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The Tropical Forest Forever Facility and Its Role in International Forest Finance

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As climate negotiators gathered in Belém for the 30th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP30), the surrounding rainforest was in the spotlight, with COP30 being dubbed a "forest COP". As one of its key projects, the Brazilian government launched the Tropical Forest Forever Facility (TFFF). The fund for the conservation and restoration of standing rainforests aims to serve as a successful and innovative initiative in multilateral cooperation through blended finance. However, there remains a gap between current forest finance and what is needed to reach the Rio Convention targets. Germany and a few other European states have pledged investments into the fund and could shape its implementation. Additional financing mechanisms for forest restoration play a complementary role and should be enhanced. Still, not all success lies in finance. Forest finance mechanisms must reconcile targets of increasing carbon sequestration and storage in forests along with biodiversity and sustainability targets, while upholding the rights of local populations.

Global forest cover and, in particular, tropical rainforests are a powerful carbon sink, holding more than 15 times of humanity's annual CO_2 emissions in 2024.

Forests plays a critical role in reaching international climate targets. First, emissions can be reduced through the conservation of existing forests. Second, the capacity of ecosystems to remove CO_2 from the atmosphere can be enhanced through afforestation (tree planting on non-forested land), reforestation (re-establishing forests in deforested areas), forest restoration (re-instating ecosystem health and integrity), and, in some instances, sustainable forest management.

Additionally, standing tropical forests have regional cooling effects, offer benefits for biodiversity, and are essential for the livelihood of local populations. They are therefore central to achieving the targets linked to the Rio Conventions on Biodiversity, Climate Change, and Desertification. While mechanisms such as the TFFF recognise these benefits and intend to increase conservation, the restoration of forest areas is no less important for improving ecosystems and climate change mitigation, requiring further attention.

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State of Forest Finance

Global and local demand for crops, cattle, and minerals incentivise deforestation. Although the impactful ecosystem services of tropical forests represent global public goods, their preservation needs to be economically viable for actors who manage the forests on the ground to avoid continued deforestation. While deforestation has decreased in recent years, the global target of halting and reversing deforestation by 2030, as set in the 2021 Glasgow Leaders' Declaration on Forests and Land Use, will be missed if today's trends continue. Public funding from international forest initiatives more than tripled between 2021 and 2024 but engagement has since levelled off. On average, public and private forest finance amounts to just a quarter of the estimated annual investments that would be required in 2030 to reach the targets set out in the Glasgow Leaders' Declaration. Additionally, harmful agricultural subsidies and private financial flows to companies involved in activities with high deforestation-risk far exceed international forest finance. This also applies to the European Union (EU), where parts of the Common Agricultural Policy and other trade policies have, at times, created false incentives.

The TFFF is expected to create synergies and additional funds, but not to reverse the trend. It sets the goal to complement and enhance existing payments for ecosystem services, particularly "Reducing Emissions from Deforestation and Forest Degradation" (REDD+). Both project-based REDD+ schemes and the broader Jurisdictional REDD+ (JREDD+) programmes, designed at national and subnational levels, exhibit several shortcomings. In particular, significant flaws in monitoring rigour and methodologies, including the additionality of carbon offset projects, remain central weaknesses and have harmed trust in forest projects overall.

A New Financing Mechanism for Conserving and Restoring Tropical Forests

The TFFF aims to provide countries with tropical rainforest coverage with "long-term, results-based financial support" for forest conservation and restoration. It operates as an innovative blended financing mechanism. "Sponsor countries" and philanthropic organisations are supposed to provide USD 25 billion in long-term loans and guarantees with an interest rate of about 5 per cent. On this basis, the fund envisages the mobilisation of an additional USD 100 billion from private investors. The capital will be invested in emerging markets and bonds to generate returns for annual payments to countries with tropical moist forests. Provided the deforestation rate of a given country stays below 0.5 per cent, the fund pays per hectare of standing forest, verified by satellite imagery. This payment is estimated to award up to USD 4 per hectare of forest in 74 eligible developing countries, if the expected investment sums above can be obtained. For each hectare of deforestation, penalties of USD 400 or USD 800 are deducted.

Indigenous Peoples and Local Communities

The TFFF intends to provide a stable financing mechanism unaffected by political volatility. However, some experts and civil society actors have warned that the link to global financial markets creates instability and that market investments of USD 100 billion are not guaranteed. A new element of the fund will be that at least 20 per cent of the disbursements must be allocated to Indigenous Peoples and Local Communities, marking an unprecedented recognition of their role in forest protection. While Indigenous Peoples were included in the development of the TFFF and campaigned for direct payments, the Global Forest Coalition has criticised that the TFFF does not address the structural causes of climate change and fails to prioritise Indigenous and other local

communities. Furthermore, experts and civil society actors have criticised the commodification of forests and warned that other multilateral funds could be weakened.

Investments by Sponsoring Countries

The TFFF concept note is based on an estimated annual investment gap of USD 8.9 billion to avoid deforestation in tropical rainforests. Seemingly surmountable, this might be an underestimation of the actual amount required for halting deforestation.

A recent assessment of the United Nations (UN) Environment Programme on forest finance identified a financial gap substantially higher than the USD 2 to 4 billion the TFFF could deliver. This estimation has a wider scope of not only halting, but also reversing deforestation. However, this gap showcases the need for large-scale forest finance. At COP30, 53 countries endorsed the TFFF. At the time of the TFFF's launch on 6 November 2025, initial investments amounted to USD 5.5 billion, with pledges from Norway (USD 3 billion), Brazil (USD 1 billion), Indonesia (USD 1 billion), and France (USD 500 million). Germany announced that it will invest USD 1.15 billion over 10 years. Other countries, including the Netherlands and Portugal, have signalled their willingness to invest, but have not made any concrete pledges yet.

Monitoring, Reporting, and Verification

Quality and transparency criteria for monitoring deforestation are core TFFF design features, though the Operations Manual detailing these criteria is still under development. Participating nations must use national forest monitoring systems (NFMS) leveraging satellite data. If national systems do not exist or qualify, compliant third-party systems may be used. Although the TFFF initially plans to rely on existing NFMS developed through initiatives like JREDD+, further infrastructure improvements are a central benefit the fund can provide.

Beyond the TFFF, accurate monitoring of the additional climate benefits provided by a project is crucial for greenhouse gas accounting. Storage duration matters, especially when forestry restoration projects are used to compensate for persistent fossil CO_2 emissions.

The TFFF ad-hoc Technical Working Group on Forest Monitoring is tasked with developing guidance. For rigorous forest monitoring, national systems need to be strengthened and continuity in monitoring, reporting, and verification funding ensured. One such technical advancement could be to disentangle emission reductions from removal activities, which are often not clearly separated in established protocols.

The success of the fund in re-establishing trust in forest finance for climate change mitigation will depend on its ability to contribute to increasing transparency in tracking forest coverage. The legitimacy of the fund can also be increased if it delivers on the promise of increasing transparency of financial streams to ensure that local communities benefit.

Implications for a Comprehensive Forest Finance Framework

Article 5 of the Paris Agreement and global pledges, such as the Glasgow Declaration on Forests and Land Use, highlight the importance of conserving and enhancing carbon sinks in natural ecosystems, with an explicit focus on forests. Article 5(2) of the Paris Agreement encourages Parties to support and implement REDD+, which was established in 2013 and is a key mechanism in forest finance.

REDD+ can, in theory, offer results-based payments for reduced deforestation and forest conservation, as well as payments for sustainable forest management and increasing carbon stocks. Examples of REDD+ mechanisms include the Amazon Fund, which is designed to increase investments for the protection and sustainable management of tropical forests. TFFF payments can be awarded for the same areas as REDD+ as

its financing mechanism operates outside carbon and biodiversity trading schemes, recognising the value that standing forests hold for conservation. This complementary design aims to avoid double-counting and lack of transparency. The TFFF builds on the assumption that as deforestation rates decrease, payments for avoided deforestation shrink and a financing gap for standing forests widens.

Alongside REDD+, a wide range of financial mechanisms, including bonds, forest funds, and community-led initiatives, for forests exists. At COP30, France, Germany, Norway, Belgium, and the United Kingdom pledged USD 2.5 billion towards protecting the Congo Basin, the largest rainforest in Africa. At COP30, the Forest and Land Tenure Pledge was also renewed to raise USD 1.8 billion for Indigenous and Afro-descendant community land tenure rights.

In addition to forest conservation, forest restoration is crucial for climate mitigation. Both the Bonn Challenge of 2011 and the New York Declaration on Forests set the global target to restore 350 million hectares of forest by 2030. A recent analysis suggests a potential of up to 49 Gt CO_2 for the restoration of tropical forests deforested since 2001.

There is substantial potential for carbon dioxide removal (CDR). National greenhouse gas inventories suggest that more than 90 per cent of current levels of CDR are the result of afforestation, reforestation, and forest management.

CDR indirectly falls within the scope of JREDD+ and some mechanisms rewarding removal activities are emerging. For instance, the World Bank launched the Amazon Reforestation-Linked Bond with the intention to mobilise USD 225 million for reforestation in Brazil with measurable carbon removal outcomes. However, financial channels through which deforested areas are restored and their capacity to act as a carbon sink can be sustainably re-established remain scarce. Ambassador André Corrêa do Lago, the COP30 president, requested a report assessing the prospects of a complementary scheme to the TFFF. Economists subsequently developed a proposal for a Reversing Deforestation Mechanism that could be disbursed at the jurisdictional level for restoration.

Schemes that generate credits for restoration target different objectives than the TFFF. Restoration and conservation are distinct processes, and the per hectare pay out potential varies. At the 2025 average credit price of USD 15.5/t CO_2 for removals from forestry and land-use, up to USD 1,500 could be raised for restoring a hectare of tropical forest. By contrast, the TFFF is expected to generate a pay out of USD 4 per hectare of forest cover to incentivise a policy shift away from deforestation. This highlights the complementary roles of the TFFF and additional, market-based financial streams. The potential of forest finance is large, but the required large-scale international demand for high-quality removal credits has not yet been realised. Instead, low-quality emission reduction credits dominate the market.

Challenges and Opportunities in Implementing the TFFF

The TFFF seeks to establish a long-lasting financial framework for the conservation and restoration of standing tropical forests. The resilience and potential of the new mechanism have yet to be proven. However, the resulting attention to tropical forests and their importance for climate targets is valuable beyond reducing emissions. It highlights the gap in forest finance and the prevalence of harmful economic incentives that prevent reaching forest conservation and restoration targets. Moreover, the fund introduces innovative elements, particularly financial penalties for deforestation, and a dedicated portion of direct payments to Indigenous Peoples and Local Communities.

The innovative elements of the TFFF have the potential to benefit the forest financial system as a whole. The details of the fund's implementation will be decisive for its success in achieving complementarity and fos-

tering the restoration of tropical forests, in addition to forest conservation. While the current concept note has improved several aspects in accordance with criticism from stakeholders, a successful implementation requires the adoption of measures to increase transparency and avoid the duplication of shortfalls from previous forest finance mechanisms, such as JREDD+. Robust monitoring, reporting, and verification will be important to re-establish trust. Germany has been part of the TFFF's Interim Steering Committee and has announced an interest-free commitment of USD 1.15 billion on 17 November 2025, signalling valuable support for the fund. Germany, which has already been strongly involved in co-designing the TFFF, should contribute to shaping the details of its implementation, including ensuring the additionality of countries' contributions through stronger environmental and social safeguards and liability rules.

The engagement in the TFFF represents a window of opportunity to uplift the standard of monitoring. With the World Bank hosting the TFFF secretariat only on an interim basis, a permanent solution overseeing transparency is yet to be established. To ensure compliance, the secretariat, among other tasks, selects and interacts with the third-party verifiers of the satellite-based monitoring, which are typically third-party bodies active on the established yet flawed voluntary carbon market. This could be an opportunity to set the standard. Laying the financial groundwork is one step towards cohesive forest finance, but without rigorous monitoring and a transparent disbursement scheme, conservation and restoration remains out of reach.

A Comprehensive Approach to Forest Finance

The challenges that the TFFF faces underscore the need for complementary forest finance. For successful conservation of the forest stock, an economic case needs to be made for governments to realise anti-deforestation policy and funds need to suffice for a trickle-down effect to the individual landowner level. Besides conservation efforts, restoration-focused mechanisms, such as JREDD+, other payments for ecosystem services, or proposals like the Reversing Deforestation Mechanism, can be complementary and fill financial gaps.

Various existing initiatives remain important, but fall short in delivering on their targets. Voluntary efforts alone will not close the gap in forest finance. Therefore, the question of how to create a sufficiently large, comprehensive financing system that covers conservation and restoration efforts in line with the global climate's dependence on forests remains.

International carbon credits, tradable units representing one tonne of CO_2 reduced or removed, now feature in the EU's 2040 climate target, and contributed to reaching a consensus on this target. In the trilogue between the European Parliament, Council, and Commission, the EU determined that it would allow a maximum share of "up to 5 per cent" of emission reduction to be met outside its borders, starting in 2036. The Commission had previously proposed a share of 3 per cent. While the Council and Parliament agreed on 5 per cent, Members of the European Parliament demanded additional safeguards to secure environmental integrity.

The agreement signifies, that international credits are now prominently featured in EU climate policy post 2036, with a substantial share of emissions reduction efforts dependent on the rigour of monitoring established under Article 6 of the Paris Agreement. These credits need to be subject to the highest quality criteria to maintain credibility within the EU climate target, which the average international carbon credit currently does not achieve. Therefore, it should be a central concern for the EU to build on the Parliament's position and advocate for the highest environmental integrity. This could be realised by moving away from troubled emission reduction credits, introducing a share of removal credits, or substantially raising the integrity bar of Article 6.2. As the vast majority of credits

traded under the Paris Agreement Crediting Mechanism are forestry credits, the monitoring and land tenure rights challenges described above are inextricably linked to the credibility of the EU's climate targets. With the EU still holding influential steering capacity, also known as the "Brussels Effect", the 2040 target now presents a chance to elevate the standard of internationally traded carbon credits.

The online version of this publication contains functioning links to other SWP texts and other relevant sources.

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