Financing considerations to support an international legally binding instrument on plastic pollution: Financial mechanisms, supported obligations, and addressing potential funding gaps

July 24, 2024 | Webinar #2 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 July 24, 2024

Session Objectives

1. To set the scene for the potential financial mechanisms that may be considered – new, existing, and hybrid mechanisms
2. To discuss the obligations or incremental costs associated with the international legally binding instrument on plastic pollution, including in the marine environment (ILBI) that need to be financed
3. To discuss potential funding gaps that Member States should bear in mind as they implement the ILBI to tackle plastic pollution and how these could be addressed

Speakers and Panelists

- **Elizabeth Nichols,** Foreign Affairs Officer, U.S. Department of State
- **Hibaa-Haibado Ismael Houssein,** Third Counsellor and DPR to UNEP, Embassy of Djibouti in Kenya
- **Hugo Maria Schally,** Adviser for International Environmental Negotiations – Directorate General for the Environment, European Commission
- **Khadija Khan,** Head of Social Impact Solutions, Societe Generale CIB
- **Leah Pedersen,** Senior Director, Market Acceleration and Design Innovation, Convergence
- **Michael Sadowski,** Executive Director, The Circulate Initiative
- **Oliver Boachie,** Special Advisor to the Minister, Ministry of Environment, Science, Technology & Innovation in Ghana
- **Peter Börkey,** Circular Economy Lead, Organisation for Economic Co-operation and Development
- **Rofi Alhanif,** Assistant Deputy for Waste Management, Coordinating Ministry for Maritime Affairs and Investment (CMMAI), Indonesia
- **Rolph Payet,** Executive Secretary, Basel, Rotterdam and Stockholm Conventions
- **Tao Wang,** Senior Environmental Finance Specialist, the World Bank

Key Takeaways

The webinar opened with an introduction to the Financing Coordination Group (FCG), including its composition. 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 second 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 speakers provided their perspectives on key financing-linked topics identified for discussion at the intersessional meeting: the financial mechanism, means that could be mobilized, and the alignment of financial flows. Experts also provided perspectives on obligations associated with the ILBI that need to be financed, the activities that could be supported by the financial mechanism, potential funding gaps, and innovative financing approaches that can support developing countries.

Importance of financing in the context of the global plastics pollution treaty negotiations

- Protecting the environment and its biodiversity requires that we prevent the leakage of plastics into the terrestrial and marine environments. The instrument must provide support to Member States and local governments to make this possible.
- Reducing greenhouse gas (GHG) emissions from the production and consumption of plastics demands that we reuse, recycle, and treat end-of-life plastics (including legacy plastics) in environmentally sound ways.
- For the instrument to achieve its goal of ending plastic pollution, financial resources in excess of trillions of US dollars would be required over a 15-year period. For developing countries alone, annual budgets in excess of US$ 22 billion would be required every year for 15 years.
- Implementing the changes to the industry will come at a significant cost, and the instrument must provide support to the industry to make this possible.
- The webinar provides an opportunity to deliberate on the financial mechanism needed for the instrument, and how the mechanism aligns the use of resources with the obligations of the instrument,

bearing in mind the importance of sustainability, accessibility, transparency, and accountability in the utilization of the resources.

- In addition, as part of the upcoming intersessional work related to financing, no fewer than 10 knowledge sessions are planned where all the elements within the mandate will be discussed.

Recap of the first webinar: Financing considerations to support an international legally binding instrument on plastic pollution

- Resources from the first webinar

Different financial mechanisms available for plastics treaty implementation

- The financial mechanisms are normally established as multilateral funds used by international communities to pool funding from multiple sources to tackle development challenges.
- The funds are often independently governed and facilitated by a hosting institution that plays no role in decision-making.
- The funds rely on a group of institutions to implement their activities as implementing entities, who are also accountable for resource use and policy compliance.
- Three options for establishing a financial mechanism, along with their pros and cons:
    1. A new fund with legal capacity not hosted by the World Bank. This approach offers maximum flexibility for the development of policies and procedures. However, setting up such a fund would be time-consuming and costly, and would add to fragmentation of the existing financing architecture of multilateral environmental funds.
    2. Integration into an existing fund. It could be a new window or an existing window with an expanded mandate under the existing fund, or a new fund within the existing fund. Such a mechanism would be relatively faster to establish, more cost-effective, and could leverage the structure, processes, and systems that are already in place. However, this approach may be less flexible, and the integration could result in a complex structure. If a new fund were to be created, it would add to the fragmentation of the existing financing architecture.
    3. A new fund hosted by the World Bank: This fund would be faster to establish than Option 1. The fund could leverage the World Bank's legal capacity, structure, and processes. However, this fund would have less flexibility than Option 1, and would add to the fragmentation of the existing financing architecture.

The key factors to consider when establishing a financial mechanism

- Form follows function: the form of the financial mechanism will be determined by the function the mechanism will serve, the scope and types of activities to be funded, the funding magnitude, and the means of mobilizing resources;
- Participation of the private sector: whether it should be voluntary or mandatory; whether and how it will impact the governance structure;
- Streamlined processes for easier and faster access to funds; and
- Avoidance of further fragmentation of the existing financing architecture, and ensuring alignment with existing funds and institutions to maximize efficiency and synergy.

Key obligations and the associated agreed incremental costs to be financed and prioritized through a financial mechanism

- Incremental costs in the context of a multilateral environmental agreement (MEA) refer to the additional costs that a country incurs to implement provisions set by an agreement for global environmental benefits. These costs go beyond baseline costs for initiatives that the country would have undertaken in the absence of the agreement.

- The new financial mechanism must be developed in a more equitable format, and care must be taken when adopting existing mechanisms and methodologies. The host costs that are absorbed by the intermediaries between the mechanism and the recipient country must be reduced.

- As the needs for emerging countries are different, narrowing the scope presents a risk as priorities vary by country. It is pre-emptive to start prioritizing the incremental costs, as this requires proper stocktaking of the needs of each country.

- In most MEAs, the discussion on incremental costs is linked to undertaking action to phase out, diminish or reduce; however, the plastics treaty has a broader scope as it covers productive sectors in many countries. As such, the traditional discussion around official development assistance (ODA) for capital mobilization is inadequate.

- The involvement of public and private investment is crucial to support changes across the value chain. The polluter pays principle needs to be applied, ensuring fair share payments from all value chain participants, which should be directed to countries most in need of specific investments.

- The world is divided into three groups: polymer producers, producers and users, and consumers. Different obligations under the treaty would affect each in a different way, and each party would have different capacities to address the obligations.

Prioritizing and addressing financing gaps related to provisions in the instrument for which financial support is needed but may not be available through the mechanism

- The perspective that loan-based financing may need to be accommodated as grants may be limited or priority-oriented is likely to narrow the ambition of the financial mechanism and the instrument.

- Not all grants are true grants as some might involve co-financing (with a loan component) from multilateral development banks (MDBs) or bilaterals. Prioritization can catalyze non-prioritized items to be pushed towards loan-based financing, which must be avoided.

- As a truly ambitious plastic treaty is required, the financial mechanism should reflect the ambition and actual needs for combating plastic pollution. The treaty must have a much bigger scope than the Basel, Rotterdam and Stockholm (BRS) Conventions/Minamata and other existing UNEP conventions and treaties.

- Key to success is understanding financing streams for environmental matters in their entirety. Financing through multilateral channels makes up a small minority of the finance landscape. The majority of financing is domestic, with the vast majority of international financing being private.

- Productive and transformative investments, incentivized by private investment, have significant potential to address financing gaps. These investments are needed to change how plastic is designed and produced, creating economic opportunities.

Developing countries require specific support due to the larger financial burden borne by them

- Regulatory and policy development, including formulating and implementing policies to reduce plastic production and consumption, and bans on specific plastic products, is required to tackle plastic pollution. Effective enforcement and affordable alternatives to plastics are necessary to ensure success.

- Financial and technical support is needed for emerging economies to strengthen basic waste management infrastructure. This includes capacity building for local communities and governments, and community-based programs so that efficiency and capacity can be improved.
- Robust methodologies are required to track plastics from the point of production to waste management, leveraging information technology to aid decision-makers at national, regional, and local levels.
- Startups and small businesses in the waste management sector need assistance to enhance their capacity, expand coverage, and increase effectiveness.
- Economic incentives for plastic reduction can be provided, e.g., implementing programs that provide financial incentives for reducing plastic use and promoting recycling, such as subsidies or grants for businesses and companies.

Key obligations supported by a financial mechanism, obligations dependent on other financing support, and lessons to bear in mind for plastics

- The Basel and Rotterdam Conventions do not have a financial mechanism. The Stockholm Convention is supported by the Global Environment Facility (GEF).
- The GEF supports the implementation of the Stockholm Convention, including the preparation of National Implementation Plans. Significant funds are allocated under the Stockholm Convention, for example, for the controlled destruction of polychlorinated biphenyls (PCBs).
- The Basel Convention addresses the transboundary movement and environmentally sound management of hazardous waste and other wastes, including plastic waste. The Convention faces challenges due to a lack of structured funding for countries, including for their basic waste management needs, which has contributed to the plastic pollution issue.
- Strengthening governance, legal, policy, and enforcement structures, along with robust institutions and accountability in managing these systems, is crucial for effective chemicals and waste management. The "Special Programme" supports institutional strengthening in this regard for the implementation of the BRS Conventions, the Minamata Convention, and the Global Framework on Chemicals, formerly known as the Strategic Approach to International Chemicals Management (SAICM).
- Many funding mechanisms rely on voluntary contributions, which hinders planning for long-term investment in those areas. Stable, long-term investment from both states and the private sector is necessary to ensure sustainability and reliability.

The role of private capital in tackling plastic pollution with outcomes-based financing as an example

- Private capital can play a significant role in addressing plastic waste, especially by focusing on regions like Southeast Asia and Africa where most leakage occurs. In these regions, 90% of plastic waste management relies on the informal sector, often managed by NGOs and social businesses. The value chain brings with it high operational and credit risks.
- Due to the risks involved, commercial investors are unlikely to invest on their own, and blended finance may be required. This blended finance approach can attract commercial investors by mitigating risks through partnerships with impact-driven and philanthropic investors.
- Outcomes-based finance involving commercial and impact investors working together is gaining traction. Investors pool their funds into social and environmental impact projects, with returns based on the project's impact rather than financial performance.
- An example of outcomes-based finance is financing for plastic waste management projects across Africa, especially in Nigeria, originated and structured by SocieteGenerale CIB's Social Impact

Solutions team. The impact investor was incentivized to achieve specific KPIs on plastic waste management, such as tons collected and recycled, with a focus on flexible plastics as well which are harder to collect. The capital recipient (the social business) did not have the monies received as a liability, with the investment treated as a grant instead. A corporate - Unilever was the outcome-funder who refunds the investor when the impact outcome is achieved.

How blended finance and design funding can support initiatives that are addressing plastic pollution

- Blended finance is an impact-oriented structuring approach in which organizations come together, applying public sector capital alongside philanthropic capital to de-risk private investment and thereby enter markets or address sectors they would otherwise avoid. It is an impact-oriented structuring approach that aims to achieve significant environmental and social impacts by leveraging diverse funding sources.
- Compared to renewable energy, agriculture, or financial services, which have established deal pipelines and business models, plastic pollution-related projects often face a funding gap and lack the same level of private investment due to higher perceived risks and an underdeveloped pipeline.
- Design funding invests catalytic concessional capital in early stage blended finance solutions. Design funding helps new sectors gain traction, for example, investing in the natural capital sector and nature-based solutions, which have now become mainstream.
- Design funding can also collectively assist NGOs and financial institutions in the early stages of project development or in their solution design process, providing the necessary capital and resources to design a suitable financial vehicle that can achieve the specific environmental or social goal.

The webinar closed with final remarks on the upcoming webinars from the FCG.

Selected Questions and Answers

Question: What kinds of entities would be contributing funding to a financial intermediary fund (FIF)?

Answer: Any entities can contribute: national and subnational governments, public sector organizations, philanthropies, possibly the private sector, etc.

Question: Most of the financial measures will be taken at the national level. While looking at the pros and cons, and factors to consider while evaluating, which kind of financial mechanism is the best in terms of complementarity and alignment with national flows?

Answer: There is no difference in this regard among the three options. Direct access may help national organizations access financing directly.

Question: Could all the three options host private funds equally?

Answer: Yes, it's possible, but there is a need to figure out the modality of including private sector contributions.

Question: What precedents for success or failure have we seen with the setup of other multilateral funds, such as Minamata Convention or Kyoto? What achievements have been made against their goals?

Answer: Suggest we refer to the evaluation reports of the existing funds for lessons learnt and experience gained.

Question: What is your view on the nature of contributions to the fund/mechanism? Would you recommend mandatory or voluntary contributions or even a levy/fee like in the case of the UNFCCC Climate Adaptation Fund?

Answer: All three options are open to different types of contributions. Historically, contributions are made mostly through grants. It would be useful to be open-minded and consider all types of contributions.

Question: If (or more likely when) private sector financing is integrated into financing mechanisms, would there be a pretext for stipulating that private financial institutions cannot simultaneously be part of financing the ILBI as part of the fund, whilst also directly financing polluting industries?

Answer: How to include private sector contributions in the fund remains a question for further discussions and decisions.

Question: If we went with an existing financing mechanism, would it permit necessary adjustments to accommodate new needs that are unique to the plastics treaty?

Answer: Adjustments are possible under this option, subject to the hosting fund’s governing body's consent.

Question: Given the scale of what might/should be required in relation to waste management alone, and the ongoing operational costs of this, is it appropriate for the funds to be derived only from an "international financial mechanism"? If so, what would such a mechanism need to look like to facilitate those ongoing flows?

Answer: The financial mechanism for ILBI will not be able to cover all the costs related to waste management.

Question: What is your position on plastic credits on collection and/or recycling?

Answer: Plastic credits, if used properly, can be one of the instruments to mobilize financing to address plastic pollution.

Question: Regarding the application of a proportional fee for each country that allows financing a fund aimed at mitigation, perhaps following the line of the green fund, what would be your opinion?

Answer: Fees can be one of the effective financing instruments, if properly used.

Question: Is there any private lending going into implementing or scaling up packaging reuse/refill systems?

Answer: The Circulate Initiative has compiled data on private investment in reuse/refill (and other solutions) in our Plastics Circularity Investment Tracker. Learn more here: https://www.thecirculateinitiative.org/plastics-circularity-investment-tracker

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