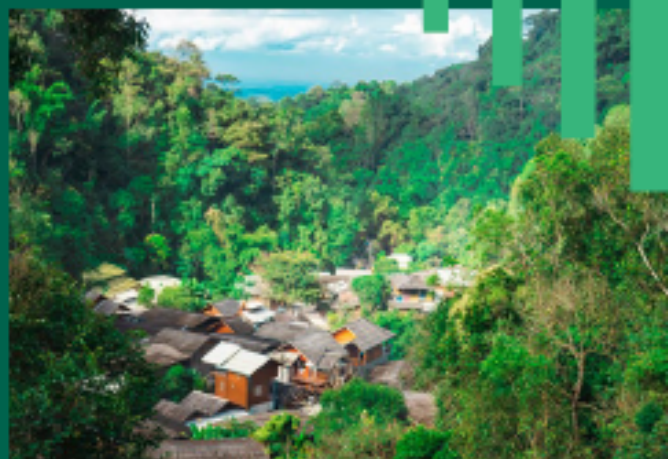




An innovative financing mechanism to incentivize long-term forest conservation at scale

CONCEPT NOTE 3.0



Tropical Forest Forever Facility (TFFF)

This updated concept note outlines the current proposal for establishing the Tropical Forest Forever Facility (TFFF), an innovative initiative to raise substantial and permanent funding from both public and private sources. TFFF aims to provide long-term, results-based financial support to Tropical Forest Countries¹ (TFCs) for the conservation and restoration of their tropical and subtropical moist broadleaf forest (TSMBF), delivering benefits for the entire global community. The TFFF aims to ensure that a significant portion of the funding will reach those who are directly responsible for protecting and restoring forests, particularly Indigenous Peoples and Local Communities (IPLCs).

While the TFFF will contribute directly to the objectives of all three Rio Conventions – the UN Framework Convention on Climate Change (UNFCCC), the Convention on Biological Diversity (CBD), and the UN Convention to Combat Desertification (UNCCD) – it is not established as a financial mechanism under any of their frameworks.

The Government of Brazil first presented this idea in November 2023 at COP28 of the UNFCCC in Dubai, and will formally launch it at COP30, to be hosted in Belém, Brazil in November 2025. To collect advice and consistently refine the proposal, Brazil established an informal Interim Steering Committee (ISC)² comprising representatives from six TFCs (Brazil, Colombia, the Democratic Republic of Congo, Ghana, Indonesia, and Malaysia) and five potential sponsor countries (France, Germany, Norway, the United Arab Emirates and the United Kingdom). The ISC has met regularly, both virtually and in person, to help shape the development of the TFFF.

In parallel, the Government of Brazil has sought to incorporate diverse perspectives through consultations with a broad range of stakeholders, including finance experts, economists, scientists, non-governmental organisations (NGOs) and organisations representing IPLCs, held both online and in person. While efforts have been made to take into account the feedback received, this concept note remains a Government of Brazil document and does not necessarily represent the views of all stakeholders. This concept note is intended to serve as a structured foundation to support due diligence processes of prospective partners. Discussions on the operationalisation of the TFFF will continue in close consultation with all relevant TFFF stakeholders.

The TFFF has gained significant international acknowledgement and recognition as a transformative and inclusive initiative for forest finance during the design phase. The development of this concept note has benefited from comprehensive analytical support and strategic insights provided by a wide range of institutions and experts. Among the international organisations that contributed to technical input are the World Bank, the Food and Agriculture Organization of the United Nations (FAO), the Organisation for Economic Co-operation and

¹ Terms capitalized in this concept note are clarified the first time they are used. They have legal meaning and will be used in TFFF-related legal documents.

² The interim Steering Committee is an informal group of countries that have been meeting since September 2024. It is not a formal governance body of the TFFF but a consultation body to support the design phase.

Development (OECD), and the United Nations Development Programme (UNDP). Additional contributions were provided by a diverse set of actors, including Bracebridge Capital, Campaign for Nature (CfN), Climate Champions, Conservation International (CI), the Global Alliance of Territorial Communities (GATC), the Institute for Climate and Society (ICS), Lion's Head Global Partners, Priority Transactions Accelerator Group, Inc. (Priority Transactions), Rainforest Foundation US, Systemiq, the Wildlife Conservation Society (WCS), the Woodwell Climate Research Center, and the World Wildlife Fund (WWF). The concept note also benefited from advice offered by independent experts, representatives of institutional investors, NGOs, think tanks, and philanthropic foundations. Key financial support was provided by the UK Government (through UK Pact), the Rockefeller Brothers Fund (RBF) and the PROGREEN global partnership.

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1. Concept Summary

1.1. Introduction

The Tropical Forest Forever Facility (TFFF) is an innovative global initiative whose design has been led by the Government of Brazil in close collaboration with ten other countries. It is designed as a permanent facility to support the long-term conservation of tropical forests and will be formally launched at the Leaders' Summit of UNFCCC COP30, to be held in Belém, Brazil, in November 2025.

The need for such a facility is urgent and clear. The world is facing converging and intensifying crises – climate change, biodiversity loss, land degradation, freshwater stress and threats to Indigenous Peoples and Local Communities (IPLCs). Humanity has already transgressed six of the nine planetary boundaries [Richardson et al 2023³], which define the safe operating space for our planet. Four of them – biosphere integrity, climate change, land systems change, freshwater change – are directly linked to the state of tropical forests.

Financing the long-term conservation of tropical forests is therefore a crucial solution. It offers a high-impact, cost-effective pathway to reduce the impacts already felt, to pull the world back from the brink of tipping points, and restore humanity within a safe and just space [Rockström et al 2023⁴].

The TFFF provides sustained long-term incentives for maintaining and expanding tropical and subtropical moist broadleaf forests (TSMBF) in developing countries, with a significant portion of the funding expected to reach those who are directly responsible for protecting and restoring forests, particularly IPLCs.

The TFFF is designed to complement, not duplicate, existing programs. It fills a critical gap in the environmental finance landscape by rewarding forest cover maintenance and recovery – an incentive largely missing today in the global financial architecture for forests. It complements mechanisms such as the Global Environment Facility (GEF), and is highly complementary to REDD+ (Reduced Emissions from Deforestation and Degradation). While the TFFF focuses on rewarding forest conservation and recovery, REDD+ has focused on rewarding reduced GHG emissions from deforestation and forest degradation. Importantly, the TFFF recognises the value of all standing tropical moist forests, not only those classified as intact, high integrity, or primary. Given the vast shortfall in funding relative to conservation needs, leveraging multiple instruments is not only practical but necessary.

The TFFF is innovative in many ways (Figure 1). First, by raising money differently. Rather than relying solely on traditional grants, which are often subject to political cycles and budgetary volatility in developed countries, the TFFF offers a compelling value proposition to sovereign sponsors and private investors, generating competitive market returns.

Second, by establishing a self-financing, long-term structure. At the financial heart of the Facility is the Tropical Forest Investment Fund (TFIF), the TFFF's investment arm, which manages capital through a diversified fixed income portfolio that generates returns above its cost of capital,

³ Earth beyond six of nine planetary boundaries. Available at: <https://www.science.org/doi/10.1126/sciadv.adh2458>

⁴ Safe and just Earth system boundaries. Available at: <https://www.nature.com/articles/s41586-023-06083-8>

ensuring financial sustainability. Similar to an endowment, the TFIF preserves its principal while using investment returns to finance annual performance-based payments to Tropical Forest Countries, creating a stable and continuous funding stream.

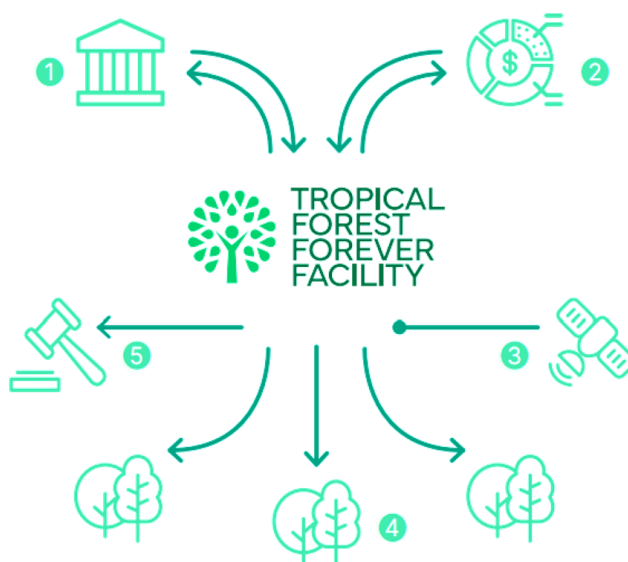
Third, by monitoring forest change in a low-cost and transparent manner. Forest cover is assessed using satellite-based remote sensing. Tropical Forest Countries may use their own or a global monitoring system that meets rigorous transparency and quality standards. The standards will evolve over time, incorporating technological improvements.

Fourth, by rewarding performance at scale: The TFFF will provide annual, large-scale payments to up to 74 developing countries that collectively hold more than one billion hectares of tropical and subtropical moist broadleaf forests, based on their hectares of eligible forest cover which meet the performance requirements. Payments will be discounted for each hectare of forest loss and for each hectare degraded by fire (with the methodology expected to be revised periodically by an expert technical committee to include other forms of degradation). Furthermore, at least 20% of these payments must be channelled to IPLCs. TFFF Forest Payments are expected to nearly triple the current volume of international non-reimbursable finance for forests. In many countries, these payments could represent several times the current national budget for Environment and Forest Ministries.

And fifth, by financing policies and not projects: The TFFF will finance national policies and programs prioritised by TFCs. These countries are expected to share with the Secretariat a list of public policies and programs on which the Forest Payments will be disbursed, which will be made public.

Figure 1: TFFF Scheme

- ① **Establishment of a Blended Finance Fund** that leverages sponsor capital to achieve a target USD 125bn capital base
- ② **The fund invests its capital in a fixed income investment portfolio** that generates a higher financial return than the Fund's cost of capital
- ③ **Satellite-based monitoring systems** check canopy cover, deforestation and degradation
- ④ **Tropical Forest Countries** receive a fixed payment per hectare of standing forest discounted for deforestation and degradation
- ⑤ **Tropical Forest Countries** TFCs allocate $\geq 20\%$ of Forest Payments to IPLCs; the rest is expected to finance local policies and programs for forest conservation and sustainable use.



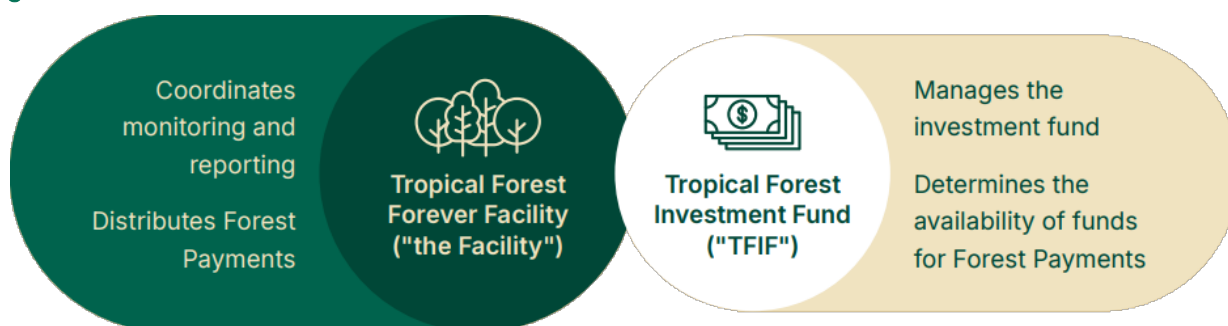
With these innovations, the TFFF offers a credible, ambitious and scalable approach to rewarding ecosystem services of global significance – supporting climate change mitigation and adaptation, biodiversity conservation and sustainable use, water and food security, and ultimately the economic and social resilience of tropical forest countries.

1.2. How Does It Work?

There will be two distinct but complementary entities serving the same mission. The first, the Tropical Forest Investment Fund (TFIF), will be responsible for mobilising and managing financial resources to fund annual payments to participating Tropical Forest Countries that conserve and/or expand their tropical and subtropical moist broadleaf forest cover. The second, the Tropical Forest Forever Facility ("the Facility" or TFFF), will oversee the forest cover rewards system, including eligibility criteria, monitoring methodologies, and disbursement rules.

The TFIF will be established as an independent legal entity under the laws of a national jurisdiction. Its assets will be ringfenced and managed separately from those of the TFFF, to ensure operational and financial integrity. The Facility will be constituted as a Financial Intermediary Fund (FIF) – a multi-partner fund established in a Multilateral Development Bank (MDB) to pool resources from contributors to address a specific global development challenge, and it has its own governing body [with the composition detailed in [Section 10.2](#)]. The MDB provides trustee and administrative services for the FIF, and serves as the host to the FIF Secretariat. The two entities of the TFFF are illustrated in Figure 2 below.

Figure 2: TFFF Governance Scheme



The TFFF architecture, will engage directly with Tropical Forest Countries interested in participating in the initiative through the TFFF governing body. It will review and verify national forest monitoring systems for eligibility purposes and confirm forest cover. The TFFF Secretariat will report to the TFFF governing body/Board of Directors and receive strategic and policy guidance.

The TFIF will be structured as a blended finance vehicle. Composed of two main tranches:

- A **sponsor tranche**, capitalised through long-term investment by sovereign countries and potentially other philanthropic investors supporting the TFFF. While final terms remain subject to negotiation, the target cost of capital for this tranche is expected to be equivalent to the yield of US Treasury Notes).
- A **senior debt tranche**, representing approximately 80% of the TFIF's capital base, is to be raised from institutional investors in the bond market.

1.3. Operations: The Tropical Forest Forever Facility (The Facility)

The core objective of the TFFF is to provide annual performance-based payments ("Forest Payments") to participating Tropical Forest Countries as an incentive for the conservation and restoration of tropical and subtropical moist broadleaf forests – referred to herein as "Eligible

Forest.” These payments are designed to reward countries that maintain or increase their forest cover and have a deforestation rate at or below 0.5%, contributing to global environmental goals while respecting national sovereignty and policy priorities.

Forest Payments are currently expected to be around USD 4 per hectare of Eligible Forest, subject to annual adjustment for inflation, capped at 2% per year. Payments will be based on the area of Eligible Forest maintained or increased from one year to the next. Monitoring of deforestation (“Lost Forests”) and degradation (“Degraded Forests”) will rely on satellite-based systems, using either nationally generated or globally available data, contingent on compliance with the Facility’s defined standards.

To strengthen the performance-based nature of the mechanism, payments will be subject to discounts proportional to forest loss and degraded forests. Specifically, for each hectare deforested, the payment will be reduced by the equivalent of 100 hectares (1:100 discount) for deforestation rates up to 0.3%, and by 200 hectares (1:200 discount) for deforestation rates between 0.3% and 0.5%. In the case of degraded forests by fire, a 1:35 discount will apply for each hectare affected. These ratios may be reviewed and refined over time to reflect improvements in scientific understanding and technical capacities.

Forest Payments will be disbursed either to national treasuries or to designated public funds of participating TFCs, depending on each country’s institutional arrangements, but ensuring TFFF funds do not replace existing national budget allocation for forest conservation. Countries will have full decision-making authority over the allocation and use of these funds, in line with their national priorities. Each TFC will be required to publicly disclose the list of policies and programs directly or indirectly supporting forest conservation and its sustainable use that are expected to be financed by TFFF Forest Payments. In the event of material updates to this list, the revised version must be submitted to the Secretariat for transparency and oversight purposes. Moreover, participating TFCs must commit to a system that allocates at least 20% of the Forest Payments to directly support IPLCs.

1.4. Financing: The Tropical Forest Investment Fund (TFIF)

The Tropical Forest Investment Fund (TFIF) will employ a blended finance structure designed to leverage sponsor capital through the issuance of bonds in international capital markets.

The TFIF aims to raise USD 25 billion in sponsor capital, to be augmented by the issuance of up to USD 100 billion in senior market debt. The combined capital base will be invested in a diversified portfolio of long-dated, rated fixed-income assets managed by international asset managers selected through a competitive procurement process. The asset allocation is anticipated to be global, combining both TFCs and non-TFCs public and corporate market bonds, that exclude investments that cause significant environmental impact, such as deforestation and GHG emissions. This includes not allocating investments in activities related to coal, peat, oil and gas.

The investment income generated from this portfolio (after paying for its administrative cost and fees for services) will be used in a cascading sequence: first, to service the senior debt; second, to pay interest on sponsor capital; and third, to transfer funds to the Facility to finance results-based Forest Payments to participating TFCs.

The TFIF is designed to generate sufficient revenue to both fund the Facility's annual Forest Payments and meet its senior debt/sponsor capital servicing obligations.

Throughout its operations, the TFIF will closely monitor its leverage ratios. In the event that these ratios are breached due to market fluctuations, the amount of funds transferred to the Facility may be adjusted to preserve the TFIF's long-term financial stability. If, in any given year, investment income is insufficient to cover the full value of Forest Payments, per-hectare payments may be temporarily reduced. TFCs may subsequently receive catch-up payments in later years if the TFIF's financial performance improves.

Table 1: What the TFFF does or does not do

What the TFFF does or does not do	
The TFFF does...	The TFFF does not...
✓ Create a new, results-based instrument to support the conservation and restoration of tropical and subtropical moist broadleaf forests. ✓ Help sovereign investors and tropical forest countries contribute to global goals under the UNFCCC, the CBD, and the UNCCD. ✓ Link measurable performance in maintaining tropical forests standing to annual performance-based payments. ✓ Use satellite data to assess performance, based on pre-defined, transparent criteria. ✓ Complement other existing global forest financial mechanisms, including REDD+. ✓ Act as a significant new investor in debt issued by Emerging Markets and Developing Economies. ✓ Enable TFCs to use payments to support national forest programs, with funds treated as non-reimbursable grants (i.e., no repayment obligation). ✓ Provide financial recognition to forest stewards⁵, particularly Indigenous Peoples and Local Communities, for their essential role in protecting forests.	✗ Generate or issue carbon or biodiversity credits. ✗ Finance individual projects directly. ✗ Dictate how TFCs will use the funds beyond requiring a minimum 20% allocation to IPLCs. ✗ Replace other existing forest finance initiatives, including REDD+. ✗ Compete with existing grant programs - rather, it works alongside them by providing sustained, performance-based incentives to require sovereign investors to provide grants - instead, they make long-term, low-cost investments. ✗ Create any financial obligations for TFCs, even in the event of underperformance of the TFIF or fluctuation in payment levels.

1.5. Process: How is the TFFF Being Designed?

The TFFF is being designed through a robust, inclusive and collaborative process, involving multiple ministries within the Government of Brazil, ten other countries, civil society organisations, IPLCs and a wide range of expert technical partners. Members of the Interim Steering

⁵ Forest stewards are individuals, communities, or organizations that take responsibility for the care, management, and sustainable use of forests. Their role includes protecting biodiversity, maintaining ecosystem services, preventing deforestation, and ensuring that forests are preserved for future generations—often blending traditional knowledge, conservation practices, and sustainable resource use.

Committee—comprising representatives from six TFCs and five potential sponsor countries—are actively engaging their respective governments in technical discussions to continuously refine the proposal. This effort is further supported by technical work led by thematic task forces on governance, eligibility and monitoring, finance, and IPLCs, ensuring that all critical aspects of the TFFF are developed in line with technical rigour and global best practices. Importantly, the IPLC 20% finance element has been co-designed with Indigenous and Local Communities' Leaders and experts.

By the time of UNFCCC COP30, the legal and institutional foundations of the TFFF and the TFIF finance modelling are expected to be well advanced. Tropical Forest Countries are anticipated to start signing Declarations of Intent (DoI) – a unilateral document signed by the TFCs and submitted to the TFFF Board – formalising their commitment to participate in the TFFF, while sponsor countries are expected to start announcing financial pledges – positioning UNFCCC COP30 as a pivotal moment for the political and financial launch of the Facility.

1.6. Concept Note 3.0 - Updated Version

Concept Note 3.0 reflects the insights and feedback gathered through an extensive and inclusive consultation process and introduces critical updates across six core areas of the TFFF.

First, Concept Note 3.0 reinforces the TFFF's commitment to equity, rights and inclusion by introducing two transformative funding access modalities for IPLCs, and by strengthening their role in decision-making, and enhancing their role in accountability through requiring participating TFCs to have or establish robust grievance and redress mechanisms that satisfy the TFFF's minimum criteria.

Second, the eligibility criteria have been revised. At entry, countries should apply a canopy coverage threshold (between 20–30% within a minimum mapping unit of 1 ha with a spatial resolution of at least 30m), using the most recent three-year average of deforestation data, and are subject to updated degradation and deforestation discount ratios. Periodic technical reviews will allow for progressive tightening of standards over time.

Third, the rules governing the use of Forest Payments have been clarified, establishing conditions on financial management, transparency, and the mandatory allocation of at least 20% directly to IPLCs.

Fourth, the governance framework of the TFIF has been updated. It now reflects an expanded role for the Chief Financial Officer (CFO), the outsourcing of the Chief Investment Officer (CIO) to an expert third party investment management firm, and the formal identification of the World Bank as the TFFF prospective trustee and Secretariat host for an interim period of three years (after which the Board will conduct an assessment and decide on maintaining or changing the arrangements), and TFIF Treasury Manager (exact scope of this role is TBD). It also introduces an IPLCs Advisory Council, a Technical and Scientific Advisory Panel, and enhanced oversight by the Facility Board.

Fifth, the TFIF's financial model has been refined. Key updates include a more diversified and flexible investment universe to maximize risk adjusted returns, options to issue the TFIF's senior debt, and the introduction of a negative exclusion list to ensure alignment with environmental and social safeguards.

Finally, it addresses the risk of incomplete coverage by requiring countries with less than 90% of their forests in moist biomes to monitor all forest types, using either their own national monitoring systems or globally available data. It also introduces payment suspension mechanisms for cases where deforestation in non-moist biomes remains unaddressed.

2. The Case for the TFFF: Why Now?

2.1. Tropical Forests' Contribution to Human Well-being and Economy

Tropical forests provide a myriad of ecosystem services that are vital to human well-being and the economy, but they are being lost at an alarming rate. As seen in Figure 3(a), there are more than 1 billion hectares of non-plantation tropical and subtropical moist broadleaf forest across TFFF-eligible countries. Too much of that is being lost by any measure, as seen in Figure 3(b), which shows about 4 million hectares of forest loss every year based on the JRC Tropical Moist Forest dataset. The world is significantly off-track in achieving the 2030 forest goal to halt and reverse deforestation and land degradation by 2030, which was agreed in Glasgow in 2021.⁶ If this trend continues, it will be impossible to meet the objectives of the Paris Agreement or the Global Biodiversity Framework, such as protecting at least 30% of land and restoring 30% of degraded ecosystems by 2030. Aligning the TFFF's objectives with these international goals reinforces the urgency of action and helps drive broader support and accountability.

Box 1: Forests provide myriad ecosystem services at local to global scales

The 2024 [G20 Leaders Declaration](#)⁷ highlighted that “forests provide crucial ecosystem services,” and stressed “the importance of scaling up efforts to protect, conserve and sustainably manage forest and combat deforestation”. The G20 also acknowledged the TFFF as “an innovative tool for forest conservation”. In addition to their role as carbon sinks, forests also provide water flow regulation services, which underpins agriculture by driving about half of the world’s rainfall; protect downstream areas from floods; filter pollutants from water and air, improving their quality; provide timber and non-timber forest products as well as food; store biological diversity of high value to pharmaceutical and other industries; support pollination and pest control; provide cultural services, particularly to IPLCs; and provide recreational services. As stressed in the [2024 G20 paper on ecosystem](#)⁸, fighting fires and promoting the livelihoods of those communities that depend on forests.

Even the climate regulation services of forests, which have received attention from the UNFCCC and its financing mechanisms such as REDD+, are significantly undervalued: only the carbon regulation services can be compensated under these mechanisms, and forests do so much more for the climate than store and cycle carbon.⁹ Tropical forests in particular provide global cooling well beyond their carbon effects, through processes such as evapotranspiration and surface roughness. They are critical regional climate regulators, with large expanses of forests recycling rainfall and transferring moisture across continents.

⁶ Glasgow Leaders' Declaration on Forests and Land Use
<https://collections.unu.edu/eserv/UNU:8669/COP26ForestGovernance.pdf>

⁷ [G20 Rio de Janeiro Leaders' Declaration](#)

⁸ G20 Environment and Climate Sustainability Working Group - ECSWG Payment for Ecosystem Services (PES): Scaling up PES to meet global environmental and climate crises

⁹ Not Just Carbon: Capturing All the Benefits of Forests for Stabilizing the Climate from Local to Global Scales (2022) available at: <https://www.wri.org/research/not-just-carbon-capturing-benefits-forests-climate>

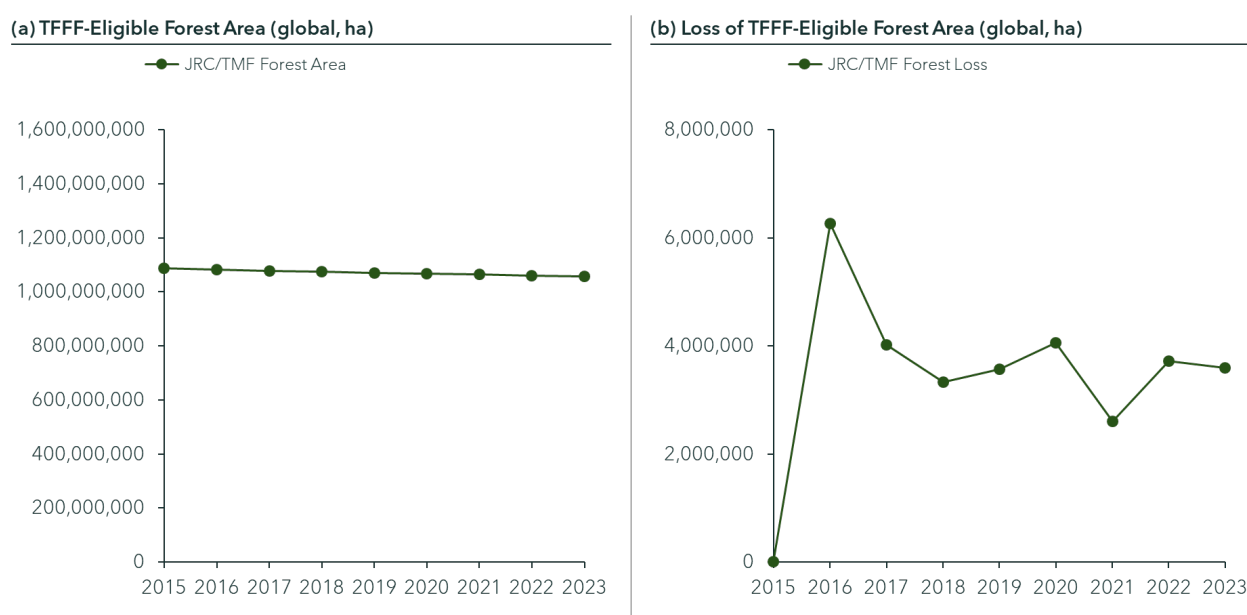
Box 1: Forests provide myriad ecosystem services at local to global scales

Alongside the local effects of forests in cooling the air and reducing heat extremes near the ground, these benefits together provide significant value to agricultural productivity and rural workers' health – especially in a warming world. For example, the effect of deforestation on the elevated temperatures of the hottest days can be more than 7°C – and it is those extremes that assess the limits of crops' and humans' heat tolerance.

2.2. Drivers of Forest Loss

The drivers of tropical forest loss vary from country to country, but they have a common cause: tropical forests are undervalued, as the ecosystem services they provide often do not have assigned market value. Hence, conservation of standing forests is perceived less favourably from an economic perspective than other land uses such as agriculture, mining, and infrastructure development. This is a key market failure driving global deforestation, large-scale biodiversity loss and changes in regional hydrological patterns with implications for agriculture, livestock and other sectors, and ultimate impact on global food security.

Figure 3: Forest Area and Loss in TFFF-Eligible Tropical Countries



Source: JRC Tropical Moist Forest data, and TFFF Task Force Analysis

2.3. Valuing Tropical Forests Through Payment for Ecosystem Services

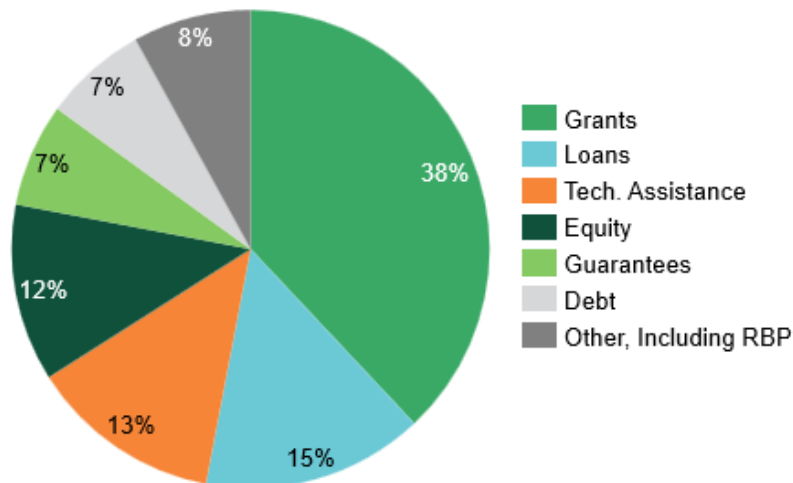
Valuing and compensating the ecosystem services that tropical forests provide to the global community, national economies, and IPLCs is essential to reversing the current situation. Efforts to pay for these ecosystem services must be scaled up rapidly, as noted by the 2024 G20 Environment Ministerial Declaration, which stated that "We [G20 Ministers of Environment] recognize the importance of promoting payments for ecosystem services schemes and programs at a large scale, (...) and providing fair and equitable benefits to the individuals and communities

that contribute to the provision of these services, including Local Communities and Indigenous Peoples, as applicable".¹⁰

2.4. The Forest Financing Landscape

In the last couple of decades, the financing landscape for the protection and restoration of forests has grown and become more diverse. It encompasses a menu of finance options that include carbon markets, philanthropy, bilateral and multilateral funding initiatives, results-based mechanisms such as Reducing Emissions from Deforestation and Forest Degradation (REDD+), Payments for Ecosystem Services, as well as targeted fiscal transfers, subsidies and regulations – such as those aimed at governing supply-chains associated with deforestation. Despite certain progress, a major gap remains, which requires a quantum increase in funding streams, which is impossible without additional financing mechanisms. Moreover, as indicated in Figure 4, most of the currently available forest finance comes from bilateral and philanthropic grants, which lack scale and continuity.

Figure 4: Finance for Forests by Type (% of total finance)



Source: Forest Finance Landscape and the Potential for Just Investments, Maria Brockhaus; University of Helsinki

2.5. Challenges in Accessing Financing

In addition to the overall scarcity of forest finance, accessing international resources to conserve tropical forests is often challenging and characterized by delays in disbursement due to procedural complexity, conditional requirements, and fragmented approaches. These impediments undermine the timely and effective deployment of funds, hindering the urgent action needed to address deforestation, and making it more difficult to induce positive change at scale. Carbon markets have the potential to fill this gap, but their scale is uncertain, and they are not geared towards rewarding countries that protect intact forests. Instead, they focus on reducing deforestation or restoring forests in areas that have been deforested. They are also

¹⁰ Brazil. Ministry of Environment and Climate Change. Environment and climate sustainability: technical papers on adaptation finance, oceans, payment for ecosystem services and waste and circular economy – Brasília: MMA, 2024.

limited in the scope of forest services that they recognize and value: even when it comes to the global climate services of forests, carbon is only part of the story.

2.6. The Need for Large-Scale Results-Based Payments for Standing Forests

Forest financing hurdles are especially problematic, given that most TFCs lack the fiscal space to finance the policies and activities needed to maintain their standing forest areas. In addition, available forest funding mechanisms are not fit for purpose to support large-scale forest conservation efforts because they are often channelled through traditional input-focused approaches. In other words, they mostly focus on specific activities or "inputs," such as planting trees, monitoring illegal logging, or enforcing environmental laws. These efforts, while valuable by themselves, have not proven sufficient to shift the political economy towards large-scale conservation. A transparent, results-based, large-scale financing mechanism is thus required to reward those countries that have taken concrete and successful steps to keep their forests standing.¹¹ Simultaneously, such flexibility should enable the TFC governments to use the full set of their macro, fiscal and sector-specific tools and interventions to shape actions on the ground, particularly to provide predictable incentives to forest stewards. Fortunately, forests are especially favourable to results-based funding approaches, as recent advances in satellite monitoring technology make results measurement straightforward, transparent, and consistent, compared to other sectors where there may be less agreement on outcomes and performance measures, and where assessing outcomes would require expensive on-the-ground surveys.

2.7. Complementarity between the TFFF and REDD+

The Tropical Forests Forever Facility (TFFF) and Jurisdictional REDD+ (JREDD+) are two distinct, yet highly complementary, forest finance mechanisms that strengthen global efforts to conserve tropical forests and reduce their loss. While REDD+ provides payments for measurable GHG emissions reductions from deforestation and degradation (carbon flows) and for carbon removals from restoration, the TFFF is expected to provide long-term, continuous payments for the conservation of standing tropical and subtropical forests based on forests area measured in hectares (forest stocks), thus paying for the full range of ecosystem services these forests provide.

The two mechanisms differ in operational metrics, funding sources, and geographic focus. JREDD+ reports on carbon, relies on results-based finance through carbon markets or Official Development Assistance (ODA) and has been working most effectively and showing long-term sustainability for high-deforestation jurisdictions. The TFFF, in turn, is expected to pay for hectares of standing or restored tropical and subtropical forests (with deductions for deforested and degraded areas), provide continuous results-based funding through an endowment-like fund (i.e. excess returns in financial markets are distributed to tropical forest countries) to low-deforestation countries as it pays for all standing forests (conserved, sustainably managed, restored), regardless of immediate threat levels. Importantly, as existing efforts to reduce deforestation succeed, payments under many of the existing mechanisms such as REDD+ will decline, further

¹¹ Why Forests? Why Now? (2016) Available at <https://www.cgdev.org/publication/why-forests-why-now-science-economics-and-politics-tropical-forests-and-climate-change>

emphasizing the importance of establishing a permanent financing mechanism to support standing forests, both to maintain existing tropical forest cover and to incentivise its expansion.

Together, they create a robust forest finance ecosystem capable of addressing both short-term emissions mitigation and long-term continued conservation needs. As they assess different metrics and quantify different results, finance flowing from both mechanisms cannot lead to double accounting or double payment. A clear distinction in accounting approaches further reinforces this complementarity. There is no risk of double counting between TFFF and REDD+ or JREDD+ mechanisms, such as ART HFLD (a program that issues jurisdictional credits specifically for emission reductions in high-forest, low-deforestation areas), as they rely on distinct metrics: REDD+ quantifies emission reductions in tCO₂e, while TFFF tracks hectares of standing forest. This ensures that no additional double counting risk reporting is required between the two mechanisms, facilitating consistency with jurisdictional carbon market strategies and enabling smoother integration into nesting frameworks. By combining REDD+ and TFFF, countries can mobilise complementary finance flows to address the costs of reducing deforestation and degradation, forest restoration, and conserving forests over the long run.

As tropical countries pursue integrated forest strategies in the lead-up to UNFCCC COP30, recognising and leveraging the complementarity between TFFF and REDD+ will be essential to scale up forest finance, reduce implementation gaps, and align public, private, and multilateral efforts toward lasting forest protection and sustainable development.

3. Core Principles

3.1. TFFF Core Principles

TFFF core principles include:

- *Simplicity and Readiness*
 - The TFFF operations seek to remain technically simple so that the Facility can be readily deployable and monitored by civil society. This means using existing technologies, institutions, and policies as much as possible instead of relying on technologies, institutions, and policies yet to be designed.
- *Objective Decision-making*
 - The organisational structure of the TFFF, and its management and operation, will be based on objective rules-based criteria and processes designed to promote efficiency and manage conflicts of interest.
- *Full Transparency*
 - All TFFF-related accounting, and financial reporting will be fully transparent and consistent with internationally accepted principles, pertinent regulation, and best practice among other multilateral financial institutions.

- *Use of Country Systems*
 - Participating TFCs will rely on their own data and currently existing national systems for monitoring and recording Standing Forest and Restored Eligible Tropical Forest Cover¹² provided such systems meet the criteria for qualifying country systems for monitoring and recording Standing and Restored Eligible Tropical Forest as determined in accordance with the process set out in the TFFF's governance documents. TFCs that do not have such a system may use a third-party system that complies with such criteria.
- *Results-Based Payments*
 - All Forest Payments made to a TFC will be based on the number of hectares of Standing and Restored Eligible Tropical Forest Cover, discounted by the Deforested Area, and Forest Area Degraded by Fire which the TFC reports to the Secretariat.
- *Public Disclosure*
 - TFCs will disclose their data, monitoring, recording and reporting of their Standing and Restored Eligible Tropical Forest Cover, Deforested Area, and Forest Area Degraded by Fire to the Secretariat and publicly, in an accessible, user-friendly manner.
 - The Secretariat will publicly disclose all Forest Payments made to TFCs.
 - The Secretariat will disclose the Annual Forest Reports submitted by TFCs.
- *Sovereign Decision-Making*
 - TFCs receiving Forest Payments from the TFFF will have the discretion to use such payments as they see fit, subject to the TFFF principles and governance documents.
- *Revenue Sharing with Indigenous Peoples and Local Communities*
 - TFCs will direct a minimum of 20% of Forest Payments to IPLCs. For further details, please refer to [Section 9](#) (Indigenous Peoples and Local Communities Dedicated Financial Allocation).
 - TFFF accountability for the impact of its operations on external stakeholders will be maintained by grievance mechanisms at the local level, which must comply with TFFF-specified minimum criteria as a requirement for a TFC's participation in the TFFF. At the global level, TFFF accountability will be maintained by the Facility Board, which may, as needed, engage the assistance of an objective third party to investigate concerns.
- *Relevance and incremental improvement*
 - At all times, the Facility will ensure that the Facility's operations align with developments in forest monitoring technology and assessment and advances in institutions and policies. The Facility will seek continuous improvement over time through learning and periodic revisions. For example, a predefined review of the eligibility and monitoring criteria will take place within three years of the TFFF's operational launch, and every five years after that with a view to determining whether any strengthening or improvement should be

¹² The terms "Standing Forest" here means TFFF-eligible forest that is present in two consecutive years, e.g., during the second year it is "still standing" and thus has been successfully conserved. "Restored Eligible Tropical Forest Cover" here means areas of natural/native forest cover that were not TFFF-eligible forest in one year (for example, if they do not meet the canopy cover threshold criteria), but are TFFF-eligible forest in the next year, and thus eligible for TFFF payments according to the monitoring criteria and payment formula below.

made. For further details, please refer to [Section 6.4](#) (Technical Review and Revision Process and Ratcheting).

3.2. Investment Core Principles

As the TFFF's financing arm, the Tropical Forest Investment Fund (TFIF) includes certain additional core principles relevant to its specific functions as follows:

- *Financial Sustainability and Protection of Capital*
 - The fund will be an independent legal entity (TFIF) to ensure its financial sustainability in fulfilling its mission, with a primary focus on protecting and ringfencing its capital while generating the target financial return on a risk-adjusted basis.
- *Diversification*
 - The capital assets of the TFIF will be invested in a geographically diversified fixed income portfolio of assets.
- *Best Practice*
 - The portfolio composition and asset allocation will be guided by the Fund's Investment and Liquidity Policies, while its financing strategy will follow its Capital Adequacy, Asset-Liability Management, and Risk Management Policies.
 - The TFIF Investment Policy will be consistent with accepted best practice in long-horizon public investment portfolios and will include a negative exclusion list for investments that cause significant environmental impact, such as deforestation and GHG emissions. This includes not allocating investments in activities related to coal, peat, oil and gas.
 - The TFIF Liquidity Policy, Asset-Liability Management Policy and Risk Management Policy will be consistent with accepted best practice in debt-funded international financial institutions.
 - The TFIF's financial policies will be approved by the TFIF's Board of Directors and will be framed and implemented in a manner that assures public and private providers of capital to the Fund that the financial stability of the Fund will be maintained.

4. TFFF Eligibility and Monitoring

4.1. Overview

Determination of a country's eligibility to participate in the TFFF as a TFC that may receive payments for its conservation and increase of its tropical and subtropical moist broadleaf forest cover is a multistep process. Countries interested in participating must satisfy a set of Eligibility Criteria agreed by the Board of Directors of the Facility and reflected in an annex to the Facility Charter and follow the processes described by the Operations Manual. Those criteria include geographic and economic criteria in addition to technical criteria. With respect to technical criteria, the use of country systems is a core principle of the TFFF. At the same time, to ensure the integrity of TFFF's program and operation, the Eligibility Criteria will include certain technical specifications applicable to countries' forest cover monitoring systems.

TFCs interested in participating in the TFFF must provide information on their national forest monitoring systems to the Secretariat, which will send such information to a third party to verify if the system meets the technical specifications in the TFFF's Eligibility Criteria. TFCs that do not have their own forest cover monitoring system, or a system that complies with TFFF's Eligibility Criteria, may use a third-party system, verified by a third party engaged by the Secretariat (with the approval of the Facility Board) for that purpose. Once a TFC begins participating in the TFFF, the compliance of the forest monitoring system the TFC is using with the TFFF Eligibility Criteria will be reassessed every 5 years, when the technical parameters change based on the scheduled periodic revisions, or whenever the Facility Board requests such reassessment.

Throughout the TFC's participation, the TFC will send annual reports on its forest cover to the TFFF Board of Directors through the Secretariat. The TFC's eligibility to receive a Forest Payment from the TFFF will be based on the information provided in such annual reports. Actual receipt of a Forest Payment each year will depend on the availability of funds from the TFIF, as determined by the Board of Directors of the TFIF.

4.2. Eligible TFCs

The following are the developing countries (according to UNCTAD¹³), which harbour tropical and subtropical moist broadleaf forest biome (TSMBF) according to Dinerstein et al. 2017.

Table 2: TFFF Eligible Countries

Angola	Eswatini	Palau
Antigua and Barbuda	Ethiopia	Panama
Argentina	Fiji	Papua New Guinea
Bangladesh	Gabon	Paraguay
Belize	Ghana	Peru
Benin	Guatemala	Philippines
Bhutan	Guinea	Rwanda
Plurinational State of Bolivia	Guyana	Sao Tome and Principe
Brazil	Haiti	Sierra Leone
Burundi	Honduras	Solomon Islands
The Kingdom of Cambodia	India	Somalia
Cameroon	Indonesia	South Africa
Central African Republic	Jamaica	Sri Lanka
People's Republic of China	Kenya	Suriname
Colombia	Lao People's Democratic Republic	South Sudan
Republic of the Congo	Liberia	United Republic of Tanzania
Democratic Republic of the Congo	Madagascar	Thailand
Costa Rica	Malaysia	Togo
Côte d'Ivoire	Mauritius	Trinidad and Tobago

¹³ List of developing countries according to UNCTAD available here: https://unctadstat.unctad.org/EN/Classifications/DimCountries_All_Hierarchy.pdf

Cuba	Mexico	Uganda
Dominica	Mozambique	Vanuatu
Dominican Republic	Myanmar	(Bolivarian Republic of) Venezuela
Ecuador	Nepal	Viet Nam
El Salvador	Nicaragua	Zimbabwe
Equatorial Guinea	Nigeria	

4.3. TFFF Accession Requirements

Eligible TFCs interested in participating in the TFFF must meet the following requirements, further detailed in the Operations Manual¹⁴:

- Send the TFC's deforestation rate (as calculated by a system verified as compliant with the Eligibility Criteria, and within the TFFF eligibility area) in the year that the TFC plans to join the TFFF (by signing a participation arrangement), determined based on the rolling average of the previous three years, must: a) be below 0.50%; and b) exhibit a decreasing trend in the year of accession¹⁵. TFCs will submit the required information on deforestation to the Facility Board of Directors through the Secretariat.
- Provide detailed specifications for a transparent, standardised, and reliable method for measuring tropical forest cover for the purposes of the TFFF, deforestation, and forest degraded by fire. This may be either the TFC's national system or a third-party system, if it meets the TFFF's Eligibility Criteria.
- Submit the exact borders of the proposed biome-based TFFF eligibility area, to include tropical and subtropical moist broadleaf forest, with the option to expand to include areas of mangrove forest that are adjacent to these areas, and with explanations of any significant deviations from the borders of the eligibility area as determined by Dinerstein et al. 2017.
- Submit the extent of non-TSMBF areas, to include all forests as defined nationally, which may include woody savannas such as Cerrado or Miombo, outside the borders of the TSMBF biome-based TFFF eligibility area (called "non-TFFF forest"), primarily based on the TFC's National Forest Monitoring System, or if no information is available, on global data.
- Demonstrate that it has adequate Public Financial Management (PFM) mechanisms to receive and allocate Forest Payments.
- Commit to allocate a minimum of 20% of Forest Payments to IPLCs and select an alternative of modality as set out in [Section 9](#).
- Commit to develop the IPLCs required governance structures for the Dedicated Finance Allocation, fully elaborated in [Section 9](#) (Indigenous Peoples and Local Communities Dedicated Financial Allocation).

¹⁴ All stakeholders are encouraged to support readiness and deforestation reduction programs in TFCs that do not meet these rigorous requirements immediately, to speed their eligibility for the TFFF.

¹⁵ Exact quantitative procedure, including uncertainty and error considerations, to be defined in the Operations Manual.

- Demonstrate how the Forest Payments will not replace existing resource allocations for policies and programs that directly or indirectly promote tropical and subtropical moist broadleaf forest conservation and its sustainable use.
- Disclose a list of national programs and policies expected to be financed by Forest Payments in direct or indirect support of forest conservation and its sustainable use (Forest Payment Allocation Plan). If the Forest Payment Allocation Plan is materially updated, TFCs will submit the updated version.
- Demonstrate that they have a national grievance and redress mechanism (GRM) in place that meets minimum criteria set by the TFFF or submit an action plan that includes a commitment to establish such a GRM (or make required improvements in an existing GRM).

4.4. Additional Post-Accession Requirements

Once a potentially eligible TFC establishes its compliance with the TFFF's Eligibility Criteria, and formalises its participation in the TFFF, it becomes eligible to receive Forest Payments.

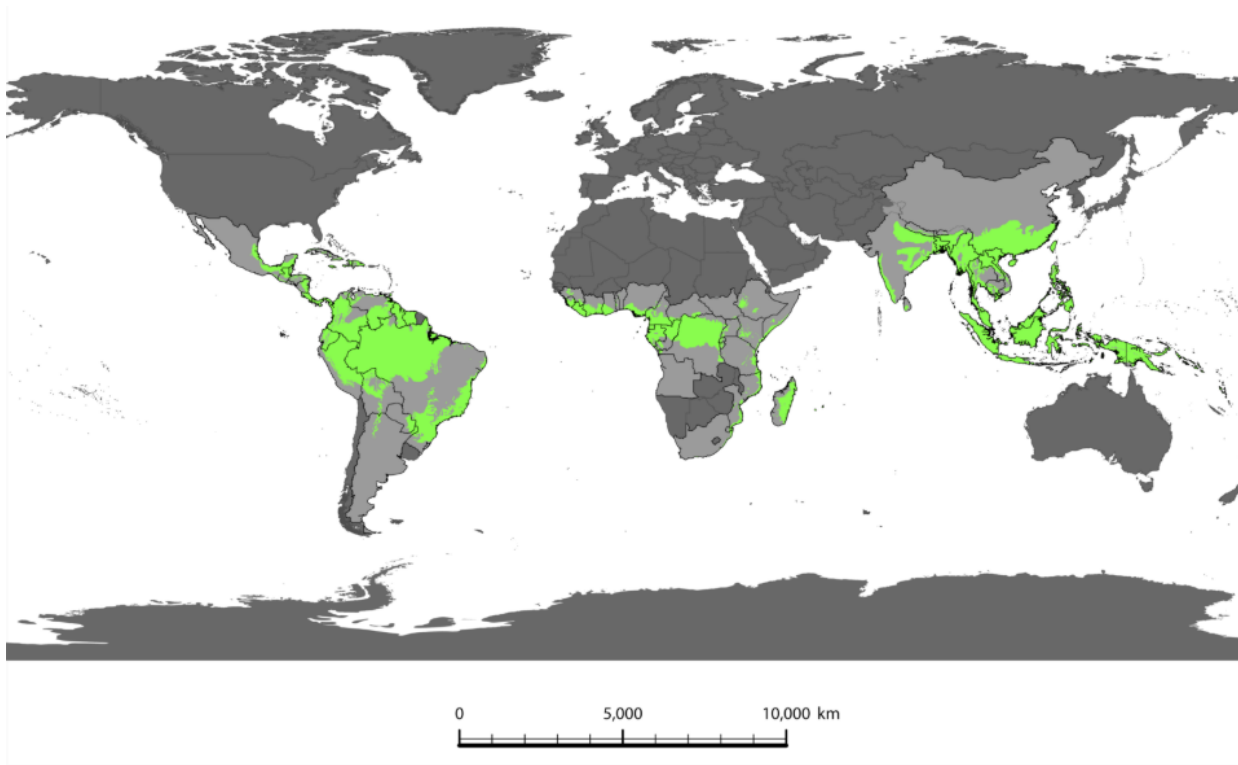
In addition to maintaining their adherence to the initial requirements for eligibility, participating TFCs are expected to meet the following requirements to be eligible to receive a Forest Payment:

- Upon accession, the TFC must, within one year, establish the required governance structures (e.g., IPLC-National Steering Committee, Dedicated Financial Allocation for IPLCs account) and successfully transfer the minimum 20% allocation to IPLCs. Failure to meet these IPLCs allocation and structural requirements within this period will result in the TFC being ineligible for Forest Payments in the subsequent year. All further details, including waiver provisions and specific outcomes, are fully elaborated in [Section 9](#) (Indigenous Peoples and Local Communities Dedicated Financial Allocation).
- The TFC's annual deforestation rate of TFFF-eligible tropical forests should remain the same or decrease on a year-over-year basis, based on remaining forest in the previous year¹⁶. An ad hoc increase of 0.15 over the previous year percentage points would be allowed for large-scale natural *force-majeure* circumstances (windstorms, earthquakes, landslides, hurricanes, typhoons, volcanic eruption, drought, insect or disease outbreaks, and other extreme natural events beyond human control, and excluding human-caused disturbances such as forest fires).
- In the years when a TFC is unable to meet these requirements, it will not be eligible to receive a Forest Payment. It is proposed that in case of a multi-year (2 years or more) non-compliance, Forest Payments will be suspended for three years, with the TFC's deforestation rate at re-entry being capped at the rate of deforestation at the time of the TFC's initial participation in the TFFF.
- The TFC must remain in "good standing" with respect to avoiding "incompleteness risk" (the risk that TFFF participation leads to increases in deforestation of non-TFFF forest), according to the procedure in [Section 6.5](#) (Addressing "Incompleteness Risk").

¹⁶ The Operations Manual will provide quantitative procedures for ensuring that this requirement is met if there is no statistically significant increase in deforestation rate given measurement uncertainty.

4.5. Why Use Biomes?

Figure 5: Original area covered by Tropical & Subtropical Moist Broadleaf Forests¹⁷



TFFF-eligible countries (light grey) and eligible biome areas within these countries (green), including tropical and subtropical moist broadleaf forest biome and adjacent mangrove areas. Analysis by Eligibility and Monitoring Task Force using data from ecoregions.appspot.com and Dinerstein et al (2017).

The approach of using a biome to define eligibility area, and monitoring the full areal extent of covered biome(s), rather than monitoring “forest area” as defined by national forest maps and/or satellite-derived tree cover maps, has the benefits of:

- Using a science-based and accepted global classification system of terrestrial biomes that is tightly linked to the provisioning of ecosystem services of interest to the TFFF, such as carbon density, biodiversity, water, local climate regulation, etc.
- Providing a consistent framework for all participating TFCs, serving as the common lens through which the TFFF defines and focuses on “tropical forests.”
- Avoiding zero-sum gaming and potential perverse incentives that could result from participating TFCs proposing their own coverage areas.
- Enabling alignment between the broad initial coverage area of the TFFF, and the use of national forest definitions and national monitoring systems for evaluation of forest cover within those areas.
- Ensuring that restoration of natural forests will be captured within a fixed monitoring area.
- Rewarding tropical natural forest cover conservation across all protection, tenure, and governance statuses without bias.

¹⁷ <https://ecoregions.world/>

- Allowing the use of a single and consistent map for monitoring which would be fixed through time, irrespective of tree cover changes and/or the drivers of such changes within the coverage area, adhering to the TFFF core principle of simplicity.
- Ensuring clarity and alignment, considering that the TFFF proposes to include only forests within the tropical and subtropical moist broadleaf forest biome, while excluding those in the tropical and subtropical dry broadleaf forest and tropical and subtropical coniferous forest biomes, as well as forests within the tropical and subtropical grasslands, savannas and shrublands biome, all of which might otherwise be considered “forests” or even “tropical forests” by national forest monitoring systems. This proposed TFFF eligibility area would exclude many important and valuable forests around the tropics. However, it is necessary for several reasons: (a) to focus attention on those forests providing the highest level of ecosystem services; (b) to ensure that per-hectare TFFF payments are large enough to provide actionable incentives; (c) to maintain a high degree of comparability across the TFFF coverage area in terms of biophysical forest properties and drivers of tree cover change; and (d) to allow for simpler monitoring criteria.
- Including eligible areas such as mangrove biomes that are contiguous with tropical and subtropical moist broadleaf forests.

5. Forest Cover Measurement & Monitoring System

5.1. Satellite Monitoring

The TFFF requires reliable, transparent, and comparable systems for measuring native/natural forest cover across participating TFCs to assess eligibility and performance, and to link payments to performance. It is a core principle of the TFFF that these systems, critical for assessing eligibility and performance, must rely on satellite-based monitoring to ensure that forest cover is accurately reported and verifiable.

TFFF seeks to provide a fair and transparent approach to forest measurement that aligns as much as possible with the unique contexts of participating TFCs. The measurement and monitoring system must balance the need for a fair and transparent approach across TFCs, on the one hand, with the benefits of aligning with the unique contexts of participating TFCs and minimizing additional monitoring and analysis burdens, on the other.

Restored areas (actively or passively established native/natural forests where forests have historically been) would be included, but tree plantations (monocultures or extremely low-diversity, low-complexity forests planted for agriculture, timber, and/or pulp production) and afforested areas (forests established where forests have not been historically or are ecologically inappropriate) would not be considered for the purpose of determining eligibility for a Forest Payment from the TFFF.

5.2. Monitoring Specifications

It is proposed that the TFFF:

- Require **annual** forest cover reporting that has a minimum mapping unit of 1 ha and that meets global transparency and validation standards. Participating TFCs are required to submit an annual forest cover report ("Forest Cover Report") based on monitoring systems that have been verified as technically acceptable under the Eligibility Criteria. This annual reporting frequency supports timely assessments of changes in forest cover, ensuring that the TFFF keeps accurate and up-to-date records of the forest situation in each participating TFC.
- Encourage the use of data and analysis generated by **national forest cover monitoring systems** that meet TFFF global technical standards, as set out in the Eligibility Criteria, whilst allowing TFCs that do not have such systems to use third-party systems that meet TFFF's Eligibility Criteria, for generating the Forest Cover Report. This flexibility enables TFCs to leverage existing resources while maintaining the TFFF's standards for data accuracy and consistency.
- Require **underlying satellite data** to be optical (2D) imagery with **spatial resolution of at least 30m**, with a minimum of four bands, and a minimum temporal frequency of at least 1 year. Such requirements would be set out in the Eligibility Criteria.
- Consider **canopy cover** as the primary remotely sensed variable for identifying TFFF eligible forest cover (Eligible Forest Cover), and areas with more than **20-30% forest canopy cover** as eligible for Forest Payments (with TFCs permitted to choose one single canopy cover threshold within this range that they will use consistently over time and specify clearly in their reporting), and areas below this threshold to be ineligible for Forest Payments. Such requirements would be set out in the Eligibility Criteria. Allow for areas observed with **10% or less of cloud cover** in underlying satellite data to be included as Eligible Forest Cover in the calculation of eligibility for Forest Payments (with later adjustments as needed) and consider alternative satellite products that might be used to calculate Eligible Forest Cover in areas with consistently higher cloud or shadow coverage.

All monitoring systems used by participating TFCs must meet TFFF's global technical standards, as set out in the Eligibility Criteria, and to include (in addition to the above, and among others):

- Transparency requirements, using products that are open, free, and formatted accessibly; and
- National validation requirements for national forest monitoring systems, based on Olofsson et al 2014¹⁸, with analytics and uncertainties included in reports.

The process and procedures for evaluating national systems and a list of approved third-party alternatives will be included in the TFFF Operations Manual.

Box 2: Canopy Cover Thresholds: Why 20-30%?

Simplicity and readiness are the first core principles of the TFFF. The TFFF's approach to forest cover area measuring and monitoring achieves these by requiring that countries use remotely sensed canopy cover as a proxy for forest area, with remote sensing products that meet the TFFF's satellite monitoring specifications already widely available. Countries are required to select a canopy cover threshold of between 20% and 30% (inclusive). Native/natural forest areas

¹⁸ Good practices for estimating area and assessing accuracy of land change, <https://doi.org/10.1016/j.rse.2014.02.015>

Box 2: Canopy Cover Thresholds: Why 20-30%?

above this threshold are eligible for TFFF payments, while areas below are not. Areas that transition from above to below this threshold are considered deforested.

Several stakeholders provided input during the consultation process suggesting that the TFFF's proposed canopy cover threshold should be adjusted. Issues raised included:

- The potential that TFC self-selection of any canopy cover threshold above 20% could allow a country to "game" the system by selecting a very high threshold to include forest areas that are most remote, least threatened, and thus most likely to be conserved each year;
- The potential that equal per-hectare TFFF payments for forests of any canopy cover above a 20% threshold would provide a perverse incentive for countries to log or otherwise degrade currently higher-cover areas down to the canopy cover threshold, reducing ecosystem services; and
- The preference by some stakeholders that the TFFF should be a mechanism that rewards conservation of only intact or primary forest, with proposals that a higher canopy cover threshold (e.g., 50% or 75%) would achieve this objective.

The choice of canopy cover threshold for eligibility at global scale is complex, and includes technical aspects (e.g., imagery pixel resolution and minimum mapping unit), ecological aspects (e.g., processes of natural disturbance and senescence that open up tree canopies even in undisturbed forests, or the ability to recover naturally after disturbances; differences in typical canopy cover of different types of ecosystems, with some tropical forest ecoregions like wetland, peatland, and/or sandy areas in the Amazon exhibiting naturally low cover), natural gradients (e.g., the extent of different ecosystem services provided by forests of different canopy cover), and value judgements about different types of activities (e.g., whether TFFF should discount areas subject to shifting cultivation or wood extraction, and whether forests below certain thresholds are too degraded to be of value).

Spatial and technical analysis supporting preparation of this Concept Note examined the implications of different canopy cover percentage thresholds for a subset of 10 TFFF-eligible countries, assessing the areas of forest cover loss and degradation in different canopy cover classes (20-30%, 30-40%, 40-50%, and 50% and above) to assess trade-offs in potential TFFF payments if the canopy cover threshold were to be set at different levels.

Several key messages emerged from this analysis:

- The vast majority (99.6%) of tropical and subtropical moist broadleaf forest area in this sample of countries have canopy cover over 50%. Only 1 Mha out of 268 Mha of forest area with canopy cover over 20% had cover between 20% and 50%.
- Most forest cover loss on an area basis occurred in forests with canopy cover of 50% and above: 96.8%, or 2.36 out of 2.44 Mha total.
- Forest cover loss rates, on a percentage basis, are considerably higher in areas with canopy cover below 50%: while overall loss rates (including those for canopy cover above 50%) are around 0.3%, the rates increase to approximately 2% for areas with canopy cover between 20% and 40%, and to 3% for areas with canopy cover between 40% and 50%.
- Most countries (9 of 10) would get higher TFFF payments if they used higher canopy cover thresholds for their forest area statistics. This shows that including forest areas with lower canopy cover (20%-50%) does provide an incentive for maintaining these areas.

Box 2: Canopy Cover Thresholds: Why 20-30%?

- The proportional change in TFFF payments at different canopy cover thresholds is about 0.3% higher on average if 30% is used as the threshold rather than 20%; about 0.5% higher if 40% is used; and about 1.3% higher if 50% is used. No country's payments changed by more than 4% across these different scenarios for canopy cover threshold.

6. Deforestation and Degradation Rates

6.1. Deforestation Rates and Deforestation Cap at entry

The deforestation rate of a participating TFC will be assessed based on the percentage of TFFF-Eligible Forest Cover lost annually, calculated using the TFFF-eligible standing forest from the previous year within the coverage area, as estimated by one of the approved monitoring systems. The deforestation rate will be calculated without including newly restored areas during the year (e.g., using a gross deforestation rate rather than a net rate); and will also exclude tree monoculture plantations and afforested areas (the same as all TFFF forest area estimates).

A cap on this deforestation rate will be implemented for entry and for continued eligibility (see above). A tiered discount for each deforested/degraded hectare will also be implemented (see Performance Discount below). The mandated revisions of the TFFF's technical parameters (see Technical Review and Revision Process and Ratcheting below) should revise the cap downwards. In addition, a ratcheting-down mechanism that would bring the deforestation rates down to 0.2% in 15 years to encourage continuous improvement in forest conservation will be detailed in the Operations Manual.

It is important to clarify that the deforestation rate at entry of any participating TFC is its cap. The only exception would be in case of unforeseen circumstances beyond the control of the country, such as natural disasters (see [Section 4.4](#) – Additional Post-Accession Requirements for a sample list).

To inform the proposed multi-tiered approach and entry cap for deforestation, we analysed the current global situation of tropical and subtropical moist broadleaf forest biomes using several alternative datasets: the latest global tree cover data made available by Global Forest Watch¹⁹ analysed at 20% and 50% canopy cover thresholds, and the Tropical Moist Forest (TMF) dataset made available by Europe's JRC (Table 3), as well as selected national data. These datasets, which provide global or pan-tropical coverage, both allow for the segregation of biome areas and exclusion of plantations.

Over the past five years, the estimated deforestation rate in GFW dataset was averaged 0.57% and 0.56% respectively for the last five years of reliable data. Deforestation rates in the JRC/TMF data are about half that – averaging 0.33% in the four most recent years. Based on the preliminary analysis deforestation data expected to be submitted by TFCs (and assessed based on the Eligibility Criteria) will fall within the range between GFW and JRC/TMF databases.

¹⁹ The use of Global Forest Watch and JRC/TMF data for this modelling does not imply that these are the source of data to be used during the TFFF operation. The data to be used for eligibility at entry and for determining annual payments will be those obtained through the accepted monitoring systems indicated by each country.

Given that observed deforestation rates in key datasets fall between approximately 0.3% and 0.6%, the TFFF will set the initial deforestation rate cap at 0.5% at entry, as a representative midpoint within this range. This rate is intended to ensure that the TFFF benefits countries with below global average deforestation but will be subject to review after the initial three-year period, as further detailed in [Section 6.4](#) below.

Table 3: Estimated forested area and deforestation rate in the tropical and subtropical moist broadleaf forest biome in developing countries based on Global Forest Watch and JRC/TMF data.

Year	Total forested (ha)	Total deforested (ha)	Deforestation rate
JRC/TMF Data			
2019	1,070,618,198	3,572,015	0.33%
2020	1,066,564,731	4,053,467	0.38%
2021	1,063,960,905	2,603,826	0.24%
2022	1,060,241,089	3,719,816	0.35%
2023	1,056,650,232	3,590,856	0.34%
GFW20 Data			
2019	1,331,702,960	7,869,254	0.59%
2020	1,323,015,210	7,700,091	0.58%
2021	1,315,375,549	7,059,588	0.53%
2022	1,307,196,504	7,544,413	0.57%
2023	1,298,672,590	7,732,432	0.59%
GFW50 Data			
2019	1,218,005,028	7,009,850	0.57%
2020	1,210,196,630	6,836,667	0.56%
2021	1,203,372,832	6,256,828	0.52%
2022	1,196,019,403	6,731,539	0.56%
2023	1,188,425,219	6,828,542	0.57%

6.2. Identifying Degraded Forests

The process of forest degradation is a significant yet often overlooked component of tropical and subtropical moist broadleaf forest loss. While many existing finance mechanisms exclude it, integrating degradation into the TFFF is both necessary and desirable. Since Brazil's announcement of the TFFF at UNFCCC COP28 in Dubai, the inclusion of Degraded Forests alongside deforestation has been part of its envisioned scope. However, operationalising this goal poses substantial technical and political challenges.

There is no universally accepted definition of the forest degradation process. It spans a spectrum from temporary and intentional disturbance to near-irreversible decline, driven by diverse and context-specific factors such as unsustainable logging, fire, and fragmentation, as well as partially dependent on the function(s) that are of interest to conserve (biodiversity, biomass, carbon, etc.). Measurement is hindered by subtle signals, spatial-temporal variability, and difficulty distinguishing degradation from natural processes using current remote sensing tools.

Nonetheless, Degraded Forests often retain significant ecological value, continuing to provide biodiversity habitat, carbon storage, water regulation, and cultural services, albeit at reduced levels compared to Non-Degraded Forests. Certain landscapes subject to cyclical use, like shifting cultivation or certified sustainable forest management, may provide reduced services compared to their unmodified state and yet still form a stable long-term system that remains consistent with conservation outcomes.

To ensure the TFFF's effectiveness and credibility, the TFFF design must address forest degradation, not only adjusting payments based on ecosystem service value but also incentivizing the restoration of Degraded Forests over conversion. But it cannot and should not prevent or discourage countries from using their forests sustainably.

Under the TFFF framework, Degraded Forest refers to areas still identified as "forest" by a forest cover monitoring system, but significantly impacted by human activities, thus providing lower levels of TFFF-targeted ecosystem services than healthy forests. Although several human-induced actions can lead to forest degradation, the TFFF proposes using fire-damaged forests as a proxy for Degraded Forests during the initial phase of the TFFF. This choice is based on the following considerations:

- Rainforests are not susceptible to natural fire (e.g., from lightning), hence most if not all fires are started by humans.
- Fires are pervasive, occurring in every region and usually affecting large areas.
- Fires typically do not burn the tallest trees but cause considerable damage to smaller trees and the understory, which is characteristic of a Degraded Forest state.
- Burn scars and related Degraded Forests can be identified using satellite images, by overlaying the area burned with regions still identified as forest-by-forest cover monitoring systems. Thus, the identification and monitoring of forests degraded by fire can be included in the country's forest cover monitoring system.
- It is not currently feasible to incorporate other forest degradation factors into the TFFF's initial design due to data constraints, countries' lack of capacity to produce annual/biennial reports, additional technical gaps, and differences in concepts (e.g. legality and sustainability) between countries.
- Given the important role of degradation processes in forest conservation, the shared goal of appropriately identifying and discounting TFFF payments for unsustainable degradation, and stakeholder feedback received during review of Concept Note 2.0 highlighting the need to achieve this expansion quickly, this updated Concept Note includes an explicit review and revision process (see below) that will reconsider the Degraded Forests proxy within three years, and every 5 years after thereafter.

6.3. Performance Discounts

The TFFF financial proposal is for each eligible TFC to receive a fixed amount in US dollars for each hectare of standing natural forest as identified by the forest cover monitoring system being used by the TFC, provided such a system meets the Eligibility Criteria. At present, the proposal is to pay USD 4 per hectare. To address concerns about continued deforestation and degradation, the TFFF further proposes applying a tiered discount to the area considered for calculating the Forest Payment based on Deforested and Degraded Forest area. This measure is designed to ensure that only healthy forests, which provide a wide range of environmental services, are included in the calculations of allocable Forest Payments. Additionally, it serves as an incentive for countries to reduce deforestation and degradation within their territories.

The proposed tiered discount system will be applied based on deforestation rates as follows:

- Countries with a deforestation rate of 0.3% or lower will receive a 1:100 discount. In other words, for every hectare deforested, 100 times the hectare will be deducted from the payment. Hectares of restored eligible tropical forest would enter the stock of TFFF-Eligible Forest area but would not “cancel out” deforested hectares for the purposes of this deforestation discount.
- For countries with a deforestation rate between 0.3% and 0.5% a 1:100 discount will be applied up to the area of loss equivalent to 0.3%, and above that rate up to 0.5% a 1:200 discount will apply, deducting 200 times each hectare deforested.
- The discount for Degraded Forests is proposed to be 1:35. This immediate discount in the year of observation combines a reference discount of 1:25 with a notional exclusion of the degraded area from payments during recovery, combined into a single discount to avoid the need to track individual pixels or MMUs over time and create cohorts of different Degraded Forests classes.
- If a section of the forest that was degraded in a prior year and incurred a 1:35 discount is subsequently deforested, the standard deforestation discount ratio (1:100 or 1:200) would apply as normal.

For example:

- If a participating TFC has 200 million hectares of tropical and subtropical moist broadleaf forest and recorded an annual deforestation of 500,000 hectares for the prior year, it would be eligible to receive payments for 150 million hectares $[200 \text{ million} - (100 * 500,000)]$.
- If a different participating TFC has 200 million hectares of tropical and subtropical moist broadleaf forest and recorded an annual average of 800,000 hectares of deforestation for the prior year, it would be eligible to receive payments for 100 million hectares $[200 \text{ million} - (100 * 600,000) - (200 * 200,000)]$.
- If a country had zero deforestation, and degraded 1 million hectares by fire, but the canopy cover was such that it still qualified as forest, it would be eligible to receive payment for 165 million hectares $[200 \text{ million} - (35 * 1 \text{ million})]$.

6.4. Technical Review and Revision Process and Ratcheting

Delivering on the TFFF Core Principles – especially the principle of relevance and incremental improvement – requires that the eligibility and monitoring criteria and discount formulas be reassessed and improved over time to consider the best available technologies and practices. At the same time, the TFFF must provide an elevated level of certainty for TFCs that their successful efforts will generate payments, and for investors that the TFFF design criteria are stable and reliable enough to warrant a long-term financial commitment.

It is therefore proposed that the TFFF implement a periodic cycle of limited technical review and revision of a specific set of design criteria, followed by the tightening of a similarly circumscribed set of TFFF performance requirements. The TFFF design criteria may only be improved or strengthened during these cycles – not weakened. The first cycle will take place within three years of the first TFFF payment, and subsequent cycles every 5 years thereafter. For the purposes of these reviews the TFFF will rely on an ad hoc expert group created specifically to review the specific set of technical Eligibility Criteria/parameters (monitoring systems, Degraded Forests, tiers of deforestation, and ratcheting and, in consultation with the Technical and Scientific Advisory Panel, recommend to the Facility's Board of Directors changes in the criteria. These review and revision cycles will ensure that the TFFF's quantitative and technical specifications for accession; post-accession eligibility; satellite monitoring; and forest area, deforestation and degradation estimation and reporting may be adjusted over time in response to advances in technologies and practices, as well as learned experience. This is particularly important with respect to identifying Degraded Forests and their potentials proxies for the TFFF, as these technologies and practices are advancing rapidly. The technical design elements subject to regular revision will be fully identified in the Operations Manual, proposed to include:

- Satellite monitoring specifications of [Section 5.2](#), including the required minimum mapping unit, spatial resolution and bands, temporal frequency, and maximum cloud cover; and
- The procedure and proxy used for identifying Degraded Forests ([Section 6.2](#)).

These cycles will also ensure periodic ratcheting of the TFFF performance specifications to incentivise continuous increases in ambition towards near-zero deforestation rates over time, and to maintain alignment with advances in monitoring technologies and practices, and with actual experience of TFFF reporting as TFCs join the TFFF. Such ratchets will be implemented by directional adjustments (strengthening, not weakening) only to a narrow set of TFFF technical elements specified in the Operations Manual, proposed to include:

- The level of the deforestation rate cutoff upon entry of 0.5%.
- The methodology for implementing the post-accession requirement that deforestation remain the same or decrease on a year-over-year basis.
- The tiered discount formula for deforestation, including the discount ratios (100:1, 200:1) and discount tier cutoffs (0.3%, 0.5%).
- A ratcheting-down mechanism that would bring the deforestation rates down to 0.2% in 15 years
- The expansion of proxy used for degraded forests beyond Forest Area Degraded by fire.

The Technical Review and Revision Process will also be detailed in the Operations Manual.

6.5. Addressing “Incompleteness Risk”

The lack of completeness of the TFFF in terms of forest types covered could result in perverse incentives where TFCs prioritize conservation funding and policies in tropical and subtropical moist broadleaf forest areas, over other forest areas, resulting in a real increase in forest loss outside the TFFF eligibility area. For TFFF purposes, this issue is referred to as “incompleteness risk.” There is also a risk that the reputation of the TFFF, and/or potential sponsors’ participation, might be threatened by the *perception* of incompleteness risk, regardless of whether changes in deforestation outside the TFFF eligibility area are related to the TFFF.

To reduce incompleteness risk, additional reporting and monitoring of forest cover changes in non-TFFF forest will be required by those participating TFCs for which the TFFF-eligibility area comprises less than 90% of total national forest area, as defined nationally, which may include woody savannas as Cerrado or Miombo, as follows:

6.5.1. National Forest Monitoring

TFCs may use their national forest monitoring systems to monitor and report national forest areas as well as deforestation area estimates in the non-TFFF forest areas if they have the capacity to do so. Considering the possible high reporting burden, this is not a mandatory requirement, and TFCs could rely on global data instead.

6.5.2. Global Data Use

TFCs that cannot rely on their national forest monitoring system for reporting may propose to use global data for monitoring and estimating forest cover change in non-TFFF forest areas. The Secretariat in consultation with technical partners will work to facilitate the broad public availability of existing global data for this use by TFCs and other stakeholders.

6.5.3. Reporting

TFCs will include in their annual forest cover reports: a) deforestation in non-TFFF forest according to the national forest monitoring system (if available) or from appropriate global data as outlined above; and b) an analysis of whether deforestation has significantly increased in non-tropical and subtropical moist broadleaf forest areas. If deforestation is shown to have increased in non-TFFF forests, this will be clearly noted in the report. The Operations Manual will include guidance on the definition of “non-TFFF forest areas” that TFCs may use for this purpose (e.g., whether they may include dry forests, scrub forest, “other wooded land”, etc), and the annual forest cover report template will include specific requirements to facilitate this reporting by TFCs.

6.5.4. Quantitative Trigger and GRM Trigger

A quantitative trigger (to be defined in the Operations Manual) will determine if deforestation in non-TFFF forest areas has increased sufficiently to *automatically* trigger the initiation of additional scrutiny, as outlined below. If additional scrutiny is triggered, the Secretariat will inform the Facility Board of Directors who may, at their discretion, decide to put Forest Payments to the TFC on hold and to set such payments aside in reserve pending investigation in accordance with the process set out below.

6.5.5. Country-Led Response and Technical Exchange

Country-led response - Upon initiation of additional scrutiny by the automatic trigger, the TFC will be required by the Facility Board to provide the Secretariat with a time-bound plan to 1) conduct supplementary analysis to strengthen the understanding of the deforestation trends and of the drivers of deforestation that might have caused such increase, including potential *force majeure* circumstances (defined the same way as for TFFF-eligible forests) if relevant; and, considering such results, and in the absence of clear force majeure attribution, 2) define an action plan to address any issues that might have been identified. In such a scenario, the TFC may proactively propose in the forest cover report the supplementary analytics that it intends to undertake, or, if the supplementary analytics have already been completed, it could include the results of such analytics and propose an action plan.

Technical Exchange and Decision by the Facility Board of Directors - Upon receipt of the TFC's plan, the Secretariat, with the approval of the Facility Board of Directors (in consultation with the Technical and Scientific Advisory Panel), will facilitate the engagement of an external expert to review the supplementary analyses plan, and if and once available, the outcomes of the supplementary analyses and the proposed TFC's action plan to address the identified issues. The external expert will prepare a report assessing the TFC's supplementary analyses and proposed action plan for the Facility Board of Directors, which report will include recommendations for the Board's consideration and decision.

The recommendations will be in accordance with the Operations Manual, which will include the specific procedures and criteria to consider when deciding the conditions under which any suspension of Forest Payments would be lifted, and the conditions under which the suspension of payments should remain in place temporarily or permanently. At its discretion, the Facility Board of Directors may consult with the Technical and Scientific and Advisory Panel when the Board is considering the external expert's report and recommendations.

7. TFFF Finances

7.1. The Tropical Forest Investment Fund (TFIF)

TFIF will be set up as a standalone, market-facing legal entity, which will have no impact on the World Bank balance sheet.

TFIF will be a legally independent, market-facing entity, separate from TFFF, and thus will have its own governance structure and Board of Directors (see [Section 10.3](#) for further details on the TFIF governance). It will operate as a blended finance platform, and its role will be to generate the annual Forest Payments to reward TFCs for conserving their forest assets. To achieve this objective, it will mobilize institutional capital at scale by combining a junior capital cushion from sovereigns and philanthropies with senior market borrowing from global institutional investors. It aims to reach a target size of \$125 billion, and its capital structure will consist of:

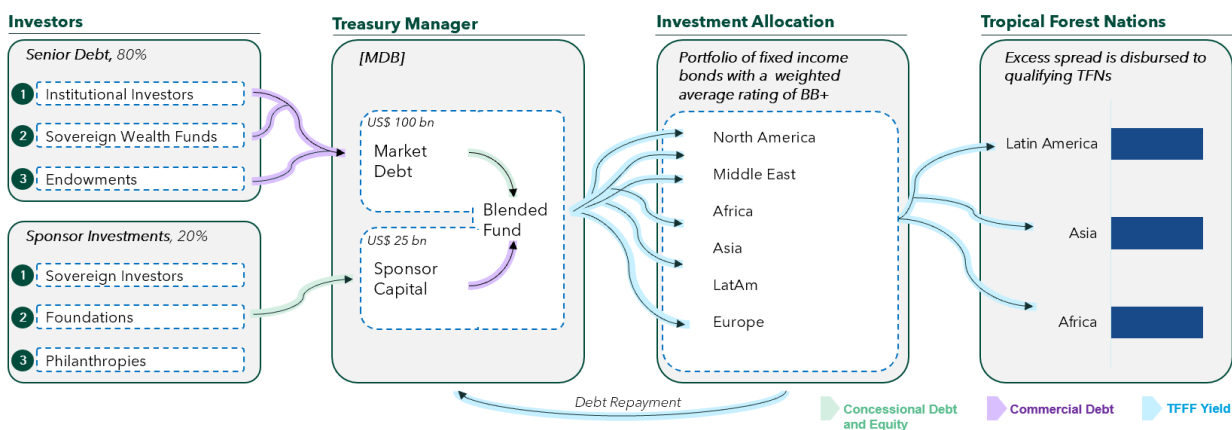
- At least 20 percent (\$25 billion) from junior sponsor capital contributed by Sponsor Countries and potentially philanthropies through paid-in equity; subordinated, long-term or permanent, either coupon-free or interest-bearing loans with loss bearing features; outright grants and potentially guarantees - depending on each TFIF Sponsor's

preferences. This junior sponsor capital would absorb first losses, providing a risk buffer for senior investors.

- Up to 80 percent (\$100 billion) from the issuance of highly rated, liquid senior bonds (senior capital), targeting institutional investors such as pension funds, insurance companies, and sovereign wealth funds. More details on the mechanics of the Sponsor Capital and the Senior Bonds are set out in [Section 7.2](#) – TFIF Resource Mobilization.

The costs of the junior capital contributions from TFIF Sponsors are expected to approximate the borrowing rate of the US Treasury market corresponding to the weighted average life of the facility's underlying assets. The costs of the senior capital will be based on prevailing market rates for the highly-rated bonds at the times of their issuance. The capital raised would be invested into a portfolio of liquid sovereign and corporate market bonds, based on the decision of the TFIF Board. More details on the TFIF Investment Strategy can be found in [Section 7.3](#). The **excess spread** – difference between the investment returns and the cost of capital, administration, and fees – would fund TFIF capital reserve and annual payments to the TFFF. See Figure 6 for the broad overview of the TFIF finance structure.

Figure 6: TFIF Financial Structure



If TFIF has a surplus of its investment income after making annual payments to TFFF, this capital will be retained within the TFIF, allowing the fund to build its own capital base. This is necessary to ensure that the fund can meet its target future payment obligations to the TFFF.

As TFIF is an investment fund, its returns cannot be guaranteed as they depend on a combination of factors including fund leverage, returns of investments, cost of debt, and fees. If the market value drops below certain key thresholds, it may be necessary to reduce the rate of payout to the TFFF which is intended for Forest Payments to TFCs. However, if such an event were to occur, catch-up payments could be made to the TFFF and thereafter by the TFFF to TFCs once market values normalize.

It also must be emphasized that the TFIF is being set up as an independent corporate entity that will incur obligations in its own name. None of the Sponsor Countries of the TFIF, the TFFF nor TFCs that will receive Forest Payments will be liable for any of the obligations of the TFIF or for any revenue shortfall that might occur from the investment portfolio.

7.2. TFIF Resource Mobilization – Sponsor Capital and Senior Debt

7.2.1. Sponsor Capital: Sovereign and Philanthropic

As set out above, the 20% minimum junior layer of funding for the TFIF will be constituted from Sponsor capital from governments and philanthropies. This funding will come in the form of paid-in equity; subordinated, long-term or permanent, coupon-free or interest-bearing loans with loss bearing features; outright grant, and possibly guarantees, depending on each Sponsor's preferences.

Nonetheless, certain constraints exist on the type of funding that will be required to fill this 20% Sponsor capital layer. The most important constraint is related to how the TFIF will choose to issue its Senior Bonds as described in the [Section 7.2.2](#) – Senior Debt. If the TFIF selects the "Unsecured Option" for senior bond issuance – then a minimum of 2/3 of capital needs to be paid in equity according to some Credit Rating Agencies methodologies for supranational and related entities, with the remainder comprised of hybrid capital instruments or Sponsor Credit Notes (SCNs) as defined below. If, on the other hand, the TFIF selects the "Secured Option" for senior bond issuance, the entire junior sponsor capital can be comprised of long-term loans with loss bearing features (Secured Option can also accommodate equity and grant contributions). The following are the proposed key terms of the four instruments for contributions of junior sponsor capital under discussion with Sponsors:

A) Paid-in Equity

1. A perpetual investment;
2. Pays a discretionary distribution from the TFIF balance sheet but is dependent on the financial performance of TFIF (the Board of the TFIF can develop an internal discretionary distribution policy setting out financial circumstances under which a distribution can be paid based on TFIF's capital adequacy policies);
3. Ranks junior to TFIF Senior Debt (bond issues).

B) Sponsor Capital Notes (hybrid capital)

1. Perpetual investment (subject to conversion or replacement option);
2. A loan that pays annual or semi-annual coupon related to US Treasury rate;
3. Coupon can be cancelled at discretion of TFIF Board or automatically when certain % loss of equity triggers are met) (with consequence of no Forest Payments to TFFF/TFCs);
4. Write down provisions in case TFIF needs the equity to absorb losses. The write-down is triggered by certain loss of equity;
5. After 10 years, Sponsor has right to begin 30-year process of converting into equity of TFIF, TFIF has right to begin 30-year process of repaying Sponsor with new contributions or possibly retained capital;
6. Ranks junior to TFIF Senior Debt (bond issues).

C) Loans

1. 40-year term;
2. Pays annual or semi-annual fixed coupon related to fixed US Treasury rate;
3. Coupon can be cancelled at discretion of TFIF Board or automatically when certain % loss of equity triggers are met (with consequence of no Forest Payments to TFFF/TFCs);
4. Write down provisions in case TFIF needs the equity to absorb losses. The write-down is triggered by certain loss of equity.
5. Ranks junior to TFIF Senior Debt (bond issues).

D) Guarantees

Terms to be determined, but this instrument will be most effective if offered by a sovereign to cover the payment of an entity that makes the Sponsor capital contribution to the TFIF, such as a development bank.

The current model for the TFIF assumes that all sponsor funds are received at the beginning of the life of the TFIF, although certain sponsors wish to make contributions over a few years. This would be acceptable if the commitments to fund were made via a legally binding pledge.

Box 3: Similarities Between Sponsor Contributions to the TFIF

As is noted above, the three types of Sponsor contributions to the TFIF - Loans, Sponsor Capital Notes, and Equity - have three key attributes in common:

1. **Subordinated status to bond issues:** The Sponsor contributions collectively will rank junior in the capital structure of the TFIF to the senior capital that will be provided by the ongoing bond issues of the TFIF in the international markets. Accordingly, the junior capital of Sponsors will constitute the “cushion” in the capital structure of the TFIF that will allow the bonds of the TFIF to enjoy a higher credit rating from the agencies. In any year in which the returns on the investment portfolio of the TFIF are lower than required to meet payments on senior and junior capital, the payments to the junior capital tranche will be suspended. In this scenario, transfers to the TFFF for Forest Payments to TFCs will also be suspended as long as the suspension lasts on the junior capital.
2. **Return on capital:** The instruments are designed, as best as possible, to give the Sponsors ongoing annual subordinated return on capital payment from their contribution. The Loans and the Sponsor Capital Notes are entitled to interest at a specified UST rate. For the Equity contribution the Board of the TFIF will adopt a discretionary distribution policy that will allow payments to Sponsors subject to the usual types of performance and prudential reserve rules for discretionary distributions from financial institutions as well as any other TFIF-specific rules that may apply once it is fully set up. Discretionary distributions will be from TFIF’s balance sheet in accordance with specific capital adequacy policy conditions.
3. **Repayment to Sponsors:** All three types of contributions contemplate eventual repayment to the Sponsor, although in different forms. The Loans will have a maturity of 40 years. The Sponsor Capital Notes will have a potential after 10 years to begin a 30-year process of repayment, if new capital is acquired. The Equity, comprising both the original equity investment and any Sponsor Capital Notes converted into equity, may begin paying distributions at the discretion of the TFIF and its Board, potentially starting

Box 3: Similarities Between Sponsor Contributions to the TFIF

after 10 years. The distribution payments would be in accordance with the TFIF's capital adequacy policy and would aim to cumulatively return an amount up to the original investment amount, subject to the availability of sufficiently robust retained earnings to support such distributions.

7.2.2. Senior Debt: Bond Issuing Options

The TFIF is targeting to attract \$100 billion in capital from the issuance of highly-rated, liquid public bonds in the international capital markets. It has evaluated in detail two alternatives for issuing such bonds, the "Unsecured Option" and the "Secured Option". Both approaches are well established in international capital markets and are effective in meeting the objective of raising funding in an efficient and sustainable manner.

1. **Unsecured Option:** TFIF would issue senior bonds directly and hold the asset portfolio directly on its balance sheet. Any change in TFIF's credit rating would affect all outstanding and future bonds simultaneously.
2. **Secured Option:** A separate entity, governed by TFIF, would issue multiple series of senior notes, each backed by a dedicated asset portfolio in separate compartments (Asset Backed Securities, ABS). Junior notes would be purchased by TFIF, representing leverageable capital for each series. Each series would receive its own credit rating, and risks would be compartmentalized and isolated.

See Figure 7 and Figure 8 below for structural diagrams of both options.

Figure 7: Senior Unsecured Bond Issuer

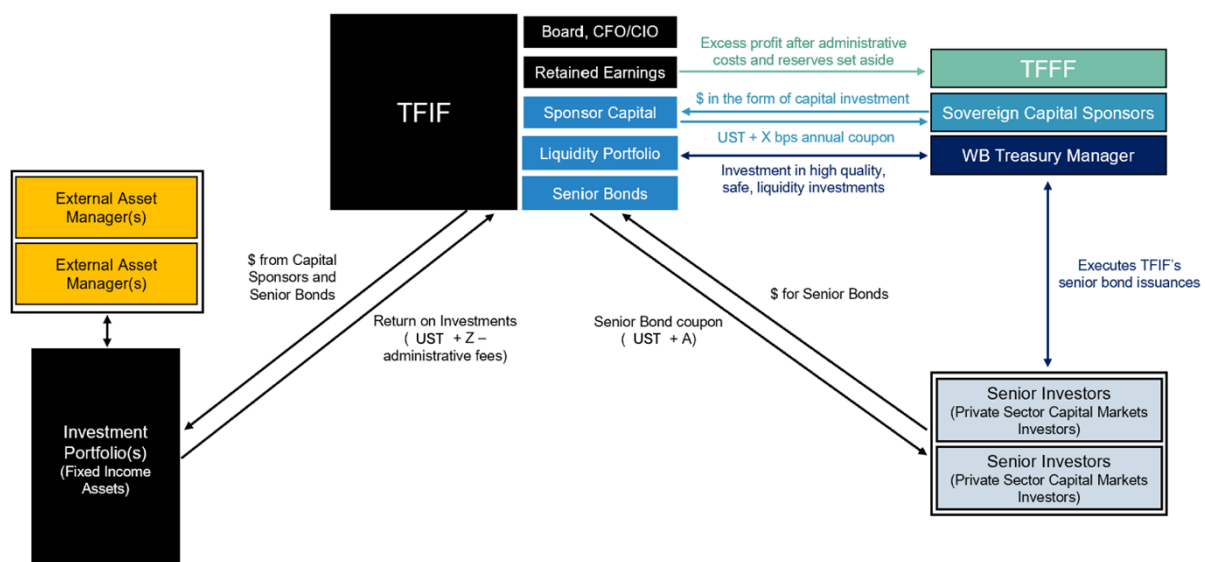
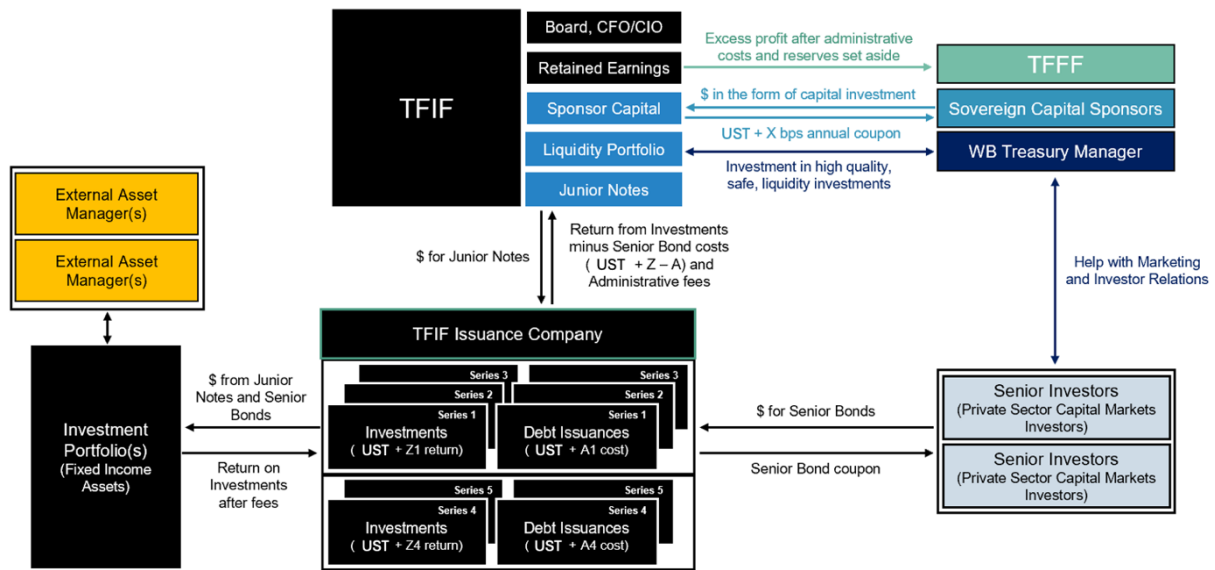


Figure 8: Senior Secured (Asset Backed) Bond Issuer



The advantages of the Unsecured Option are that it is less complicated to set up and administer, it is more familiar to sovereign institutions involved in public policy and importantly, it is also cheaper, promising slightly higher net returns for the TFIF over time. The main challenge is that it requires a high proportion of equity contributions (over 2/3) in the junior sponsor capital layer.

The advantages of the Secured Option are that its junior capital can come in any form, including loans, and that it can potentially attain a faster ramp-up of invested amount. The challenge is that it is a more complicated and costly structure to set up and administer over time.

All in all, how the TFIF Sponsors will choose to contribute junior capital will largely determine how the TFIF will issue senior bonds. If the majority of junior sponsor capital (over 2/3) will not be provided in the form of paid in equity, then the Secured Option represents the most viable way forward.

It must be emphasized that the overall corporate governance structure and risk to the junior sponsor capital are substantially the same for bonds issued under Secured and Unsecured options, given the same investment portfolio.

7.3. TFIF Investment Strategy

7.3.1. TFIF Investment Policy

TFIF's investment policies will be set by the Board of the TFIF in consultation with the CFO. The policies will be implemented by a Chief Investment Officer (CIO) for the TFIF and external Asset Manager(s). The World Bank may provide certain Treasury Management services to TFIF. Exact scope of these services will depend on how the TFIF will issue its senior bonds. Definition of investment policies will be within the following parameters:

- TFIF will invest in a portfolio of liquid, publicly listed bonds and will aim to ensure the long-term sustainability of the fund, while producing sufficient revenues for annual

disbursement to the TFFF for transfers to Eligible TFCs for Forest Payments. The overall quality of the investment portfolio of TFIF will have to support a sufficiently high credit rating of TFIF's own bonds, while also producing sufficient excess spread to make annual disbursements to the TFFF. Possibly, the TFIF Board, in conjunction with its shareholders, may consider other investment assets based on return prospects and risk to sponsor capital.

- The portfolio could be diversified by type of issuer and geography, comprising bonds from sovereign and corporate issuers from both emerging markets (EM) and developed markets (DM), subject to the Negative Exclusion List and other risk management considerations.
- It is proposed that the currency of operation for the TFIF will be the US dollar (USD) or Euros (EUR), as these are the currencies with the greatest set of investment options. This will not preclude investment into eligible country assets denominated in alternative currencies, but these will be hedged to USD. While TFIF will seek to eliminate all currency risk, its hedging strategy could be augmented with an asset-liability strategy.

7.3.2. Investment Negative Exclusion List

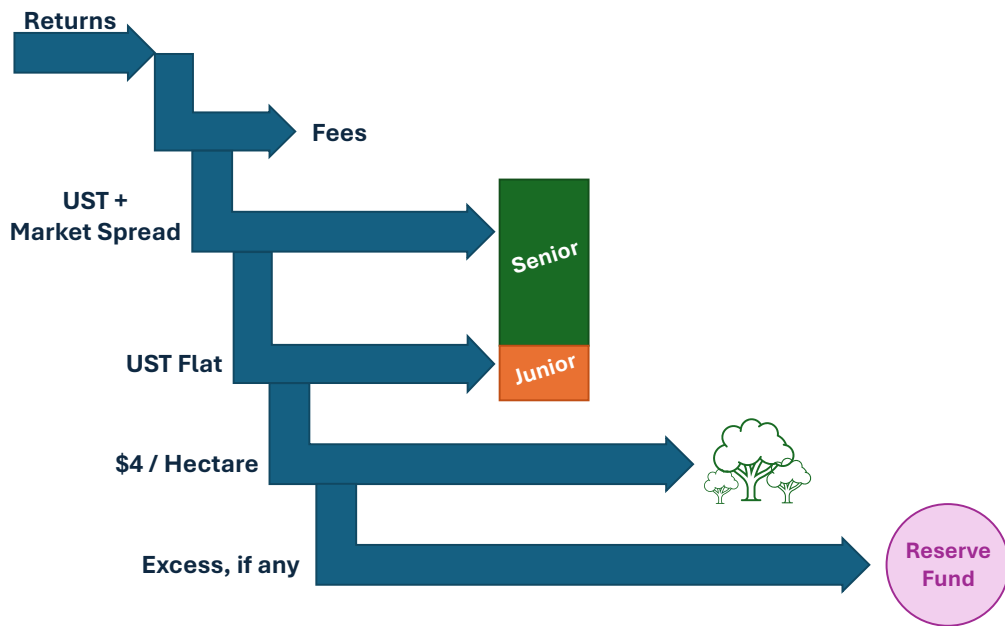
The construction of the investment portfolio seeks to balance multiple objectives: delivering the necessary returns to meet TFC obligations; ensuring sufficient diversification to secure a strong credit rating; and seeking ODA eligible status.

In line with these objectives, when and if acquiring corporate bonds, TFIF will refrain from investments that cause significant environmental impact, such as deforestation and GHG emissions. This includes activities related to coal, peat, oil and gas. The negative exclusion list will be finalized by the Board of the TFIF and updated periodically.

7.4. Waterfall and Forest Payments

Once the capital has been raised, invested and starts producing a positive net yield, TFIF will then set payments to the TFFF based on transfers to the TFCs on a payment per hectare rate, calculated to ensure that the TFIF is sustainable over the long term and, operating within its agreed stress limits, is able to maintain its objective of being a permanent financing vehicle for the TFFF to support participating . Payments will attempt to incorporate inflation adjustments. Transfers from the TFIF to TFFF for onwards distribution as Forest Payments to eligible TFCs would be made annually from surplus TFIF income after all TFIF debt service and fees payments. In the event of a permanent depletion in the asset value of the TFIF, TFFF would reduce current and future payments per hectare to TFCs to restore the TFIF's financial sustainability. This could result in a period of lapsed payments from the TFFF to eligible TFCs. If the senior debt of TFIF were no longer rated investment grade, TFIF could either: 1) operate at a reduced level without new bond issuance, as its retained earnings (equity) and Sponsor capital should still produce income (that does not have a corresponding payment obligation to service); or 2) commence an orderly liquidation.

Figure 9: Payment Order



The Facility and TFIF will have specific complementary financial policies that will ensure that TFIF annual payments to the TFFF for annual results- based payments to the TFCs can only be paid if doing so would not breach the financial integrity of the TFIF. In this circumstance, a reduction in the payment amount is calculated using the steps outlined below:

Table 4: Sequence of Decision-Making

ANNUAL	
STEP 1	TFCs inform TFFF Secretariat regarding their Eligible Forest Cover.
STEP 2	TFFF Secretariat informs the TFIF CFO of the corresponding payment.
STEP 3	TFIF CFO assesses the financial stability of the TFIF considering the proposed payment, if it is deemed sustainable (i.e. within the limits of financial policies set by the TFIF Board) it will inform the TFIF Board and proceed with allocations to the TFFF. If it results in the TFIF breaching certain financial policies/prudential limits, the CFO will inform the TFIF Board, TFFF Secretariat of the amount of financing that can be provided whilst maintaining the financial integrity of the TFIF.
STEP 4	The TFFF Secretariat allocates the available amount amongst TFCs based on their reported Eligible Forest Cover.
STEP 5	TFFF Secretariat informs the Facility Board of allocations.
STEP 6	Facility Board approves allocations and asks TFFF Secretariat to communicate approval to TFIF Board .
STEP 7	TFIF Board instructs the TFIF to transfer the necessary funds to the TFFF's Trustee to make Forest Payments approved by Facility Board to TFCs.

As seen, the maximum amount of Forest Payments to qualifying TFCs could be limited by the annual and/or accumulated return on the TFIF portfolio, after it has met its obligations to its senior investors, as well as cost of administration and other fees. In addition, TFIF can use reserve/retained earnings to some degree. In this respect, qualifying TFC participants would have the equivalent of a de facto equity interest in TFIF.

7.5. Required Fund Performance

Given the principles established above, this session provides a range of estimates which together determine the required fund's performance over time.

Based on the results of the recent FAO study which estimated forest cover and deforestation data in six largest countries eligible for the TFFF payouts, (according to the assessment methodology approved by the TFFF Interim Steering Committee), and subsequent extrapolation of these findings to the entire universe of potentially eligible Tropical Forest Countries (as determined in [Section 4.2](#)) only around 500 million hectares (under conservative estimates) will be eligible for Forest Payments at the launch of TFIF. This implies the early-stage portfolio will need to make a total payment of \$2 billion annually (calculated as $4 \times \$500 \text{ million} = \2 billion) in the initial years. This data does not take into consideration forest degradation discount and other non-forest data eligibility criteria as well as likely gradual accession of potentially eligible TFCs to the TFFF. I.e. annual Forest Payments to TFCs are expected to be slightly less than \$2 billion, after taking into account any forest degradation discount, under the most conservative scenarios. In other words, for a \$125B levered portfolio to produce \$2B in excess cashflow, it will be required to have a net excess spread of 160 bps. This is what the TFIF must generate net of paying for its cost of capital and fees.

While it is difficult to estimate where the market rate for TFIF's senior debt will be at the time of issuance, given it is expected to be highly-rated and potentially backed by liquid public securities, we conservatively estimate weighted averaged funding costs in the range of 72-140 bps over the reference UST, with the unsecured issuing option being at the lower end.

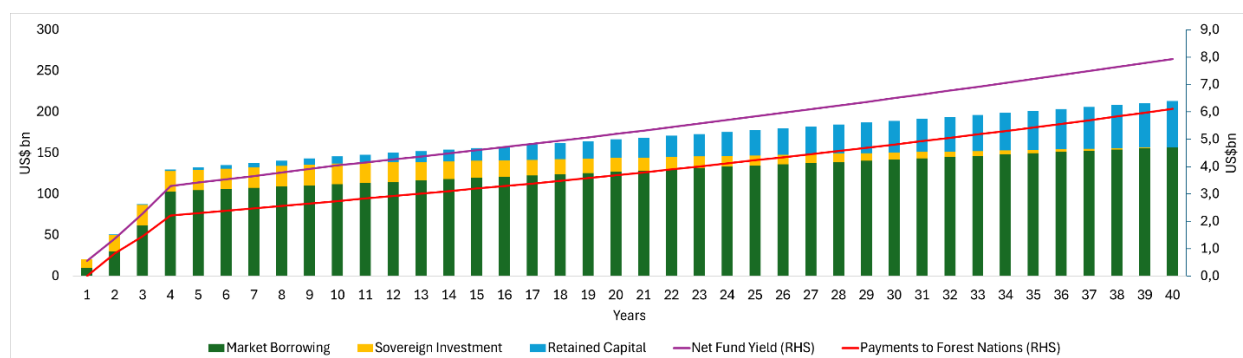
The operation and management of the TFFF and the TFIF will naturally incur costs, including those associated with the efficient staffing, maintenance and work of the TFIF CFO, CIO and staff, the TFFF Secretariat, the operations of the Trustee of the TFFF, the Boards of Directors of the Facility and the TFIF, and the securing of a range of services the TFIF will require from the Treasury Manager, Asset Managers engaged to manage the TFIF portfolio, risk monitoring by experienced experts and other service providers. These costs will be subject to annual budgets approved by the Boards of Facility and the TFIF respectively. The TFIF's expenses will be paid out of the income from the investment portfolio of the TFIF. These expenses are expected to be in the 15-25 bps range (also referenced to the entire USD 125 billion asset base). While the administrative costs for the unsecured debt issuing are cheaper (expected to be 7 bps), this option will require TFIF to maintain sufficient liquidity (investments in eligible high-quality liquid assets) to meet a minimum of 12 months of debt service, which creates negative carry on the balance sheet (estimated to represent 16 bps on the entire USD 125 billion asset based)

These numbers imply that a portfolio generating between 247 bps and 325 bps of gross spread over UST would be necessary for the TFIF to make transfer to the TFFF to meet minimum TFC Forest Payments in the initial years. Preliminary analysis suggests we can find portfolios in line with

the investment policy mentioned above that will produce spreads higher than this, will be 5x leverageable and will be able to support the issuing of debt with costs within the range presented above. Thus, we expect there would be sufficient excess funds for the TFIF to make transfer to the TFFF to make TFC Forest Payments in the early years and, moreover, enough retained capital that would allow the Fund to build up its own capital base for future principal repayment to sponsors and for increasing forest payments to TFCs.

The chart below consolidates all the different pieces of the TFIF puzzle and forecasts cashflows over time, based on **indicative estimates**, as discussed above. Junior tranche investment of USD 25 billion, market borrowing of USD 100 billion at an average cost of 100 bps over UST, gross z-spread (yield over UST) of 350 bps from a BB+ sample portfolio comprised of EM bonds only (most conservative scenario), fees and expenses adding up to 23 bps of assets under management, payments to TFCs reaching USD 2.2 billion after the first year of full capitalization and excess capital being retained over time. As indicated, in this case retained capital is expected to replace sovereign investment after 40 years and TFIF would hold its own equity.

Figure 10: Projected Potential TFFF Cashflows



7.6. Risk to Junior Capital

Any investment portfolio will have risks. The imperative is to manage the risks with a well-structured portfolio that is run by experienced asset managers so that its capital will be maintained and will generate the required returns over time. The TFIF portfolio will be defined by strict financial policies set by the Board of the TFIF and managed by a leading Chief Investment Officer (CIO) firm. The TFIF development team has analysed the risk of one of the types of investment portfolio for the TFIF comprising of EM only sovereign bonds with weighted average credit rating of BB/BB+²⁰. Such risk can be assessed both on a historical basis and on a forward-looking basis.

To assess historic performance, the J.P. Morgan EMBI Global Spread was used as the benchmark and we assessed the value of the proposed investment portfolio discounted by the EMBI spread as it evolved over the past 20 years.

²⁰ WAR no higher than the BB+ portfolio used for the net yield simulation above.

Figure 11: Historical Performance of Pro-forma Portfolio



The EMBI has a track record for the past 20 years with approximately 5400 observations. During this time there have been 532 days when the portfolio value would have been below 90%, 216 days when the portfolio would have been below 85% and 100 days when it was below 75%.

The 100 days when it was below 75% all corresponded to the period from October 2008 to March 2009, during the global financial crisis. There were 44 days, from March to April 2020, when the portfolio value was below 85%, never falling below 79%, because of the COVID-19 Pandemic.

Table 5: Historical Drawdown Episodes

Time	Duration below 90%, (days)	Avg. Portfolio Value	Minimum Value
Jun-Nov '03	103	87.5%	82.7%
Apr-Aug '04	76	87.5%	82.6%
Oct 08-Mar '09	167	75.3%	58.6%
Aug '15	5	88.9%	87.8%
Dec '15-Mar '16	61	87.3%	83.3%
Feb '20-Jun '20	70	84.9%	74.6%
Jun-Jul '22	23	88.3%	86.3%
Sept-Nov '22	27	88.6%	87.6%
Time	Duration below 85%, (days)	Avg. Portfolio Value	Minimum Value
Oct 08-Mar '09	143	75.3%	58.6%
Feb '20-Jun '20	44	84.9%	74.6%

This illustrates that, although there is a risk of a coupon skip, the short duration of all episodes when the portfolio value would have traded below 90% indicates that it is only during the Global Financial Crisis of 2008/9 that there would have been a TFIF Investor and Sponsor coupon disruption.

On a forward-looking basis, we use a Monte-Carlo simulation to assess the risk that a sponsor would see a reduction in their coupon or capital. We compared three theoretical investment portfolios for TFIF comprising investments in ODA eligible countries and a proportion invested in emerging economies that are not classified as ODA eligible by the DAC. Three portfolios were assessed with 0%, 10% and 25% non-ODA eligible assets. As the table below illustrates, the weighted average credit of the portfolio improves as the weighting of non-ODA assets increase from BB to BB+.

For the sponsor capital the 0% non-ODA portfolio, we have a 10.6% chance of a coupon skip and a 1.1% chance of a capital impairment. This risk declines with the 10% and 25% non-ODA portfolios to a less than 1% risk of a capital loss.

Table 6: Investment Portfolio Comparison (indicated spreads are as of early 2025)

Portfolio	0% non-ODA	10% non-ODA	25% non-ODA
Weighted Avg. Rating	12 (BB)	11.5 (BB+)	11 (BB+)
Probability of Sponsor Coupon Skip	10.58%	7.58%	4.48%
Probability of Sponsor Capital Impairment	1.14%	0.68%	0.24%

The above analyses are just examples of the types of specific investment scenarios that will be evaluated by the TFIF and its investment managers to assess and manage the risk of the actual investment portfolio of the TFIF on an ongoing basis. **Accordingly, the specifics of the actual investment portfolio of the TFIF will not likely be identical to the above parameters. The investment policy will be determined by TFIF's board, as discussed.** Nonetheless, these two analyses do demonstrate the critical points that:

- 1) the capital of the TFIF and its income generating capacity can be expected to be maintained over the 40+ year life of the TFIF; and
- 2) while there will be fluctuations in the amount of income generated for the TFIF in any particular year due to financial market conditions, the income over time from the investment portfolio is expected to meet the targets of the TFIF for enabling the Facility to make Forest Payments to TFCs and repay Sponsor Junior Investment.

8. Allocation of Forest Payments by TFCs

The TFFF will disburse annual Forest Payments to eligible TFCs. These payments are generated from the positive investment returns of the TFIF and are calculated based on the total standing tropical forest area in each country per year, minus deductions for deforested and degraded hectares. To receive Forest Payments, countries must meet both the technical forest conservation criteria and governance-related Eligibility Criteria mentioned below, which demonstrate their ability to allocate funds transparently, equitably, and effectively at the national level.

To balance simplicity and accountability, Forest Payments allocation will be governed by the TFFF's core principles, the provisions of the TFIF and the Facility Charters, and the terms and conditions of the agreements that Sponsors and TFCs will enter when formalizing their

participation in the TFFF. There are four Eligibility Criteria that relate to the TFCs' use of Forest Payment, which are described below.

8.1. Eligibility Criteria Related to the Allocation of Forest Payments

8.1.1. Adequate Public Financial Management Mechanisms (PFM)

TFCs must demonstrate that they have adequate Public Financial Management (PFM) mechanisms to receive and allocate Forest Payments in line with national policies. The adequacy standard will be defined in the TFFF Operations Manual, based on the best international practices. These systems will be evaluated through standardised, pre-approved methodologies, primarily those used in World Bank's DPOs and P4R Fiduciary Systems Assessments. Where relevant assessments already exist (e.g. through the World Bank or other multilateral development banks), they may be used with minor adjustments. If not, countries must commission a TFFF-specific assessment using an approved provider and share results with the Secretariat, which will publish them. Assessments will be updated periodically.

If a country's PFM system is found inadequate, it must appoint an alternative Public Financial manager, subject to review and approval by the Technical and Scientific Advisory Panel. All processes will follow the procedures outlined in the Facility Charter and Operations Manual.

8.1.2. Allocation of a minimum of 20% of Forest Payments to Indigenous Peoples and Local Communities

TFCs must commit to allocate at least 20% of their Forest Payments to IPLCs, through a dedicated mechanism, the TFFF's Dedicated Financial Allocation for Indigenous Peoples and Local Communities (IPLC-DFA).

After one year of the accession, to receive Forest Payments, the following requirements must be met by TFCs:

- A National IPLCs Steering Committee (IPLC-NSC) has been established and is operating in accordance with the procedures established in the TFFF Operations Manual.
- An IPLC-DFA dedicated account has been opened with governance and signatory delegations in accordance with the TFFF Operations Manual.
- 20% Allocation Transfer: The minimum 20% allocation dedicated to IPLCs must be successfully transferred to the dedicated IPLC-DFA account.

Failure to transfer this 20% within the one-year post-accession period will result in TFCs being ineligible for Forest Payments in the subsequent year. Two financial flow modalities are available to countries, as described in [Section 9](#).

8.1.3. Disclosure of a list of national policies and programs expected to be financed by Forest Payments (Forest Payment Allocation Plan)

TFCs are expected to use TFFF Forest Payments on policies and programs that, directly or indirectly, contribute to tropical and subtropical forest conservation and its sustainable use, based on their national circumstances and internal decision-making processes. TFCs are free to allocate

the resources as they see fit, bearing in mind that forest conservation can be achieved through investments and spending in sectors other than those related to forests and land use.

Every year, countries will send to the Secretariat the projected Forest Payments Allocation Plan for the next year. This list, to be made public, will indicate the policies and programs where funds are expected to be allocated, but not necessarily the amount to be allocated to each policy and/or program, as these values would not be known in advance.

If the Forest Payment Allocation Plan is materially updated, TFCs will submit the updated version to the Secretariat for disclosure. In line with the TFFF's principles of national sovereignty, performance-based payments, the TFFF will not establish an extensive mechanism to track or verify how payments are spent. Instead, transparency will be ensured by publicly disclosing Forest Payment Allocation Plans and by enabling stakeholders to raise concerns through the grievance redress mechanisms that meet the TFFF criteria.

8.1.4. Demonstrate that Forest Payments will not replace existing resource allocations

In the year of accession, participating TFCs will be requested to demonstrate that future Forest Payments will supplement, rather than substitute, their existing public resource allocations for policies and programs that directly or indirectly promote tropical and subtropical forest conservation and its sustainable use.

TFCs may choose the method that best fits their national systems and contexts to evidence the non-substitution of national budgets. If feasible, this could include reporting on the baseline public spending from the previous year or establishing mechanisms (such as national funds) to insulate the Forest Payments from budget cuts. This demonstration will be submitted by the TFCs to the Secretariat and publicly disclosed to be monitored by civil society. It is expected that the methodology will be published by countries when joining TFFF and when the government changes the methodology.

9. Indigenous Peoples and Local Communities Dedicated Financial Allocation

9.1. Context

Indigenous Peoples and Local Communities (IPLCs) are critical partners to achieve global climate, biodiversity, and conservation goals necessary for a liveable planet. A recent study found that IPLCs hold or manage 54% of the world's remaining intact forests.²¹ The study also found that 40% of Key Biodiversity Areas (KBAs) intersect with IPLCs lands and territories.²² Earlier studies have found that Indigenous Peoples manage or hold tenure rights to 28% of the world's surface, accounting for about 40% of earth's terrestrial protected areas and ecologically intact

²¹ Reyntar, K., Veit, P., & von Braun, J., 2024. *Protecting biodiversity hinges on securing Indigenous and community land rights*. Washington D.C: World Resources Institute.

²² There are nearly 16,000 Key Biodiversity Areas (KBA) around the globe, encompassing 1.8 billion hectares of land and water in total. Forty-three percent of this area (796 million hectares) at least partially overlaps with the Indigenous and local community lands.

landscapes.²³ Additionally, a World Wide Fund for Nature study found that when combining Indigenous Peoples and Local Communities' lands, 65% remain untouched, and 90% are in good or moderate ecological condition.²⁴ The Rights and Resources Initiative (RRI) estimates that 25% of all tropical forest above the ground carbon are found within Indigenous lands.²⁵

At the same time, the capacity of IPLCs to continue to provide these global ecosystem stewardship services is at risk. A 2021 study shows that Indigenous tenure and forest management in tropical countries have received a small share of international donor funding over the last ten years – just USD 270 million per year on average. This is equivalent to less than 1% of Official Development Assistance (ODA) for climate change mitigation and adaptation over the same period. It is also just 30% of what has been identified as needed for transformational tenure reform in just 24 tropical countries. The study also demonstrates that only about USD 46.3 million per year on average went to projects that included the name of an IPLCs organisation in the project description, which is about 17% of the total funding for IPLCs tenure and forest management.²⁶

9.2. The Co-Design Process

To support the design of the TFFF's IPLC-DFA (Indigenous Peoples and Local Communities Dedicated Financial Allocation), a convening process with IPLCs was designed, which included the active participation of the Global Alliance of Territorial Communities (GATC).²⁷ Once GATC accepted this role, a global stakeholder mapping was prepared, a Global IPLCs Steering Committee was convened, and a Co-Design Roadmap was agreed and updated by the parties between January and March 2025. This process produced critical support for TFFF and substantive feedback from IPLCs representatives from throughout the world, informing the guiding principles, governance, and proposed funds flows for the IPLC-DFA. This process was built on mutual trust and generated recommendations for the TFFF, beyond the IPLC-DFA.

9.3. Operational Design

The TFFF Eligibility Criteria includes a requirement that TFCs commit to allocating at least 20% of Forest Payments to IPLCs.

9.3.1. Guiding Principles for the Allocation to Indigenous Peoples and Local Communities

The IPLC-DFA is guided by the following principles:

²³ Garnett, S. T., 2018. A spatial overview of the global importance of Indigenous lands for conservation. *Nature Sustainability*, 1(7), 369–374.

²⁴ Worldwide Fund for Nature, 2021. The State of Indigenous Peoples' and Local Communities' Lands and Territories: A technical review of the state of Indigenous Peoples' and Local Communities' lands, their contributions to global biodiversity conservation and ecosystem services, the pressures they face, and recommendations for actions. Gland, Switzerland.

²⁵ Rights and Resources Initiative, 2018. A Global Baseline of Carbon Storage in Collective Lands. Indigenous and Local Community Contributions to Climate Change Mitigation. Washington. D.C.: Rights and Resources Initiative.

²⁶ Rain Forest Foundation Norway, 2021. Falling short: Donor funding for Indigenous Peoples and local communities to secure tenure rights and manage forests in tropical countries (2011–2020). Oslo: Rain Forest Foundation Norway.

²⁷ GATC is a global network of IPLCs organizations, representing 35 million people, living in forest territories across 24 countries, protecting 958 million ha.

- **Direct:** The choice over what is financed, who benefits, and how resources are delivered from the minimum 20% of Forest Payments to be dedicated to IPLCs will be governed by IPLCs through their chosen representatives.
- **Streamlined:** The mechanism will allow for the most efficient and direct flow of funds to IPLCs' front-line stewards and territories/communities.
- **Contextualized:** The mechanism will allow sufficient flexibility to respond to diverse contexts.
- **Tested:** The mechanism will build on successful funds and mechanisms at country and regional levels, as well as global experience, principles, and lessons.
- **Inclusive:** The mechanism will promote inclusivity in the governance and use of funds, through ensuring the participation of women, youth, and IPLCs in diverse biomes.
- **Progressive:** The mechanism will align with current practice in nature finance that supports IPLCs' self-determined development.

9.3.2. Governance and Implementation Arrangements

9.3.2.1. TFFF Charter & Operations Manual

For the DFA, the Facility Charter and the Operations Manual will provide as follows:

Eligibility Criteria:

- **Accession Criteria:**
 - The TFC commits to set aside a minimum of 20% of all Forest Payments received and to deposit these funds into a dedicated national account for IPLCs.
- **Payment Criteria:**
 - One Year Post-Accession to TFFF: Core Requirements
Upon a country's accession to the TFFF, within one year, the following critical requirements must be met:
 - a) National Steering Committee (NSC) for IPLCs has been established and is operating in accordance with the requirements set out in the TFFF Operations Manual.
 - b) A national DFA dedicated account has been opened with governance and signatory delegations as provided for in the TFFF Operations Manual.
 - c) 20% Allocation Transfer: The minimum 20% allocation dedicated to IPLCs must be successfully transferred to the dedicated national DFA account.

Failure to transfer this 20% within the one-year post-accession period will result in the TFC being ineligible for Forest Payments in the subsequent year.

- **Waiver for Structural Establishment:**

For TFCs facing challenges in meeting these initial structural and transfer requirements, a **one-year waiver period** may be requested. This waiver period commences upon receipt of the first Forest Payment, providing additional time to establish the necessary structures and fulfil the 20% allocation transfer.

If, by the end of this extended period (which is **two years Post-Accession to TFFF for TFCs** which requested the waiver), a country has still failed to meet the requirements (i.e., disburse the funds or establish the necessary governance structures), it will face one of two outcomes:

1. **Migration to Global Direct Finance:** The TFC may opt to migrate to the Global Direct Finance Modality of the funds (as further explained, see in “Flow of Funds”).
2. **Suspension of Payments:** 100% of Forest Payment transfers will be suspended in the subsequent funding cycle.
 - › If the TFC and the NSC disagree on a specific transfer, the disagreement will be addressed through the TFFF’s Grievance Redress Mechanism (GRM).

The Operations Manual will provide guidance on the DFA Account process (establishment, payments, signatures, and governance). It will also provide guidance on the use of Annual Operations Plans (AOPs) for the minimum 20% to ensure transparent agreements around the distribution and results of payments. In addition, it will provide guidance on the types of eligible grievances and measures to track, refer, resolve and report grievances associated with the allocation of funds to IPLCs.

9.3.2.2. Governance & Implementation Structures for the DFA

The principles, objectives, roles, and responsibilities required for the governing and implementing structures for the establishment and operation of the DFA will also be set out in the Operations Manual. These governing and implementing structures are summarized below, including:

- **An IPLCs Advisory Council (global level):** The Advisory Council, primarily composed of IPLCs representatives, will advise the Facility Board on IPLCs matters and may be called upon by the Facility Board, as needed, to help ensure that the IPLC-DFAs that TFCs establish conform to the principles and requirements of the Operations Manual and operate in accordance with such principles and requirements. The Facility Board may also call on the IPLCs Advisory Council to advise on grievances related to IPLCs matters that are brought to the TFFF Board’s attention. The IPLCs Advisory Council will advise the Board and the Secretariat on the selection process of the IPLCs Global Executing Agency (GEA).
- **A Global Executing Agency (GEA)** will be selected to establish accounts and transfer the IPLC-DFA to the IPLC-NIAs for either: (i) those countries that opt-in to a direct flow of funds from the GEA to IPLC-NIAs; or (ii) for those TFCs that find the establishment of the national mechanism (account, transfer and IPLC-NSC) challenging to achieve in ways that are aligned with the Facility Charter and Operations Manual and opt to use the GEA instead. The decision to use a national flow of funds mechanism or the GEA will be made in accordance with the procedures set out in the Operations Manual, and in cases where an IPLC-NSC is established, include IPLC participation within this decision-making process. The Terms of Reference for selecting the GEA will be included within the Operations Manual. It will be selected by the Facility Board based on recommendation made by the IPLCs Advisory Council. A competitive process to select the IPLCs GEA will be facilitated by the Secretariat, with the selection committee co-composed primarily of members of the IPLCs Advisory Council and representatives from TFCs who have opted to use the GEA.
- **National Steering Committees (IPLC-NSCs):** Formed in each participating TFCs, the NSC will be an inclusive body of IPLCs representatives responsible for national-level use of the

minimum 20%. The IPLC-NSC will coordinate with the national government and IPLCs constituents, select and supervise the IPLCs National Implementing Agency (IPLC-NIA), approved the annual fund allocation to be made by the IPLC-NIA, and develops strategic plans for institutional strengthening and equitable fund distribution within the country. The Operations Manual will incorporate good practices from the World Bank's Dedicated Grant Mechanism for IPLCs regarding establishing principles and procedures for defining the composition of the NSC. The Operations Manual will also detail the roles and responsibilities and other requirements for NSCs related to representation, conflicts of interest management, rotation, and decision-making.

- **National Implementing Agencies (NIAs):** Selected by their respective IPLCs NSCs, the NIAs will receive, manage and distribute the minimum 20% of funds allocated to each TFC for the DFA in accordance with an Annual Operations Plan (AOP) to be approved by the NSC each year. The NIAs will be charged with re-granting and investing in the funds and programs at a territorial level as established in the AOP. They will also report to the NSC on annual results. Ideally, the NSCs will be existing national territorial funds led by IPLCs. In cases where these do not exist or do not have the fiduciary or legal capacity, regional IPLCs funds or implementing agencies can be used.

9.4. Flow of Funds

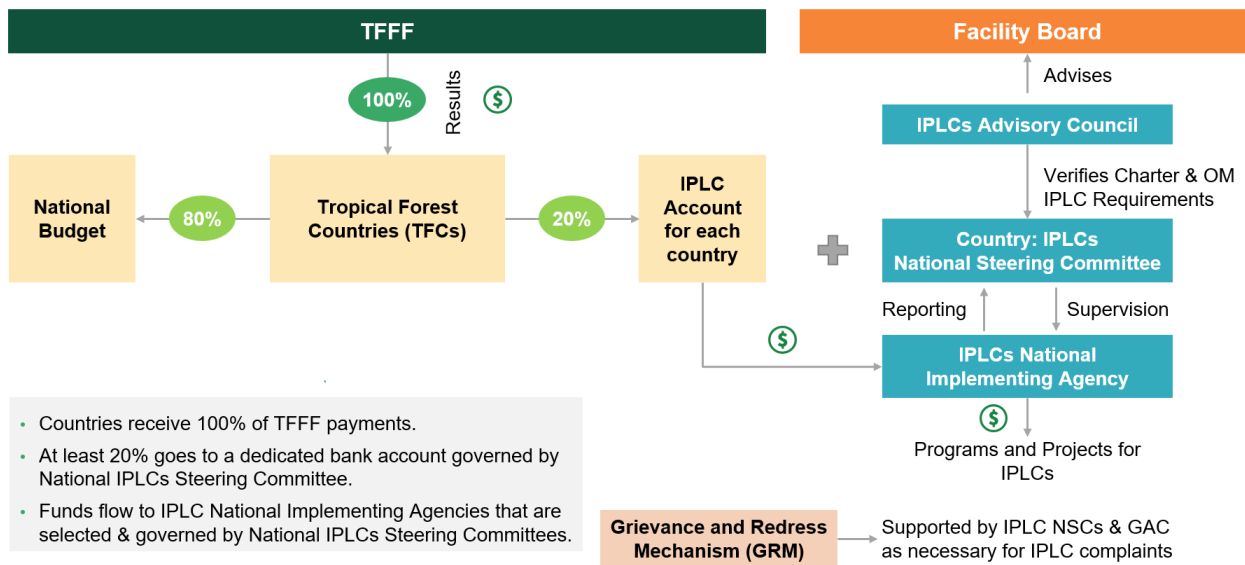
The DFA will be implemented through two distinct modalities: (1) *In-Country Modality*; or (2) *Global Direct Finance Modality*. Both modalities will adhere to the principles outlined above for the DFA, while also ensuring transparency and accountability of the flow of funds. They will aim to make results-based payments to IPLCs as directly as possible, while recognizing the diversity of national contexts and governance structures. For these purposes, direct financing is understood as the transfer of resources without unnecessary intermediaries, using trusted intermediaries selected by IPLCs when needed. The responsibility to verify the proper implementation of the AOP will be borne by the National IPLCs Steering Committees (NSC). Reporting on AOP implementation will be prepared by the National IPLCs implementing agency, verified and approved by the NSC, reports will be made to the Secretariat for transmission to the Facility Board.

9.4.1. In-Country Modality

This primary modality uses a dedicated national bank account, which will be governed by the NSC and managed and implemented by the NIA. Whereas 100% of Forest Payments will flow to the national governments²⁸, the minimum 20% allocation will be immediately deposited into a dedicated bank account for the DFA. The NSC will approve an Annual Operations Plan (AOP) that describes how the funds will be implemented by the NIA through re-granting, technical assistance, or financing for territorial funds, projects, and/or communities.

²⁸ As per the technical note on Use of Payments, TFCs upon joining the TFFF are required to demonstrate that Forest Payments will not replace existing resource allocations. They can do so by reporting on the baseline public spending from the previous year or establishing mechanisms (such as national funds) to insulate the Forest Payments from budget cuts.

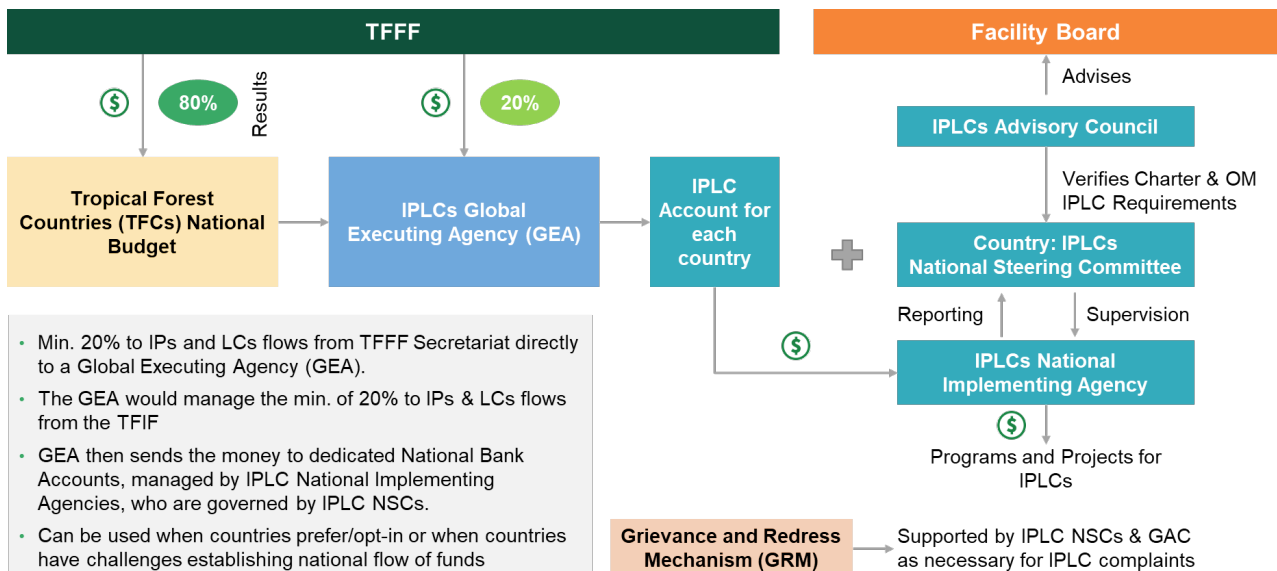
Figure 12: In-Country Modality



9.4.2. Global Direct Finance Modality

This modality can be used either as a proactive choice by TFCs, or as an alternative when a TFC faces challenges to comply with the requirements of the In-Country Modality. Under this approach, the DFA will be disbursed, based on the TFC's instructions, from the TFFF to a dedicated IPLCs account managed by the GEA. The GEA will then transfer the funds to the NIAs in accordance with their AOPs that have been approved by the NSCs. In cases where TFCs face diverse challenges to establish or transfer results-based payments to a designated account for IPLCs, the GEA mechanism can be used to facilitate the flow of funds to IPLCs.

Figure 13: Global Direct Finance Modality



10. TFFF Governance

10.1. The Facility (TFFF) and the Investment Fund (TFIF)

As indicated above, the TFFF will be structured as an umbrella facility composed of two distinct but complementary entities: the Tropical Forest Forever Facility (the "Facility") and the Tropical Forest Investment Fund (the "TFIF"). While united in the purpose of incentivizing the conservation and restoration of tropical forests, they have different legal identities, governance structures, and operational mandates. The Facility and the TFIF will have their own governance structures, set out in their own separate charters, which will be mutually consistent and cross-referenced. The Facility and the TFIF will each have an independent Board of Directors –referred to respectively as the "Facility Board" and the "TFIF Board"–and distinct legal personalities.

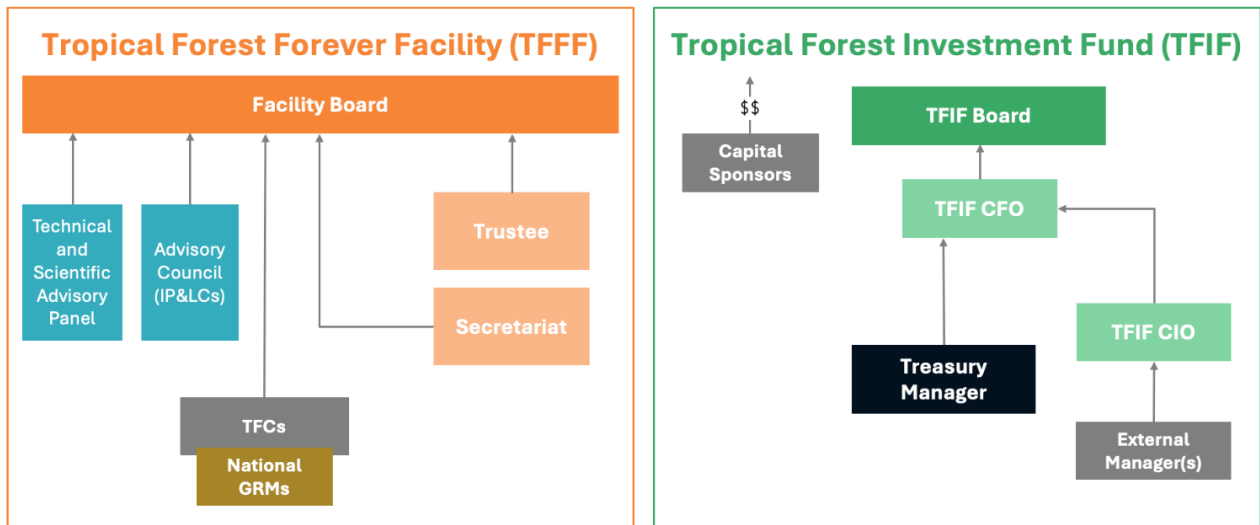
The Facility is expected to be created as a Financial Intermediary Fund (FIF), with the World Bank serving as its Trustee, subject to the approval of the World Bank's Board of Executive Directors. It is also proposed that the World Bank hosts the Facility Secretariat or at least incubate it on an interim basis. Ongoing discussions will determine whether this hosting arrangement should be time-bound or open-ended, with a provision in the Facility Charter requiring the Facility Board to review the arrangement after a defined period, which could be three years. This review will consider *inter alia* cost implications and operational risks related to any future transition. The implications of appointing an interim CEO of the Facility, who would appoint interim staff, are also under review. Regardless of the hosting arrangement, the Secretariat's core functions will be set forth in the Facility Charter and will remain in force unless modified through a formal amendment of the Charter.

The CEO of the Facility–selected by the Facility Board, in consultation with the World Bank as proposed host–will report directly to the Facility Board.

The TFIF will be established from the outset as an independent legal entity, in a jurisdiction yet to be determined. It will be governed by its own Board of Directors, who will select and appoint a Chief Financial Officer (CFO) to manage TFIF operations. The CFO will report directly to the TFIF Board.

The World Bank has been requested to serve as the Treasury Manager of the TFIF. The scope of the Treasury Manager's roles will be developed based on the final financial model adopted for the TFIF, and may include overseeing the TFIF's bond issuance program and liquidity portfolio.. In addition, the TFIF will engage a Chief Investment Officer (CIO) (which could be a leading third-party investment firm), to manage the TFIF's investment portfolio and advise on asset-liability managers. The CIO will also oversee specialized sub-asset managers. The elements of the Facility and the TFIF's respective governance structures are illustrated in Figure 14.

Figure 14: Governance Components of the Facility and the TFIF



The roles and responsibilities of the distinct parts of the TFFF governance structure are set out below.

10.2. The Facility Governance Structure

The Tropical Forest Forever Facility (the Facility) is expected to be established as a Financial Intermediary Fund (FIF), with the World Bank serving as its Trustee. As previously mentioned, it is also proposed that the World Bank will host the Facility Secretariat for an initial incubating period of possibly three years. Following this initial period, a review would be undertaken by the Facility Board, in consultation with the World Bank, to determine whether the World Bank would continue hosting the Facility Secretariat or whether it would transition to an independent entity. Should the Secretariat be relocated, it will be re-established in a form and location to be determined by the Facility Board, again in consultation with the World Bank. The governance structure of the Facility will include:

- A Board of Directors.
- A Technical and Scientific Advisory Panel.
- An IPLCs Advisory Council.
- A Secretariat.
- A Trustee.

10.2.1. Facility Board of Directors

10.2.1.1. Membership

The Board will be comprised of eighteen member countries, equally divided between two groups: nine members from countries providing financial support to the TFFF (hereinafter "Sponsor Countries") and nine members from non-sponsor TFCs who meet the criteria set forth in the Facility Charter (hereinafter "Eligible TFCs").

10.2.1.2. Selection of Members

Representatives of TFCs will be selected by each region of Eligible TFCs. Regional representation, as outlined in the Facility Charter, is proposed to be structured as follows:

- Each of the three tropical regions – Africa, Asia-Pacific and Latin America and the Caribbean – will be allocated three seats on the Board, filled by: one representative from the country with the largest tropical forest area in the region; one representative from the country with the lowest deforestation rate in the region; and one rotating representative. Every three years, tropical forest area and deforestation rates will be recalculated to update the allocation of seats accordingly, ensuring that representation meets the most current data.
- All Sponsor Countries contributing at least USD 1 billion to the TFFF will be granted a seat on the Board, until the total number reaches nine. Once that number is met, representation will be determined as follows, which will be reflected in the Facility Charter:
 - Sponsor Countries contributing more than 11% of the total sponsor tranche²⁹ will be entitled to one designated seat on the Board.³⁰ Countries contributing below this threshold may form constituencies to ensure collective representation. Sponsor capital is defined as the share of contributions through loans, guarantees, or grants within the sponsor capital tranche, excluding any contributions made via senior notes. Every three years, the percentage of Sponsor Countries' contributions relative to the overall sponsor capital will be reviewed, and Board representation will be adjusted as needed.
 - The 11% threshold strikes a balance between proportionality and practicality, ensuring that countries making significant financial contributions have appropriate representation in the Facility Board. This approach provides fairness and predictability, while encouraging robust sponsor engagement.

10.2.1.3. Board Membership and Sponsor Country Capital Repayment.

The TFIF will begin repaying Sponsor Countries' capital in the tenth year of operations, progressively reducing the share of sponsor capital in the TFIF over time. By the end of forty years, it is expected that all Sponsor Country capital will have been fully repaid by the TFIF. At that point, the Facility will undertake a comprehensive review of Sponsor Country participation and voting rights on the Facility Board, to ensure alignment with the evolving financial structure and governance needs of the TFFF.

10.2.1.4. Term

Board members will serve a three-year term and shall be eligible for renomination.

10.2.1.5. Role of the Board of Directors

- The Board of Directors will provide strategic oversight and high-level governance of the Facility, in line with the objectives and provisions of the Facility Charter. Its responsibilities will include, *inter alia*: Maintaining strategic oversight of the Facility to ensure the effective achievement of its goals and objectives, as set out in the Facility Charter.

²⁹ It is important to highlight that the 11% considers both guarantees and loans in equal proportions.

³⁰ Sponsor Countries' contributions would be junior to the interest of bondholders investing in any bonds issued by the TFIF (meaning, generally, that if the TFIF had insufficient resources to pay the interest due to bondholders and Sponsor Countries, it would pay bondholders first).

- Ensuring that the Facility's Eligibility Criteria, policies, and operational strategies, as set out in the Facility Charter, are monitored and evaluated on a regular basis.
- Approving any amendments to the Facility Charter.
- Overseeing revisions and enhancement of the Facility's satellite-based methodology for verifying TFCs' forest performance measurement systems, as science and technology advances, in accordance with the parameters set out in the Facility Charter and with the advice of the Technical and Scientific Advisory Panel.
- Selecting the CEO of the Secretariat, overseeing the Secretariat's work, and assigning specific tasks and responsibilities to the Secretariat, consistent with the role of the Secretariat, as set out in the Facility Charter.
- Approving the release of annual reports on, *inter alia*: (i) Eligible TFCs' forest cover, (ii) the resources allocated to each Eligible TFC by the Facility, and (iii) the programs that each Eligible TFC intends to fund with those resources, as prepared by the Secretariat.
- Approving the Secretariat's calculations of Forest Payment allocations due to Eligible TFCs, following the TFIF's communication to the Board and the Secretariat of the amount of TFIF resources available to make Forest Payments, on an annual basis, and upon the termination of the TFFF. The calculations will be made in accordance with a process to be set out in the Facility Charter³¹. Once approved, the amounts will be relayed to the TFIF Board, which will instruct TFIF's account bank to transfer the necessary funds to the Facility's Trustee (to disburse the Forest Payments to Eligible TFCs).
- Appointing an independent auditor to perform an annual audit of the Facility's operations and reviewing and approving that audit, As needed and in alignment with the World Bank policies applicable to eth Financial Intermediary Funds as applicable.³²
- Reviewing and approving the Secretariat's annual budget.
- Approving the members of the Technical and Scientific Advisory Panel.
- Approving the members of the IPLCs Advisory Council.
- Approving the Facility's communication strategy and branding, and annual report.
- Reviewing, further to the terms of the Facility Charter, the issue of whether the Secretariat should transition out of being hosted by the World Bank and, if necessary, planning for the expected transitioning of the Secretariat out of the World Bank and its establishment elsewhere.

³¹ As discussed in the Finance chapter, it is proposed that, if, in a given year there are insufficient funds to be distributed to the Eligible TFCs at the agreed rate per hectare, the available funds will be divided by the total eligible hectares of standing forests of that year, less penalties, with each TFC receiving an equal rate per hectare (albeit less than the originally agreed amount). It is further proposed that, in subsequent years, after fulfilling the payment obligations to investors and sponsors, and covering the administrative costs of the Facility and TFIF, any additional available funds (provided they do not jeopardize the financial stability of the TFFF) will be used to compensate TFCs for the shortfall in previous years. If, there are surplus funds generated (e.g., the payment for the total number of eligible hectares, less penalties, is lower than the income generated), with no outstanding obligations from previous years to fulfil, the full eligible payment will be made to the TFFF for distribution to the TFCs. The remaining surplus funds will not be disbursed but will instead contribute to building a capital buffer in the fund.

³² The Facility should be audited by an independent auditor. When a fund's secretariat is housed in an MDB, the MDB's audit of its own affairs does not include an audit of the extent to which the secretariat is being conducted, in accordance with the fund's charter. Some funds provide for periodic independent evaluations, rather than annual audits of their operations. The audits referred to in this section should be distinguished from the financial audit that is done of the trust fund account. The Trustee makes the arrangements for an independent audit of the trust fund accounts.

10.2.1.6. Board Committees

The Board may appoint one or more standing committees and/or ad hoc committees to assist it with the discharge of its responsibilities including, but not limited to, an Environment Committee and an Audit Committee, each comprised of Board members with such specific skills and expertise as the Board deems necessary to fulfil the responsibilities of a particular committee.

10.2.2. Co-Chairs

10.2.2.1. Appointment

The Board will appoint two Co-Chairs, one from a Sponsor Country and one from an Eligible TFC, each of whom shall serve for a three-year term.

10.2.2.2. Role and Responsibilities of the Co-Chair

- Chairing meetings of the Board and facilitating Board decision-making.
- Providing leadership to the Board.
- Managing the business of the Board, in collaboration with the Secretariat, through setting the agenda for meetings of the Board, and taking full account of the issues to be discussed.
- Representing the collective interests of the Facility in external settings or with third parties within the governance structure.

10.2.2.3. Voting

Each member of the Board will be entitled to cast one vote. A majority of the members of the Board from Sponsor Countries and a majority of the members of the Board from Eligible TFCs shall constitute a quorum for the meetings of the Board. The following rules will apply. Where there is no Board consensus:

- Decisions on Administrative Matters will be made by a simple majority.
- Decisions on Operational Matters will require a *two-thirds majority of members present and voting*.
- Decisions on Extraordinary Matters will require a two-thirds majority of both Sponsor Country members and Eligible TFC members.
- Decisions on amendments to the Facility's Core Principles will require *consensus of all members of the Board*.

For these purposes, Administrative Matters will include:

- Decisions on the date, timing, and format of meetings.

Operational Matters will include:

- Decisions made in connection with the Board's discharge of its responsibilities listed above (including decisions to amend any Annex to the Facility Charter unless the Annex specifically states otherwise) except for Administrative Matters and Extraordinary Matters.

Extraordinary Matters will include:

- Decisions made to amend the Facility Charter.
- Decisions on the terms of the engagement with the World Bank and location and legal form of the Secretariat.
- Decisions to terminate the Facility, *provided however*, that a decision to terminate the Facility will require a decision by the Facility Board as an Extraordinary Matter and a decision by the TFIF Board as an Extraordinary Matter.

10.2.3. Technical and Scientific Advisory Panel and IPLCs Advisory Council

10.2.3.1. Membership

The Facility's governance structure will include two advisory bodies that are advisory committees of the Board and do not make any decisions for the Board:

- IPLCs Advisory Council: This Advisory Council will consist of approximately ten Indigenous Peoples and Local Communities representatives from participating TFCs. Members will be individuals with recognised expertise in policy dialogue and demonstrated legitimacy among forest-based IPLCs.
- Technical and Scientific Advisory Panel: This Panel will consist of approximately ten individuals with recognised expertise in areas relevant to the TFFF's mission, including forests science, environmental monitoring systems, and other technical or scientific fields directly applicable to the Facility's work.

Membership of the IPLCs Advisory Council and the Technical and Scientific Advisory Panel will be subject to approval by the Board. Sponsor Countries, Eligible TFCs, and civil society organizations may submit to the Secretariat names of potential candidates for either body. The Secretariat will compile and assess these nominations and submit them to the Board for approval, in accordance with a pre-agreed nomination and selection procedure.

10.2.3.2. Term

Council and Panel members shall serve for a three-year term and are eligible for renomination.

10.2.3.3. Role of the IPLCs Advisory Council and Technical and Scientific Advisory Panel

Members of the IPLC Advisory Council and of the Technical and Scientific Advisory Panel will provide advice to the Board on matters arising for Board decisions that fall within their respective areas of expertise. This includes, but is not limited to, matters specifically identified in the Facility Charter for their attention.

Beyond their advisory roles on technical and policy issues—as outlined in the Eligibility Criteria and other provisions of the Facility Governance Charter—both bodies will also contribute to enhancing transparency and stakeholder engagement in TFFF operations. Their participation will help incorporate diverse perspectives, particularly those of IPLCs, and the scientific and technical community, thereby strengthening the Facility's connection with civil society.

The **IPLC Advisory Council** will serve as a sounding board for the Board, fostering dialogue with civil society and offering advice on the TFFF's strategic direction and how best to achieve its goals. The **Technical and Scientific Advisory Panel** will help ensure the technical integrity of the Facility's

review and monitoring processes. It will also function as a platform for knowledge exchange, identifying and advising on emerging issues and technical innovations relevant to the TFFF's operations.

10.2.4. Secretariat

10.2.4.1. Role of the Secretariat

The Secretariat will be accountable to the Board and will be responsible for the day-to-day management of the Facility, including:

- Coordinating Eligible TFCs' submission to the TFFF Board of Declarations of Intent to Participate in the TFFF, and subsequent Instruments of Participation In a form and substance satisfactory to the Board.
- Servicing and preparing proposals for the Board and its committees and setting up the agenda and meetings of the Board and its committees.
- Undertaking all responsibilities assigned to the Secretariat under the Facility Charter in connection with the Board assessing and confirming TFCs' initial eligibility to participate in the Facility, including but not limited, to receiving the following information from TFCs to transmit to the Board: i) TFCs' information concerning public financial management systems, ii) reports from national GRM systems and iii) TLC's choice of methodology to pay the IPLCs portion of their Forest Payments to IPLCs, and iv) TFC's ongoing compliance with the Eligibility Criteria set in the Facility Charter.
- In consultation with the Technical and Scientific Advisory Panel, facilitating the engagement of an ad hoc expert group to be created by the Board specifically to undertake periodic reviews of the TFFF's design criteria, including the technical Eligibility Criteria/parameters (monitoring systems, degraded forests, tiers of deforestation, and ratcheting) and make recommendations to the Facility Board of Directors on any changes required to ensure the TFFF's methodologies incorporate the latest scientific advancements and technological methods and that the Board is kept informed.
- Facilitating the engagement of an independent third party selected by the Board to confirm that the measurement and monitoring system of the Eligible TFCs comply with the methodologies approved as part of the Eligibility Criteria set out in an Annex to the Facility Charter.
- Using a pre-determined, standard formula, which will be included in the TFFF Operations Manual approved by the Board, calculating the annual Forest Payment amount to be submitted to the Facility Board for review and approval. In accordance with the Facility Charter, the amounts will be based on (i) the amount of resources available each year as determined and communicated by the TFIF Board and (ii) the information provided to the Board through the Secretariat by the Eligible TFCs regarding their forest cover (as verified in accordance with the procedures and processes in the Eligibility Criteria set out in the Facility Charter and its annexes), and (iii) the per hectare value of forest cover as determined by the Board. Following the Facility Board's approval of the Forest Payment amounts, the Secretariat will submit the approved amounts, to the TFIF Board for review and final approval of the disbursements.
- Coordinating the engagement of Sponsor Countries, Eligible TFCs, and other stakeholders of the TFFF as guided by the Board.

- Managing the recruitment, onboarding, and rotation process for members of the IPLC Advisory Council and the Technical and Scientific Advisory Panel, and the logistics supporting the Advisory Council and the Panel's roles.
- Coordinating and sharing information with the Trustee, as needed, to facilitate the Trustee and the Secretariat's discharge of their respective responsibilities under the Facility's CEO of the Secretariat.
- Collecting, compiling and preparing annual reports on such matters as conserved forest area, deforestation rates, the amount of funding distributed to Eligible TFCs, and the specific programs each Eligible TFC plans to support using the funds received from the Facility.
- Securing an annual audit of the Facility's operation. if and as needed in alignment with the World Bank Financial Intermediary Fund policies and procedures.
- Preparing for Board approval of an annual budget for the Secretariat's operations and reporting to the Board on Secretariat spending.
- Monitoring and reporting to the Board on the Secretariat's operations and keeping the Board informed of changes and developments.
- Managing the TFFF's communications, outreach, and branding strategy.
- Sharing knowledge and information, including through the preparation and publication of an annual report.
- Participating in international meetings, including the Conferences of Parties (COPs) from the three Rio Conventions (UNFCCC, CBD and UNCCD).
- As part of facilitating TFCs' accession to the TFFF, receive from TFCs information for transmission to the Board on (i) the assessment and confirmation of their respective grievance and redress mechanisms (GRM) by an independent third party that such systems meet the minimum criteria for a GRM set out in the Operations Manual; or (ii) the TFC's Action Plan to establish such a GRM or make required improvements to an existing GRM, for forwarding to the Facility Board. The Secretariat will provide TFCs with a list of Board pre-approved entities to perform such assessments; such list will be compiled by the Secretariat and approved by the Facility Board (with input from the Scientific and Technical Advisory Panel, as needed).
- Receive annual reports from the TFCs summarizing material claims and concerns in regard to the TFFF (as defined in the Operations Manual) brought to their national systems, for forwarding to the Facility Board, provide the Facility Board an annual aggregated summary of such reports, and maintain a publicly accessible registry of such reports.

The Secretariat will be headed by a CEO, selected by the Board (in consultation with the Secretariat host institution and Trustee), further to an open and competitive recruitment process. The CEO will serve a four-year term (renewable once) and will be accountable to the Facility Board for the Secretariat's performance. The CEO will select and supervise the staff of the Secretariat and will coordinate and communicate regularly with the CFO of the TFIF who will be appointed by, and directly responsible to, the TFIF Board. The CEO will be subject to an annual performance evaluation in accordance with an evaluation process to be set out in the terms of the hosting arrangement for the Secretariat and in the TFFF Operations Manual.

10.2.5. Trustee (Expected to be the World Bank)

10.2.5.1. Role of the Trustee

The Trustee will have the following powers and duties:

- Maintain separate records and ledger accounts with respect to the Facility's financial resources in trust and administer such resources in accordance with the purposes of the Facility Charter and as directed by the Facility Board in accordance with the terms of the Facility Charter.
- Transfer Forest Payments to Eligible TFCs based on allocation decisions of the Facility Board.
- Entering into legal agreements with TFCs and Sponsor Countries that make grant contributions into the Facility.
- Make payments from Facility resources to finance the Facility's administrative costs, including Trustee's costs, to the extent provided in the Facility Charter, in accordance with the budget approved by the Facility Board.
- Providing the Facility Board with an annual audited Trustee's financial report of the Facility's financial resources.

10.2.6. Grievance and Redress Mechanisms

Grievance Redress Mechanisms (GRMs), will serve as a recourse for situations where, despite proactive stakeholder engagement, certain stakeholders raise concerns regarding impacts of the Facility's operations, particularly those arising from the TFFF's support to participating TFCs and/or the policies and programs implemented by those TFCs to promote Eligible Forest. The GRMs will help to identify systemic issues, improve environmental and social integrity outcomes, and promote accountability among TFCs participating in the TFFF.

Importantly, the GRMs will not address concerns raised by TFC governments regarding the operation of the TFFF itself, including the allocation of Forest Payments. Such matters should be brought directly to the Facility Board of Directors by the concerned TFC.

Claims that fall within the TFFF's scope and may be addressed through the national GRMs include, but are not limited to: 1) misinformation or inaccuracies on forest cover reporting; 2) failure by a TFC to allocate Forest Payments to the programs it committed to fund; and 3) non-compliance with the requirement to dedicate at least 20% of Forest Payments to the benefit of IPLCs. Claims that would fall outside the scope of the TFFF GRMs include, for example, land rights disputes and political grievances.

In line with the TFFF's core principle of relying on country systems, the primary responsibility for addressing grievances will rest with national GRM systems in participating TFCs. Participation in the TFFF will require TFCs to maintain robust national GRMs as the first and main line of response to grievances. To this end, each TFC must either (i) demonstrate to the Board that it has a national GRM in place that meets minimum standards set by the TFFF or (ii) submit an Action Plan at the time of accession to the TFFF committing to establish a compliant GRM (or strengthen an existing GRM). Access to Forest Payments will be contingent upon the existence and continuous operation of such a national GRM.

The **minimum criteria** for national GRMs to meet TFFF standards will be detailed in the Operations Manual and will include the following elements:

- **Legitimacy** – Transparent and trusted by stakeholders.
- **Accessibility** – Inclusive to diverse stakeholders (in terms of location, digital, oral or written format) language or local dialects, as required for the location and capabilities of the stakeholders to be served.
- **Predictability** – Clear procedures and timelines for receiving, resolving, and/or referring grievances.
- **Equity** – Fair treatment of wronged parties and access to information and resources.
- **Transparency** – Continuous reporting and monitoring.
- **Confidential and Non-Retaliatory** – Protection and confidential treatment to avoid retaliatory treatment of claimants.
- **Continuous Learning** – Allows for ongoing improvements based on feedback.
- **Engagement and Dialogue** – Allows for proactive stakeholder participation and dialogue to prevent grievances.
- **Local Ownership** – Built upon and integrated with the country's government accountability and legal system.

At a TFC's request, the Secretariat may facilitate the engagement of an independent third party to assess the adequacy of its national GRM. A list of pre-qualified, Board-approved party assessors will be made available for that purpose. The TFC will allow access to such third parties as necessary to allow it to carry out its responsibilities.

In addition, the Facility Charter will provide for periodic review of the proper functioning of TFCs' GRM systems to be conducted by an independent third party engaged by the TFC for that purpose. Such periodic reviews will be designed to confirm that:

- Claimants have appropriate channels to raise claims.
- Claims are properly received, recorded, and/or referred.
- Resolutions are developed and formally communicated to claimants.
- Resolutions are implemented.
- Mechanism provides for a right of appeal.

TFCs will bear the costs of establishing and/or adapting their national GRM systems to meet TFFF Eligibility Criteria. TFCs will be required under the Facility Charter to send an annual report to the Secretariat indicating all material concerns and claims concerning the TFFF brought to their national systems, and the way such concerns and claims have been addressed (resolved or referred). The Secretariat will provide the Facility Board with an annual aggregated summary of such reports and maintain a publicly accessible registry of such reports.

At the global level, the Facility's secretariat will include, among its primary functions, the role of developing and disseminating clear and accessible communications and information regarding the TFFF. This will serve to promote an informed global stakeholder base. In addition, the Facility Board may determine that there is need for a global level feedback and redress process. Such

mechanism might be set up by the Facility Board to receive claims brought by external stakeholders alleging harm caused to them by a TFC's unexplained, systematic, summary dismissal of claims concerning the TFFF filed with its national GRM. A global GRM would review such claims and recommend appropriate action to the TFFF Board for decision. Options for establishing such a mechanism include the TFFF Board acquiring legal personality and contracting a third-party service provider to manage the mechanism, or, alternatively, a sponsor country could procure such a third-party service or establish an independent entity responsible for the TFFF global GRM. The World Bank as Trustee or the interim Host of the Secretariat would have no role in the establishment or administration of a global GRM.

10.3. The Tropical Forest Investment Fund (TFIF) Governance Structure

As the central financing mechanism of the TFFF, the essence of the TFIF governance structure is its independence from the Facility. While the integrity and workability of the Facility will be essential to TFIF's ability to attract sponsors and investors, the financial viability of the TFIF depends on its freedom to make market-driven and prudential decisions. For this reason, there needs to be a clear, bright-line distinction between TFIF and the Facility, especially given that the TFIF relies on public bond-market borrowing. Independence of the TFIF is essential to ensure that decisions regarding the TFIF's financial policy – including, but not limited to, capital market access strategy, investment policy, risk management policy, asset allocation, asset selection, and the engagement of third-party service providers (such as asset managers/investment banks, custodians, and paying agents) – will be made exclusively with the aim of optimising risk-adjusted returns and maintaining a strong financial profile for the TFIF.

The TFIF will be established as a market-facing structured investment vehicle and governed by financial regulations appropriate to its capital market's function. Its mandate is to mobilise institutional capital via the issuance of highly rated senior bonds and to generate financial returns through investment in, among other asset classes, emerging market sovereign and quasi-sovereign bonds. These returns will enable results-based Forest Payments to be made to TFCs as directed by the TFFF.

The TFIF will be an independent legal entity set up under the corporate and financial laws of an appropriate jurisdiction. The optimal jurisdiction for establishment of the TFIF is being reviewed in consultation with international legal counsel, having regard to considerations including the following:

- Need for it to be a recognised international financial jurisdiction to give confidence to sponsors, investors and TFCs regarding the specific financial model that the TFIF employs.
- The requirement that the TFIF enjoy:
 - Limited recourse to the assets of the TFIF without any recourse to individual TFIF Sponsors).
 - Favourable tax and regulatory treatment.
 - To the extent possible, the jurisdiction grants the TFIF the benefit of the privileges and immunities accorded to other international organisations, or other entities operating under Headquarters Agreements.

- Flexibility to locate the physical administrative office of TFIF in a different jurisdiction than the one of formal legal incorporation if the circumstances warrant.
- The government of the jurisdiction supports for international sustainability goals of the type represented by the TFFF.

The TFIF will be able to function with a small but expert Board. Sponsor and investor confidence can be assured by the quality and expertise of the TFIF's Board and of its major service providers, including the Treasury Manager, the firm serving as Chief Investment Officer, and the firms serving as Asset Sub-Managers.

Sponsor and investor confidence will be further assured by the engagement by the TFIF Board of a seasoned financial expert to serve as Chief Financial Officer (CFO) who will report directly to the TFIF Board. The CFO will be assisted by a qualified team which can be small in number, given the TFIF's narrow, focused mission.

The TFIF governance structure will include:

- A Board of Directors.
- A Chief Financial Officer.
- A Treasury Manager.
- A Chief Investment Officer and Investment Sub-Managers.

10.3.1. TFIF Board of Directors Membership

The Board of the TFIF will consist of professionals with expertise, training and experience in the management and investment of financial assets and in the mobilisation of capital on global capital markets (such as former managers of large-scale national pension funds, endowments or sovereign wealth funds) and observers from MDBs. The TFIF Board of Directors will be chaired by an elected independent expert. Board membership will not be a full-time position, but Board members will be compensated for their role.³³

It is proposed that Sponsor Countries establish a set of qualifications (Terms of Reference, "ToR") for Board members and appoint an independent selection committee to identify candidates who meet these qualifications. Sovereign Sponsors would nominate and appoint the Board, selecting from the independent committee's recommendations.³⁴

10.3.1.1. Term

Board members shall serve for a three-year term and be eligible for re-nomination once.

10.3.1.2. Role of the Board of Directors

The Board of Directors will be responsible for:

- Maintaining strategic oversight of the TFIF.

³³ Sponsor Countries will set the compensation amount and determine the overall annual budget for this structure.

³⁴ It is proposed to follow the same process for initial Board nominations and subsequent Board nominations. This departs from the IFFim precedent, which has a more informal process for Board renewal.

- Approving and keeping under review the TFIF's financial policies, including but not limited to its funding strategy, investment management policy, liquidity policy, asset-liability management policy, capital adequacy policy and risk management policy, and any amendments proposed to such strategies and policies, and the standards and procedures of the TFIF.
- Approving any major shifts in the TFIF's funding or investment strategy, including changes to the overall capital mobilisation approach, asset allocation priorities, or market engagement tactics, upon recommendation by the CFO and in consultation with the Treasury Manager and CIO.
- Selecting, appointing and overseeing the work of the Chief Financial Officer who will manage the TFIF on a day-to-day basis in accordance with the TFIF's Charter and be directly accountable to the Board.
- Approving the engagement of the Treasury Manager, overseeing its activities, and approving any material amendments to the Treasury Management Agreement pursuant to which the Treasury Manager will be engaged.
- Monitoring and evaluating the performance of the Treasury Manager, including periodic review of its execution of the Treasury Management Agreement and delivery on key performance indicators, with particular attention to compliance, liquidity management effectiveness, and service quality.
- Approving the engagement of the third-party Chief Investment Officer (CIO) firm, overseeing its activities, and approving any material amendments to the Investment Management Agreement pursuant to which the CIO will be engaged.
- Transfers of investment income from the TFIF to the Facility will be subject to predefined gearing ratios and capital adequacy thresholds. Distributions will only be made upon the recommendation of the CFO and approval of the TFIF Board. The CFO may unilaterally recommend a freeze on transfers in case of financial stress or rating risks.
- Overseeing the CIO's selection and appointment of asset sub-managers, who will keep the Board apprised of such selections and appointments, including with respect to the terms and conditions of asset managers' engagement and any subsequent terminations. Such terms and conditions will establish clear performance criteria to guide the asset sub-managers, whose performance will be closely monitored and evaluated by the CIO and the CFO.
- Providing instructions to the Treasury Manager based on its agreed role. This could include disbursing payments due from the TFIF to third parties, including TFIF bondholders and Sponsor Countries, compensation for the Treasury Manager, the CIO and other major service providers to the TFIF, as well as payments to cover its administrative costs and transfer of funds to the Trustee of the Facility for payment of annual Forest Payments approved by the Facility Board.
- Appointing an auditor to perform an annual audit of the TFIF and reviewing and approving such audit.
- Reviewing and approving the TFIF's annual report and financial statements.
- Reviewing and approving the TFIF's annual administrative budget.
- Approving the TFIF's communication strategy, branding, and annual report.

- Reviewing an annual statement of investment performance expectations and an annual assessment of actual performance prepared by the CFO in consultation with the Treasury Manager and CIO.
- Defining and approving professional and ethical standards for the TFIF.
- Approving any amendments to the TFIF Charter and communicating any relevant amendments or other developments to the Board of the Facility, as appropriate.
- Ongoing engagement with the TFFF Board.

10.3.1.3. Board Committees

The Board may appoint one or more standing committees and/or *ad hoc* committees to assist it with the discharge of its responsibilities. These may include, but are not limited to, an Audit Committee and Risk Management Committee, comprised of Board members with such specific skills and expertise as the Board deems necessary to fulfil the responsibilities of a particular committee, taking into consideration the total annual budget allocated for the Board.

10.3.1.4. Chair

The Board will appoint a Chair who shall serve for a three-year term, renewable once.

10.3.1.5. Role and Responsibilities of the Chair

- Chairing meetings of the Board and facilitating Board decision-making.
- Providing leadership to the Board.
- Managing the business of the Board through setting the agenda for meetings of the Board and taking full account of the issues to be discussed.
- Representing the TFIF in external settings or with third parties within the governance structure. If there is any external formality requiring the imprimatur or presence of a "Chief Executive Officer" or "Managing Director," the Chair will appear on behalf of the TFIF.

10.3.1.6. Voting

Each member of the Board will be entitled to cast one vote. A majority of the members of the Board will constitute a quorum for the meetings of the Board.

Decisions will be taken by four out of seven votes, except for Extraordinary Matters, which will require the approval of at least six out of seven votes.

Extraordinary matters shall include:

- A decision to amend any provision of the TFIF's Charter.
- A decision on the location or legal form of the TFIF.
- A decision to terminate the TFIF, *provided, however*, that a decision to terminate the TFFF will also require a decision as an Extraordinary Matter by the Facility Board.

10.3.2. Chief Financial Officer

10.3.2.1. Appointment

The TFIF Board will appoint a Chief Financial Officer (CFO), who will be a full-time senior finance professional with skills and experience in investment management and capital markets, as detailed in terms of reference to be approved by the Board, to manage the day-to-day operations of the TFIF and report directly to the Board. The CFO will not serve as, or duplicate any of the responsibilities of, the Treasury Manager, Chief Investment Officer (which will be a firm), or asset sub-managers (which will also be firms).

10.3.2.2. Roles and Responsibilities of the CFO

The CFO will be accountable to the Board and will perform the following functions subject to oversight from the Board as appropriate:

- Manage the overall day-to-day operations of the TFIF.
- Prepare the annual administrative budget of the TFIF for approval of the Board.
- Select and supervise the TFIF staff.
- Locate and contract appropriate and secure office facilities.
- Ensure TFIF compliance with all applicable laws and regulations (in consultation with TFIF external counsel).
- Prepare proposals for the TFIF Board and its committees and set up their agenda and meetings.
- Collaborate and coordinate with the CEO of the TFFF on the engagement of Sponsor Countries and other stakeholders of the TFFF, including potential additional sponsors.
- Administer on behalf of the TFIF the Treasury Management Agreement with the Treasury Manager and the Investment Management Agreement with the Chief Investment Officer, and recommend any required changes.
- Review recommendations of the CIO for appointment of investment sub-managers.
- In coordination with the Treasury Manager and CIO, lead and manage credit ratings relationship and interactions with rating agencies.
- Approve all major funding and investment transactions.
- In consultation with the Treasury Manager, the CIO, and any committee of the Board, as appropriate, prepare for the approval of the Board the following policies of the TFIF:
 - Investment Management Policy
 - Funding Strategy
 - Liquidity Policy
 - Asset-Liability Management Policy
 - Risk Management Policy
 - *Capital Adequacy Policy*

Following their approval by the Board, ensure their effective implementation across TFIF operations, in coordination with the Treasury Manager, CIO, and other relevant parties, and monitor their ongoing application to maintain alignment with the Fund's financial objectives and risk parameters.

- Monitor and report on the performance and compensation of the Treasury Manager, the CIO, and the Asset Sub-Managers.
- Prepare monthly reports of income (actual and forecast) of the TFIF.
- Secure annual accounting and auditing services, to conduct an annual audit of the TFIF.
- Prepare the TFIF's annual report.
- In coordination with the CEO of the Facility, manage the TFIF's general communications, and outreach.
- The Chief Financial Officer (CFO) will have comprehensive authority over all financial policies and capital markets operations of the TFIF. This includes authority to:
 - Design and implement capital adequacy, liquidity, ALM, and risk management policies.
 - Approve all funding and investment transactions.
 - Set the EM bond and liquidity portfolio strategy.
 - Recommend or freeze distributions to the TFFF based on capital tests.
 - Unilaterally trigger capital or liquidity reviews.
 - Lead credit ratings relationships and represent the TFIF in financial audits.

10.3.3. Treasury Manager

10.3.3.1. Appointment

The Treasury Manager will be appointed by the Board and will serve under a Treasury Management Agreement approved by the Board.

10.3.3.2. Roles and Responsibilities of the Treasury Manager

The roles and responsibilities of the Treasury Manager will ultimately depend on the final financial model adopted for the TFIF, and may include:

- In consultation with the Chief Financial Officer, preparing for the approval of the Board a proposed Funding Strategy and Liquidity Policy for the TFIF.
- In accordance with the Funding Strategy, manage all aspects of the TFIF bond issuance program, including, but not limited to, negotiating all necessary agreements, coordinating with the arrangers of such issues, and securing all regulatory approvals required, as well as entering into any required consequential hedging transactions (including swaps).
- In accordance with the Liquidity Policy, managing the liquidity investment portfolio of the TFIF comprising: 1) cash awaiting disbursement by the TFIF; 2) liquidity for future debt service; 3) liquidity for collateral posting; and 4) liquidity for prudential reserve.
- Ensure regular communication with investors in TFIF bonds and managing investor outreach and the marketing of TFIF bonds.

- Providing cash-flow and liquidity reports to the CFO as required.

Additional responsibilities:

- Execute hedging transactions related to asset-liability management (ALM), including swaps and other instruments, as instructed by the CFO and in accordance with the approved Asset-Liability Management Policy.
- Provide technical support to the CFO in the management of TFIF's credit rating relationships, including preparation of materials, data, and analysis for rating agencies.
- Offer advisory input to the CFO on liquidity investment opportunities and funding-related matters as needed, to ensure consistency with TFIF's financial objectives and risk framework.

10.3.4. Chief Investment Officer

10.3.4.1. Appointment

The Chief Investment Officer (CIO) will be a recognised, expert third-party investment management firm (with demonstrated experience in managing substantial emerging market (EM) bond portfolios) appointed by the Board and will serve under an Investment Management Agreement approved by the Board.

10.3.4.2. Roles and Responsibilities of the Chief Investment Officer

The roles and responsibilities of the Chief Investment Officer will include:

- In consultation with the CFO and the Board, preparing the Investment Management Policy for the TFIF's EM bond portfolio. This includes, but is not limited to, optimising asset allocation (by geography, credit, currency, duration, issuer, sector) to maximise income at an acceptable ongoing risk level (in accordance with TFIF's Risk Management Policy), mitigating currency and interest rate risks, and ensuring sustainable withdrawal levels for transfer to the TFFF to fund TFFF Board-approved Forest Payments to Eligible TFCs.
- In consultation with the CFO, selecting asset sub-managers for the investment portfolio and overseeing their ongoing delivery on their mandates and their overall performance.
- Asset Sub-Managers will be responsible for executing investment mandates within the TFIF's Emerging Market bond portfolio, consistent with the strategies and guidelines established by the CIO. Where applicable, they may also incorporate asset-liability management considerations into their portfolio design. They will report regularly to the CIO on portfolio performance, risk exposures, and relevant analytics, enabling ongoing oversight and strategic adjustments as needed.
- In consultation with the CFO, take appropriate action if asset sub-managers fail to meet performance expectations or criteria to be outlined in the Investment Management Agreements to be entered into between the TFIF and the asset sub-managers. Such actions may include recommending to the TFIF Board that the services of an asset sub-manager be discontinued.
- Undertaking an annual assessment of the performance of the TFIF investment portfolio and communicating to the CFO and the Board relevant developments in a timely manner, as appropriate.

- Preparing an annual forecast of investment performance expectations for the investment portfolio for communication to the CFO and the Board.
- In consultation with the CFO and Treasury Manager, preparing an Asset-Liability Management Policy for approval by the Board, and monitoring its implementation on an ongoing basis, including making recommendations to the CFO of appropriate transactions as necessary to assure sound asset-liability management.

11. Theory of Change: How will TFFF Drive Tropical Forest Conservation?

11.1. Create a Sufficient Incentive to Shift Political Economy Towards Forests

TFFF's direct objective is to provide a clear and transparent results-based payment structure that rewards countries for successful conservation of natural forests within their jurisdictions.

TFCs face trade-offs when protecting and restoring their forests because cleared forest land can be "repurposed" for agriculture, mining or other uses that produce an income at market value.³⁵ Much of the over-exploitation of forests is either illegal or driven by perverse incentives, such as fiscal incentives, subsidies and other policies that fail to account for the full natural wealth of forests and the benefits of their ecosystem services. These services, such as climate stability, water regulation, CO2 sequestration and biodiversity support - benefit not just local populations but also extend globally, making them vital global public goods.

Experience shows that economic incentives for forest conservation and forest restoration can be successful in reverting forest loss. Successful payment for ecosystem services (PES) systems and ecological fiscal transfers show that stakeholders (including small and large landholders and local governments) react to incentives if they are perceived as sufficient when compared to business-as-usual land use practices.³⁶

Examples from Brazil and elsewhere demonstrate that public opinion can drive politics on forests. Both elements together could trigger the policy changes that are necessary to tackle illegality, reduce rent-seeking, improve governance and shift incentives towards forest protection. Moreover, law enforcement activities can be efficient in the short-term to reduce deforestation; however, once positive results are achieved, they need to be accompanied by long-term positive incentives to be sustainable, as local stakeholders' support to forest conservation is critical, and it requires these actors to perceive conservation as in their self-interest. This cascade from incentives and public pressure to change policy is expected to catalyse a shift in economic development pathways away from deforestation-intensive practices.

³⁵ Seymour and Busch, *Why Forests? Why Now?*

³⁶ Several cases pointing to this conclusion was analysed in the Payment for Ecosystem Services paper prepared by for the G20 Environment and Climate Sustainability Working Group deliberations by eth Brazilian G20 presidency. Brazil. Ministry of Environment and Climate Change. Environment and climate sustainability: technical papers on adaptation finance, oceans, payment for ecosystem services and waste and circular economy - Brasília: MMA, 2024.

Box 4: Why Pay for Results?³⁷ The Development Case

A results-based payment system works optimally in the case where there are multiple different routes by which an outcome can be achieved. In this context, the jurisdiction for the policy decisions made by any individual country remains with the Government of that TFC. The TFFF aims to reward the outcome, while ensuring that certain safeguards are in place for TFCs. These include establishing minimum allocations to key stakeholders and maintaining transparency regarding the overall policy and investment programs.

One of the key powers of the TFFF is the ability to inform and influence TFCs' decision-making both through its allocation from the Facility, but also through what the TFC foregoes because of its continued deforestation (discounts). This is not only a very visible metric for Governments but also informs the citizens of a country about the capital they have lost – linking foregone national income to deforestation that is less often perceived as valuable natural capital.

Importantly, the TFFF will not impact existing international mechanisms including REDD+, bilateral aid or zero-net deforestation commodity commitments. These mechanisms – which currently only provide a fraction of the global environmental value provided by TFCs to the rest of the world – will continue and will play a significant role in providing the upfront investments required to achieve results unlocking access to the TFFF.

11.2. A Permanent Funding Vehicle

While the drivers of deforestation are different in every country, in all cases reversal and maintenance will require long-term policy choices. These can only be made by the visibility of long-term, predictable financing.

The TFFF is unique in representing a permanent financing vehicle that is transparent to TFCs both in terms of its scale and its value. As set out above – Governments and their citizens will have clear transparency on what a country will receive and what has been foregone due to continued deforestation. This augments and complements current programs of REDD+ and the voluntary carbon markets, which are designed to drive immediate impact in the short and medium terms, while the TFFF adds a long-term perspective and visibility to support sustained outcomes.

11.3. At a Scale to Make a Clear Impact

There have been multiple attempts to estimate the funding required to reorient economies in TFCs to exclude deforestation, ranging from USD 500 billion to USD 750 billion per annum. The majority of these sums will need to flow from private finance. However, private finance will only flow if the investment climate is conducive and is backed up with effective monitoring and enforcement mechanisms to maintain the new policy/regulatory environment. It is this catalytic capital that enables implementation of such reforms that the various programs of REDD+ and TFFF are seeking to provide.

³⁷ de Nevers, Lay, Wolosin, and Bliss-Guest, Creating a Multilateral Wealth Fund for a Global Public Good: A Proposal for a Tropical Forest Finance Facility, CGD 2018.

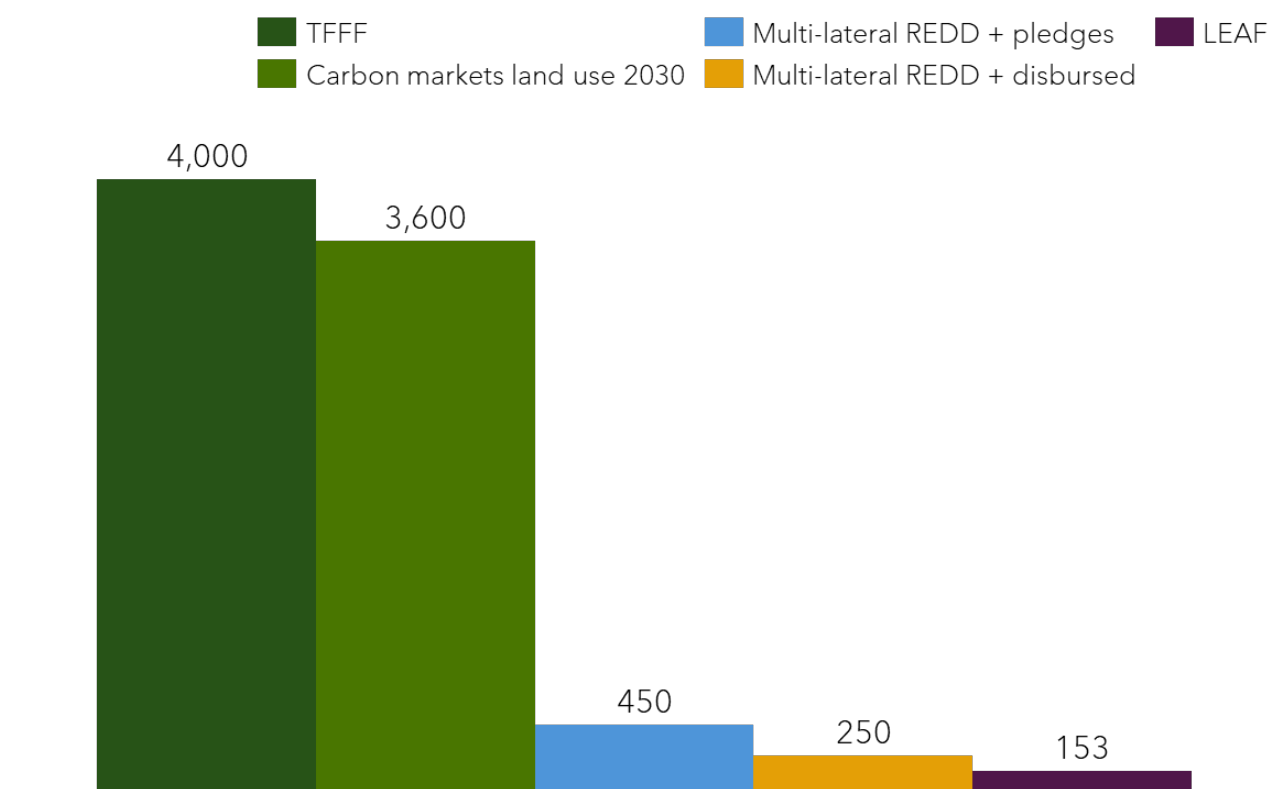
Table 7: Summary of financing needs identified in the literature

Source	Focus	Identified annual finance needs (USD billion/year)	
		by 2030	by 2050
World Bank	Climate change mitigation, biodiversity conservation and land restoration targets	N/A	536
UNEP	NbS	542	740
Climate Policy Initiative	AFOLU	423	N/A
2023 Forest Declaration Assessment	Reduce deforestation and implement restoration and sustainable forest management at scale	N/A	460

Available sources of funding are not close to addressing this gap, and as can be seen in Figure 15, the TFFF will represent a significant source of finance for forests compared to multilateral REDD+ pledges and disbursements, as well as the Lowering Emissions by Accelerating Forest Finance (LEAF) Coalition. It could even generate higher annual financial flows than those expected from the carbon markets by 2030.

Figure 15: Potential significance of TFFF relative to other sources of finance for forests

Potential significance of TFFF relative to other sources of finance



Source: World Bank estimate

Box 5: TFFF and Existing Forest Funding Mechanisms: The current and potential significance of REDD+ and carbon markets

To date, REDD+ (both readiness activities and results-based payments) has been financed mostly through multilateral funds including the Forest Carbon Partnership Facility (FCPF), the Forest Investment Program (FIP), the Amazon Fund, the Central African Forest Initiative (CAFI), the Green Climate Fund (GCF), the UN-REDD Program, the BioCarbon Fund and the Congo Basin Forest Fund (CBFF). It has been estimated that the multilateral REDD+ funds have pledged USD 6.4 billion (i.e., USD 400 million per year on average) for REDD+ activities since 2008, of which USD 4 billion (USD 250 million per year on average) have been approved for dedicated REDD+ activities up to February 2024³⁸. In addition, the LEAF Coalition - a pool of buyers of jurisdictional-scale credits which intends to enable countries to access carbon finance and bring jurisdictional-scale REDD+ credits to markets - has gathered a total amount of financial commitments for the purchase of high-integrity emissions reductions credits of over USD 1.5 billion (which, to allow for comparisons of annual data from other sources, may be considered equivalent to USD 150 million per year, given that LEAF was launched in 2021 and that its objective is to halt tropical deforestation by 2030)³⁹.

Regarding results-based payments specifically, the GCF's pilot program made payments to eight countries for a total of USD 497 million from 2019 to 2020⁴⁰ (USD 248.5 million per year on average) while the FCPF Carbon Fund has paid USD 164.5 million to eight jurisdictional emission reductions programs to date⁴¹, (an annual average of USD 54.8 million, considering that the first payment was made in 2022) both totalling USD 661.5 million.

Carbon markets have recently experienced a surge, fuelled by net-zero and carbon neutrality pledges by companies, as well as by the inclusion of market instruments in the Paris Agreement through Articles 6.2 and 6.4. However, to date most of the financing for the forest sector from this source has been channelled through projects carried out in the context of the voluntary carbon market (VCM). In 2023, the market value of nature-based carbon credits in the VCM reached USD 381.5 million per year, down from the USD 1.2 billion reached in 2022 (and to the historical maximum of USD 2.1 billion registered in 2021) due to quality issues associated with REDD+ projects. The cumulative value of the VCM since around 2005 has been estimated to be close to USD 10.8 billion.⁴² Jurisdictional REDD+ program transactions in the voluntary market have so far been limited to Guyana's contract with oil developer Hess for USD 750

³⁸ Climate Funds Update. Climate Finance Thematic Briefing: REDD+ finance. Charlene Watson, ODI, Liane Schalatek, hbs, and Aurélien Evéquo. Heinrich Böll Stiftung, ODI. 2024. Available at: <https://us.boell.org/sites/default/files/2024-03/cff5-2024-eng-redd-digital.pdf>.

³⁹ Leaf Coalition Commitments top \$1.5 billion at COP27. Emergent blogpost. Available at: [LEAF Coalition Commitments top \\$1.5 billion at COP27 - Emergent](#).

⁴⁰ Climate Funds Update. Climate Finance Thematic Briefing: REDD+ finance. Charlene Watson, ODI, Liane Schalatek, hbs, and Aurélien Evéquo. Heinrich Böll Stiftung, ODI. 2024. Available at: <https://us.boell.org/sites/default/files/2024-03/cff5-2024-eng-redd-digital.pdf>.

⁴¹ Forest Carbon Partnership Facility Annual Report 2024. Available at: [fcpf fy24 annual report for web.pdf](#).

⁴² Forest Trends' Ecosystem Marketplace. 2024. State of the Voluntary Carbon Market 2024. Available at: [State of the Voluntary Carbon Markets 20240529 1.pdf](#).

Box 5: TFFF and Existing Forest Funding Mechanisms: The current and potential significance of REDD+ and carbon markets

million between 2022 and 2032⁴³, of which USD 75 million were paid in early 2023 and an additional USD 75 million were expected to be transferred later in 2023.⁴⁴

Nevertheless, according to some projections⁴⁵, carbon markets (voluntary and regulated) could reach 728 million tCO₂ per year by 2030 equally split between the VCM and compliance markets, which could represent around USD 7.3 billion per year under a low demand, loose supply scenario (i.e., the most conservative scenario) in that year. If these projections become reality, the carbon market could become a significant source of finance, including for forestry and land use projects, which have historically led voluntary carbon market transactions (in 2023 they represented around 53% of the market value⁴⁶ despite the reduced demand due to, among other factors, the credibility crisis of REDD+ projects).

11.4. Enhance Cross-Government Collaboration on Fiscal and Governance Aspects of Forest Conservation

By enhancing interaction between Ministries of Finance, Environment, and other line ministries – the TFFF could drive collaboration on forest governance, tenure and law enforcement, but also on fiscal issues, taxes, fees and subsidies that today impact negatively on forests. Fiscal policy reforms have the potential to reduce deforestation through lasting structural changes in countries with low levels of economic development, weak institutional arrangement, and agricultural sector focus. The large-scale facility is expected to be a sufficient incentive to tackle policy and governance policy reforms, including reforms addressing illegal trade and organised crime.

For example, since the introduction of ecological fiscal transfers (EFTs) for forests in 2014, net loss of very dense or moderately dense forest cover in India is reported to have decreased by 51%⁴⁷. Finance ministries could boost the use of fiscal tools and instruments such as Intergovernmental Fiscal Transfers (IFTs), taxes, and budget allocations to include the elements of forest and biodiversity conservation to generate TFFF payments. This new source of incentive would also boost interest of political leaders to explore and utilize a broad range of domestic and international tools for conservation and for stronger resource governance.

11.5. Make Communicating the Deforestation Rate a Major Global Event

In Brazil, the annual communications of deforestation rates are important news events, which are widely broadcast, reported on and discussed in public media and in politics. In fact, it was public

⁴³ REDD+ carbon credits. IPECA blogpost. Available at: <https://www.ipieca.org/impact/action/redd-carbon-credits>.

⁴⁴ Government of Guyana. First Payment from Hess Corporation for Guyana-Issued Carbon Credits. 2023. Available at: [Guyana- Receives-First-Payments-Under-World-Leading-Carbon-Credit-Sales-Agreement.pdf](https://www.guyana.gov.gy/news/2023/01/20/guyana-receives-first-payments-under-world-leading-carbon-credit-sales-agreement).

⁴⁵ Trove Research, MSCI. 2024. Presentation Carbon Markets – Focus on Demand. World Bank.

⁴⁶ Forest Trends' Ecosystem Marketplace. 2024. State of the Voluntary Carbon Market 2024. Available at: [State of the Voluntary Carbon Markets 20240529.1.pdf](https://www.ecosystemmarketplace.com/reports/state-of-the-voluntary-carbon-market-2024/).

⁴⁷ Busch J, Mukherjee A. Encouraging State Governments to protect and restore forests using ecological fiscal transfers: India's tax revenue distribution reform. Conservation Letters. 2018. Available at: <https://onlinelibrary.wiley.com/doi/full/10.1111/conl.12416>

pressure that was responsible for giving the Brazilian Government the comfort that policy changes and other measures to curb deforestation will be backed by the population at large. This example supports the theory that an annual communication of deforestation rates needs to be made a public global event. It can ensure inclusion and participation of Civil Society Organizations (CSOs), public, and media to create necessary public pressure for the TFCs as well as the TFFF itself. Linking national deforestation rates directly to the awarding (or failure to earn) of significant funds would increase the power and relevance of such regular communication of those deforestation rates. Transparent and accountable ways to measure and communicate this data will be key to build trust in the facility and within the tropical forest countries, making the TFFF's annual forest cover communications an opportunity for public motivation.

These global events would also potentially offer a platform for participating countries to share their good practices and discuss technical challenges, encouraging regional and international partnership. It would create a window for the TFCs to seek technical assistance from development banks, to leverage private finance, and, to improve their performance in sustainable management of forests.

12. Risks and Risk Mitigation

12.1. Risks and Mitigation Actions

This section identifies risks and mitigation actions pertaining to the distinct aspects of the TFFF structure. The TFFF governance structure will be designed to manage ongoing risks that will inevitably arise once TFFF implementation starts. Some of the key risks are summarised below.

12.1.1. Facility-related financial risks, including:

Table 8: Financial risks

Failure to raise sufficient funds: The TFFF model requires scale to be able to pay TFCs enough to protect the forest	The TFFF, through the TFIF, can achieve its objectives with sponsor capital of USD25 billion. It is possible that the TFIF can execute a first close followed by a second close to complete the junior capital tranche, but first close investors will need comfort that their initial contributions will indeed be followed. A detailed capitalisation strategy has been developed by the Government of Brazil in dialogue with other actors, including a strong focus on engagement of additional non-traditional sovereign sponsors.
Financial returns below expectations	The TFIF will invest in a portfolio of long-dated fixed income assets which will have a defined yield, giving visibility to the anticipated annual cashflow. However, the model is vulnerable to market changes in the valuation of its asset portfolio. This will be mitigated by hedging the underlying interest rate risk of the portfolio, from the deleveraging nature of the structure (investment cashflows exceed payouts) and the presence of the junior capital tranche. If the gearing (senior liabilities / assets) exceeds key thresholds (e.g. 85%), the payouts from the TFIF will start to be curtailed until the market normalises. This should only occur in the case of a structural widening of all credit spreads due to a global liquidity event. Such events do occur, but are temporary, with a

	normalization resulting in a natural increase in asset values which will reduce the liability / asset ratio. TFIF's investment portfolio will be highly diversified to cushion the inevitable changes in credit quality of the underlying asset, that can be expected to occur within a BB+ portfolio of investments over time.
Challenge to roll-over TFIF debt	This is mitigated by the targeted high rating for the TFIF senior notes, but in the event of market stress, it can be expected that TFIF would face liquidity pressure. This is mitigated by maintaining a sufficient buffer of liquid assets (~10%) to ensure that, at a minimum, the TFIF always has sufficient liquid cash to meet all payments due for at least 12 months. Furthermore, TFIF will always have the option to sell assets to deleverage the structure. To ensure that debt roll-overs are reduced in the early years, TFIF will seek to focus debt issuance on bonds with an average life longer than that traditionally seen of multilateral organizations (e.g. 5+ years).
Temporary constraint on EMDE investments	If there is a temporary global or regional financial market disruption that disproportionately significantly constrains the range of new instruments in EMDE, the TFIF will be permitted to temporarily re-allocate some investment funds to debt instruments from developed countries until the temporary constraints in EMDE have eased.

12.1.2. Technical risks, including:

Table 9: Technical risks

Inaccurate data: No data systems are 100% accurate, and there have been extensive differences between existing global satellite-based deforestation products and national forest monitoring systems.	The TFFF will establish a set of minimum requirements for the global and national proposed monitoring systems. The use of third-party monitoring systems will be accepted for TFCs whose national system does not meet the TFFF's minimum required standards, if it meets the forest monitoring systems requirements established in the Operations Manual.
Forest Monitoring provided by TFCs is contested by stakeholders	The incompleteness risk triggers, and the grievance and redress mechanisms (GRMs) provided for in the Facility Charter and the Operations Manual provide an avenue for stakeholders to verifying and/or contesting data provided by TFCs, such as data on forest cover and deforestation rates.

12.1.3. Reputational and capture risks, including:

Table 10: Reputational and capture risks

Internal and External Stakeholder Risks: TFFF will be successful if it is perceived as complementary and its objectives are perceived as fair and provides a shared vision with	The Facility will need to keep all communication channels open and constantly be prepared to receive and entertain comments and inputs from outside parties, and to contribute to the success of others and act transparently. The TFFF will need to make information public – both
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other programs and national and international initiatives.	during preparation and implementation phases. Dialogue with different stakeholders has been prioritised as part of the TFFF design.
Fiscal responsibility: If the TFFF is successful, substantial amounts of resources will be made available to Eligible TFCs. This may put national treasuries under pressure, particularly in smaller economy countries.	The TFFF requires TFCs to demonstrate adequate PFM systems before joining the TFFF. This ensures that Forest Payments are managed transparently and aligned with national systems without creating parallel budgeting burdens. In cases where PFM systems are not yet adequate, countries will designate alternative financial managers, reducing strain on national treasury capacity and ensuring sound fund allocation.
Relationship with REDD+: There may be perception of overlap between REDD+ and TFFF	This Concept Note clarifies the relationship between the TFFF and REDD+ in detail (see Annex 1). The Secretariat will continue communicating this to all stakeholders.

12.2. Comprehensive Review Post-Commencement of Operations

Three years after its commencement of operations, the TFFF will undertake a comprehensive review of its operations, including, but not limited to, its Eligibility Criteria and its risk management and mitigation, following which it will make such updates, as are indicated in the review.

13. TFFF Operationalization Pathway

13.1. TFFF Design to Date

13.1.1. Engagement with the World Bank

In May, the Ministry of Finance of Brazil initiated a formal engagement with the World Bank by sending an introductory letter to begin discussions on the potential hosting of the Secretariat, as well as on the possibility of the World Bank serving as Trustee of the Facility, and as Treasury Manager of the TFIF. Since then, multiple departments within the World Bank have engaged in the process to thoroughly assess and understand the TFFF proposal. Subsequently, a letter of support was received in July 2025 from 18 World Bank Executive Directors endorsing the submission of the TFFF proposal to the Board in October 2025..

13.1.2. Technical Deliberations

The Government of Brazil introduced the TFFF concept at UNFCCC COP 28 in Dubai, building on preliminary work by the World Bank and the Centre for Global Development (CGD). The TFFF Concept Note 1.0 was shared with partner countries in July 2024 for further dialogue and refinement. These partner countries included five Sponsor Countries (France, Germany, Norway, UAE and UK) and five TFCs: Colombia, Democratic Republic of Congo, Ghana, Indonesia, and Malaysia. Together, they formed the Interim Steering Committee.

Conceptual discussions were expanded at events such as the G20 Ministers of Finance and Central Bank Governors meeting held in Rio de Janeiro in July 2024. Following the establishment of the TFFF Interim Secretariat, a dedicated technical workshop was convened in Rio in September 2024.

Subsequently, three taskforces—Finance, Eligibility and Monitoring Criteria, and Governance—were established to collaboratively refine the TFFF concept. The Brazilian Government representatives, the Interim Steering Committee country members and consultants engaged regularly through virtual technical meetings. The Secretariat developed a TFFF Roadmap to UNFCCC COP30, outlining the sequence of milestones and deliverables needed to translate the concept into an operational facility by the time of the Brazil-hosted UNFCCC COP.

A pivotal technical workshop focused on Monitoring and Environmental Eligibility took place in Nairobi, Kenya, in December 2024. This event significantly contributed to the development of Concept Note 2.0, which was officially launched in March 2025 at a high-level event in London, further solidifying international recognition and stakeholder support. After that, technical aspects of the TFFF have been evolving based on the feedback got from potential Sponsor Countries, TFCs, CSOs and other relevant stakeholders. Evolution of the technical deliberations was shared through technical notes and this Concept Note.

13.1.3. International Acknowledgements of the TFFF

The TFFF has gained significant international acknowledgement and recognition as a transformative and inclusive initiative for forest finance. It was prominently mentioned in the 2024 G20 Leaders' communiqué and the 2025 BRICS Leaders' communiqué, with the BRICS Leaders' encouraging potential donor countries to announce ambitious contributions. The Global Alliance for Territorial Communities (GATC) partnered with the TFFF to co-design the concept. The Interim Steering Committee countries including Colombia, Democratic Republic of Congo, France, Germany, Ghana, Indonesia, Malaysia, Norway, United Arab Emirates, and the United Kingdom show broad international commitment to the TFFF. Ed Miliband, Secretary of State for Energy and Climate Change of the United Kingdom, called the TFFF 'a brilliant initiative... a bold, inspiring, and incredibly promising solution for the future.' Colombia's Minister of Environment Lena Estrada called the TFFF an example of 'fair financial architecture – built from the South, and for the South.'

The President of the World Bank Group, the United Nations Special Envoy on Financing the 2030 Sustainable Development Agenda, the UN High-Level Climate Champion for COP30, and the President of IUCN have all expressed a strong interest in the TFFF. The TFFF was formally endorsed in a statement by the Club De Madrid, the world's largest forum of democratic former Presidents and Prime Ministers. Barclays, Bank of America, PIMCO and other private sector leaders have expressed the potential they see for the TFFF to transform tropical forest conservation. Hundreds of civil society representatives from 30 countries have engaged in dialogues in Africa, Asia, Europe, Latin America; dozens of NGOs inputted into the TFFF public consultation; and The Forests for Life Partnership - WCS, WRI, RFN, and Re:Wild - published an endorsement of the TFFF. The TFFF has featured extensively in global environmental forums such as UNFCCC COP28, CBD COP16 and London Climate Action Week 2025.

13.1.4. Engagement with Tropical Forest Countries

Engagement with TFCs has been a cornerstone of the TFFF's development, characterised by the participation of six of them in the Interim Steering Committee (Brazil, Colombia, Democratic Republic of Congo, Ghana, Indonesia, Malaysia), extensive dialogue facilitated by taskforces and bilateral discussions at international events. These included the G20 Environment Working Group meetings in Manaus and Rio de Janeiro, as well as the Nairobi, New York, and Kinshasa workshops. These interactions prioritized inclusive dialogue on commitments, expectations, and participation benefits, promoting transparency and consensus-building among stakeholders. At present, the TFFF has received public backing from the governments of Ecuador, Colombia, the Democratic Republic of Congo, Ghana, Indonesia, and Papua New Guinea.

13.1.5. Dialogue with CSOs and Indigenous Peoples and Local Communities

At the request of the Brazilian government, a Technical Working Group—also serving as a social Task Force—was established in early 2025 to lead global engagement with IPLCs in co-designing the TFFF's dedicated financial allocation. This process reflects the core commitment established at the outset of the TFFF: that at least 20% of total funds will be allocated to IPLCs.

In 2024, an initial dialogue with CSOs was held in Brasília, convened by the Institute for Climate and Society (ICS) to gather input from CSOs. A comprehensive plan for dialogue and engagement with CSOs and IPLCs was prepared to collect broader feedback from these stakeholders in 2025. To deepen engagement with CSOs, after publishing the Concept Note 2.0, a multilingual global webinar with over 600 registrations and more than 300 participants was held. Feedback was further gathered through the TFFF website, where around 30 organizations submitted substantive comments. In total, civil society dialogues engaged over 105 organizations from approximately 30 countries outside Brazil, including specific sessions in Brazil (four events with 30–660 participants), Indonesia (three sessions with at least 25 organisations), the DRC (one session with 10 organisations), and Europe (two sessions involving over 70 organisations from more than 30 countries).

At the request of the Government of Brazil, the World Bank launched a global co-design process in early 2025 to ensure that IPLCs played a central role in shaping the Dedicated Financial Allocation under the TFFF. The initiative was anchored by a formal partnership between the World Bank and the Global Alliance of Territorial Communities (GATC), which took on the role of co-design lead and technical advisory. The strategy culminated in a pivotal in-person session held in Vitoria in February 2025, supported by the Brazil's Ministry of Indigenous Peoples (MPI).

A Global Steering Committee composed by 17 organisations of IPLCs was established to guide the design process, bringing together diverse representatives from across GATC's networks and beyond. A multi-stakeholder design team was also formed to provide technical input and facilitate coordination. Beginning in January 2025, the co-design dialogue unfolded through a series of high-level and grassroots engagements, including initial meetings with GATC leadership, three sessions of the Global Steering Committee, and a formal launch at the UN Permanent Forum on Indigenous Issues.

A major milestone came with a global dialogue held in Brazzaville from May 26 to May 30, where approximately 300 indigenous and local community representatives gathered to learn about the TFFF and provide direct feedback. The process also involved continuous bilateral discussions and presentations to ensure transparency and responsiveness.

Tropical Forest Countries and other key partners were engaged early on, helping to ensure that their priorities informed the design from the outset. The process not only shaped the principles, governance, and financial flows of the Dedicated Financial Allocation but also generated broader recommendations that have influenced the overall design of the TFFF. By embedding participation and co-leadership throughout, the co-design process has built legitimacy, trust, and shared ownership as the TFFF moves toward UNFCCC COP30.

13.1.6. Financial Private Sector Engagement

Institutional investor engagement is critical to the structuring of the TFFF, particularly regarding the needs of a key component of the Facility, the senior tranche of the TFIF. Ongoing consultation has focused on ensuring that financial instruments are aligned with investor expectations for risk, return, and transparency.

The outreach intensified in February 2025 during a convening in Pocantico, New York, where senior representatives from global financial institutions met to assess the viability of TFFF's financial architecture. This led to the establishment of the "Friends of TFFF," an informal group of financial sector representatives, which has since met regularly to facilitate investor alignment and promote the initiative within capital markets. Following the formation of "Friends of TFFF," the Climate Champions began actively supporting the Secretariat in engaging key stakeholders and facilitating high-level convening sessions, helping to expand visibility and secure broader financial sector participation.

Key developments in 2025 include:

- A dedicated **webinar**, which provided a platform for direct exchange with private financial institutions, including discussion of structuring options, risk mitigation mechanisms, and performance metrics.
- During **London Climate Action Week**, a roundtable with approximately 70 financial sector leaders was held to gather market feedback and signal institutional support. The session was convened by Marina Silva, Brazil's Minister of Environment and Climate Change. Barclays and Bank of America noted that they are supportive of the initiative and look forward to continuing the dialogue as the TFFF team works towards a final structure of the Facility.

These engagements have informed the technical design of the TFFF and supported efforts to position the initiative within global sustainable finance agendas.

13.1.7. Events Conducted Up to Date

Throughout 2024 and 2025, key events included:

- February 2024: Exploratory technical workshop on the TFFF funding mechanism in São Paulo.
- April 2024: Kick-off in-person meeting of the financing stream at the World Bank/IMF Spring Meetings.
- May 2024: Kick-off in-person meeting of the environment stream at the UNFF in New York.
- June 2024: Presentation of the TFFF concept to the G20 Environment and Climate Sustainability Working Group in Manaus, Brazil.

- July 2024: Presentation of the TFFF concept at an in-person meeting on the sidelines of the G20 Minister of Finance meeting in Rio de Janeiro.
- September 2024: Joint technical workshop of potential sponsor countries and TFCs focused on environment and financing criteria in Rio de Janeiro.
- September 2024: In-person meetings with private investors, philanthropies, and NGOs during New York Climate Week.
- October 2024: In-person sovereign meeting during the World Bank/IMF Annual Meetings.
- October 2024: Panel discussion at the UN CBD COP16 on TFFF, where Germany, Colombia, the United Arab Emirates, Malaysia and Norway committed to work together to define the architecture of the mechanism.
- December 2024: In-person technical workshop on eligibility and monitoring criteria held in Nairobi with the participation of TFCs, potential sponsoring countries, and key technical partners.
- February 2025: Friends of TFFF event in Pocantico to discuss the TFFF fundraising and engagement strategy, including financial engagement, political positioning, and institutional outreach.
- February 2025: In-person TFFF meeting in Brasília with civil society for collection of feedback and clarification.
- February 2025: GATC Strategic Planning Meeting in Vitória – meeting in which GATC conducted annual strategic discussions, including the internal approval of participation in the design of the TFFF financial mechanism for IPLCs.
- March 2025: TFFF Design Workshop on the Concept Note 2.0; April 2025: Webinar dedicated to present the TFFF main concepts to CSOs.
- April 2025: Global South Engagement Meeting at UN Permanent Forum on Indigenous Issues (UNPFII) in New York.
- April 2025: UNPFII TFFF Side event in New York with the announcement of a formal co-design partnership with the GATC.
- May 2025: FERN Civil Society Dialogue on TFFF Design to gather their perspectives and feedback on the TFFF Concept Note 2.0.
- May 2025: Presentation on Use of Payments main concepts at Climate finance forum with the presence of government representatives, civil society, and private sector in Rio de Janeiro.
- May 2025: Regional Workshop for Information and Ownership of the Tropical Forest Facility Forever (TFFF) Initiative by the Countries of the Congo Basin, in Kinshasa.
- May 2025: Global dialogue to design the TFFF's DFA at the 1st Congress of IPLCs from the Global Forest Basins in Brazzaville.
- June 2025: Webinar to present the key features of TFFF's Financial Model to the financial private sector.
- June 2025: Event Financing Tropical Forests Forever Event held during London Climate Action Week to explore how the TFFF provides a scalable investment model aligned with global climate and biodiversity goals with leading financial sector CEOs.
- June 2025: TFFF Dinner with high-level CEOs to discuss TFFF in London.

- June 2025: Ministerial Meeting on the Tropical Forest Forever Facility (TFFF) with representatives of the Interim Steering Committee country members and beyond in London.
- July 2025: BRICS Summit where group's leaders expressed support for the Tropical Forests Forever Facility (TFFF), in Rio de Janeiro.

13.2. Next Steps

13.2.1. UNFCCC COP30 (November 2025)

At UNFCCC COP30, Sponsor Countries and TFCs are expected to sign Declarations of Interest (DoI) in participating in the TFFF/TFIF. Pledges of initial capital contributions from Sponsors, indicating amount and type of the capital contributed, are expected to follow the lead pledge by Brazil of \$1 billion made at the United Nations on September 23, 2025.

13.2.2. Operational Launch (Post-UNFCCC COP30)

Post World Bank Board meeting (October 21st) and UNFCCC COP30, the TFFF will move into operational phase, with the core governance structures – including the Secretariat and Trustee – officially established. The Operations Manual will be prepared, providing detailed procedures and standards to guide operationalization. The TFFF Board and CEO (who may be an Interim CEO for an initial period) will be appointed.

In parallel, the TFIF will be organised for operations:

- The TFIF will be established as a corporation in a leading jurisdiction recognized for international fund entities (within three to five months post COP).
- A Transition Committee will help to select and appoint the TFIF Board in accordance with the terms set out in the Charter of the TFIF and will launch an executive search to hire the CFO for the TFIF (within four to six months post-COP).
- The Treasury Management Agreement between the TFIF and the World Bank will be finalized, to enable the TFIF to receive Sponsor funds (through an account opened at a commercial bank).
- Sponsor countries will sign the Charter of the TFIF and deposit their capital contributions to the TFIF account.
- A Request for Proposals (RFP) process will be launched to select the third-party Chief Investment Officer (CIO) firm for the management of the investment portfolio of the TFIF. Once the CIO is hired – a detailed Investment Management Agreement will be executed between the TFIF and the CIO.
- The TFIF Board will, in consultation with the CFO, Treasury Manager, and CIO, formulate key financial policies for TFIF, including investment policy, liquidity policy and risk management policy.
- Once operational, TFIF will initiate the bond issuance process to leverage sponsor contributions, deploying the "Secured Option" or "Unsecured Option" of bond issuance, as is optimal under the circumstances at the time.

14. Annex 1: The TFFF and its Relationship with REDD+

The Tropical Forests Forever Facility (TFFF) and Jurisdictional REDD+ (JREDD+) are two distinct yet highly complementary forest finance mechanisms that strengthen global efforts to conserve tropical forests and reduce their loss. While REDD+ provides payments for measurable GHG emissions reductions from deforestation and degradation and for carbon removals from restoration (carbon flows), the TFFF is expected to provide long-term, continuous payments for the conservation of standing tropical and subtropical forests based on forests area measured in hectares (forest stocks), thus paying for the full range of ecosystem services these forests provide.

The two mechanisms differ in operational metrics, funding sources, and geographic focus. JREDD+ reports on carbon emission reductions and removals, relies on results-based finance through carbon markets or Official Development Assistance (ODA) and has been working most effectively for high-deforestation jurisdictions. The TFFF, in turn, is expected to pay for hectares of standing or restored tropical forests (with deductions for deforested and degraded areas), provide continuous results-based funding through an endowment-like fund (i.e. excess returns in financial markets are distributed to tropical forest countries) and is especially suited to low-deforestation countries as it pays for all standing forests (conserved, sustainably managed, restored), regardless of immediate threat levels, and it creates greater incentives for lower deforestation countries. Importantly, if existing efforts to reduce deforestation succeed, payments under JREDD+ will decline, further emphasizing the importance of establishing a permanent financing mechanism to support standing forests, both to maintain existing tropical forest cover and to incentivize its expansion.

Together, they create a robust forest finance ecosystem capable of addressing both short-term emissions mitigation and long-term continued conservation needs. As they assess different metrics, quantify different results (one is GHG related, the other not) pay for different forest 'activities' (TFFF is focused on conservation and JREDD on reduced deforestation and degradation), finance flowing from both mechanisms cannot lead to double accounting or double payment. By combining REDD+ and TFFF, countries can mobilise complementary finance flows to address the costs of reducing deforestation and degradation, forest restoration, and conserving forests over the long run.

As tropical countries pursue integrated forest strategies in the lead-up to UNFCCC COP30, recognising and leveraging the complementarity between TFFF and REDD+ will be essential to scale up forest finance, reduce implementation gaps, and align public, private, and multilateral efforts toward lasting forest protection and sustainable development.

14.1. Financing tropical forests at scale: A menu of options towards UNFCCC COP30

Tropical forests are the planet's "green infrastructure", functioning quietly in the background, regulating our climate and hydrological cycles, providing habitat to millions of species, and a

source of global economic prosperity. Recent research⁴⁸ shows that accounting for their non-carbon benefits increases tropical forests' estimated contribution to global cooling by as much as 50% beyond what is accounted for by carbon emissions and sequestrations alone, while also moderating extreme temperatures and rainfall variability in ways that are crucial for a stable climate. Despite their value to people and the economy globally, tropical forests continue to be under high pressure for conversion into other more profitable land uses such as agriculture and livestock, leading to high deforestation.

The volume of financing needed to keep these ecosystems standing remains far below what is required, and a menu of financing mechanisms is needed to address this gap. To address this financial shortfall, the Government of Brazil proposed the Tropical Forests Forever Facility (TFFF) to provide long-term, continuous funding to forest conservation based on results. By paying per hectare of standing forests (and heavily discounting payments for deforested and degraded areas since these negatively impact the ecosystem services forests provide), the TFFF recognizes the wide array of ecosystem services provided by tropical forests.

Complementarily, REDD+ has advanced significantly as a financing mechanism to reward mainly reduced emissions from deforestation and forest degradation, as well as forest restoration. Several countries have been awarded payments at national and subnational levels, which have contributed to the fight against deforestation and forest degradation.

14.2. TFFF as a Complement to Jurisdictional REDD+

Introduced by the Government of Brazil at UNFCCC COP28, the TFFF aims to reward the conservation of tropical forests based on monitored and reported results. The TFFF will pay for conservation of forest area (rather than emission reductions and removals, which is the focus of REDD+) and thus reward the full range of ecosystem services forests provide, including those for which there are no well-developed payment mechanisms (e.g. global cooling, rainfall cycles, and even biodiversity maintenance).

Hence, the TFFF emerges as a new financing mechanism that does not seek to quantify specific ecosystem services such as carbon storage. *It is like rewarding a library for preserving its entire catalogue, not just specific thematic collections it lends out.* The TFFF also acknowledges the vital role of Indigenous Peoples and Local Communities (IPLCs) in forest conservation by requiring that a minimum of 20% of payments going to each TFC be set aside to IPLCs.

The TFFF will provide long-term, continuous financing to tropical countries, as they bear the opportunity and implementation costs of conserving forests, even once deforestation and forest degradation are brought under control, while the benefits are enjoyed by the whole world. In other words, the TFFF attempts to address the market failure that tropical forests provide ecosystem services at the global scale but their conservation costs are borne nationally.

REDD+, in turn, was conceptualised within the UNFCCC as a climate mitigation mechanism to operate at the national or (for a transitional period) subnational level. It was designed to support

⁴⁸ Lawrence, D.; Coe, M.; Walker, W.; Verchot, L.; Vandecar, K. (2022) The unseen effects of deforestation: biophysical effects on climate. *Frontiers in Forests and Global Change* 5: 756115. ISSN: 2624-893X ;

Seymour, F., Wolosin, M. and Gray, E. (2022) Not Just Carbon: Capturing All the Benefits of Forests for Stabilizing the Climate from Local to Global Scales. Washington, DC: World Resources Institute. Available at: <https://doi.org/10.46830/wriipt.19.00004>

a holistic set of actions: reducing emissions from deforestation and forest degradation, conserving forest carbon stocks, sustainably managing forests, and enhancing forest carbon stocks. Despite this comprehensive scope, REDD+ in practice has so far focused on reduced emissions from deforestation and forest degradation, and to some extent forest restoration and sustainable management of forests, without rewards to forest conservation, which is the focus of TFFF. Moreover, REDD+ early implementation in practice was dominated by project-based approaches, focused on specific sites, often without integration into national systems or broader governance systems. As a result, much of the initial global discussion came to associate REDD+ primarily with individual projects.

Jurisdictional REDD+ (JREDD+) emerged to address the challenges of project-level REDD+ and represents both a significant evolution and a re-orientation back toward that original vision. By taking a national or large-scale subnational approach, JREDD+ enables holistic, coordinated, government-led action across entire jurisdictions. Standards for JREDD+ have emerged in recent years. Specifically, the World Bank's Forest Carbon Partnership Facility (FCPF) and ART-TREES are already issuing JREDD+ credits. Overall, REDD+ is now primarily implemented through jurisdictional approaches.

JREDD+, in turn, has focused primarily on "closing the leak", that is, reducing GHG emissions by preventing deforestation and forest degradation. As a result, JREDD+ tends to favour jurisdictions that have experienced higher deforestation and degradation rates and are working to address these. Some JREDD+ standards allow for a few largely forested countries with low deforestation rates (known as High Forest and Low Deforestation countries or HFLD countries) to get rewards from maintaining low deforestation rates, which would have otherwise increased, as the case of Guyana shows⁴⁹. However, only few countries would be eligible for this option and such countries have noted that such approach does not fully recognize all the climate benefits generated, so forest conservation is a critical activity not financed by REDD+. In this context, TFFF provides a complementary tool by focusing on and rewarding activities (conservation) that REDD+ has not.

The TFFF focus on conservation of tropical forests makes it highly complementary to JREDD+, **but both mechanisms have different operational metrics, geographic focus, and funding sources.** Regarding **metrics to measure and reward results**, the TFFF is expected to pay for hectares of tropical forest hectares (a proxy for overall ecosystem services that forests provide), while JREDD+ (as a carbon market mechanism) uses tons of tCO₂e. TFFF payments are expected to reward the full range of ecosystem services provided by conserved forests (with payment deductions for deforested and degraded areas), while JREDD+ pays for the carbon benefits of forest interventions, via payments to emissions reductions.

Regarding the **geographic focus**, the TFFF is expected to be more relevant in countries that have low deforestation rates - as a matter of fact, an entry condition for countries to access the TFFF is that the deforestation rates of their tropical forests are below the global average (currently set at 0.5%). JREDD+, on the other hand, is more relevant in countries and sub-national entities that are actively reducing their deforestation and forest degradation rates. Additionally, while the TFFF is focused on tropical forests, JREDD+ can also cover other types of forests (even though dry forests, because of their lower carbon stocks, stand to get less payment). In this regard, JREDD+ can bring in much-needed finance to other types of forests beyond moist tropical forests, which are not covered by the TFFF. Crucially, as efforts to reduce deforestation and forest degradation succeed

⁴⁹ Guyana, with 87% forest cover, was the first country to earn jurisdictional carbon credits under TREES Available at: https://www.artredd.org/wp-content/uploads/2025/01/ART_Guyana_Case_study.pdf

(JREDD+), it is essential that a permanent financing source (TFFF) is established to continuously reward tropical countries for conserving their forests.

The **funding sources** for TFFF and JREDD+ are entirely different. JREDD+ mobilizes funding from carbon market players (sovereigns, companies, and others) seeking carbon credits to support their climate strategies - the price of carbon credits fluctuates being a function of supply and demand, or from limited non-market initiatives paying emission reductions through Official Development Assistance (ODA) to support country's climate objectives. The TFFF introduces an entirely new and different income stream from return-seeking investors, which are expected to purchase low-risk, low-return bonds, and from sovereigns who can provide low-interest loans and guarantees to the Facility to make up the Facility capital, which is in turn invested in capital markets with higher return. The difference in the return secured in the markets and the payment back to investors is distributed to tropical countries, through a fixed price per hectare. As such, the two initiatives are not competing for funding, but rather bring in urgently needed climate finance from distinct sources.

Although complementary, the TFFF and JREDD+ differ significantly and **double-counting and double payment** cannot happen. When it comes to additionality, TFFF payments are designed to support all ecosystem benefits, including those that fall outside traditional market mechanisms (particularly carbon). The TFFF does not require additionality as it is expected to pay for all eligible tropical forest areas. Moreover, it does not affect additionality of an existing JREDD+ program since the TFFF payments are not part of the *business as usual* scenario of JREDD+, and TFFF payments by themselves would not be able by their own address the finance required to address the drivers of deforestation and forest degradation, particularly in countries with high deforestation rates with more needs. Moreover, differently from JREDD+, the TFFF does not generate any rights to the underlying forest asset for those who invest in it, given it will remunerate its investors through returns in financial markets.

Table 11: An overview of their complementarities

	REDD+	TFFF
Primary Objective	Reduction in GHG emissions from deforestation and forest degradation, and forest carbon stock removal.	Long-term tropical forest conservation.
Geography	Mostly in countries and jurisdictions actively reducing deforestation and forest degradation, especially with high deforestation rates	Tropical and subtropical forest countries, especially with low deforestation rates.
Scope	National and subnational, all forest types.	National, covering moist tropical forests.
Eligible activities	Activities that reduce GHG emissions and enhance removals.	Forest conservation and forest restoration
Metric for RBP	Tons of CO ₂ e	Hectares of moist tropical forests
Sources of funding	Carbon market buyers (sovereigns, private companies, others). Buyers purchase an 'asset'	Sovereign investors, institutional investors (i.e.

	REDD+	TFFF
	(carbon credits). Non-market initiatives paying emission reductions through Official Development Assistance (ODA) to support country's climate objectives.	sovereign wealth funds and pension funds). Returns to investors via financial instruments.

14.3. Building on JREDD+ Foundations

Jurisdictional REDD+ **has advanced the institutional foundations on which countries can build to meet TFFF eligibility**, reducing transaction costs when ascending to TFFF and speeding implementation:

14.3.1. National Forest Strategies & Investment Plans

Over the last decade, many countries have developed comprehensive forest strategies, investment plans and regulatory frameworks, which countries may decide to finance with TFFF payments. TFFF is expected to finance policies and programmes that promote forest conservation and its sustainable use.

14.3.2. National Forest Monitoring Systems (NFMS)

Several countries have developed forest monitoring capacity through JREDD+ readiness programmes. The TFFF encourages countries to use national systems and data, including to report on forest cover, deforestation and degradation. Hence, the systems developed with JREDD+ readiness support will significantly support TFFF reporting.

14.3.3. Safeguards systems including Benefit-Sharing Mechanisms

JREDD+ standards (including the Cancun Safeguards negotiated under the UNFCCC) include requirements related to social and environmental safeguards, including participation of IPLCs and benefit sharing mechanism. Several countries have developed inclusive and transparent arrangements to ensure the participation of IPLCs, including ensuring a share of funds goes to these communities (e.g. through IPLCs subprogrammes focused both on monetary benefits and on providing capacity building to communities). These national or subnational systems can be built on to ensure the participation of IPLCs, and allocate TFFF funding, including potentially the minimum 20% dedicated to IPLCs.

14.4. An Expanded View⁵⁰ for an Ecosystem of Forest Finance⁵¹

By 2030, the annual investment needs in avoided deforestation in tropical forest regions are estimated at USD 8.9 billion⁵². The TFFF alone could mobilise USD 4 billion per year toward this objective, covering approximately 44% of the financing gap, and thus represents a major step forward in securing the resources required to keep forests standing.

Meanwhile, JREDD+ credits (projected at 300 million tonnes of CO₂ at an assumed price of USD 15 per tonne) could generate up to USD 4.5 billion annually⁵³ by 2030, meeting roughly 50% of the same investment needs by directly rewarding emission reductions. Taken together, TFFF and JREDD+ have the potential to supply about 95% of the funding required for avoided deforestation, effectively closing nearly the entire gap on this critical front. Combining TFFF with JREDD+ is not only possible but essential.

By aligning complementarities across the forest finance mechanisms, each with its own metric and incentive structure and rewarding different activities, tropical forests can be given fair chance to survive in the global competition for the allocation of finance.

⁵⁰ Although not addressed in detail in this paper due to its scope, private sector capital mobilisation, including impact investment in restoration and carbon markets for removals, also holds great potential. In the Brazilian case, for example, carbon prices above USD 20 per ton of CO₂ could play a key role, with the sale of carbon credits potentially amounting to USD 320 billion over 30 years. (Assunção, J. & Scheinkman, A. (2023) Carbono e o destino da Amazônia. Climate Policy Initiative. Available at: <https://www.climatepolicyinitiative.org/pt-br/publication/carbono-e-o-destino-da-amazonia/>)

⁵¹ Figures on investment needs on tropical forest regions in this section are based on a UN Environment Programme analysis done following a request from the Brazilian Government (2025). The analysis was based on the MAgPIE model.

⁵² Figures on investment needs on tropical forest regions in this sections are based on a UN Environment Programme analysis done following a request from the Brazilian Government (2025). The analysis was based on the MAgPIE model.

⁵³ Average Prices for Jurisdictional REDD+ Credits to Reach \$15 in 2028, EDF, 2024. Available at: <https://www.edf.org/media/average-prices-jurisdictional-redd-credits-reach-15-2028>

15. Annex 2: Indicative Table of Contents of TFFF Operations Manual Structure

1. Objectives of the Manual
 - 1.1. Legal Basis for the Manual
 - 1.1.1. TFFF Charter and Related Arrangement
2. TFFF Accession Process
 - 2.1. TFFF Accession Submission Process
 - 2.1.1. LOI
 - 2.1.2. Charter signing
 - 2.2. Biome-based TFFF Eligibility Area and non-TFFF forest areas
 - 2.3. Requirements for setting the boundaries of the TFFF eligibility area (TSMBF biome plus adjacent mangrove ecosystems) and for submitting to the Secretariat the proposed boundaries of the eligibility area, including definitions of "significant deviations" from Dinerstein et al (2017)
 - 2.4. Requirements for setting the boundaries of the non-TFFF forest areas for the purposes of monitoring and assessing incompleteness risks, and for submitting to the TFFF Secretariat the proposed boundaries of the non-TFFF forest area
 - 2.4.1. Acceptable global data sources that may be used to define non-TFFF forest areas and procedures for excluding TFFF eligibility area to yield a non-TFFF forest area map
 - 2.5. TFC Eligibility assessment
 - 2.5.1. Process for assessment and criteria for acceptance/rejection of submitted TFFF Eligible Area boundaries and non-TFFF forest area boundaries
 - 2.5.2. Requirements for, and assessment of the deforestation rate at entry including calculation of 3-year average, methods for showing a decreasing trend in the year of accession, and treatment of measurement uncertainty
 - 2.5.3. Forest Monitoring systems criteria
 - 2.5.3.1. Minimum technical requirements to national forest monitoring systems
 - 2.5.3.2. How it will be assessed whether a NFMS meets the minimum technical requirements, and the process for resolving questions or conflicts
 - 2.5.3.3. Approach to the TFC assessment and selection of third-party providers if necessary
 - 2.5.3.4. List of third-party approved Monitoring Systems
 - 2.5.4. Governance
 - 2.5.4.1. Demonstrate an existing national GRM that meets TFFF standards or submit an Action Plan committing to establish or enhance a GRM upon accession

2.5.5. Use of Forest Payments requirements and commitments

2.5.5.1. Ways to demonstrate to the Secretariat that it has adequate Public Financial Management (PFM) and how it will be assessed:

2.5.5.1.1. Acceptable methodology

2.5.5.1.2. Adequacy standard

2.5.5.1.3. Who could conduct such assessment

2.5.5.1.4. How/in which format this information should be submitted to the Secretariat

2.5.5.1.5. Whether/how it should be verified or disclosed by the Secretariat

2.5.5.2. Instructions on how minimum 20% of funding could be directed to IPLCs, including mandatory global baseline requirements and options that could be considered and adapted at the national level

2.5.5.3. Procedure for demonstrating that Forest Payments will not replace existing resource allocations for policies and programs that directly or indirectly promote tropical and subtropical forest conservation and its sustainable use

2.5.5.4. Guidance on how TFCs could disclose national programs or policies expected to be supported

3. Annual Reporting

3.1. Forest Monitoring Data

3.1.1. Instructions on how forest data should be submitted to the Secretariat

3.2. Post accession requirements verification

3.2.1. Instructions on the submission and assessment of deforestation and degradation data to be submitted to the Secretariat

3.2.2. Guidance on what will be considered force-majeure circumstances for the purposes of meeting the deforestation rates requirements

3.2.3. Instructions on submission of data on the overall country deforestation trends (to address Incompleteness Risk)

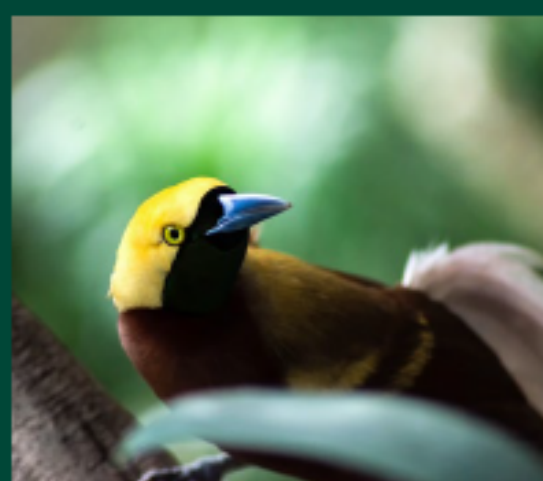
3.2.4. Specification of the quantitative trigger for the incompleteness risk assessment process

3.2.5. How the TFFF will assess compliance with deforestation rate requirements, force-majeure exceptions, including the consideration of measurement uncertainty and annual variability

3.3. Suspension conditions for Forest Payments and requirements for re-entry or lifting of suspensions

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- 3.5. TFFF procedures for making Annual Reporting transparent and accessible, including consideration of TFC requests for maintaining confidentiality of information where required by national law
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5. Technical Review and Revision Process Ratcheting
 - 5.1. Satellite monitoring specifications revision protocol
 - 5.2. Degradation proxy revision protocol
 - 5.3. Deforestation rate cutoff upon entry revision protocol
 - 5.4. Methodology for assessing deforestation trend after entry revision protocol
 - 5.5. Tiered discount formula revision protocol
 - 5.6. Discount ratio for deforestation and degradation revision protocol
 - 5.7. Operational Manual revision protocol
 - 5.8. Process for Selection and Rotation of Scientific and Technical Advisory Council members
6. Timeline of Key Processes: A Gantt-style overview of expected steps and deadlines from accession to first payment



The Tropical Forest Forever Facility

A once-in-a-generation initiative that seeks to secure the future of tropical forests via an innovative financing mechanism.

Launching at COP30

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