7 August 2024

CO-CHAIRS' SYNTHESIS PAPER ON FINANCE

Intergovernmental Negotiating Committee to develop an international legally binding instrument on plastic pollution, including in the marine environment

Ad hoc intersessional open-ended expert group to develop an analysis of potential sources, and means that could be mobilized, for implementation of the objectives of the instrument, including options for the establishment of a financial mechanism, alignment of financial flows, and catalysing finance

In-person meeting

Bangkok, 24-28 August 2024

CONTENTS

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1. Introduction

At its fourth session (INC-4), the Intergovernmental Negotiating Committee to develop an international legally binding instrument on plastic pollution, including in the marine environment, established two *ad hoc* intersessional open-ended expert groups.

Expert Group 1 was mandated to develop an analysis of potential sources, and means that could be mobilized, for implementation of the objectives of the instrument, including options for the establishment of a financial mechanism, alignment of financial flows, and catalysing finance, for the consideration by the Committee at its fifth session (INC-5). The expert group is Co-chaired by Ms. Kate Lynch of Australia and Mr. Oliver Boachie of Ghana.

The INC also decided that the expert group is to be informed by the reports of the Co-chairs of contact group two established at INC-4 and the compilation document of the draft text. The outcomes from the expert group shall be without prejudice to the Members' national positions and the outcome of negotiations conducted by the committee.

This document sets out a synthesis of factual information prepared by the Co-chairs. This synthesis is intended to support and facilitate the analysis being undertaken by Expert Group 1. The synthesis is structured in three key sections, reflecting the structure of the Expert Group's mandate, including:

- Potential sources of financing and means that could be mobilized;
- Aligning and catalysing finance; and
- Options for the establishment of a financing mechanism.

The expert group will undertake the analysis through a series of guiding questions related to these three sections to gather views and inputs, aiming to build a common understanding of the elements of the financial architecture. The guiding questions are available in the agenda for the in-person meeting that will take place in Bangkok, Thailand, from 24 to 28 August 2024, and will help structure the discussions to ensure comprehensive and informed deliberations.

The synthesis aims to provide the experts with relevant information, so that by the end of the expert meeting, there would be a common vision and analysis of the financial landscape, helping the INC to determine the best options for designing an effective financial mechanism and how best to reflect these options in the text of the Instrument. Ultimately, this work should inform the decisions to be taken by the Members at INC-5, without prejudice to the Members' national positions and the outcome of negotiations conducted by the committee.

At the end of the in-person meeting, the Co-Chairs will prepare a report. This report will consolidate the collective insights and recommendations of the Expert Group, providing a robust foundation for Members as they work towards finalizing at INC-5 a text for a financial mechanism to support implementation of the instrument.

2. Potential sources of financing and means that could be mobilized

Scale and trajectory of the problem

Understanding the scale of the problem that the instrument is intended to address is critical to the development of a common vision on financing and other means of implementation for the future instrument.

A number of studies have been undertaken that highlight the scale of the problem:

- The Nordic Council of Ministers Report "Towards Ending Plastic Pollution by 2040" [1] highlights that without global action, mismanaged plastic levels could nearly double from 110 million tonnes in 2019 to 205 million tonnes by 2040. Virgin plastic production could increase by 66%, and GHG emissions from plastics could rise by 63%. By 2040, under a business-as-usual scenario, annual plastic production could reach 764 million tonnes, and waste generation could grow to 646 million tonnes, exacerbated by population and consumption growth, especially in regions with inadequate waste management infrastructure.

- The OECD's Global Plastics Outlook (2022)[2] indicates that plastic waste generation is projected to triple by 2060 if current trends continue, stressing the urgency for enhanced global coordination and innovative financing mechanisms.

- UNEP's Global Chemicals Outlook (2019)[3] points out the substantial health and environmental costs associated with plastic pollution, emphasizing the need for integrating financial strategies to mitigate these impacts.

- The Environmental Investigation Agency (EIA)[4] highlights significant issues in the financial landscape for addressing plastic pollution. It indicates challenges in coordination, efficiency and access to funding. EIA also emphasizes the need for increased private investment and market-based incentives to support sustainable plastic waste treatment, especially in developing countries. Additionally, EIA points out limited donor focus on critical sectors, gender-specific impacts, and engagement with informal waste-pickers.

Scale of investment needed to address the problem

The Circulate Initiative[5] reports that implementing measures to nearly eliminate mismanaged plastic waste by 2040 will cost approximately 0.5% of global GDP, with higher costs for developing countries due to uneven impacts of plastic pollution. This underscores the need for enhanced international support for these nations. The Circulate Initiative states that public funds alone will be insufficient and private sector involvement is critical. Official Development Assistance (ODA), though common, has limitations. Private capital flows are more substantial but require redirection towards emerging economies and broader initiatives beyond recovery and recycling.

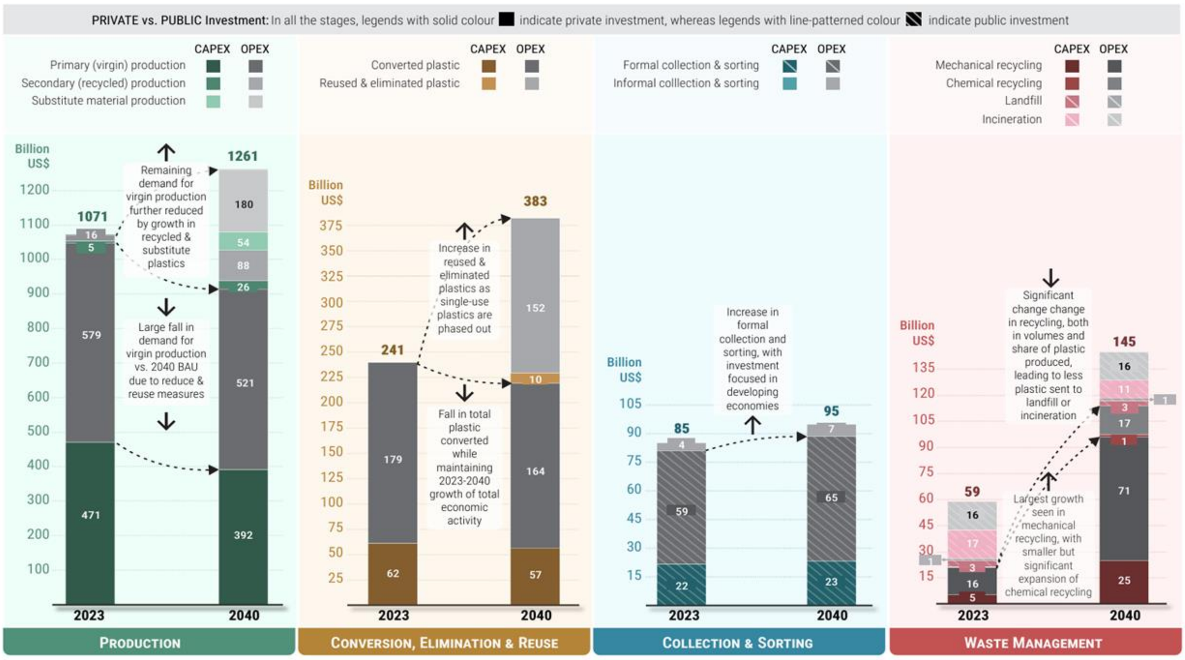
[1] Nordic Council of Ministers, *Towards Ending Plastic Pollution by 2040* (2023)
[2] OECD, *Global Plastics Outlook* (2022)
[3] UNEP, *Global Chemicals Outlook* (2019)
[4] Environment Investigation Agency, *Convention on Plastic Pollution* (2022)
[5] The Circulate Initiative, *Financing considerations to support an international legally binding instrument on plastic pollution, Webinar Summary Report* (2023)

Findings from the Minderoo Foundation report, "The Plastic Pollution Fee: Closing the Financial Gap for Implementing an Ambitious Global Plastics Treaty,"[6] estimates that developing countries face a financing gap of US$350 to 500 billion to implement an ambitious global plastics treaty.

Preliminary estimates suggest that inaction might generate a net cost for society that will be twice the cost of action (Cordier et al -2024). According to WWF[7], the lifetime cost of plastic produced in 2019 alone was estimated at $3.7 trillion, and this cost is set to double for plastic produced by 2040 without significant action. Furthermore, the impact of plastic pollution is unequally distributed, with the total lifetime cost for one kilogram of plastic waste being eight to ten times higher for low-income countries compared to high-income countries, underscoring the need for equitable global action and financing mechanisms to address this disparity.

Figure 1 below shows the estimated financial needs to end plastic pollution, focusing on orders of magnitude. The infographic shows global financial flows in the plastics value chain, including yearly capital (capex) and operational expenditures (opex) from private and public investments. It compares 2023 investments with those needed for ambitious measures to eliminate plastic pollution by 2040, emphasizing sustainable shifts in production and consumption over waste management. The yearly capex and opex for production are expected to rise from US$1,456 billion in 2023 to US$1,884 billion by 2040.

Figure 1: Financial needs to end plastic pollution[8]



Notes: i) Annual Investment means that data is for a single year, not cumulative between 2023 and 2040; ii) The costs of the used scenario for this infographic represent an approximation and in reality will depend on actual policy mixes that are potentially envisioned and funded by any form of future financial mechanism, innovative finance or blended finance. There is not a single set of global scenario choices that could guarantee certainty of outcomes and corresponding investment needs will vary depending on underlying assumptions e.g. where to focus investments in the plastics value chain; iii) The BAU and 2040 scenarios are based on modeling published by the Nordic Council of Ministers (NCM) and the Golden Rules Scenario. Our decision stemmed from evaluating models from NCM, OECD, and the University of California. Although all three models demonstrated consistency in material flows of plastics, the NCM model offered an additional and unique feature of simulated financial flow information. This data allowed for the creation of an illustrative infographic showing potential redirection of financial flows across the plastics value chain.

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[6] Minderoo Foundation, *The Plastic Pollution Fee: Closing the Financial Gap for Implementing an Ambitious Global Plastics Treaty* (2023)

[7] WWF, *Who pays for plastic pollution?* (2023)

[8] Source for the stock-flow model: UNEP. This model is based on a report prepared by Systemiq and published by the Nordic Council of Ministers (2023). The report, titled "Towards Ending Plastic Pollution by 2040," is available at Nordic Council of Ministers. The corresponding technical annex can also be found on the same site.

Categories of investment

The activities that the financial mechanism can potentially support can be grouped into the following categories. These categories encompass a wide range of actions aimed at effectively addressing plastic pollution through comprehensive analytics, supportive policies, targeted investments, and readiness for accessing funds. By organizing these activities into distinct categories, the financial mechanism can provide structured and efficient support to achieve the objectives of the instrument.

1. **Analytics**

   a. Methodologies and metrics for measuring and monitoring plastics
   b. Market studies to understand conditions to enable markets and private sector interventions
   c. Economic and social impacts of marine plastic-waste reduction and management
   d. State of play, risks, and opportunities of plastic crediting mechanisms
   e. Financial mechanisms for plastic waste management.

2. **Policies**

   a. Phasing out single-use plastics (SUP)
   b. Setting plastic packaging and labeling standards
   c. Extended Producer Responsibility (EPR) readiness assessment and implementation guidance
   d. Identifying/implementing fiscal and regulatory reforms to improve waste management and expedite the transition to a circular economy
   e. National Action Plans and Roadmaps
   f. Policies for ensuring a Just Transition g. Decision-making tools.

3. **Investments**

   a. Supporting investments across sectors: environment, agriculture, urban, water, waste management, tourism, etc.
   b. Supporting investments at the national, sub-national, and regional levels
   c. Mobilizing private sector financing through innovative financing instruments: plastic outcome bond, blue bond, blue loan, plastic credit, etc.
   d. Making results-based payments.

4. **Readiness in accessing funds**

   a. Institutional capacity building
   b. Establishing processes and procedures
   c. Country program development
   d. Project preparation.

Furthermore, Minderoo sets out the following possible windows for financing for developing countries:

1. **Developing safe and environmentally sound waste management infrastructure**, requiring additional capital expenditure for formal collection, sorting, mechanical recycling, and safe disposal.

2. **Supporting upstream transformation to a circular plastic economy**, which would need further investments in elimination, substitution, and re-use models, including reverse logistics.

3. **Ensuring a just transition for informal waste workers,** which includes securing their ability to earn a living wage from collecting and sorting plastic.

4. **Cleaning up legacy plastic pollution**, targeting plastic pollution hotspots, especially unsanitary dumpsites, rivers, and beaches.

5. **Eliminating the human health impacts of plastic pollution,** which would require funding for transparency, traceability, and disclosure regimes; human health research and monitoring programs; and the development of standards and guidelines, including chemical simplification, comprehensive chemical regulation, and safer alternatives.

Potential sources and means

A wide range of private and public sources of finance and products are available to facilitate the achievement of the objectives of the future instrument. The range of sources include, but not limited to, the following:

i. Public Sources

- Fiscal sources
  - Taxes, fees, fiscal policies and other levies and tax breaks
  - Innovative sources of finance: polymer fees, plastic fees, landfill fees.
- Sustainability-linked sovereign debt
  - Sustainability-linked bonds with financial terms linked to the issuer's performance in achieving pre-agreed pollution reduction targets.
  - Debt-for-nature swaps where a portion of a country's debt is forgiven in exchange for commitments to environmental conservation projects.
- Official Development Assistance (ODA) contributions from high-income countries in the form of grants and concessional finance.
- National and International financial institutions aimed at supporting initiatives and projects that reduce plastic pollution (e.g., World Bank, IMF) in the form of grants, concessional and market rate finance.
- Impact investing and philanthropy in the form of grants, concessional and market rate finance.
- Financial mechanisms of related multilateral and bilateral conventions (climate change, biodiversity, chemicals and waste conventions) in the form of grants, concessional and market rate finance.

ii. Private Sources

- Retained corporate profits
- Sustainable and impact investment funds
- Banking and capital market green debts (loans and bonds)
- Plastic allowances and credit trading.

The growth of sustainable finance offers a platform for introducing plastic pollution as a thematic expansion on a global scale. In 2022, global sustainable investment assets reached $30.3 trillion (GSI Alliance 2022), with sustainable finance products like investment funds and green, social, sustainability and sustainability linked (GSSS) bonds totaling $5.8 trillion. However, most of these funds are concentrated in high to middle-income countries, highlighting the need for broader geographic expansion in sustainable finance.

iii. Other non-financial resources and means of implementation:

Other non-financial resources and means of implementation to enable developing countries to meet their obligations under the instrument can include[9]:

1. **Capacity-building** to ensure that all parties have the necessary information and expertise to implement the provisions of the instrument effectively. Capacity-building can promote cooperation, technology transfer, education, and training, and establish networks for knowledge exchange to support the implementation of obligations. Additionally, capacity-building helps ensure that all countries, particularly developing countries and small island developing States, receive adequate and timely support.
2. **Technical Assistance** to provide targeted support to enable developing countries to adopt new technologies and practices for reducing plastic pollution through information exchange and knowledge-sharing, monitoring, reporting, and verification, skills transfer, trainings, etc.
3. **Technology transfer**, which involves sharing knowledge, technologies, and expertise by countries that possess them with other countries and regions, particularly the most vulnerable, such as small island developing States. This support helps countries lacking technological capabilities and resources implement the instrument effectively. By providing access to necessary technologies and knowledge, technology transfer enables developing countries to meet their obligations, promote innovation, support capacity-building, and reduce the technology gap between developed and developing countries.

Existing sources of financing

The INC secretariat prepared an overview of existing sources of financing for addressing plastic pollution through international funding arrangements (UNEP/PP/INC.4/INF/2). The overview provides an indication of sources currently available at international level, including lists of available multilateral funding arrangements, bilateral funding arrangements, private funding arrangements and private not-for-profit. There are also hybrid actions, including blended finance, relevant to funding arrangements for addressing plastic pollution.

Compilation draft text

The compilation of draft text of the international legally binding instrument on plastic pollution, including in the marine environment (UNEP/PP/INC.5/4) currently includes, as part of the text on financing, specific considerations of the following potential sources of finance:

(i) A plastic pollution fee to provide funding to meet the costs of ending plastic pollution for infrastructure essential for managing plastic waste; remediation of legacy plastic pollution; other aspects of implementation such as technology transfer, capacity building research, innovation, education and development; aiding the establishment, operationalization and scaling up of national extended producer responsibility schemes; a just transition for vulnerable groups (Part III.1, operative paragraph 9 bis).

(ii) Extended producer responsibility schemes to provide technology for processing and recovery of plastic products (Part III.1, operative paragraph 9 ter).

Furthermore, the compilation of draft text includes consideration of technical assistance and capacity building that may be delivered through regional, subregional and national arrangements, including existing regional and subregional centres, through other multilateral and bilateral means, and through

[9] UNEP/PP/INC.2/4, Available at: https://wedocs.unep.org/bitstream/handle/20.500.11822/45375/ExistingFunding.pdf

partnerships, including those involving the private sector and/or other stakeholders. In addition, it considers that cooperation and coordination with relevant other multilateral environmental agreements, as appropriate, should be sought to increase the effectiveness of technical assistance and its delivery.

3. Aligning and catalysing finance

The following diagram provides an overview of possible sources and means of financing to end plastic pollution and provides a framing for aligning and catalysing finance.[10]

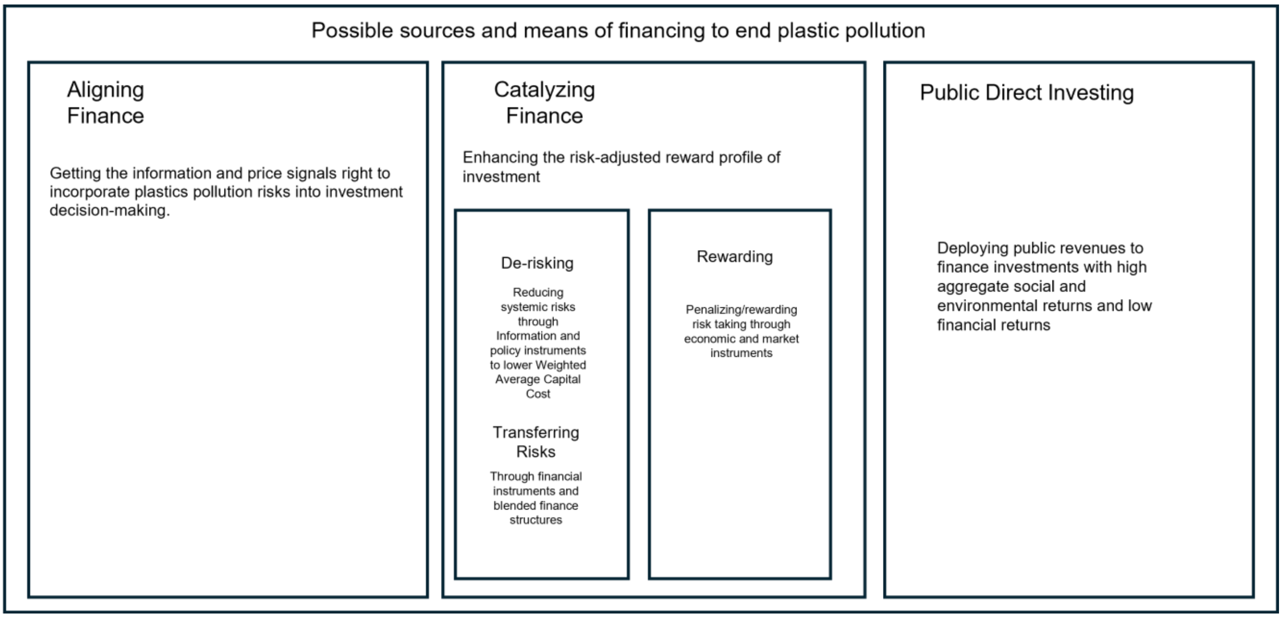


Figure 2: Possible sources and means of financing to end plastic pollution

a) Alignment of financial flows

Alignment refers to ensuring that public and private financial flows are deployed as far as possible in line with the instrument's objectives. Alignment would include enabling a shift in private financing and investment, and, potentially, positive and negative incentives (e.g., subsidies, fiscal measures).

Aligning financial flows would require that parties take action to mobilise new, additional, stable, sustainable, accessible, adequate, timely and predictable financial resources from all sources, including domestic, international, public and private resources.

Aligning financial flows can also support:

a) Getting the information and price signals right to incorporate plastics pollution risks and impacts in investment decision-making, including through voluntary or mandatory information disclosure and target setting based on common sustainable plastic frameworks and taxonomies.
b) Optimizing co-benefits of different funding arrangements, creating synergies and thereby optimizing implementation of the future instrument.

The compilation of draft text of the international legally binding instrument on plastic pollution, including in the marine environment (UNEP/PP/INC.5/4) currently includes specific considerations on aligning financial flows under Part III.1 operative paragraphs 10 and 10 bis.

[10] Source: Yannick Glemarec

Aligning financial flows under existing MEAs

Obligations aimed at aligning finance have been anchored in recent Multilateral Environmental Agreements (MEAs) including:

- **Paris Agreement, article 2.1 c**: "This Agreement, in enhancing the implementation of the Convention, including its objective, aims to strengthen the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty, including by: (…)
  (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."

- **Kunming Montreal Global Biodiversity Framework (GBF), Goal D, Target 14, 15 and 19:**
  Goal D: "Adequate means of implementation, including financial resources, capacity-building, technical and scientific cooperation, and access to and transfer of technology to fully implement the Kunming-Montreal Global Biodiversity Framework are secured and equitably accessible to all Parties, especially developing country Parties, in particular the least developed countries and small island developing States, as well as countries with economies in transition, progressively closing the biodiversity finance gap of $700 billion per year, and aligning financial flows with the Kunming-Montreal Global Biodiversity Framework and the 2050 Vision for biodiversity."

  Target 14: "Ensure the full integration of biodiversity and its multiple values into policies, regulations, planning and development processes, poverty eradication strategies, strategic environmental assessments, environmental impact assessments and, as appropriate, national accounting, within and across all levels of government and across all sectors, in particular those with significant impacts on biodiversity, progressively aligning all relevant public and private activities, fiscal and financial flows with the goals and targets of this framework."

  Target 15: "Take legal, administrative or policy measures to encourage and enable business, and in particular to ensure that large and transnational companies and financial institutions: (a) Regularly monitor, assess, and transparently disclose their risks, dependencies and impacts on biodiversity including with requirements for all large as well as transnational companies and financial institutions along their operations, supply and value chains and portfolios; (b) Provide information needed to consumers to promote sustainable consumption patterns; (c) Report on compliance with access and benefit-sharing regulations and measures, as applicable; in order to progressively reduce negative impacts on biodiversity, increase positive impacts, reduce biodiversity-related risks to business and financial institutions, and promote actions to ensure sustainable patterns of production."

  Target 19: "Substantially and progressively increase the level of financial resources from all sources, in an effective, timely and easily accessible manner, including domestic, international, public and private resources, in accordance with Article 20 of the Convention, to implement national biodiversity strategies and action plans, by 2030 mobilizing at least 200 billion United States dollars per year, including by: (a) Increasing total biodiversity related international financial resources from developed countries, including official development assistance, and from countries that voluntarily assume obligations of developed country Parties, to developing countries, in particular the least developed countries and small island developing States, as well as countries with economies in transition, to at least US$ 20 billion per year by 2025, and to at least US$ 30 billion per year by 2030; (b) Significantly increasing domestic resource mobilization, facilitated by the preparation and implementation of national biodiversity finance plans or similar instruments according to national needs, priorities and circumstances; (c)

Leveraging private finance, promoting blended finance, implementing strategies for raising new and additional resources, and encouraging the private sector to invest in biodiversity, including through impact funds and other instruments; (d) Stimulating innovative schemes such as payment for ecosystem services, green bonds, biodiversity offsets and credits, benefit-sharing mechanisms, with environmental and social safeguards; (e) Optimizing co-benefits and synergies of finance targeting the biodiversity and climate crises; (f) Enhancing the role of collective actions, including by indigenous peoples and local communities, Mother Earth centric actions[1] and non-market-based approaches including community based natural resource management and civil society cooperation and solidarity aimed at the conservation of biodiversity; (g) Enhancing the effectiveness, efficiency and transparency of resource provision and use"

- **Global Framework on Chemicals (GFC), Targets E3, E4, E5 and D3:**
  Target E3: "Adequate, predictable and sustainable financial resources from all sources needed to support achieving the sound management of chemicals and waste are identified and mobilized in alignment with the vision, strategic objectives and targets of the Framework in all sectors by and for all stakeholders, including by leveraging private finance and promoting innovative and blended-finance schemes."

  Target E4: "Funding gaps for the implementation of sound management of chemicals and waste are identified and considered for capacity-building, including through the Global Framework on Chemicals Fund."

  Target E5: "By 2030, Governments have taken measures to put in place policies to internalize the costs of the sound management of chemicals and waste through different approaches."

  Target D3: "By 2030, the private sector, including the finance sector, incorporates strategies and policies to implement the sound management of chemicals and waste in its finance approaches and business models and applies internationally recognized or equivalent reporting standards."

Environmental Policy Instruments

Environmental policy instruments can also play a significant role in aligning financing, particularly through the provision of information that reduces uncertainty and stimulates transparency. Such examples include:

- **Information instruments that reduce uncertainty and stimulate transparency**
  - **National strategies to end plastic pollution are a strong political signal,** national governments need to create clear and supportive policy environments that encourage all stakeholders to align their actions towards reducing plastic pollution (Raubenheimer, Urho 2023). Ending plastic pollution aligns with the sustainable development goals (SDGs) (Fletcher et al 2024).
  - **Monitoring via corporate plastic pollution disclosures stimulates transparency via reporting on progress of targets** (Smith *et al.* 2024). Mandatory disclosures form a cross-cutting success factor and uniform disclosure requirements and increased transparency on outcomes are needed to monitor public and private financial efforts. E.g. Taskforce Nature Related Disclosures (TNFD 2024), which includes plastic related metrics, Carbon Disclosure Project (CDP 2024), which has developed a plastics

questionnaire, or International Sustainability Standards Board (ISSB) (IFRS 2022), which is currently developing a nature related disclosure standard.

- **Sustainable taxonomies to guide reporting and promote the development of green financial products**. Explicit and clear definitions are particularly important for financial flows, where ambiguity can lead to discrepancies in reporting and potential legal issues (Barrie et al 2023).

- **Macro-Prudential regulations**
  - **Regulatory risk assessment and disclosure initiatives are coupled with a re-examination of the role of macro-micro prudential legislation** and options to include alignment of finance with sustainable development as an additional prudential objective (Hidalgo-Oñate 2024).
  - **Re-examination of prudential legislation means integrating environmental and social risks associated with plastic pollution into financial regulations.** Regulators and financial institutions require capacity building to implement this prudential legislation e.g., develop pollution risk assessment tools and expertise for plastic pollution improving reliability of risk assessment outcomes.
- **Institutional instruments to facilitate finance interventions by strengthening of domestic capital market related institutions**
  - **Financial markets** like stock exchanges and bond markets
  - **Financial regulators** like national banks and financial market authorities regulating financial actors such as banks, insurance, investors, private equity firms, venture capital firms
  - **Credit rating agencies, ESG rating agencies. Data and information service providers**
  - **Legal institutions**, e.g, green courts that facilitate the enforcement of environmental law and solve legal disputes around environmental justice.

b) Catalysing finance

Catalyzing finance is an important objective in investor decision-making for risk-adjusted returns, a metric that actively steers the decision of where and when to invest. Catalysing financial flows also facilitates the mobilization of financial resources from all sources and can be a key element of multi-stakeholder engagement in the public and private finance sector.

Financing interventions to catalyze green investment aim to make these opportunities more appealing to investors by mitigating, transferring or compensating for various investment risks such as market risks, technical and regulatory risks or sovereign risks. Minimising investment risks or incentivizing green risk taking is critical for sustainable plastics investment, which combines innovation risks (technical underperformance, unproven market demand, etc.) with typical risks associated with conventional investments in circular economy infrastructure (high capex and long pay-back periods).

Early-mover projects supported by public interventions can help establish a successful track record and enable financiers to better assess risk and lower weighted average cost of capital requirements for follow-up projects.

Environmental Policy Instruments:

- **De-risking by reducing systemic risks (market, regulatory, technology)**
    - Market risks, regulatory risks, technology risks and other risks assessed and managed as part of national strategies to end plastic pollution, the information clearing house approach can reduce risks by offering market data, insights in market trends, regulatory updates, stimulate social learning by highlighting best practices and share research findings.

- **Regulatory instruments to drive market demand and remove supply barriers**

    - Labels, Compliance mandates and bans on single-use plastics, design standards and norms reduces risks for businesses investing in plastics value chain (Apel *et al.* 2023).

    - A streamlined licensing process reduces the time and cost associated with product introduction and lowers the entry barriers for startups and SMEs.

    - Regulatory sandboxes reduce the regulatory burden and provide a controlled and paced environment for businesses to test the market for new products (Markellos *et al.* 2024).

- **Institutional instruments to provide an enabling environment**

    - Research & Development centers innovate technologies and materials, foster collaboration for improved commercialization (Sarpong *et al.* 2023).

    - Quality assurance agencies set and enforce standards, certify products, and ensure compliance (Luthin *et al.* 2024).

    - Green banks attract private capital, and can offer financial technical assistance to reduce financial risks (Degryse *et al.* 2023).

    - Continued development of national financial institutions to support economic growth and job creation on national level (Schclarek 2023).

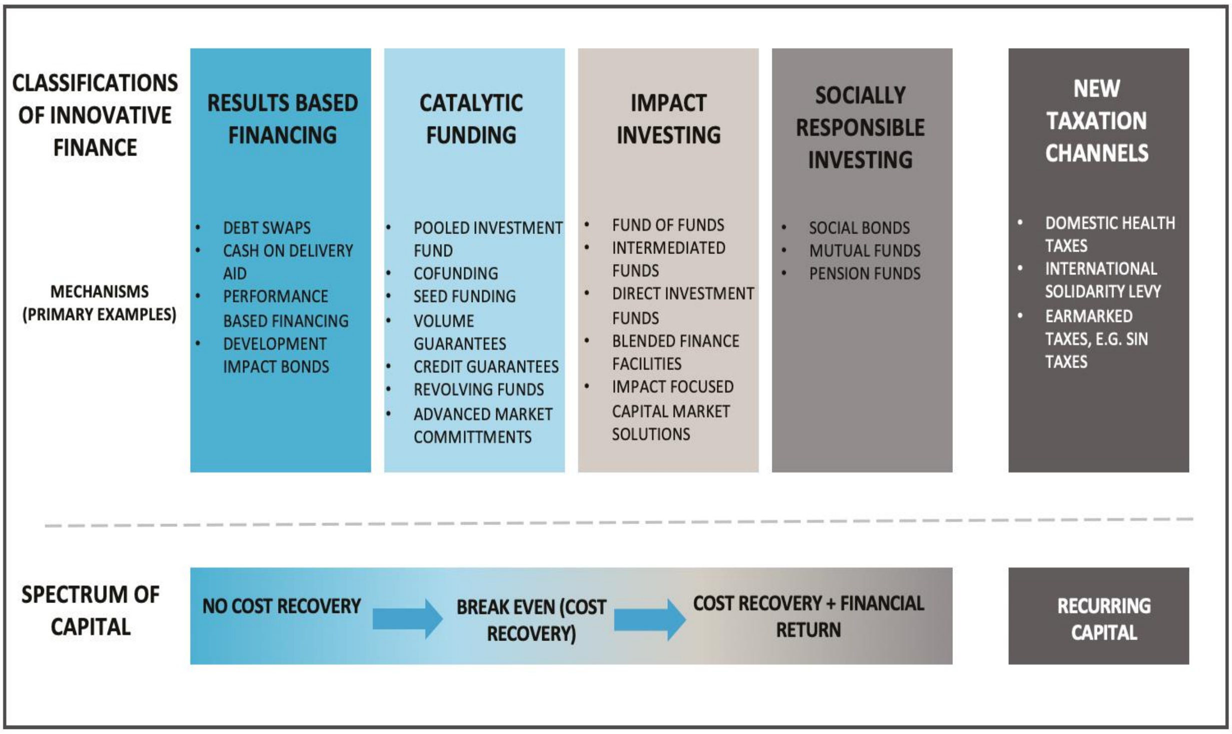
    - Sovereign audit authorities as independent agencies responsible for auditing the use of public funds and increasing alignment with SDGs (Dionisijev 2024).

- **Fiscal instruments:**

    - Rewarding by economic and market instrument such as tax breaks and favorable tariffs or penalizing risk through fees and penalties. E.g., Packaging taxes on problematic or avoidable plastics, such as packaging consumption taxes (University of California 2023) or Landfill and incineration taxes on disposal (OECD 2023).
    - EPR fee from EPR schemes potentially creates similar upstream incentives as a plastics fee with eco-modulation (Consumer Goods Forum 2022).
    - Eliminate, phase out or reform incentives, including subsidies. Phase out harmful subsidies is also embedded in Target 18 of the CBD. Target 18 of the Kunming-Montreal Global Biodiversity Framework reads: "Identify by 2025, and eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, while substantially and progressively reducing them by at least 500 billion US-dollars by 2030, starting with the most harmful incentives, and scale up positive incentives for the conservation and sustainable use of biodiversity.”

Innovative approaches

The instrument creates opportunities for new and innovative approaches of financing to address plastic pollution. Examples could include blended finance, impact investment, plastic credits, or green bonds. The following graphic provides an overview of different classifications of innovative finance.



Adapted from "USAID 2019 Investing for Impact" and "Addis Tax Initiative"

Figure 3: Classification of Innovative Finance

While there is no internationally agreed definition of "innovative financing for development", the term was coined in the early 2000s (UNDP, 2012). It encompasses a heterogeneous mix of innovations both in fund-raising and in spending (World Bank, 2009). The ambition can be either to deliver additional and predictable financial flows (such as taxes, dues or other obligatory charges on globalized activities like UNITAID air ticket taxes, voluntary solidarity contributions, wealth taxes, etc.) or to deploy existing resources in a more efficient/catalytic manner (such as result-based payments, frontloading of public resources, risk-sharing instruments, etc.) in support of concrete national or international goals.

For the past 20 years, global funds have been exploring innovative sources of finance to support their operations. Today, innovative sources of finance provide substantial resources to global health funds. For example, since 2006, UNITAID, a program aimed at fighting diseases such as tuberculosis, malaria, and HIV/AIDS, has raised a percentage of its total funds, exceeding USD 2 billion through an innovative financing mechanism called a solidarity levy on airline tickets. Similarly, the Global Fund to Fight HIV, TB and Malaria has raised more than USD 700 million through a consumer donation initiative in partnership with (RED) as of 2021. The "Debt to Health" initiative is another innovative financing mechanism implemented by the Global Fund where creditor countries forego repayment of a portion of bilateral debts on the condition that the freed-up resources are invested in health programs. Such a mechanism could be adapted for environmental goals, enabling indebted countries to channel resources into environmental initiatives (e.g. plastic pollution reduction initiatives), while meeting their financial obligations in a more flexible manner.

There are also endowment-based mechanisms in the multilateral system, particularly for biodiversity projects. For instance, the GEF has supported the establishment of Conservation Trust Funds (CTFs) in various countries. These CTFs are designed to provide long-term financial sustainability for protected areas and biodiversity conservation projects. An example is the Bhutan Trust Fund for Environmental Conservation. The endowment fund principle ensures that only the investment income generated from the endowment is used for funding activities, thus preserving the principal amount to generate continuous financial support for conservation efforts. This model helps ensure a steady flow of funds over time, reducing dependency on unpredictable contributions.

The Taskforce on Nature-related Financial Disclosures (TNFD) is another innovative approach that can support financing efforts. The TNFD aims to provide a framework for financial institutions and companies to assess, manage, and report on their dependencies and impacts on nature. By integrating nature-related risks into decision-making processes, the TNFD helps redirect financial flows towards sustainable practices, including reducing plastic pollution. This framework encourages transparency and accountability, driving investments that align with environmental goals.

Innovative finance for sustainable plastics is emerging. For example:

i. The International Bank for Reconstruction and Development (IBRD) issued a seven-year 100 million USD plastic waste reduction linked bond. The bond provides investors with a financial return linked to Plastic Waste Collection Credits, Plastic Waste Recycling Credits (collectively, plastic credits), and Verified Carbon Units (carbon credits), expected to be generated by two projects in Ghana and Indonesia, respectively.

ii. As part of its Covid-19 recovery package, the EU has introduced a Plastic Tax. Started on 1 January 2021, the contribution is calculated by the weight of non-recycled plastic packaging waste with a uniform rate of EUR 0.80 per kilogram (UNEP/PP/INC.4/INF/2).

Innovative financing mechanisms to raise or deploy resources could be agreed at the time the instrument is finalised, or be explored by the Instrument's Financial Mechanism once established, including but not limited to those described in the potential options for elements towards an international legally binding instrument (UNEP/PP/INC.2/4):

- **Plastic fees, taxes or levies:** Implement a fee, tax or levy on plastic production, use or disposal to generate revenue that would finance initiatives to reduce plastic waste. For example, the tax could be applied to manufacturers or importers of plastic polymers and products and the revenue could be used to fund the instrument's objectives, including recycling programmes, product redesign and public awareness campaigns. Such a fee could be managed at the global level, in a regional setting or at the national level.
- **EPR system:** Set up an EPR system that requires plastic producers and importers to take responsibility for their products throughout their life cycle, from production to disposal, to incentivize collection and sorting, including by informal waste pickers, to initiate investment in recycling facilities, and to fund studies of advanced recycling and material recovery methodologies. The system would include fees paid by plastic producers, which would be used to fund initiatives aimed at reducing plastic waste, such as product design, material substitution and end-of-life management.
- **Public-private partnerships:** Foster public-private partnerships to fund and implement initiatives aimed at reducing plastic waste. Companies could contribute funding, expertise and resources to support projects that align with their sustainability goals and the instrument's objectives.

- **Credit schemes:** Use credit schemes to finance initiatives that reduce plastic waste. The credits would be generated by projects that reduce greenhouse gas emissions, such as recycling, and sold to companies and governments to offset their carbon footprint.
- **Funding through private-sector entities involved in the life cycle of plastic:** Introduce a packaging fee, which, again, could be managed globally, regionally or nationally.
- **Product charges**: Introduce charges on specific plastic products, such as single-use items, to encourage a reduction in their use or increased use of more sustainable alternatives. The revenue generated could be used to finance initiatives aimed at reducing plastic waste.
- **Other market-based approaches**, such as pricing mechanisms and financial incentives, to encourage or discourage certain behaviours or practices.
- **Voluntary contributions:** Encourage voluntary contributions from foundations, individuals and businesses to support initiatives aimed at tackling plastic pollution.

4. Options for the establishment of a financial mechanism[11]

The compilation of draft text of the international legally binding instrument on plastic pollution, including in the marine environment (UNEP/PP/INC.5/4) ten operative paragraphs outlining the modalities for financing the instrument.[12]

Operative paragraph 6 outlines three options for the establishment of a financial mechanism. These include a financing model consisting of:

a. A newly established dedicated fund;
b. An existing fund;
c. A combination of financing, such as:
   i. An existing fund
   ii. A newly established dedicated fund
   iii. A Plastic Implementation Fund
   iv. A Remediation Fund
   v. A timebound international financing programme to support enabling activities, capacity-building and technical assistance.

A programmatic strategy could dictate the fund financing structure, such as the number of financing windows, range of financial instruments used and related programming modalities. It could also spell out the eligibility criteria to access the fund, possible dedicated country sub-window (for parties with particular needs) or instrument sub-window (small grant programme, etc.).

Governance Structure

In terms of governance architecture, fund management can be considered at the following levels:

[11] This section is not intended to prejudice negotiations, but rather to summarize and outline potential options currently included in the compilation of draft text.
[12] Part III, 1 of the Compilation Text.

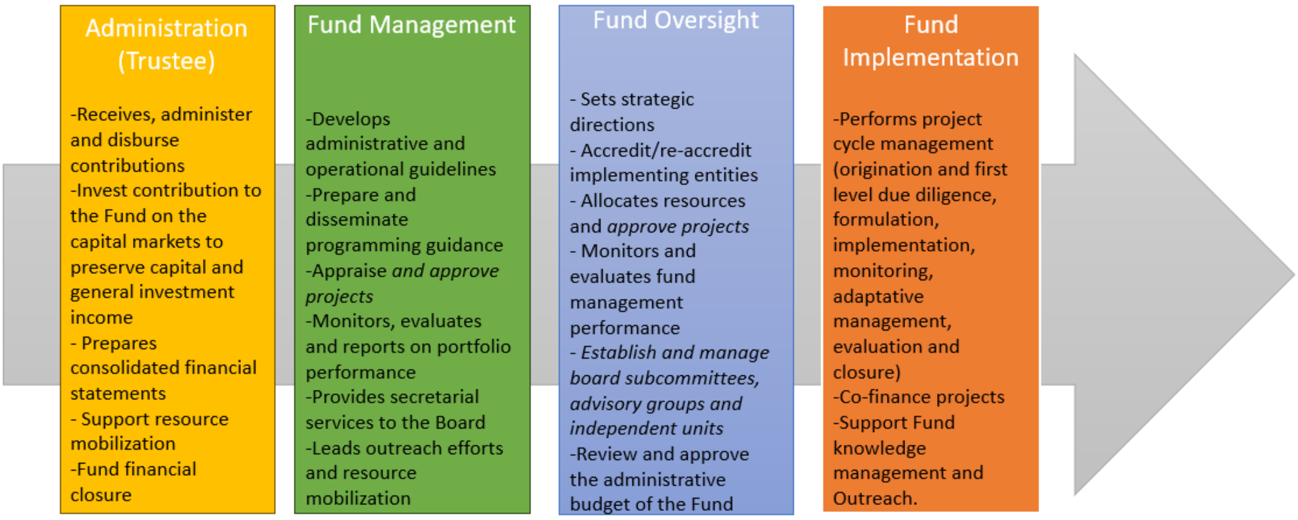


Figure 4: Governance structure of funding arrangements

Annex 1 includes an analysis of fund functions for other agreements that may provide useful insights to experts in determining how best to set up the financial mechanism for the Instrument, which may potentially include a stand-alone fund or an existing mechanism. This information serves as a reference to help design a financial mechanism for the Instrument, drawing from experiences of funds established in other international agreements.

Other key design issues can include the delegation of authority between the Board and the Fund Manager for project approvals, operational and administrative guidelines development, coordination and complementary with other financing sources, as well as the number of subsidiary/independent organs.

5. Co-chairs concluding remarks

The mandate for the intersessional work of Expert Group 1 requires that we develop an analysis of potential sources, and means that could be mobilized, for implementation of the objectives of the instrument, as well as options for the establishment of a financial mechanism, alignment of financial flows, and catalysing finance, for the consideration by the Committee at INC-5.

In order to help frame this work, background information has been drawn from a range of public sources about the scale of the plastic pollution problem. This document also synthesizes material from published sources and Expert Group discussions to date about some of the financial and non-financial mechanisms and tools which may support implementation of the instrument's objective.

As part of the task, exploring possible funding windows and opportunities to engage public and private sectors in the implementation of the Instrument will inform future negotiations on financing by the Intergovernmental Negotiating Committee. The mandate for Expert Group 1 also extends to analysing non-financial means of implementation such as capacity building, technical assistance, and technology transfer, as these may support implementation of the Instrument. These aspects have supported all parties to have the necessary information, skills, expertise, and technology to effectively implement the provisions of other multilateral instruments.

Information presented in this document is not intended to be comprehensive, but to provide a synthesis of some key concepts to support a shared understanding of these topics. Experts will have opportunities throughout the intersessional work period to share additional ideas and perspectives.

Annex 1: Establishment of other funds

Part 4 of this document sets out a framework of distribution of fund functions in Figure 4. This table follows that framing to review the establishment of other funds.

	Administration (The trustee(s))	**Fund management**	**Fund oversight**	**Fund implementation**
i. Montreal Protocol	The Multilateral Fund for the Implementation of the Montreal Protocol was established by article 10 of the Montreal Protocol. The Fund Treasurer is responsible for receiving and administering pledged contributions (cash, promissory notes or bilateral assistance), and disbursing funds to the Fund Secretariat and the implementing agencies, based on the decisions of the Executive Committee. The Treasurer attends each meeting of the Executive Committee and is responsible for preparing: • A status of contributions and disbursements • Accounts of the Multilateral Fund as well as the reconciliation of the accounts • Any report requested by the Executive Committee or by	The Fund Secretariat assists the Executive Committee in the discharge of its functions. Its activities include: development of the three-year plan and budget, and a system for fund disbursement; management of the business planning cycle of the Multilateral Fund; monitoring the expenditures and activities of the implementing agencies; preparation of policy papers and other documents; review and assessment of investment projects, country programmes and the business plans and work programmes of the implementing agencies; liaison between the Committee, governments and implementing agencies; and servicing meetings of the Executive Committee.	Pursuant to article 10 of the Protocol, the Multilateral Fund shall operate under the authority of the Parties who shall decide on its overall policies. The Secretariat also includes the monitoring and evaluation Function which was established by the Executive Committee in May 1997. The Executive Committee is responsible for overseeing the operation of the Fund. The Committee meets two times a year, coordinating its meetings where possible with other meetings of the Parties. Particularly, the Executive Committee is tasked to develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources, for the purpose of achieving the objectives of the Multilateral Fund. The members of the Executive Committee are selected on the basis	The work the Multilateral Fund finances on the ground in developing countries is carried out by four implementing agencies, which have contractual agreements with the Executive Committee: United Nations Environment Programme (UNEP), United Nations Development Programme (UNDP), United Nations Industrial Development Organisation (UNIDO) and the World Bank. Each of them is represented at Executive Committee meetings as observers, and also at the Meetings of Parties.

	Administration (The trustee(s))	Fund management	Fund oversight	Fund implementation
	Meetings of the Parties, as relevant.		of a balanced representation of the Parties (Annex IX: TOR for the Multilateral Fund - Fourth Meeting of the Parties).	
ii. Minamata Convention	The financial mechanism under the Minamata Convention is composed of the GEF Trust Fund and Minamata Convention Specific Trust Fund (article 13 Minamata Convention) GEF has been charged with raising and disbursing grants for projects and programs to reduce and eliminate mercury pollution. The relationship between GEF and COP of the Minamata Convention is governed by a Memorandum of Understanding (Decision MC-2/19). The Specific International Programme (SIP) is administered by UNEP (COP-1, DecisionMC-1/6). COP-1, Decision MC-1/6, approved the Guidance and Terms of Reference for the SIP (with details on eligibility finalized by COP-2), established the SIP Governing Board, and decided that the hosting institution	The COP provides guidance on the overall strategies, policies, programme priorities and eligibility for access to and utilization of financial resources (see COP-1, Decision MC-1/5)	The COP conducts periodic reviews of the financial mechanism. On the basis of such reviews, with the first review starting at COP-3 (COP-3, Decision MC-3/7) and the second completed at COP-5 (Decision MC-5/11), the COP will take appropriate action to improve the effectiveness of the financial mechanism. The GEF Trust Fund is to operate under the guidance of, and be accountable to, the COP. The Governing Board of the Specific International Programme oversees and implements the guidance of the COP, including decision-making on projects.	The GEF's funding for mercury has been provided to developing countries and countries with economies in transition to prepare Minamata Initial Assessments (MIAs) and artisanal and small-scale gold mining (AGSM) National Action Plans (NAPs), and to undertake projects designed to support implementation of particular articles of the Convention. Some GEF projects are carried out under broader programmatic approaches. Applications for SIP funding can only be submitted by Parties to the Minamata Convention. SIP projects are exclusively aimed at supporting the implementation of specific obligations defined by the Minamata Convention, and provide support for priority implementation needs as defined by the applicant party itself.

		Administration (The trustee(s))	Fund management	Fund oversight	Fund implementation
		would be provided by UNEP and that the SIP would be administered through the Secretariat of the Minamata Convention.			
iii.	Convention on Biological Diversity (CBD)	The financial mechanism under the CBD is GEF-administered, as decided at COP-1 (COP 1 Decision I/2). GEF is the implementing entity of the CBD. The relationship between the CBD and GEF is governed by a Memorandum of Understanding between the COP to the Convention on Biological Diversity and the GEF Council (COP 3 Decision III/8). The CBD financial mechanism also serves the Nagoya Protocol and the Cartagena Protocol.	The mechanism is to function under the authority and guidance of the COP (article 39 CBD). The COP is to determine the policy, strategy and programme priorities as well as detailed criteria and guidelines for eligibility to resources (article 21 CBD).	The COP is to review the effectiveness of the mechanism not less than two years after entry into force of Convention and thereafter on a regular basis (article 21 CBD). The COP is to review the effectiveness of the mechanism on a regular basis no less than two years after entry into force, and thereafter on a regular basis. Based on that review, appropriate action may be taken to improve effectiveness of mechanism, if necessary (article 21 CBD).	CBD Decision 15/15 requested the GEF to establish a special trust fund to support implementation of the Knming-Montreal Global Biodiversity Framework (GBFF). The 64th GEF Council Meeting responded to this request, establishing the GBFF, in support of implementation of the Kunming-Montreal Global Biodiversity Framework. The GBF Fund is uniquely dedicated to support the implementation of the Kunming-Montreal Global Biodiversity Framework, its goals and its targets. It provides an opportunity to receive funding from all sources, quickly disburse through streamlined procedures, with enhanced access for indigenous peoples and local communities, according to their own priorities. The Fund also provides the opportunity for a greatly enhanced involvement of Multilateral Development Banks and Development Finance Institutes, which will facilitate the mainstreaming of biodiversity necessary to implement the Framework.
iv.	Paris Agreement	The UNFCCC Financial Mechanism established under the Convention (article 11) also	UNFCCC COP-16 established the Standing Committee on Finance to assist it in exercising its functions	The Financial Mechanism is accountable to the COP, which decides on its climate change	The SCCF finances projects relating to: adaptation; technology transfer and capacity building; energy, transport,

	Administration (The trustee(s))	Fund management	Fund oversight	Fund implementation
	serves the Kyoto Protocol and the Paris Agreement (article 9 Paris Agreement). The GEF has been serving as an operating entity of the financial mechanism since 1994. COP-16 (2010) established the Green Climate Fund and, in 2011, the COP also designated it as an operating entity of the financial mechanism the Green Climate Fund (GCF) as an operating entity of the Financial Mechanism of the Convention. In addition to providing guidance to the GEF and the GCF on operations of the financial mechanism, Parties have established two special funds: the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF), both managed by the GEF, as well as the Adaptation Fund (AF) established under the Kyoto Protocol. In 2022, The COP and the CMA decided to establish a fund for responding to loss and damage. In 2023, the COP and CMA operationalized the Loss and Damage Fund as an as entity entrusted with the operation of	with respect to the Financial Mechanism. It assists the COP in: improving coherence and coordination in the delivery of climate change financing, rationalization of the financial mechanism, mobilization of financial resources and measurement, reporting and verification (MRV) of support provided to developing country Parties.	policies, programme priorities and eligibility criteria for funding.	industry, agriculture, forestry and waste management; and economic diversification. This fund should complement other funding mechanisms for the implementation of the Convention. The LDCF supports a work programme to assist Least Developed Country Parties (LDCs) to carry out, inter alia, the preparation and implementation of national adaptation programmes of action (NAPAs). The AF was established in 2001 to finance concrete adaptation projects and programmes in developing country Parties to the Kyoto Protocol that are particularly vulnerable to the adverse effects of climate change. Through decisions 13/CMA.1 and 1/CMP.14, Parties decided that the AF shall serve the Paris Agreement under the CMA with respect to all Paris Agreement matters, effective 1 January 2019. Parties also decided that once the share of proceeds becomes available under Article 6, paragraph 4 of the Paris Agreement, the Adaptation Fund shall no longer serve the Kyoto Protocol. The newly operationalized Loss and Damage Fund’s mandate includes a focus on addressing loss and damage to assist developing countries that are particularly vulnerable to the adverse

	Administration (The trustee(s))	Fund management	Fund oversight	Fund implementation
	the Financial Mechanism of the Convention, which would also serve the Paris Agreement.			effects of climate change in responding to economic and non-economic loss and damage associated with the adverse effects of climate change, including extreme weather events and slow onset events.
v. Stockholm Convention	The institutional structure of the Global Environment Facility (GEF), operated in accordance with the Instrument for the Establishment of the Restructured Global Environment Facility, is, on an interim basis, the principal entity entrusted with the operations of the financial mechanism referred to in Article 13 of the Convention. The relationship between GEF and COP of the Convention is governed by a Memorandum of Understanding (annex to decision SC-1/11).	COP-1 adopted guidance to be provided to the mechanism on: Determination of the policy, strategy and programme priorities; guidelines regarding eligibility for access to and utilization of financial resources including monitoring and evaluation on a regular basis of such utilization; provision by the entity or entities of regular reports to the COP on adequacy and sustainability of funding; and modalities (article 13 Stockholm Convention / decision SC-1/9). The COP also adopted additional guidance in its decisions SC-2/11, SC-3/16, SC-4/27, SC 4/28, SC-5/23, SC-6/20, SC-7/21 and SC-8/16, SC-9/15, SC-10/16, and SC-11/14. In accordance with decision SC-5/23 and SC-8/16, the COP requested the Secretariat to prepare a complete set of guidance to the financial mechanism of the Convention and decided to update it every four years starting from COP-6 as an input of the COP to the negotiations on the replenishment of the Trust Fund of the Global	The COP is to review, no later than at COP-2, and thereafter on a regular basis, the effectiveness of the mechanism (article 13 Stockholm Convention). As set out in paragraph 6 of decision SC-11/14, the COP is currently undertaking the 6th review of the Convention's financial mechanism.	The funds are used in participating countries to implement their obligations under the Convention, in line with the guidance provided by the COP to the financial mechanism. This includes priority areas to inform the replenishment of trust fund of the GEF (see paragraph 1 of decision SC-10/16 for GEF-8 replenishment). A needs assessment study informs the respective GEF replenishment cycles of the needs of eligible Stockholm Convention Parties (see paragraph 11 of decision SC-10/16 for the GEF-8 needs assessment for 2022-2026).

	Administration (The trustee(s))	Fund management	Fund oversight	Fund implementation
		Environment Facility. The most recent guidance is available here.		
vi. United Nations Convention on the Law of the Sea on the Conservation and Sustainable Use of Marine Biological Diversity of Areas beyond National Jurisdiction (BBNJ)	The COP, at its first meeting, is to make arrangements for the functioning of the Secretariat, including deciding on its seat. Until then, the Secretary-General of the United Nations, through the Division for Ocean Affairs and the Law of the Sea of the Office of Legal Affairs (DOALOS) of the United Nations Secretariat, functions as interim Secretariat (article 50 BBNJ agreement). The Financial Mechanism under the BBNJ agreement is GEF-administered and consists of three different funds: The voluntary trust fund, special fund and GEF Trust Fund. The COP and GEF are to agree upon arrangements to give effect the financial mechanism at COP-1.	The financial mechanism is to function under the authority, where appropriate, and guidance of the COP and shall be accountable thereto. The COP is to provide guidance on overall strategies, policies, programme priorities and eligibility for access to and utilization of financial resources (article 52 BBNJ agreement).	The COP is set to establish a finance committee on financial resources. The TOR and modalities for the operation of the committee are to be decided by the COP. The Committee is tasked to periodically report and make recommendations on the identification and mobilization of resources. The Committee should also consider the assessment of needs of parties, in particular developing State parties; availability and timely disbursement of funds; the transparency of decision-making and management processes concerning fundraising and allocations; and accountability of recipient developing State Parties. The COP is to consider the reports and recommendations of the finance committee and take appropriate action. The COP should also undertake periodic review in assessing adequacy, effectiveness and accessibility of financial resources. (See article 52 BBNJ Agreement)	The voluntary trust fund is intended to facilitate the participation of representatives of developing States Parties, in particular least developed countries, landlocked developing countries and small island developing States, in the meetings of the bodies established under the agreement. The special fund and GEF trust fund are intended to fund: • Capacity-building projects, including effective projects on the conservation and sustainable use of marine biological diversity and activities and programmes, including training related to the transfer of marine technology; • Assist developing States Parties in implementing; • Support conservation and sustainable use programmes by Indigenous Peoples and local communities as holders of traditional knowledge; • Support public consultations at the national, subregional and regional levels; • Fund other activities as decided by the COP. (See article 52 BBNJ agreement)