> Article 6 of the agreement enumerates three different types of instruments: The general possibility of “internationally transferred mitigation outcomes” (ITMOs) under Article 6.2, a “mechanism to contribute to the mitigation of greenhouse gas emissions and support sustainable development” often referred to as “Sustainable Development Mechanism” (SDM) established by Article 6.4, and possible “integrated, holistic and balanced non-market approaches” recognized under Article 6.8. According to most interpretations, ITMOs can be generated via any mechanism, procedure, or protocol and they are expected to be subjected to hardly any international oversight. This stands in contrast to the SDM, which is a specific mechanism established by the Paris Agreement that will operate under the authority of the Conference of the Parties (COP) – most likely with more stringent rules regarding both the measuring reporting and verification of emissions reductions (MRV) as well as its contribution to sustainable development. It has been proposed, that the SDM be operationalized on the basis of the SDGs.<sup>17</sup>

Details necessary for operationalizing article 6 are to be elaborated via a detailed work programme mandated in the accompanying COP decision<sup>34</sup> comprising of guidance for ITMOs, as well as rules, modalities and procedures for the SDM. If these are properly designed, Article 6 can offer an opportunity to unlock synergies between development and climate mitigation in a way that streamlines efforts,

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<sup>33</sup> Marcu, A. (2015): Carbon Market Provisions in the Paris Agreement (Article 6) CEPS Special Report No. 128 / January 2016

<sup>34</sup> See decision 38 COP21 (FCCC/CP/2015/L.9/Rev.1); footnote 1.

enhances transparency toward the achievement of both goals and raises trust between partner countries, other donors and multilateral organizations.<sup>17</sup>

### **The political economy of sustainable development in market mechanisms**

Interviews with carbon market stakeholders including donors, project developers and NGO representatives have shown that the new market mechanisms require a process in place to ensure that activities supported by market instruments do not impede the sustainable development of participating countries in order to become credible instruments.<sup>17</sup> Furthermore, since there are transaction costs associated with the monitoring and reporting of SD outcomes – as well as for GHG mitigation effects – an appropriate incentive structure is necessary that can include both regulatory and financial measures in order to mobilize private sector participation.

Market mechanisms have been subject to various criticisms, often associated with the lack of stringent and comparable enforcement of safeguards that would prevent violations of human rights, ensure adequate local consultation processes during project conception, and prevention of certain types of projects that are often regarded as not sustainable (such as e.g. large-scale hydropower projects or industrial gas projects).<sup>35</sup>

The Paris Agreement's aspirational target to limit global mean temperature warming to 1.5 °C has cast increased attention on so-called negative emissions technologies (NET) and their role in reaching ambitious climate mitigation targets.<sup>36</sup> Scenarios compatible with the 1.5 to 2 °C target require deployment of novel technologies such as bio-energy with carbon capture and storage (BECCS) at a rate of approximately 10Gt of CO<sub>2</sub> per year in the second half of the century.<sup>37</sup> Such large-scale use of a land- and water intensive practice for generating power and removing carbon from

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<sup>35</sup> Shishlov, I., & Bellassen, V. (2012). 10 lessons from 10 years of the CDM (Doctoral dissertation, auto-saisine).

<sup>36</sup> Rogelj, J. et al, (2015) Energy system transformations for limiting end-of-century warming to below 1.5 °C, *Nature Climate Change*, doi:dx.doi.org/10.1038/NCLIMATE2572 and Knopf, B., Fuss, S., Hansen, G., Creutzig, F., Minx, J., & Edenhofer, O. (2017). From Targets to Action: Rolling up our Sleeves after Paris. *Global Challenges*, 1(2).

<sup>37</sup> *ibid.*

the atmosphere could pose a challenge to achieving several SDGs, including Goal 2 (food security and sustainable agriculture), Goal 6 (clean water and sanitation), and Goal 15 (sustainable use of terrestrial ecosystems, sustainable forest management, combating desertification, halting and reversing land degradation and halting biodiversity loss). At the same time, well-designed policy instruments could result in an application of such technologies that could potentially beneficially contribute to achieving multiple SDGs, including Goal 7 (clean energy), Goal 8 (sustainable economic growth and decent work), 9, and of course Goal 13 (climate action). This points to an urgent need to elaborate the rulebook of Article 6 in a way that ensures that SDG-based safeguards are in place. Doing so would furthermore improve the quality of estimates of future NET potentials by incorporating considerations of multiple resource-constraints and thereby improve the overall quality of policy planning for meeting 1.5 to 2 °C compatible mitigation pathways.

### **Operationalizing market mechanisms under the Paris Agreement**

The ongoing process of elaborating the operational rules for the Paris Agreement's Article 6 represents a window of opportunity for working towards a stronger, more credible and internationally recognized role of SD in MM. At the same time, MM can serve for the development and application of a measuring tool for SD results of projects and activities – that can be applied beyond market-based mitigation activities.

Specifically, the Subsidiary Body for Scientific and Technological Advice (SBSTA) had been tasked in Paris with developing and recommending guidance for cooperative approaches as per Article 6.2, as well as the rules, modalities and procedures for the SDM (Art. 6.4). Guidance for ITMOs under Article 6.2 could make reference to the SDGs and voluntary monitoring approaches. The rulebook for Article 6.4 could be more specific and mandate application of an ex-ante evaluation approach to eliminate proposals that may be harmful toward SDGs as a precondition for authorization by the host country. Anticipating that the Agreement would only enter into force in 2018, the corresponding Paris decisions (paragraphs 37 and 38) suggested that this rulebook would be ready for adoption at the first session of the meeting of the Parties to the Agreement (CMA1).<sup>1</sup> Yet, as the Agreement already

entered into force in November 2016, the CMA1 was already convened at the 23rd COP in Marrakech the same month and work on the rulebook is far from complete.

To date no significant progress has been made including on the SD provisions of Article 6, but the views of Parties and Observers have been collected: Several developing countries (Brazil, Ethiopia, and the group of Like-minded developing countries) emphasize the importance of SD under Article 6 and state that determining criteria to measure SD should remain a national prerogative; yet Ethiopia acknowledges the value of globally tested best practices for determining national SD benchmarks.<sup>38</sup> The Environmental Integrity Group stated that “as a minimum, the activities should be consistent with the Sustainable Development Goals, the sustainable development objectives and strategies of the Parties involved and with human rights” and that ultimately “the host party has to confirm conformity with sustainable development, incl. human rights”.<sup>39</sup> New Zealand similarly proposes that “Parties communicate their engagement in cooperative approaches and how this promotes sustainable development in their country, through the reporting processes that will be part of the operation of the Paris Agreement” in context of Article 6.2.<sup>40</sup> New Zealand further states in the same document that such reporting would include both qualitative and quantitative information and that “because indicators for sustainable development are likely to be dependent upon national circumstances, it may not be productive for the guidance to be prescriptive about the exact content or form of this reporting”. In addition, New Zealand also suggests that the Parties acquiring ITMOs should demonstrate how this action contributes to their own sustainable development. Norway is the only Party to mention that SD safeguards may be necessary to prevent potential conflicts with SDGs. The environmental NGO Carbon Market Watch suggests that all entities participating in the SDM should, “in

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<sup>38</sup> For the full texts of Parties and Observers submissions see the corresponding submissions on Matters relating to Article 6 of the Paris Agreement on the UNFCCC portal, online at <<http://www4.unfccc.int/Submissions/SitePages/sessions.aspx>>.

<sup>39</sup> Submission on Matters relating to Article 6 of the Paris Agreement 21.03.2017 Liechtenstein, Mexico, Monaco, Switzerland, p. 2.

<sup>40</sup> Submission to SBSTA on the guidance referred to in Article 6(2) of the Paris Agreement, New Zealand, 26 September 2016.

addition to building on inventories and accounting, report on how they promote and effectively further” the SDGs<sup>41</sup>. Interestingly, the organisation is the only one to recognize that creating adequate incentives for promoting SD benefits is a necessity in designing the MM.<sup>42</sup> At the same time, their recommendation remains rather vague by broadly suggesting that Parties should ensure to only acquire units from mitigation activities that strongly contribute to the SDGs.

The views expressed in context of Article 6 as well as historically in context of MM<sup>43</sup> make it clear that guidance, rules, modalities and procedures need to strike a balance between the various interests of market mechanism stakeholders, not unnecessarily limit mitigation action, while ensuring that the instruments’ activities do contribute meaningfully to sustainable development. A possible compromise could be the definition of a minimal set of safeguard criteria that are to be applied by the host countries’ national authorities in a mandatory process and in addition a voluntary process for measuring positive outcomes that proponents of activities can utilize for promoting the quality of their activities toward possible buyers.<sup>17</sup> Both of these should be based on the SDG framework as this would increase their weight and help in justifying their selection.

### **Operationalizing the SDGs and their implementation**

If the work on defining operational indicators for measuring SD implications of mitigation activities for application under the MM were done by a working group mandated both by the UNFCCC and the 2030 Agenda processes this would strengthen acceptance of the result and could provide an exemplary approach for operationalizing the SDGs in other policy areas. The resulting indicator set would

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<sup>41</sup> Carbon Market Watch views on rules, modalities and procedures for the mechanism established by Article 6, paragraph 4, of the Paris Agreement FCCC /SBSTA/2016 /2, para. 100 September 2016

<sup>42</sup> Dransfeld and colleagues (see footnote 17) also note that in most cases of high SD benefits, a price premium is necessary. Such a premium is found in the niche of the voluntary markets, or it could be mobilized by streamlining mitigation with development cooperation.

<sup>43</sup> For a detailed account of various stakeholders’ views on SD in MM and other climate policy instruments see Dransfeld et al. (see footnote 17).

need to be sufficiently broad to cover all aspects relevant for the sectors that are key to mitigation, yet it would also need to be flexible enough to leave room for host countries to adjust it to their own national circumstances and preferences.

An alternative approach would be to build on existing tools and methodologies (e.g. the CDM SD Tool or the UNDP NAMA SD Tool) for evaluating sustainable development performance of MM activities and to consciously align them with the SDGs. In doing so these tools would be ready for voluntary application under Article 6 as well as in other contexts such as development and climate financing institutions, NAMAs and any other vehicle relevant for achieving NDCs.

Independent of the chosen approach, the objective will be to ensure that contributions to the SDGs on the one hand become measurable and comparable, contributing to global challenges, all while being fundamentally rooted within local circumstances and driven by the will to satisfy local needs. Measurability and comparability on the basis of an international standard can help unlocking the synergies between mitigation action and development cooperation and thus leverage the necessary additional financial flows and incentives to enable activities that also result in mitigation and generate substantial contributions to the achievement of other SDGs.

## **Outlook**

The coincidence of two major breakthroughs in 2015 is emblematic for a fundamental truth: Climate change mitigation and sustainable development have to go hand in hand. Both the Paris Agreement as well as the SDGs represent a call to action, yet both are currently missing policy instruments with the operational clarity necessary for implementation to reach their respective objectives. With the right tools, they have the potential to become truly complementary and mutually reinforcing frameworks. The Paris Agreement on the one hand can offer specific climate mitigation instruments. The SDGs on the other hand can offer the normative framework on sustainable development, which had been missing so far under the UNFCCC.

As we have shown above, there may be a particularly strong potential for synergies in the context of market mechanisms. In order to reap this potential for synergetic

action, Parties to the Paris Agreement as well as the stakeholders under the Agenda 2030 process need to work together to build a bridge between abstract norms and the requirements of practice. If such efforts are to be successful, they need to build on past experiences. These include in particular lessons learnt from the Kyoto Protocol, the voluntary carbon markets as well as from the broader field of international cooperation for sustainable development. Through targeted cooperation and mutual learning, both processes can overcome the risk of duplication and truly deliver on these synergies, moving from rhetoric to action.