Financing considerations to support an international legally binding instrument on plastic pollution: Aligning and Catalyzing Financial Flows to Meet Needs-based Financing

October 24, 2024 | Webinar #3 Summary Report

CO-HOSTS:

The Circulate Initiative

UN environment programme | finance initiative

THE WORLD BANK

WORLD ECONOMIC FORUM

Summary of key takeaways from the webinar conducted on October 24, 2024

Session Objectives

1. To discuss how to redirect risk, reward, and impact to support ending plastic pollution and advancing a circular plastics economy.
2. To discuss how to leverage public and private finance to create synergies and amplify the catalytic effect for greater impact.
3. To discuss the unique financial needs of different countries, considering varying capacities and roles in the plastics economy, to ensure a just transition under the international legally binding instrument on plastic pollution, including in the marine environment (ILBI).
4. To understand how technology transfer, technical assistance, capacity building, and other non-financial resources can be used in ways that complement financial resources.

Speakers and Panelists

- **Christian Kaufholz,** Head of Community Engagement and Impact, Resource Circularity – Global Plastic Action Partnership, World Economic Forum
- **Dana Mosora,** Founder and Managing Director, the ASASE Foundation
- **Erin Simon,** Vice President and Head, Plastic Waste and Business, World Wildlife Fund
- **Kate Lynch,** Head of Division – Circular Economy, Department of Climate Change, Energy, the Environment and Water, Government of Australia
- **Peggy Lefort,** Pollution & Circular Economy Lead, UNEP FI
- **Safiya Sawney**, Special Advisor, Hon. Kerryne James, Minister of Climate Resilience, Environment and Renewable Energy and Special Envoy on Climate, INC Focal Point and Lead Negotiator for the Government of Grenada
- **Sonia Battikh,** Global Head of Carbon Offsets Trading, Citi
- **Michael Sadowski,** Executive Director, The Circulate Initiative

Key Takeaways

The webinar opened with an introduction to the Financing Coordination Group (FCG) and the background to the webinar series. The goal of the FCG is to improve the overall understanding of the financing landscape and to catalyze the mobilization of additional capital to tackle plastic pollution. The webinar was the third in a series of knowledge exchanges the FCG is planning, which aims to provide Member States with a platform to convene and engage with their peers and industry experts.

The introduction to the webinar was followed by a recap of the key takeaways from the first two webinars. A brief summary of the discussions that took place at the intersessional meeting came thereafter. The two presentations were followed by a panel discussion on the topics of alignment of financial flows, catalyzing financial flows, and how financing support can be tailored considering varying country contexts.

The key takeaways from the webinar can be summarized as follows:

Strong alignment on the need for an effective financial mechanism, although operational aspects of the financial mechanism are yet to be determined

- Discussions on financing that have taken place between the second session of the Intergovernmental Negotiating Committee (INC-2) and the intersessional meeting have highlighted several key themes regarding the need for a new instrument to tackle plastic pollution:
    - An effective financial mechanism will play a critical role in addressing and tackling plastic pollution.
    - Tackling plastic pollution requires significant financial investment, with calls for diverse funding sources, including public, private, national, and international contributions, as well as hybrid and innovative financing.
    - Funding needs to be adequate, accessible, timely, and predictable to help parties meet their obligations under the instrument.
    - Allocated funds must be transparent and must prioritize critical areas with the greatest need and limited capacity.

- After INC-4, the ad hoc intersessional expert working group was formed to analyze potential funding sources and mechanisms for implementing the instrument's objectives, including aligning financial flows.
- The group discussed available evidence and its limitations, considered expert members' views, clarified terminology, and discussed examples and precedents.
- The Report of the Co-Chairs summarizes key outcomes from the intersessional work, highlighting various financing options. Annexures in the report provide details on precedents from other multilateral environmental agreements (MEAs) as well as the pros and cons of different potential fund structures.
- There is broad alignment among members that any use of funds within the financial mechanism must be directed and guided by the governing body of the instrument.
    - The financial mechanism must target the instrument's outcomes and remain accountable to its governing body.
    - Members expressed a preference for programmatic funding rather than solely project-based financing.
    - There is agreement that the financial mechanism should also support capacity building.
    - The financial mechanism must operate efficiently to minimize overhead costs and ensure that as much funding as possible is available to achieve the instrument's substantive outcomes.
- Members desire balanced representation in the governance arrangement, with representation from both donor and recipient countries.
- The concept of a financial mechanism differs from that of a fund. Within a financial mechanism, the INC could create a new fund, use one or more existing funds, or combine both approaches. Other finance in the landscape can also be used to help support treaty outcomes.
- Key questions yet to be negotiated include the activities that need to be undertaken to achieve the outcomes required by the future instrument, who will undertake these activities, and what financial support is required. Clarifying these issues will help to inform the scope of a future financial mechanism, the architecture of any fund(s) to be established, contributors, and beneficiaries.

A recap of the first two webinars on financing considerations to support an international legally binding instrument on plastic pollution

- During the first two webinars, speakers shared lessons learned from financial mechanisms in existing MEAs, such as the Stockholm Convention and the Montreal Protocol, highlighting best practices and key insights for implementing the ILBI.
- These key insights emphasize the need for predictable and stable grant funding, accountability from all donors and recipient countries, a robust governance structure, and strong partnerships within governing bodies.
- The speakers also recognized that the scope and ambition of the plastics instrument are much broader, extending beyond eliminating certain substances or building capacity for specific actions.
- A broader systems change is necessary, involving the transformation of production and consumption, innovation, new business models, and the development of alternatives.
- With such ambition for broad systems change, large financing requirements are expected, which underscores the need for bold and innovative approaches to financing mechanisms and the mobilization of financial resources.

- The webinars also explored the financial mechanism, requirements, and support needed for implementation, discussing the pros and cons of different financial mechanisms.
- Speakers focused on the broader landscape of private sector investment, with financial institutions and innovators providing insights into blended finance and outcome-based financing options like the World Bank Plastic Waste Reduction-Linked Bond.
- The speakers addressed specific challenges faced by developing countries, highlighting the need for support in regulatory and policy development, financial and technical assistance (including tracking and monitoring methodologies), and aid for the informal sector, small and medium enterprises, and startups.

A recap of the ad hoc intersessional open-ended expert group 1 meeting in Bangkok with a focus on aligning and catalyzing finance

- Discussions in Bangkok began with an overview of the scale of the plastic pollution challenge and the significant financing and investment requirements across the plastics value chain.
- Mobilizing financial resources from all sources, both public and private, will be essential.
- There is a need both to redirect financial flows and investments from harmful activities to those that address plastic pollution (i.e., align financial resources) and to mobilize new and additional resources (i.e., catalyze financing).
- Aligning financial flows involves deploying public and private finances in line with the instrument's objectives. This alignment, which is also present in other MEAs, such as the Paris Agreement (article 2.1 c), the Global Biodiversity Framework (Goal D), and the Global Framework on Chemicals (Target E3), signals to all parties and to the finance sector the need to reorient funding from all sources.
- Aligning financial flows requires a range of measures to create a harmonized, enabling environment. These measures include information tools that reduce uncertainty and improve transparency, and enable incorporation of risks into investment assessment, such as taxonomies with standardized, scientific definitions of sustainable activities across the plastics value chain, harmonized disclosure requirements, due diligence requirements, prudential regulations, the integration of plastic pollution-related risks into financial regulations, and instruments that internalize the costs of plastic pollution through, for instance, taxation or fees.
- At the intersessional meeting, participants also discussed catalyzing financing, i.e., mobilizing additional financial resources toward implementing the instrument's objectives. This approach, provided in other MEAs such as the Global Biodiversity Framework (Target 19), calls for financing interventions that make solutions across the value chain more attractive to investors by reducing, mitigating or transferring technical, regulatory, market, and sovereign risks tied to innovative solutions or business models, or by rewarding or penalizing risk-taking.
- In summary, financial flows and investments will need to be aligned and catalyzed across the entire finance ecosystem, both through and alongside a financial mechanism. This will require the establishment of enabling environments and the implementation of innovative financing solutions, such as blended finance and extended producer responsibility (EPR) mechanisms.
- The growth of sustainable finance, with a market which exceeded US$ 30 trillion in 2022, provides a platform for introducing plastic pollution as a thematic focus on a global scale. Innovative instruments such as blue bonds, which still represent only a small portion of the overall green, social, sustainability, and sustainability-linked bond markets, at just 0.2%, have significant room for growth.
- With most sustainable finance funds concentrated in high- to middle-income countries, there is a clear need to expand sustainable finance geographically. Aligning and catalyzing finance must account for regional imbalances.

Financial flows through the legally binding instrument must be accompanied by non-monetary support and accountability to create impactful outcomes

- Achieving the level of investment needed to address plastic pollution requires the intervention of global financial institutions.
- A key question is how global financial institutions can ensure that money invested locally in countries with varying conditions creates impact and achieves its intended purposes.
- The financial mechanism must remain flexible to align project needs with geographical contexts, allowing for adaptability in response to unpredictable market changes.
- This flexibility is especially crucial in countries with volatile markets or those vulnerable to global crises, enabling projects to remain viable, meet deliverables, and achieve the required key performance indicators (KPIs).
- In any financing mechanism, the most important aspect is linking the mechanism to the desired outcomes to ensure accountability. Clear and measurable KPIs are essential to hold financing recipients accountable for the impact of the funds they receive.

Technology transfer, technical assistance, capacity building, and other non-financial resources must complement financial resources received

- Taking the example of the ASASE Foundation, the foundation became investable by partnering with organizations that provided initial grants and access to the expertise needed to ensure that funds were spent where they would have the most impact.
- Funds generated through the treaty must be accompanied by technical expertise, technology, and knowledge transfer to countries in need. For example, implementing EPR in the Global South must draw from successful EPR models elsewhere.
- These complementary non-financial resources are essential because countries lack the time to learn or fail in treaty implementation. For instance, the ASASE Foundation has sought help from experts in the Global North to ensure projects are executed efficiently.
- Financial mechanisms should include tools that encourage technology transfer and expertise sharing, as financial resources alone are insufficient without proper guidance on how to utilize them.

Alignment of financial flows in the context of the international legally binding instrument on plastic pollution

- Implementing the ILBI will be expensive when factoring in the many industries and economies involved. The instrument needs to be well-structured to give guidance so that these industries understand how they can integrate into and support national and global solutions.
- Addressing the entire lifecycle of plastics costs trillions, as financial flows affect various sectors, including waste management, consumer goods, petrochemicals, retail and distribution, and transportation. Each of these large economies is intricately linked to the plastics challenge and pollution issue.
- Aligning financial flows through the treaty presents a unique, historic opportunity to redirect investments from harmful activities toward beneficial, circular solutions by:
    - (i) avoiding conflicting or incoherent flows (e.g., subsidizing both fossil fuels and reuse systems);

- (ii) combining funds to make solutions more affordable and accessible by pooling public, corporate, and innovative capital;
- (iii) creating synergies (e.g., investments in reusable cups become more valuable when city governments invest in collection systems);
- (iv) derisking investments by aligning financial flows to make individual investments less risky as others follow suit.

- The treaty will facilitate the alignment of financial flows by setting targets, standards, and definitions and establishing data transparency for informed investment decisions. It will also offer minimum requirements and recommendations to resolve policy conflicts and create an enabling environment, with some provisions needing global implementation while others are best driven at the national level.

Financial resources should specifically target emerging economies to address the inequitable impacts of plastic pollution

- The plastic pollution problem is not equitable. We must help emerging economies build capacity by providing both expertise and financial support, enabling them to implement the treaty with confidence.
- Material and product prices must reflect the full lifecycle costs associated with preventing, reducing, and managing plastic pollution in marine and other environments.
- Newly established global rules on a minimum effective corporate tax rate will enable countries to generate funds and integrate externality costs without disrupting markets by maintaining a national threshold. For example, if each country producing over 10 tonnes of plastic imposed a 10% effective fee, with half allocated to a global fund to prevent and mitigate plastic pollution, this setup could become the new gold standard. This approach could easily extend to other materials, benefiting both producer and consumer countries.
- To achieve the treaty's goals, public and private financial flows must align with the treaty's objectives. This alignment requires mobilizing and distributing additional financial resources while stopping harmful financial flows that contribute to plastic pollution.
- The treaty should ensure that non-financial resources are available to maximize the impact of financial support and enable effective implementation. This includes technical transfer, technical assistance, capacity building, best practices, and fostering international cooperation.
- Mobilizing the private sector requires a return on investment. This can be achieved by creating enabling conditions – through community engagement and enabling ecosystem actors to transition from the current system – so that investments are not made in a vacuum.
- Coordinating different funding sources requires capacity building and knowledge sharing to create a unified impact and attract additional funding. Grant and development funds, even without a direct return on investment, are also essential to support investments in countries that need them.

Derisking emerging market projects with outcome bonds

- There are existing MEA funds that suffer from not being capitalized, and we need to leverage a global sphere more impactfully. There is an opportunity to close the financing gap through unconventional means, such as new ways of innovative financing.
- Leveraging other sources of financing, such as existing public financing, to derisk private investment aligns with conversations at expert group sessions and platforms beyond the INC.
- Emerging markets often lack access to the funding required to develop the necessary collection and recycling capacity, receiving only 6% of private investments.

- Channeling financing from the capital market to projects in emerging markets remains challenging, as these projects are typically high-risk due to economic conditions and early stages of development.
- We must identify a financing approach for these projects that, while not necessarily economically viable in the usual scenarios, offer high environmental and social impact.
- Plastic credits provide a way to derisk projects and fund those that may not be economically viable, allowing project developers to avoid paying high interest rates. However, the timing mismatch between when funding is needed and when the plastic credit is issued still needs to be resolved.
    - The World Bank US$ 100 million Plastic Waste Reduction-Linked Bond offers a capital guarantee. The bond's coupon is divided into two components: the guaranteed fixed coupon and the non-guaranteed coupon. "Interest amount = Fixed Interest Amount + Plastic Credits Linked Interest Amount + VCU Linked Interest Amount + Shortfall Catch-Up Amount (if any)".
- This structure accommodates different risk appetites from the participants (project risk vs market risk), and thanks to the capital guarantee, enables projects to secure funding that would otherwise be inaccessible.

The webinar closed with thanks to attendees and the speakers for their contributions.

Selected Questions and Answers

Question: What example schemes may have been mentioned during the ad-hoc groups, or might be tenable in the treaty?

Answer: The report of the ad-hoc intersessional expert group contains a number of examples of the sources of finance (see Table 1 on page 3) and of innovative finance, such as plastic credits, green bonds, EPR, blended finance etc. (see Table 2).

Question: Would "recipients" include NGOs? Thinking of organizations such as the International Alliance of Waste Pickers.

Answer: Recipients (or beneficiaries) of any financial mechanism will be determined during the negotiating process. To date, there have been some suggestions that funds be directed to countries (to support them to meet obligations under the instrument), as well as suggestions that recipients could also include sub-national or local governments, other organizations or entities, for example.

Question: Where can one find the report of the intersessional work in the finance working group referred to in the previous presentation?

Answer: Please see this link:
https://wedocs.unep.org/bitstream/handle/20.500.11822/46401/UNEP_PP_INC_5_5_Advance%20Expert%20Group%201%20Co-chairs%20Report.pdf

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Question: Where can we find previous webinars?

Answer: Please see this link: https://initiatives.weforum.org/financing-coordination-group/home

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Question: Where will the vast majority of the funds come from? We have heard of EPR schemes.

Answer: To achieve the treaty's desired outcomes, existing financial flows – such as current investments in plastic design and production, distribution, retail, consumption, and collection – can be better targeted to help prevent environmental leakage. Public funds at various government levels (used for waste collection, infrastructure services, and cleanup efforts, for example) will continue to play an important role. Where polluters are not paying for the pollution caused by their activities, mechanisms like taxes, fees, and EPR can be used to mobilize additional funding. Funds generated within a treaty financial mechanism can also be used to attract philanthropic investments and voluntary contributions from other sources.

Question: What is the enabling environment in developing countries, and how is it needed to absorb financial flows and kickstart innovations, particularly in those countries that may lack a large or dynamic private sector?

Answer: Ghana's government is committed to taking the necessary steps to combat plastic pollution, and if the ASASE Foundation requested it, the government would collaborate with them to implement impactful actions. The government has supported the ASASE Foundation by providing access to land at little to no cost, partnering with the foundation to implement community behavior change programs, engaging waste pickers to promote a just transition, and raising awareness about the foundation's efforts. Without government support, we cannot achieve meaningful impact, regardless of the amount of financing we receive. Government commitment is crucial to ensuring the success and realization of impact.

As another example, Grenada has support from the prime minister, who has highlighted plastic waste management as a key item to support and endorsed a number of related initiatives. The treaty should create an enabling environment that allows countries to build local capacities, create access to financing, and retain the expertise needed to support the implementation of innovative solutions. This must be bolstered by national legislation, such as through strengthening existing legislation and developing additional legislation to align with key priorities captured within the treaty.

Question: Recognizing the role of the informal waste pickers in the circular economy and just transition, how do you support the flow of funding to them to support their livelihoods?

Answer: The ASASE Foundation collaborates with waste pickers to implement the Social+ Ocean Bound Plastic program. We must ensure that waste pickers do not receive funds without accountability for impact, as they are key partners in creating that impact. By including waste pickers in the program for a just transition, we all work together toward the same goal of achieving impact through measurable KPIs.

Question: Could you talk a little bit more about this minimal national threshold? Is it the amount developing countries should receive as a minimum?

Answer: The threshold is based on the minimum fee each country has to introduce to stop the race to the bottom – governments requiring companies to pay as a tax to their own government – and part of that could be channeled to the global fund. The threshold mentioned is not on the output side, but money generated. It can be difficult to introduce meaningful fees on plastic production unilaterally (for one single country) because the risk is that companies move production to other countries. There are different ways to do this in practice; it could be a percentage of market value, or a fixed amount per ton, but the point is the same. There needs to be a common minimum.

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