

FOREST DECLARATION ASSESSMENT SPECIAL REPORT

Emerging forest finance instruments

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1. Introduction



Forests play a vital role in sustaining Earth's systems: they regulate the climate, protect biodiversity, maintain the carbon cycle, and support human livelihoods. These ecological services provide a wealth of economic benefits. The UN estimates that forests directly generate USD 250 billion in economic activity each year, rising to as much as USD 150 trillion per year when carbon sequestration potential is included.¹ Finance for forests can, accordingly, provide benefits above and beyond direct forest protection, contributing to broader climate, environment, and sustainable development goals.

The forest finance landscape

Despite these benefits, a far greater volume of finance is provided to activities that threaten forests rather than to those that benefit them. International pledges to protect, conserve, and restore forests ("green" finance) from 2021-25 amount to just USD 29 billion, averaging less than USD 6 billion per year.² By comparison, flows of public finance for activities with the potential to drive deforestation or forest degradation ("gray" finance) are much larger in magnitude. From 2013-18, gray public finance flows were estimated to range between USD 378 to USD 635 billion per year, globally.³ Private investment and spending that support forest-risk activities remain significant; an analysis by Global Canopy in 2022 found that private financial institutions were providing USD 6.1 trillion in active financing to companies most exposed to deforestation risk in their supply chains.⁴

There is an acute need to shift finance flows away from harmful business-as-usual land use activities, toward sustainable and climate-compatible land management,⁵ as well as to increase the volume of finance flowing to activities aligned with forest objectives. Direct grantmaking via international development aid, multilateral institutions and philanthropies has provided

a necessary lifeline for forests in recent decades, but these funds remain vastly insufficient. The investment gap in nature and forests cannot be closed through public funding alone. Yet, a lack of incentives, regulatory pressure, and available investment opportunities hinders increased action by private actors.⁶

Why forest finance has fallen short

Under the dominant economic paradigm, forests are considered more profitable when destroyed than standing.⁷ In many parts of the world, the value of forest ecosystems – and associated land use and investment decisions – has been traditionally based on the materials that forests generate for human production and consumption. The benefits provided by standing forests, as well as the costs associated with their degradation and loss, have not been considered or prioritized.⁸

In many forest regions, there are strong economic incentives to convert forests to alternative land uses that can provide more immediate and short-term profits, as well as tax revenues and jobs. This includes, for instance, commodity agriculture and mining for metals and minerals. Short-term profit-seeking can also lead to unsustainable forest management for timber production. The negative externalities of these activities, which can include deforestation, loss of biodiversity, and ecosystem services, have long-term impacts on local communities and environments and are usually not reflected in the market prices for the goods produced. In addition, large-scale infrastructure development often fails to fully account for ecosystem impacts or provide commensurate investments in sustainable local economies.⁹

Historically, high-income, industrialized nations have pursued development pathways that rely on unsustainable exploitation of natural ecosystems.

Today, governments in lower-income countries with rich forest ecosystems are faced with the challenge of pursuing economic growth without following these same destructive pathways. In addition, high levels of debt plus social, economic, and environmental challenges often leave little public budget to spare for governments to explore new economic development pathways that align with global forest goals. Many countries most in need of additional finance to protect, restore, and sustainably manage their natural ecosystems are also those most impacted by climate change.^a

At the same time, international forest finance has historically been donor-driven, rather than forest country-led. As a result, it often reflects the priorities and perceptions of outsiders and does not transfer easily into other cultures or informal economies.¹⁰ Even when financing is made available, it can be difficult to access due to bureaucracy and complicated fiduciary requirements, or it may be partially absorbed by a range of intermediaries before reaching its intended organizations.¹¹

About this paper

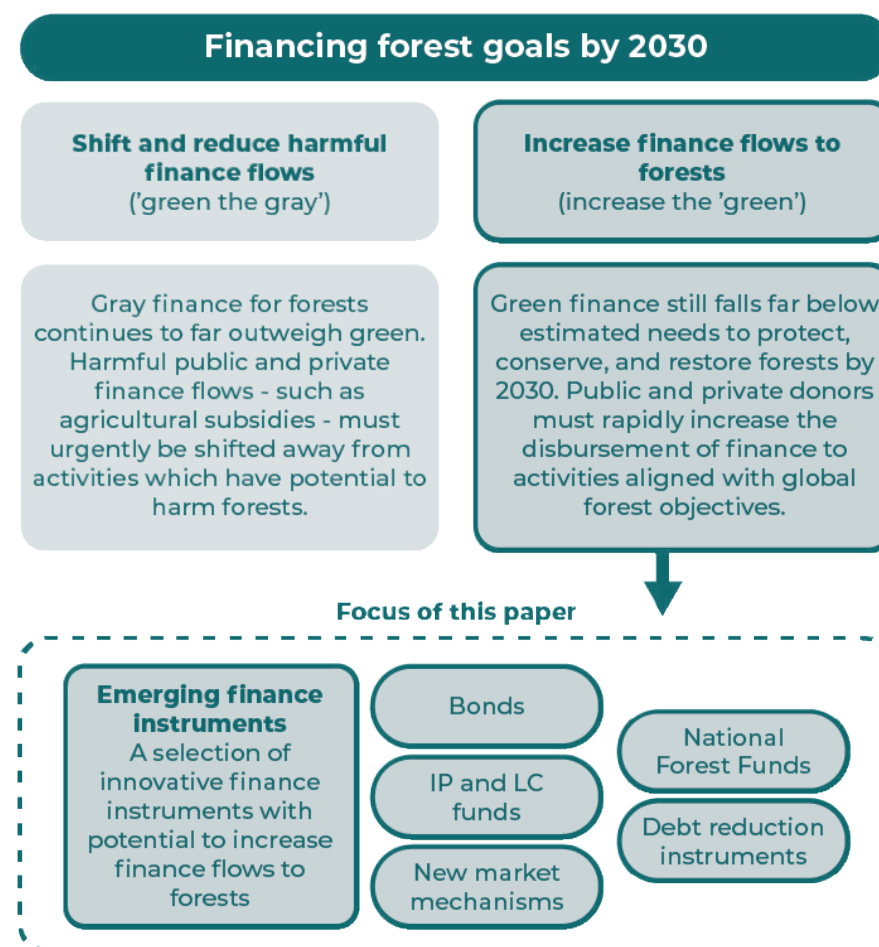
In the last few years, a plethora of new public and private initiatives have emerged with the potential to contribute to the goal of ending and reversing forest loss by 2030, as set out in the Glasgow Leaders' Declaration on Forests and Land Use.¹² Innovative financial instruments are being designed to blend financing from different sources, reduce risks for investors, crowd in private finance, and improve access to financing for Indigenous Peoples and local communities (IP and LCs). At the same time, a number of forest country governments have developed dedicated finance mechanisms. This brief provides a summary of several emerging financial instruments, including the financing barriers they can help to tackle, and any lessons learned from real-world use cases.

The finance mechanisms covered in this brief address one aspect of the forest finance challenge. Achieving global forest goals by 2030 requires a

^a For instance, the cost of debt from public and private creditors across the Vulnerable Twenty Group (V20) has increased by USD 62 billion compared to the previous decade and is expected to further double in the upcoming decade. See Alayza, N., Laxton, V. and Neunuebel, C. (22 September 2023) Developing Countries Won't Beat the Climate Crisis Without Tackling Rising Debt. WRI Insights. <https://www.wri.org/insights/debt-climate-action-developing-countries>.

two-pronged approach: firstly, we must shift and reduce the vast quantities of gray finance, such as agricultural subsidies, which are directly and indirectly driving forest destruction and degradation. Secondly, we must increase the commitment and disbursement of new green finance for forests, using innovative approaches to increase private sector engagement and create new, stable forest funding streams. This brief focuses on the latter (**Figure 1**).

Figure 1. Overview of forest finance flows and focus of this paper.



2. Forest finance instruments



Bonds

Forest funds

Debt reduction instruments

New market-based mechanisms

Indigenous Peoples and local community-led funds

In the following sections, we explore different types of emerging financial instruments one-by-one, before reflecting on the necessary enabling conditions for these instruments to help deliver on global forest goals and proposing higher-level recommendations for their implementation. For each instrument, we consider the following:

- The range of instruments covered by each category
- Forest financing barriers the instrument(s) can help to address
- Which stakeholder groups the instrument(s) are suitable for
- Potential implementation challenges
- Potential issues or concerns around the instrument's use

Where data allows, we also consider the type of forest activity the instrument is typically used to support and how much financing has been disbursed through the instrument to date.

After introducing each category of financing instrument, we take a deep dive into real-world uptake. **Section 3** presents 2-3 case studies for each instrument category, illustrating how the instruments have been deployed in different contexts to deliver on different forest objectives. Case studies were selected for their level of innovation or for the valuable lessons they can provide to future implementers of that instrument.

2.1 Bonds

Bonds are a type of ‘fixed-income’ instrument issued by governments, corporations, and other organizations. Bonds are bought by various types of investors, who commit to lending money to the issuer over a set period in exchange for regular interest payments. Bonds are one example of a financial instrument that can facilitate the delivery of funding to activities where risk, whether real or perceived, hinders private sector investment.¹³

While bonds are not a new instrument, the landscape of different bond types – particularly those designed to deliver on environmental objectives – has expanded over the past decade. Examples include:

- Green bonds: fixed-income instruments with proceeds earmarked exclusively for projects with a positive environmental impact
 - Forest bonds: fixed-income instruments with proceeds earmarked exclusively for forest-supportive activities
- Sustainability bonds: debt instruments that raise money to finance or refinance a combination of green and social projects
- Sustainability-linked bonds: performance-based bonds designed to deliver finance upon the achievement of key performance indicators

Green bonds are the most common and most documented of all bond types used for sustainability objectives. Green bonds have been used since the late 2000s, initially for investments in renewable energy and water infrastructure, but in recent years, for a broader range of environmental activities including climate adaptation, waste reduction, or forest protection. Green bonds were traditionally issued by governments or central banks but are increasingly being issued by other entities – including corporates and subnational entities – seeking ways to raise money to finance their environmental goals.

Forest bonds, a much newer and narrower instrument, are solely used to finance forest-supportive activities. While the use of forest bonds as a tool for leveraging forest finance is explored in literature and theoretical structures have been designed for their issuance,¹⁴ there is limited evidence of real-world implementation. The **section 3** case studies present a few examples of uptake, including a sovereign sustainability bond implemented in Brazil to raise finance for domestic environmental projects (**Case study 1**); a forest bond designed to raise money for forest restoration in California’s Tahoe Forest (**Case study 2**); and a blended finance mechanism being used to support the development sustainable supply chains in the Amazon (**Case study 3**). These examples illustrate how bonds can be used in a variety of public and private financing arrangements to leverage finance for a wide range of forest objectives.

Barriers addressed

Bonds can help to tackle key barriers for both public and private actors, and as a result, can be a vital tool for addressing the forest financing gap. For issuers, green bonds can be an effective way to attract and diversify investment, particularly for governments. Bonds help to reduce investment and financing risk: by ‘lending’ funds to the bond issuer, investors avoid being directly exposed to any financial risks presented by the project. Such risks may include high local currency borrowing rates and foreign exchange risk, especially in developing countries.¹⁵ Bonds used to support multiple different projects can also help to spread and reduce (perceived) investment risks. For corporate or other private issuers, bonds can be useful tools for addressing upfront finance needs – such as for projects with short-term returns¹⁶ – a particular issue for small-scale actors who seek to implement forest carbon projects.¹⁷

For investors, bonds offer financing opportunities that can contribute to their ‘green’ objectives, while also delivering stable returns. This is particularly unique in the forest funding landscape, where investment opportunities with financially stable and attractive returns are rare. When they are provided, returns rely on ecosystem service markets – such as carbon or biodiversity credits and other ways to generate financial value from ecosystem services – and returns from capitalizing on forest-friendly commodities, which is still limited.

Uptake to date

Bonds are increasingly used in blended financial arrangements – approaches to financing sustainable development that involve leveraging public and/or philanthropic capital to raise private finance.¹⁸ However, the uptake of blended finance in the forest context has so far lagged.¹⁹ There is a tendency for blended finance to be directed toward lower-risk projects with a solid business case, such as infrastructure and energy.^{20,21} Nonetheless, it is increasingly documented in literature as a promising tool for bringing together public and private finance for forests.²²

It is estimated that approximately USD 4.4 trillion in green, social, sustainability, and sustainability-linked bonds (GSSS) has been issued globally since the first green bond transaction in 2012. To date, advanced economies have accounted for 70 percent of all GSSS issuances, with financial institutions

and sovereigns contributing the majority.²³ The World Bank reports that, since 2008, it has committed USD 19.5 billion in green bonds. A total of USD 12.3 billion has been dispersed across 126 projects in 35 countries, of which USD 3 billion went to the agriculture, land use, and forestry sectors.²⁴ In 2017, the World Bank reported that just 2 percent (worth a total of USD 2.5 billion) of all active Green Bonds were issued in the forestry sector.

Malaysia is set to launch one of the world’s first major forest bonds, a sovereign biodiversity *sukuk* – a financial bond that aligns with Islamic principles – due for release in late 2024. The bond is designed to address Malaysia’s domestic forest restoration objectives as well as demand from ESG-focused investors. It will be used to fund reforestation and restoration projects through the generation of carbon credits. The bond is worth approximately USD 210 million and will be funded from Malaysia’s national budget.²⁵

In August 2024, the World Bank launched the Amazon Reforestation-Linked Bond, which will support reforestation activities in the Brazilian Amazon. Expected to mobilize USD 225 million, a unique feature of this bond is it links financial returns to how much carbon is successfully removed through restoration. The bond is listed on the Luxembourg Stock Exchange and will mature in 2033.²⁶

Key considerations

- During bond design, the various barriers that may hinder stakeholder engagement should be considered. For private actors, which includes investors as well as corporate issuers, barriers can include high transaction costs, credibility concerns, commercial and market risk, and limited investor demand.²⁷ For public actors, primarily government issuers, barriers relate to the suitability of the instrument. The suitability of a bond depends on the country's financial stability, political risks, and forest policy. The issuing government must be able to effectively absorb and manage large influxes of upfront finance, as well as have the resources to repay finance over the long term. For many forest countries that are already heavily indebted, such an instrument may not be suitable.²⁸
- Bond implementers should be prepared for different stakeholders to engage at different stages. Impact and socially responsible investors are more likely to accept lower returns and invest in new bonds, while institutional investors will more likely be attracted to already-established bonds.²⁹
- While any of the bond types listed above may be used to finance forest-supportive activities, they may also be used to fund land-based activities that have negative, indirect impacts on forests. For example, green bonds may be used to fund biofuel or forest supply chain projects which, while classified as green projects, may increase pressures on local forests and forest resources. In general, the absence of global, mandatory standards or certification for green bonds can present risks of greenwashing, and potential real risks to the environment. Taking a landscape approach to bond implementation can help to mitigate any adverse impacts.

2.2 Forest funds

Forest funds are financing instruments through which dedicated funding is set aside to support the conservation and sustainable use of forests. Such funds may be used to support a variety of actors as well as activities, depending on the country's needs, including public forest agencies, private actors, community organizations, or a combination of all of these. Forest funds may be coordinated by a national forest or finance ministry or constitute a coordinated spending instrument at the national, regional, or international level.³⁰

While the concept of forest funds is not new, its flexibility as an instrument and ability to leverage multiple sources of financing makes it a promising tool for scaling up finance for forests.

National Forest Funds (NFF) are domestic mechanisms that enable forest country governments to increase and have better control over finance being channeled to domestic forest-supportive activities. Most NFFs draw earmarked income from fees, levies, or taxes, including those that disincentivize unsustainable activities, fund-supported projects or official development assistance (ODA). They may function both as a transfer fund – a platform for distributing funds from different entities to partners on the ground – and a catalytic fund – a source of finance that tackles specific socio-economic obstacles and supports commercial development. The **section 3** case studies present a variety of NFFs: Costa Rica's National Forestry Financing Fund (**Case study 4**), Colombia's Climate Resilience Fund (**Case study 5**), and Indonesia's Reforestation Fund (**Case study 6**).³¹ The examples illustrate the flexibility possible in the design of NFFs, as well as highlight the importance of linking funds to earmarked, reliable, and long-term sources of funding.

Other types of forest funds may be implemented by forest country governments or regional entities but funded and supported by international development organizations, NGOs, and other actors. Examples include the Amazon Fund, CAFI, the recently proposed Tropical Forest Financing Facility, and the conservation funding approach Project Finance for Permanence (PFP).

- **Amazon Fund** is a mechanism developed to tackle deforestation and promote conservation and sustainable forest use in the Brazilian Amazon. The Fund is specifically dedicated to REDD+, a framework developed under the United Nations Framework Convention on Climate Change (UNFCCC) which supports countries' efforts to reduce emissions from deforestation and forest degradation. The Amazon Fund is administered by the Brazilian Development Bank (BNDES) and is funded through donations from a range of country governments, including Brazil, Norway, and Germany.³²
- **Central African Forest Initiative (CAFI)** is a collaborative partnership between six Central African countries, the United Nations Development Programme (UNDP), the UN Food and Agriculture Organization (FAO), the World Bank, and a coalition of international development organizations. It promotes investment and policy reforms at the country level to halt drivers of tropical deforestation.³³

- **Tropical Forest Forever Facility (TFFF)**³⁴ is a forest conservation mechanism proposed by the Brazilian government at COP28, designed to reward countries that have substantially and consistently decreased domestic deforestation and forest degradation.³⁵ It is intended to leverage at least USD 250 billion from sovereign wealth funds and channel it to tropical forest conservation in more than 80 countries. see **(Case study 7)**.
- **Project Finance for Permanence (PFP)** is an approach designed to align efforts on long-term, area-based conservation and facilitate the aggregation of funding from different public and private sources. The PFP approach was conceived in 2011 and has so far facilitated the implementation of conservation projects in several major forest landscapes, including the Brazilian Amazon, Costa Rica, and Canada.³⁶

Barriers addressed

When properly managed and linked to a robust and stable source of revenue, such as fees, fines, or taxes, forest funds can provide a stable source of public finance for forests. This helps to tackle several financing barriers, including high upfront costs and long-term investment needs, while reducing perceived investment risk and attracting additional sources of finance, including from the private sector. Forest funds can be used to decentralize forest management, which can at the same time protect public forest programs from financing risks that may arise through political instability or budget changes and facilitate the delivery of finance to jurisdictional and local-level actors.³⁷

Uptake to date

A 2001 study identified approximately 75 forest funds in existence across 41 countries,³⁸ while a 2014 study identified 70 operational funds with a further 9 under development.³⁹ Several prominent forest funds established by major forest country governments offer a blueprint for future action – see **section 3**.

Forest funds supported by international development organizations have also helped to leverage significant volumes of finance. To date, over USD 730

million has been pledged under the Amazon Fund to projects relating to conservation, the protection of indigenous lands, and the tackling of illegal forest fires. Approximately USD 616 million of this has been disbursed.⁴⁰ Under CAFI, just over USD 890 million has been pledged to date, of which USD 550 million has been disbursed to implementing organizations.⁴¹

Key considerations

- Impactful forest funds require strong policy and political support at the highest levels of government, policies to promote forest tenure security and incentives for active engagement by forest communities, and an investment climate that encourages private-sector investment.⁴²
- During fund design and implementation, the broader enabling environment should be considered to ensure that no adjacent regulation hinders the disbursement of finance from the fund. The impact of a fund is measured in its ability to deliver finance to activities on the ground, not in the volume of finance it accrues through commitments.^b

^b See, for example, the experience of Indonesia's Reforestation Fund, in which large volumes of finance remained unspent due to restrictive spending regulations. See USAID LESTARI (2020) Lessons Learned Technical Brief: Optimization of Reforestation Fund in Central Kalimantan. https://pdf.usaid.gov/pdf_docs/PA00WJ24.pdf.

2.3 Debt reduction instruments

Many countries that host invaluable natural and forest ecosystems under threat are formerly colonized countries that due to past global injustices, now suffer from high levels of debt. These countries tend to also be those most adversely impacted by climate change. Consequently, these governments have limited fiscal space to allocate budgetary spending on conservation and sustainable development. Accessing affordable financing for these activities is also a challenge, due to the perception that they represent high-risk investment environments. Financial instruments such as **debt-for-nature swaps (DNS)** have re-emerged in recent years to achieve the dual goals of biodiversity conservation and debt restructuring.

Countries in the Global South spend a significant proportion of their public revenues to repay their external debt at unsustainable levels⁴³ and are expressing concern over the impact of debt on their ability to build resilience and take ambitious climate action.^{44,45,46} Countries that face debt distress tend to also be those with priority natural and biodiversity conservation areas. A study on 67 countries vulnerable to debt distress found that they are home to over 22 percent of global biodiversity priority areas, a vast majority of which are unprotected. For half of the countries studied, all biodiversity areas could be protected for a fraction of their debt.⁴⁷ The cost of debt is expected to continue increasing in the coming years, which will continue to further divert domestic spending away from critical development priorities, including conserving and protecting critical ecosystems.⁴⁸

With burgeoning debt and limited fiscal space, developing country governments are under even more pressure to exploit their natural assets like intact forests, at the expense of climate, biodiversity, and environmental benefits. Several regional and international initiatives have begun to mobilize multilateral and development institutions to hasten the restructuring and reform of sovereign debt management. Some of the proposals include pausing official debt payments, establishing the G20s Common Framework for Debt treatments to help countries restructure their debt,⁴⁹ and reforming the practices of the International Monetary Fund to increase countries' fiscal space, as spearheaded by the Bridgetown Initiative and the Vulnerable 20 Group.⁵⁰

Efforts to apply these proposals to forest-specific contexts and goals are slowly but surely taking shape. For instance, there are efforts in the Congo Basin to identify and promote financing strategies to help countries in the region achieve the twin goals of development and conservation in critical biodiversity and forest landscapes by WWF, COMIFAC, and Climate Focus.⁵¹ The Congo Basin Forest Partnership (CBFP), through the Fair Deal Task Force,⁵² in collaboration with other regional institutions such as the African Development Bank (AfDB),⁵³ engages governments and grantors to leverage new public and private financing that can unlock new sources of funding for forest-positive activities in the region.

It is still too early to understand the impacts of these proposals as they are yet to be developed and implemented. However, an instrument that has re-emerged in recent years that leverages and reduces debt toward ecosystem protection is **debt-for-nature swaps (DNS)**. DNS are financial

instruments that allow countries to reduce part of their debt in exchange for a commitment to invest in nature-positive activities. DNS usually involves a commitment by a low- or middle-income country to buy back its foreign debt – at a discounted rate – on the condition that it will invest the full amount into nature.

DNS may involve a bilateral deal between official creditors or debt-holding nations, or a tripartite arrangement between a development bank, third-party grantor or investor, and an intermediary such as an NGO.⁵⁴ These two cases are referred to as public and private debt swaps. In a public DNS, the indebted country restructures or buys back debt from the crediting country at a reduced price. Any interest or a share of the price for the buy-back can be channeled to conservation activities (e.g., forest conservation). In a private DNS, an NGO buys back parts of a country's commercial debt from private creditors at a reduced price, and the indebted country repays this debt in full or in part, usually in local currency. The difference between the price of this payment in local currency and the purchase price paid by the NGO for the debt can be invested in conservation measures by channeling it through a fund managed by the NGO.⁵⁵

The **section 3** case studies provide real-world examples of uptake, including a series of DNS between Peru and the U.S. (**Case study 8**), and a sovereign debt strategy implemented in Uruguay (**Case study 9**). The Uruguay case illustrates how different financial instruments can be blended into a debt reduction strategy. The Interamerican Development Bank (IADB) provided a financial guarantee that enabled the transaction, while, in Uruguay, a forest-linked bond provided cheaper credit when goals were achieved, reducing its overall debt in the long run.

Barriers addressed

DNS can be used to support various forest objectives, including restoration, climate mitigation (e.g., nature-based solutions), and forest conservation (e.g., protected areas). Barriers to DNS adoption include high transaction and monitoring costs for projects, a limited number of interested investors and creditors, and problems with long-term debtor commitment.⁵⁶

Uptake to date

DNS have restructured around USD 3 billion in debt since 2015, and single swaps can target debt totaling as much as 1.6 percent of a nation's GDP.⁵⁷ Since the late 1980s, more than 100 DNS have occurred with relatively small size and volume on average.⁵⁸ Looking at the overall scale, however, we can see the marginal impact of DNS on debt service. From 1987-2023, low and middle-income countries treated USD 8.4 billion of their debt through DNS, while they paid more than USD 7.6 trillion in debt services.⁵⁹ Recently, very large swaps have occurred in several countries including Belize (2021)⁶⁰ and Ecuador (2023);⁶¹ though, these have not been developed specifically to support forests but rather for marine conservation. However, DNS has limited effect on the debt relief of countries due to the lack of scale. Although the size of DNS, including for forest conservation, has grown steadily over the years, it remains far too small relative to the immense debt burden countries still face.

Key considerations

- DNS are most suitable in countries that i) have high debt levels and limited public finance or access to alternative financial instruments such as concessional loans⁶² and ii) are rich in biodiversity and natural ecosystems but have limited conservation budget. They must also meet three important conditions, including i) a significant amount of foreign-owned debt, ii) which can be traded at a reduced price and iii) linked to a nature-related conservation activity considered worthy to achieve by the public or private DNS investor.⁶³
- DNS are complex mechanisms that require time and high levels of political will to establish.⁶⁴ DNS often also involve high transaction costs – seen in the cases of Peru (**Case study 8**), Ecuador,⁶⁵ and Belize⁶⁶ – which can in some cases reduce the volume of finance that is ultimately dedicated to conservation activities.
- Efforts to reduce, restructure, or reform a country's debt burden should be implemented in tandem with other instruments such as bonds, guarantees, or concessional finance to maximize the overall impact for countries with high burdens.
- It is also important that nature swaps are implemented with an equity focus and promote nature recovery that is community-led and in alignment with local culture and values. Otherwise, there is a risk that they become another avenue for the Global North to steer nature trajectories in the Global South.

2.4 New market-based mechanisms

New market-based mechanisms are being developed to mobilize financing for forests outside carbon markets. Carbon markets are an important source of financing to protect forests that are immediately under threat, but because the purpose of carbon markets is to mobilize investment in reducing and removing GHG emissions, they have limited utility in protecting forests that are not imminently facing degradation or deforestation or conserving the non-carbon benefits of forests, including biodiversity.⁶⁷ The **High Integrity Forest Investment Initiative (HIFOR)** and **biodiversity credits** are two examples of emerging market-based mechanisms designed to fill this gap.

HIFOR

HIFOR is a mechanism being developed by the Wildlife Conservation Society (WCS) together with technical partners to mobilize finance specifically for the protection of high-integrity tropical forests.⁶⁸

Barriers addressed

In most cases, high-integrity tropical forests cannot access VCM finance because these ecosystems are not under immediate threat of deforestation or degradation, and therefore, protecting them does not avoid GHG emissions. HIFOR helps to fill this finance gap by enabling forest owners and managers, including Indigenous Peoples who manage their territories, to generate and sell HIFOR units. A HIFOR unit embodies the bundle of climate and biodiversity benefits associated with one hectare of well-conserved, high-integrity tropical forest, quantified according to a transparent methodology and verified by a third-party auditor. HIFOR units can be bought by companies, governments, and other entities to demonstrate a quantified contribution to global biodiversity and climate goals. HIFOR represents payment for an environmental services model and purchasing HIFOR units does not support offsetting claims. Projects generating HIFOR units will not be required to have WCS involvement.

A handful of pilot HIFOR projects are currently underway. **Case study 10** presents the ongoing HIFOR pilot in the Republic of Congo.

Uptake to date

HIFOR is still under development.

Biodiversity credits

Biodiversity credits are a financial instrument that promotes the protection and restoration of biodiversity. Biodiversity credits represent net-positive contributions to biodiversity concerning species composition, habitat structure, ecosystem function, and people's use of cultural values associated with biodiversity. Positive contributions are achieved through activities such as preservation or restoration and aim to be measurable, evidence-based, durable, and additional.⁶⁹ Biodiversity credits are promoted in the Kunming-Montreal Global Biodiversity Framework (KM GBF) as one suitable finance tool for leveraging private finance in support of 2030 global biodiversity targets.⁷⁰

Biodiversity offsets, while similar, are distinct from biodiversity credits.⁷¹ Unlike credits, which represent positive contributions to biodiversity, offsets aim to achieve 'no net loss' of biodiversity and are designed to compensate for significant residual biodiversity loss from development projects. Biodiversity offsets are designed to be implemented only after all reasonable steps have been taken to avoid and minimize biodiversity loss at the development site, serving as the last step in the mitigation hierarchy. The "like for like" principle is also key to the concept; that is, the ecosystem to be protected or restored should be as similar as possible to the one lost. **Case study 11** presents one example of a biodiversity offset scheme, Terrasos' habitat banks, which generates biodiversity credits from land conservation in protected areas across Colombia. Habitat banks provide an example of how biodiversity credits can be offered to buyers in aggregated schemes that provide longer-term and more stable payments to landowners.

Barriers addressed

Biodiversity credits attach economic value to protecting and restoring biodiversity. They account for the non-carbon benefits of natural ecosystems, the value of which is not always reflected in other market-based financing mechanisms.

Uptake to date

Biodiversity crediting schemes and markets are still under development and lack common definitions and principles.⁷² There are voluntary and regulated schemes operating at national and international levels. Some schemes make explicit reference to forests, such as the Libreville Plan, which includes an option to buy biodiversity credits as a way to reward High-Forest-Low-Deforestation countries for their contribution to forest conservation.⁷³ Private schemes, such as HIFOR, also recognize that biodiversity credits could be stacked with other units generated from a nature-based project or included in an investment portfolio that aligns with the KM GBF targets.⁷⁴

Key considerations

- While demand for HIFOR units and biodiversity credits may, in the future, be driven by companies seeking to contribute to Beyond Value Chain Mitigation and the KM GBF, they remain nascent, and it is not yet clear how much demand there will be from the private sector.
- HIFOR units and biodiversity credits may benefit from regulations that require companies to make investments in nature or compensate for harm, as in the case of habitat banks in Colombia (see **Case Study 2**).
- Establishing effective monitoring, reporting and verification (MRV) systems as well as protecting the rights of IP and LC has presented challenges for biodiversity crediting frameworks. Effective crediting models should have strong social safeguards which help to not only protect, but enhance, the livelihoods of these communities.

2.5 Indigenous Peoples and local community-led funds

Indigenous Peoples and local community-led funds refer to funding mechanisms created by Indigenous Peoples (IPs), local communities (LCs),^c and/or their representative organizations in response to the extreme finance gap faced by Indigenous Peoples and Local Communities.⁷⁵ These funds prioritize strengthening technical capacities, identifying priorities, and measuring impact in alignment with IPs' and LCs' self-determined needs.⁷⁶ Indigenous Peoples and community-led funds are an alternative mechanism to philanthropic, government, or private finance, all of which are top-down mechanisms with requirements that restrict the ability of IPs and LCs to access funding or use it in alignment with their priorities. Indigenous Peoples and local community-led funds are considered emerging forest financial instruments because the international community is finally responding to the long-term demands of IP and LC organizations to channel finance directly to them.⁷⁷ recognizing well-documented role as the most-effective stewards of vast forest areas.⁷⁸ Financing IPs' and LCs' priorities directly acknowledges these stakeholders as partners, and not beneficiaries, while conserving forests and the carbon, biodiversity, and irreplaceable cultural heritage they contain.

^c The use of the terms 'Indigenous Peoples' and 'local communities' in this context does not imply that these two groups have the same rights or recognition under international law. Indigenous Peoples hold unique rights under the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), whereas local communities refer to those who do not identify as Indigenous but share a deep connection with and responsibility for the conservation of forest ecosystems over time, such as Afro-descendants, pastoralists, fisherfolk, and others.

Since 2020, global yearly disbursements of funding that support IPs', LCs', and Afro-descendant peoples' tenure rights and forest guardianship averaged USD 517 million, representing a 36 percent increase over the preceding 4 years.⁷⁹ However, this remains a tiny fraction of all forest, climate, development aid, and philanthropic finance. From 2011-20, approximately USD 270 million per year was disbursed to projects supporting IP and LC forest management, but only 17 percent of these projects involved a participating IP or LC organization.⁸⁰ IPs and LCs received less than one percent of the amount of Official Development Assistance (ODA) directed toward climate adaptation and mitigation in the same years.⁸¹ An analysis of philanthropic grants found that from 2016-20, only 0.6 percent of giving benefited IPs, and only 0.3 percent went directly to Indigenous governments or organizations.⁸² A recent progress report found that only 7 percent of funds delivered so far (USD \$ 1.7 billion) under the COP26 pledge reached IP and LC groups directly.⁸³

Many existing financial instruments are difficult for IPs and LCs to access. This is due to a number of reasons, including: funder perceptions that giving directly to IPs and LCs is high risk; complex rules that hinder fund dispersal; administrative or logistical constraints for IP and LC organizations (e.g., not having access to banking services); the lack of resource access rights; plus insufficient local governance, fund-management structures, and language barriers.^{84,85}

While funders may be recognizing the importance of channeling funding to the local level, many still impose stringent criteria for receiving and reporting on funds. Funders perceive IPs' and LCs' organizations as higher risks due to their perceived lack of existing capacity to navigate international financial systems and expect their organizations to conform to fiduciary requirements that are designed for Global Northern organizations. As a result, funding for forest conservation and restoration tends to be large-scale but goes to intermediary organizations such as consulting firms, international conservation organizations, or multilateral institutions.⁸⁶

Ultimately, these challenges are the result of colonial finance structures that prioritize Global North approaches to funding and development and operate with a fundamental assumption that IPs and LCs are, at best, mere beneficiaries or recipients of funds but not full partners with capacities to manage and determine spending.⁸⁷ Indigenous and community-led funds

offer a decolonial alternative that places IPs and LCs in control of how funding is disbursed, used, and tracked.

Barriers addressed

Indigenous Peoples and community-led funds aim to increase IPs' and LCs' access to and control over finance, prioritizing IPs' and LCs' needs in disbursement and implementation. These funds can be designed to reduce complex application and reporting procedures, address language barriers, and build capacity for financial management — all of which are barriers to IPs, LCs, and their representative organizations accessing finance.

Uptake to date

Indigenous Peoples and local community-led funds include the following:⁸⁸

- **Mesoamerican Territorial Fund (FTM):** established by the Mesoamerican Alliance of People and Forests (AMPB for its acronym in Spanish) to support territorial development and governance in forests across Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama (**Case study 12**).
- **Nusantara Fund:** established by Aliansi Masyarakat Adat Nusantara (AMAN) and two other community organizations to provide direct funding to IPs and LCs in Indonesia (**Case study 13**).
- **Shandia:** an alliance and political platform set up by the Global Alliance of Territorial Communities (GATC) to establish and strengthen territorial funding instruments led by IP and LCs around the world. It represents 35 million IP and LC people in 24 countries defending over 958 million hectares of forest from Africa, Asia, and Latin America.
- **Indigenous Peoples of Asia Solidarity Fund (IPAS):** a regional-level mechanism established to provide direct funding to IPs in 14 Asian countries.
- **AYNI Indigenous Women's Fund:** established by the International Indigenous Women's Forum to strengthen the capacities and project implementation of Indigenous women's organizations.

- **Podáali Fund:** the first Indigenous-led fund covering the Brazilian Amazon is the result of over 20 years of reflection and collaboration within the Indigenous Movement of the Amazon to create its own mechanism to support Indigenous Peoples' sustainability initiatives. The objective of the Fund is to strengthen the self-determination, agency, cultures, and lifestyles of Indigenous Peoples and promote the autonomous and sustainable management of territories and natural resources, aiming at the good living of Indigenous Peoples and all humanity.

Finance for IPs and LCs comes directly or indirectly from non-governmental organizations (NGOs) including international conservation organizations, and multilateral institutions such as UN agencies, governments, philanthropies, and the private sector. The majority of funding to support IPs' and LCs' rights, leadership, and priorities currently comes from national and local NGOs, which often distribute funds from multilateral and bilateral organizations.⁸⁹ Direct funding to Indigenous and local community-led funds remains small, but these mechanisms are focused on increasing fundraising capacity.⁹⁰ Initiatives such as the Paris Roadmap for Tracking of Funds led by Shandia and Charapa,⁹¹ Path to Scale and the COP26 IPLC Forest Tenure Pledge,⁹² and the Community Land Rights and Conservation Finance Initiative (CLARIFI),⁹³ as well as organizations like The Tenure Facility, are working to increase finance flows directly to IPs and LCs, including through Indigenous and local community-led funds.

International funders have expressed interest in localizing their funding, but data on funding to IPs, LCs, and Afro-descendant Peoples (ADPs) do not show this shift occurring yet. Just 140 projects – 3 percent of the projects that support IPs, LCs, and ADPs – account for more than half of all funding disbursed to these groups.⁹⁴ The lack of evidence for a localization shift in funding modalities underscores the need for IPs and LCs to have their own sources of finance.

Key considerations

- While funding entities may be recognizing the importance of channeling funding to the local level, many still channel their funds via large intermediaries or international organizations that impose complex administrative processes and requirements upon IP, LC organizations, which tends to exclude local and smaller entities that need support most. Funding organizations should prioritize direct access funding for IPs and LCs and projects that are proposed and led by these organizations, over intermediaries.⁹⁵
- Funding entities should also prioritize simplifying their administrative and fiduciary requirements and processes and reduce costs to ensure maximum funding reaches the ground. The Tenure Facility's formula of providing large, long-term grants to IPs and LCs while providing financial assurance and risk management support could be a model to other funders for how to channel finance directly.⁹⁶
- Transparent reporting on funding provided to IP and LC groups is crucial to ensure that financing reaches the intended actors and addresses priority needs. In 2023, the United Nations Permanent Forum on Indigenous Issues (UNPFII) recommended that the Development Assistance Committee of the Organization for Economic Co-operation and Development (OECD-DAC) include a marker to track funding allocated to IPs,⁹⁷ and similar markers could be included by other databases that track public and philanthropic funding. GATC and Charapa are developing a roadmap for enhancing transparency of funding to Indigenous Peoples that includes a framework for labeling funds,⁹⁸ and the Path to Scale Dashboard is a centralized platform tracking funding provided to IPs and LCs.⁹⁹ These initiatives can improve transparency; in addition, by tracking how funding leads to maintaining forest integrity and enhancing community benefits can inform future funding strategies.

3. Instruments in practice

Bonds

Case study 1. Brazil's Sovereign Sustainable Bond

Case study 2. Forest Resilience Bond in California's Tahoe National Forest

Case study 3. The Living Amazon Mechanism

Forest funds

Case study 4. Costa Rica's National Forestry Financing Fund

Case study 5. Recycling revenues from Colombia's carbon tax

Case study 6. Indonesia's Reforestation Fund

Case study 7. Tropical Forest Forever Facility

Debt reduction instruments

Case study 8. Series of three bilateral Peru-U.S. DNS (2002 - 2023)

Case study 9. Uruguay's sustainability-linked bond aligned with sovereign debt strategy (2022)

New market-based mechanisms

Case study 10. HIFOR Republic of Congo pilot

Case study 11. Terrasos Habitat Banks

Indigenous Peoples and local community-led funds

Case study 12. Mesoamerican Territorial Fund

Case study 13. Nusantara Fund



Case study 1. Brazil's Sovereign Sustainable Bond

What is the instrument?

In 2023 and 2024, to meet ambitious national GHG emissions reduction targets, Brazil issued its two first Sovereign Sustainable Bonds. The bonds allocate resources to finance budget programs and projects that advance forest conservation, support restoration, and combat deforestation, specifically to reduce GHG emissions, increase sustainable land and natural resource management, and preserve terrestrial and aquatic biodiversity. By issuing the bonds, Brazil became the eighth Latin American country to do so, following similar issuances by Chile, Colombia, Uruguay, Ecuador, Guatemala, Mexico, and Peru.

Why was it created?

Brazil's Sovereign Sustainable Bond was developed to help tackle financing challenges relating to domestic GHG reduction, natural resource conservation, social development, and climate resilience. It can also help to reduce perceived investment risk through its rigorous monitoring and reporting mechanisms; by ensuring transparency and accountability, these bonds can encourage greater participation from the private sector.

How does it work?

The Sovereign Sustainable Bond is a debt instrument that raises funds to finance budgetary programs, expenditures, and projects with environmental and social benefits.

Approximately half of the generated funds go to environmental initiatives while the other half are allocated to social programs. The bond was developed according to Brazil's Framework for Sustainable Sovereign Bonds, which aligns with international best practices and defines nine categories of eligible projects and programs with environmental benefits and five with social benefits, along with exclusion criteria.

Eligible expenses are tied to Brazil's national legislation like the Annual Budget Law and Multiannual Plan. Interest and principal of sustainable bonds are overseen by Brazil's National Treasury to ensure that investors assume no risk associated with any portfolio expenses. The bonds were intended to diversify the country's private investor base by attracting international actors. The bonds were issued with a maturity of 7 years and an interest rate of 6.5 percent.¹⁰⁰

A Sovereign Sustainable Finance Committee composed of representatives from different government agencies is responsible for resource allocation, oversight, planning, implementation, and monitoring, as well as tracking emissions related to the bonds.

How much funding has been mobilized to date?

In November 2023, the inaugural issuance raised USD 2 billion by extending debt maturity, accessing new investors, and supporting Brazil's debt management strategy. In June 2024, Brazil's second issuance raised an additional USD 2 billion, with 77 percent of non-resident investors.

Because the bonds have only recently been released, it is too early to conclude the impacts and lessons learned.

Case study 2. Forest Resilience Bond in California's Tahoe National Forest

What is the instrument?

In 2018, a public-private partnership Forest Resilience Bond (FRB) was formed by the non-profit Blue Forest, the U.S. Forest Service (USFS), the World Resources Institute, and the National Forest Foundation (NFF). Its objective was to help direct private capital toward USFS-guided forest restoration and watershed activities in the Tahoe National Forest that generate environmental and social benefits.

Why was it created?

Due to a long history of wildfire suppression and commercial logging, California's forest is unnaturally dense and homogenous, increasing wildfire risk and degrading water resources. Under drought conditions and with a warming climate, wildfires in the state have grown larger, more frequent, and increasingly destructive. Fourteen of California's twenty largest wildfires on record have occurred since 2008,¹⁰¹ and from 2017-21, losses from wildfire were estimated at more than USD 117 billion on average annually.¹⁰² To mitigate these risks, more than 2.5 million hectares of forest lands in California require restoration treatments,¹⁰³ but immediate funding is limited and has been slow to disperse.

How does it work?

Blue Forest administers the bond, serving as the investment developer and sponsor. Investors – including pension funds, impact investors, insurance companies, or foundations – provide concessional and commercial loans to FSB Yuba Project LLC, a subsidiary and special purpose vehicle (SPV) that is fully owned by Blue Forest. From this subsidiary, investors receive fixed returns on investment of 4 percent for commercial lenders and 1 percent for concessional lenders. In addition, the state, philanthropic foundations, and federal forest agencies bolster funding to the subsidiary with grants and in-kind contributions. The subsidiary disperses loans to the implementation partner, NFF, to conduct the restoration, fuel treatment, and regeneration activities for the local partners, who make contracted annual payments to the subsidiary. The FRB directly benefits government agencies, private landowners, utilities, companies, and other stakeholders, providing disaster risk reduction, water quality enhancement, wildlife habitat, and forest restoration.¹⁰⁴

How much funding has been mobilized to date?

In its first phase, the FRB raised USD 4 million in capital from 4 investors. The second phase, launched in 2021 and now underway, has secured USD 25 million in capital to finance fire treatment activities.¹⁰⁵

How is funding being used?

In its first phase, the FRB restored and protected 1,083 hectares and 3,247 hectares of ecosystems, respectively, protected 34 million cubic meters of source water supply, and sustained 72 jobs. The second phase targets 11,331 hectares and aims to protect about 19,425 hectares of forest. Blue Forest has also conducted or planned similar projects across the Western United States.

What lessons have been learned?

The program has encountered several challenges. A complex contracting process – with requirements from government agencies, investors, and foundations over 18 months – slowed the first project, but subsequent projects moved more quickly once structures were established.¹⁰⁶ For shares and payments, Blue Forest first tried using a pay-for-performance model, linking the repayment frequency and amount to environmental outcomes, but it proved too complex. Instead, fixed repayments were calculated according to the economic value of environmental outcomes, reducing risk and lowering capital costs for investors.¹⁰⁷ Investor repayment of the FRB is tied to certain milestones, such as federal and state funding that is reimbursable upon project completion. In this sense, the FRB is not a financial bond but rather a fixed repayment lending structure.

These challenges offer useful lessons for other bond implementers. The possibility of a slow start-up phase should be planned and accounted for in the bond design, as should flexibility for implementing alternative payment structures. As this case study shows, considering costs and risks to investors should be central to the design of payment structures.

Case study 3. The Living Amazon Mechanism

What is the instrument?

The Living Amazon Mechanism is a blended financial instrument designed to enhance socio-bioeconomic value chains and support income generation among IP and LC in the Amazon. Its objective is to prevent the conversion of native forests from harmful economic activities by strengthening the value chains of non-timber forest products (NTFPs), which are usually collected in native forests rather than harvested in monocultures.

Why was it created?

The Brazilian Amazon holds huge potential for the development of a sustainable bioeconomy, hosting a huge variety of tropical commodities which includes açai, Brazil nut, pepper, and cacao. Yet, current value chains lack productive capacity, infrastructure, and financing. They also often lose out to more profitable activities such as cattle farming and monocultures. The objective of the instrument is to provide concessional finance to IP and LC cooperatives and associations, which helps to incentivize sustainable production and build stronger value chains for NTFPs.

How does it work?

Natura, an international cosmetics company that sources bio-ingredients from Brazilian forests for its products, serves as the instruments' anchor investor and off-taker. Natura is an alumnus of the Global Innovation Lab for Climate Finance.¹⁰⁸ The instrument was originally conceptualized as a debt mechanism composed of two parts: a Receivables Fund and an Enabling Conditions Facility. The Receivables Fund provides direct credit lines to cooperatives and associations. Its capital structure includes a subordinated tranche (first-loss risk absorption) and a senior tranche, with off-takers and concessional investors participating in the subordinated tranche. The Enabling Conditions Facility (ECF) aims to enhance suppliers' capabilities to deliver quality products and increase productivity through technical, financial, and productive support. It is managed by the Brazilian Fund for Biodiversity (FUNBIO). The ECF focuses on strengthening forest communities, cooperatives, and associations to meet market demands and ensure sustainable livelihoods.

In its initial phase, rather than being based on the receivables fund, it used a Brazilian type of bond called CRA – Agribusiness Receivables Certificate, which is a debt mechanism issued from a securitization company backed on

receivables from the agricultural sector. This is a very well-known financial instrument in the Brazilian capital market, commonly used as an alternative to traditional bank credit lines. The CRAs, however, are not exclusively for green or sustainable finance and can be used for either traditional or transactions with sustainable aspects.

In the specific case of the Living Amazon Mechanism, the receivables were based on IPLCs cooperatives sales of NTFPs, having Natura as a major off-taker. The presence of an off-taker having long-term agreements with these cooperatives helps the development of the value chain, provides clarity to suppliers, and mitigates repayment risks to investors. The Living Amazon Mechanism allows access to capital markets and companies to take on a role traditionally held by financial institutions while creating more opportunities to bring additional value to suppliers. Even though it has sustainable aspects, this transaction was not labeled as a green/sustainable bond under any public or private taxonomy.

How much funding has been mobilized to date?

In its initial stage, the project mobilized approximately BRL 12 million (USD 2.5 million) from private and philanthropic capital¹⁰⁹ and recently secured funds from the Global Environmental Facility (GEF)¹¹⁰ to leverage private capital. This CRA, backed by receivables from 10 local cooperatives, allocated 80 percent of proceeds to operational costs and 20 percent to long-term capital expenditures.

What lessons have been learned?

Translating the complexity of capital markets to local cooperatives was a significant challenge that the instrument helped address as a first step. Achieving full commercial viability while decreasing reliance on non-commercial capital remains a significant challenge, but Natura's role as an anchor investor and off-taker has been crucial to attracting other stakeholders for engaging into the structure and offers a useful example for other private companies seeking to engage in similar sustainable financing initiatives.

Because the mechanism has only recently been implemented, it is too early to draw conclusions about impacts.

Case study 4. Costa Rica's National Forestry Financing Fund

What is the instrument?

Although international funding has always been an important addition to Costa Rica's budget for nature, the country has historically covered the costs of conserving its forests using its resources.¹¹¹ The most important instrument in this regard has been the National Forestry Financing Fund (FONAFIFO). FONAFIFO has been credited for decreasing the country's deforestation rate, which was once among the highest in the world, and increasing tree cover.¹¹² FONAFIFO is based on the "simple but proven principle" that the state pays landowners to protect the forest on their land with the money coming mainly from fuel taxes.¹¹³

Why was it created?

During most of the 20th century, Costa Rica focused on agriculture for its economic development and enacted laws that encouraged the conversion of forest ecosystems into agricultural land. As a result, the country lost half of its mature forest from 1940-80.¹¹⁴ Starting in the late 1970s, the Costa Rican government became increasingly alarmed about the high rate of deforestation and its negative effects. To combat deforestation, the government adopted various forestry laws from 1979-96 which included financial incentives such as tax deductibles and forest bond certificates for reforestation activities. FONAFIFO was created under the Forestry Law of 1996 to consolidate existing financial instruments for forests into a single system and channel money to forest conservation and restoration more effectively and efficiently.¹¹⁵

How does it work?

Among FONAFIFO's main funding pillars is Costa Rica's national tax on fossil fuels. The 3.5 percent tax has been collected since 1997 and generates an annual revenue of USD 26.5 million.¹¹⁶ The fund channels this revenue to small and medium-sized producers who engage in forest plantation and reforestation, the establishment of forest nurseries and agroforestry systems, the rehabilitation of degraded areas, and the provision of environmental services from forests, forest plantations, or other activities. Direct beneficiaries include companies, individuals, and communities. Access to funding is conditional upon transparent funding requests and registration processes.¹¹⁷ The government prioritizes areas with high levels of poverty and assists smallholders and Indigenous communities in submitting requests for funds.

Forty percent of beneficiaries are communities living below the poverty line.¹¹⁸ Since 2021 Costa Rica has expanded its payment for ecosystem services (PES) with funds from the GCF REDD-plus results-based payments (RBPs) pilot programme.¹¹⁹

How much funding has been mobilized to date?

From 1997-2018, a total of USD 500 million was provided to around 19,000 farmers and landowners who committed to undertake rainforest protection and restoration activities on their property.¹²⁰

How is funding being used?

From 1997-2018, FONAFIFO paid landowners across 1.2 million hectares (23.5 percent of Costa Rica's national area) for protecting 1 million hectares of mature forests and reforesting 71,000 hectares. Beneficiaries also include people living across 162,000 hectares of Indigenous lands such as the Cabécar and Bribri territories.¹²¹ With resources from RBPs, FONAFIFO paid landowners to protect forests in over 652,600 hectares (12% in Indigenous territories) benefiting 32,00 Indigenous individuals (42% women), and 20,00 non-Indigenous Peoples (20% women).¹²² These achievements were independently verified by an external evaluator.

What lessons have been learned?

Transparency and accountability have been crucial for FONAFIFO's success and its continued popularity. For example, all strategic and operational plans, budgets, financial statements, and other information are available online.¹²³ In recent years, however, the fund has faced challenges in the wake of the Covid-19 pandemic. Public health restrictions on vehicle use led to lower fuel consumption and lower income from the national fossil fuel tax resulting in a budgetary gap of approximately USD 1.5 million in 2020.¹²⁴ To bridge this gap, the Costa Rican government was able to access REDD+ results-based payments from the GCF. As of September 2024, over USD 40 million has been transferred from the GCF to strengthen Costa Rica's Payment for Environmental Services program, which includes contracts in Indigenous territories.¹²⁵ A key takeaway from this is the importance of taking a landscape approach to forest financing, which allows for parallel efforts and financing streams to be aggregated when necessary. The program was also strengthened through evidence-based recommendations from the independent verification.

Case study 5. Recycling revenues from Colombia's carbon tax

What is the instrument?

Colombia has several public funding instruments that facilitate the flow of finance to forests, one of which is the national carbon tax. The revenue from the carbon tax flows into various environmental funds, including the Sustainability and Climate Resilience Fund (FONSUREC), the Peace Fund, and Herencia Colombia, a PFP initiative.¹²⁶

Why was it created?

Colombia's carbon tax seeks to help achieve the country's national commitments to reduce greenhouse gas emissions. The tax was adopted in 2016 as part of a sweeping fiscal reform to raise money for Colombia's peace process.¹²⁷ FONSUREC was created in 2022 to provide the public sector with large-scale funding for climate investments.¹²⁸ The Peace Fund was established in 2016 to finance Colombia's national peace process. Some of its funds are earmarked for environmental peacebuilding such as a program for the substitution of illicitly used crops.¹²⁹

How does it work?

Since 2017, companies must pay a tax of USD 5 per tCO₂eq when selling, producing, and importing gasoline, kerosene, jet fuel, diesel fuel, and fuel oil. The level of taxation depends on the volume of fuel and the greenhouse gas intensity of the respective fuel. Coal will be taxed beginning in 2025.¹³⁰

Since 2023, 80 percent of the revenue from the carbon tax has been allocated to FONSUREC, which uses the funds to reduce and monitor deforestation, conserve water resources, and protect, conserve, restore, and sustainably use strategic areas and ecosystems. The remaining 20 percent of the tax revenue is transferred to the Peace Fund, which was set up to finance Colombia's national peace process.¹³¹ Approximately 25 percent of the Peace Fund is earmarked for various environmental causes, including the reduction and monitoring of deforestation, and 5 percent is earmarked for strengthening the national system of protected areas. The ecosystems that the fund aims to protect as a priority include riparian forests, tropical montane cloud forests, tropical humid forests, and Andean forests.¹³²

Colombia's carbon tax is also connected to a non-taxation carbon neutrality mechanism. Instead of paying the tax, companies subject to the tax have the option to purchase certified emission reduction credits from projects

for the conservation and restoration of ecosystems in Colombia that meet internationally recognized certification standards. This mechanism helps to finance nature-based climate mitigation measures, particularly in the forestry sector.¹³³

How much funding has been mobilized to date?

From 2017-22, the carbon tax had already generated at least USD 350 million, exceeding the Ministry of Environment's previous budget. No information has been made available on the quantity of finance channeled to FONSUREC or the Peace Fund to date.

How is funding being used?

So far, there is little evidence of the impact of Colombia's carbon tax on its forests. However, the allocation system, which clearly defines where the tax revenue should go, facilitates the efficient use of tax revenue for forest conservation.¹³⁴ The impact of the scheme and the lessons it provides for the implementers of similar initiatives will depend on the level of carbon pricing and the ability of the scheme to efficiently allocate resources to impactful activities, mobilize private investment, and create a pipeline of investable projects.¹³⁵

Case study 6. Indonesia's Reforestation Fund

What is the instrument?

Dana Bagi Hasil-Dana Reboisasi, DBH-DR is a national program dedicated to supporting reforestation and forest rehabilitation in Indonesia.

Why was it created?

The history of the country's Reforestation Fund (Dana Reboisasi, DR) is firmly rooted in the politics of commercial logging under Suharto's New Order regime from 1966-98. In the 1980s, the Suharto government took a series of steps to concentrate control over timber rents in Indonesia's forestry sector. The government introduced the volume-based levy on timber production, which later became the Dana Reboisasi (DR). The DR was set up as an extra-budgetary resource for the Ministry of Forestry to finance reforestation and forest rehabilitation.¹³⁶ In 2004, following regulatory changes that saw the transfer of authority over forestry affairs from the regency government to provincial governments, the fund was changed from a special allocation fund (Dana Alokasi Khusus, DAK) to a revenue sharing fund (Dana Bagi Hasil, DBH), which distributes revenues between the central, provincial, and district governments.

How does it work?

The DBH-DR is financed through a volume-based levy on timber which concessionaires must pay for harvesting timber in natural forests.¹³⁷ Funds are earmarked for reforestation, rehabilitation of forests and degraded land, and supporting activities such as forest fire prevention and control, research and development, and capacity-building for local communities.¹³⁸

Forty percent of DBH-DR funds are distributed among provincial and district governments for financing reforestation and rehabilitation activities in producer regions. Sixty percent of funds are administered by the national government for reforestation and rehabilitation outside of producing areas as well as for supporting activities.

How much funding has been mobilized to date?

From 1989-2013, the DR had an aggregated revenue of USD 5.8 billion, making it the largest source of government revenue from the commercial forestry sector in Indonesia.¹³⁹

How is funding being used?

The exact impact of the DBH-DR on Indonesia's forests has not been quantified. According to Indonesia's Enhanced Nationally Determined Contribution (NDC) submitted in 2022, approximately USD 144 million from the DR has been used since 2019 to finance the implementation of Indonesia's NDC.¹⁴⁰

What lessons have been learned?

During the Suharto era, the fund's effectiveness was low due to poor financial management and revenue administration, corruption, and fraud. For example, the ministry disbursed USD 600 million to finance politically favored projects outside the DAK-DR's mandate of promoting reforestation and forest rehabilitation.

Since 1998, successive post-Suharto governments have taken steps to improve transparency and accountability of fund administration by transferring authority over the DR to the Ministry of Finance. At the same time, however, the rules for how the DBH DR funds can be used and the processes for doing so have been so restrictive that the majority of financing (over 70 percent) remained unused in the regional treasury until 2019. Reasons for this included a government regulation that stipulated that DR funds could only be used for Forest and Land Rehabilitation (RHL), even though the country has limited land suitable for rehabilitation. Since 2017, the government has made a concerted effort to optimize the use of the DBH-DR by broadening the scope of activities for which the funds may be used. The new regulation now includes a range of activities related to forest and land rehabilitation, social forestry, forest security, and forest protection.^{141,142}

The example of Indonesia's Reforestation Fund illustrates how important it is that country governments consider not only the financing but also the functioning of forest funds during their design. Funds should be embedded in a policy environment where regulation not only enables but facilitates, the flow of earmarked funds to priority forest activities. Such an environment can help to ensure that finance is not only committed but also reaches activities on the ground.

Case study 7. Tropical Forest Forever Facility

What is the instrument?

The Tropical Forest Forever Facility (TFFF) is a global forest conservation payment mechanism proposed by the Brazilian government at COP28.¹⁴³ The instrument would provide explicit, direct, and straightforward payments to governments in 80 tropical countries that are working to protect and restore forests.

Why was it created?

The TFFF is proposed as a multilateral investment fund intended to incentivize tropical forest nations to slow and reverse deforestation and forest degradation. The vision for this facility emerged at the heels of the Amazon Fund's creation, which is to create a mechanism that, unlike REDD+, is not based on demonstrating large-scale emissions reductions in exchange for payments. Instead, the focus is on the scale of land to be conserved. The rationale for such a proposal is to mobilize large-scale conservation and restoration of tropical forests. Despite the many pledges, sufficient funding has not been mobilized, and where it is made available, access to finance can be complex.¹⁴⁴ These have been challenges faced by forest countries in the context of REDD+.^{145, 146} Furthermore, intact forests not facing imminent threats are not eligible for REDD+ financing, due to a lack of additionality arguments. By providing an explicit value per hectare conserved or restored, the TFFF would help correct market failures that do not account for the value of ecological services provided by forest ecosystems.

The mechanism is still under development, intending to initially raise up to USD 250 billion from public and private sources for disbursement to tropical forest countries taking action to tackle deforestation. Annual payment to countries is based on preserved forest cover. There will be no requirement for developing baselines, reference levels, or calculation of emissions levels, but countries will be required to have a transparent and robust way of measuring native forest cover. All hectares of tropical vegetation would have the same value, set tentatively at USD 30 per hectare. If a country commits to preserve 1 million hectares, it will receive USD 30 million. However, if it deforests 1 hectare, actors will forfeit a payment equivalent to 100 times the value of the hectare. This would create a large disincentive for participating actors to deforest.¹⁴⁷

How does it work?

Sources of financing for the facility are under discussion. In the medium to long term, the contributors to the fund could include sovereign wealth funds and multilateral funds, such as a World Bank investment fund, and profits from investments would go toward paying for conservation. In the shorter term, sectoral pledges from economic industries such as agriculture and oil, among others can contribute financially to protect the world's forests, beyond their own decarbonization.

The TFFF is designed to rely on existing finance mechanisms and avoid increasing funding demands on government budgets. The financial structure is based on the provision of low-cost deposits over a long-term investment strategy:

- **Sponsor countries** make long-term (20+ years), low-interest deposits in the TFFF or provide guarantees which enable it to issue low-cost bonds.
- **TFFF reinvests capital** in a diversified, fixed-income, and equity investment portfolio that generates a higher financial return. The surplus finance accrues to the account of tropical forest countries.
- **Monitoring and verification** using satellites helps to determine forest cover in participating countries.
- **TFFF proceeds** are allocated based on performance and the size of qualifying forests.

The TFFF would not involve direct expenditure or grants by sovereign sponsors but rather the provision of a loan or deposit that will be repaid. Participating tropical forest countries receive investment returns if they show evidence of successful forest conservation and restoration. The current proposal states that to be eligible to receive returns forest countries would be required to keep the deforestation rate below 0.5 percent, and allocation will be reduced by the equivalent of 100 hectares for each 1 hectare deforested or degraded.

Forest countries' initial shares in TFFF's returns would be based on their respective proportions of the total area of qualifying forest covered by TFFF. Participating countries that successfully meet the forest conservation

threshold would have the choice to receive periodic cash payments or keep their returns invested in the TFFF portfolio to grow with interest over time. The TFFF is intended to grow to a value of USD 100 to 125 billion, with participating forest countries likely to expect a share of between 3.5 to 4 percent of this total value.

What are the next steps?

The World Bank is currently acting as a strategic partner to the Government of Brazil in the development of the proposal, and a designated Working Group will continue with the design, validation, and consultation phases throughout 2024. A number of key characteristics are still to be defined; for instance, the proposal suggests that forest country governments would initially receive USD 30 per hectare of forest protection, but it remains to be seen whether this amount will be sufficient to cover needs and incentivize action.

Case study 8. Series of three bilateral Peru-U.S. DNS (2002 - 2023)

What is the instrument?

In 2023, the governments of Peru and the United States, in partnership with four international environmental groups, finalized a bilateral DNS and forest conservation agreement to protect the Peruvian Amazon. It was the third in a series of bilateral DNS agreements – the first two in 2002 and 2008 generated roughly USD 36 million for conservation – between the two countries.¹⁴⁸ Under the 2023 agreement, activities are planned to take place in 3 highly biodiverse priority areas of the Amazon that collectively cover about 10 percent of the country.¹⁴⁹

How does it work?

Over 13 years, the most recent DNS agreement will reduce Peru's debt burden by USD 20 million to fund efforts to conserve protected areas, advance natural resource management, and develop sustainable livelihoods for forest-dwelling communities.¹⁵⁰ Under the agreement, the Government of Peru will redirect its debt payments into a conservation fund that provides grants for conservation, restoration, management, and sustainable use activities. The Peruvian Trust Fund for National Parks and Protected Areas (Profonampe) administers the grants, and the international environmental groups donated an additional 3 million USD to the 2023 DNS.

How much funding has been mobilized to date?

In total, the 3 DNS agreements have helped to mobilize approximately USD 56 million for conservation activities in Peru from 2002-36.¹⁵¹

How is funding being used?

In 2002 and 2008, the DNS agreements established a framework for implementation and made strides in achieving its forest conservation goals. A five-member oversight committee – including representatives from each government and participating environmental group – was established to oversee DNS terms and review grant applications from local NGOs.¹⁵² Projects were implemented by local NGOs, including local partners of the four international environmental groups. In 2008, the DNS funded a wide range of activities, including community resource management (28 percent), guard post construction to reduce illegal logging (21 percent), inspections of forest concessions (12 percent), technical assistance for forest concessionaires (10 percent), environmental education (8 percent), establishment of municipal

conservation areas (8 percent), biological monitoring (5 percent), and logistical support for protected area management (4 percent).¹⁵³

What lessons have been learned?

As the third DNS is now underway, lessons can be drawn from the outcomes of the initial two. In 2008, some projects lacked a long-term monitoring plan or formal evaluation, underscoring the need for better tools to evaluate projects. In some cases, decision-making involvement from so many partners (e.g., local partners and international NGOs) reduced overall accountability and slowed administrative activity. Importantly, short funding cycles of projects, coupled with limited engagement with the oversight committee, limited capacity building within Peru's nonprofit sector, while local capacity gains that did occur were not always well communicated to funders. Other concerns were raised about the longevity of interventions after short-term grants run out (e.g., whether the use of guard posts to monitor illegal timber would cease). Moreover, short project timelines impaired partners' ability to establish projects, build community relationships, reach conservation goals, and demonstrate impact.¹⁵⁴

Case study 9. Uruguay's sustainability-linked bond aligned with sovereign debt strategy (2022)

What is the instrument?

In 2022, the government of Uruguay issued USD 1.5 billion in sustainability-linked bonds (SLBs) under the Sovereign Sustainability-Linked Bond (SSLB) framework, which was jointly prepared by the ministries of Economy and Finance; Environment; Livestock, Agriculture, and Fisheries; Industry, Energy and Mining; and Foreign Affairs, with the technical assistance of the Inter-American Development Bank (IDB) and the United Nations Development Programme (UNDP).¹⁵⁵ The SLB allows Uruguay to align its financing strategy with its climate and environment targets.

How does it work?

The SLB under the SSLB Framework is linked to two key performance indicators (KPIs). The first KPI focuses on the evolution of the intensity of greenhouse gas (GHG) emissions, while the second KPI is linked to the protection and maintenance of native forest areas. Both KPI targets are based on the quantitative goals set for 2025 in Uruguay's Nationally Determined Contributions (NDC), i.e., to cut the aggregate gross GHG emissions intensity by half and maintain a 100 percent native forest coverage.¹⁵⁶ The innovative financing mechanism allows the government to link interest rate payments to the achievement of the KPIs. In other words, investors can reward the country by lowering their borrowing costs if Uruguay meets its ambitious targets. In turn, they can also raise the interest rate if the government fails to meet the targets, and thus, create an innovative financing mechanism that incentivizes sustainable policymaking.¹⁵⁷ This issuance is the first time the IDB has backed a sustainability-linked sovereign bond.¹⁵⁸ The bond will reach maturity in 2034.

How much funding has been mobilized to date?

The government initially planned to issue bonds worth USD 1.5 billion, but total demand far exceeded this, reaching USD 3.96 billion. The issuance attracted 188 investors from Europe, Asia, the United States, and Latin America, 21 percent of which are now holders of Uruguay's debt.¹⁵⁹

How is funding being used?

In its latest annual report from May 2024, Uruguay reported achieving a 46 percent reduction in the intensity of aggregate GHG emissions per real GDP unit, compared to 1990 levels. This means Uruguay is 4 percent short of the 2025 target of reducing its GHG emissions intensity by 50 percent.¹⁶⁰ On the other hand, Uruguay achieved its second KPI of reaching 100 percent

preservation of native forest area, with an actual increase of 11,832 hectares (1.4 percent), compared to 2016.¹⁶¹ The government has stated plans to continue promoting sustainable policies and investments in the energy, transport, and forest sectors to support the achievement of its KPIs and ultimately lower the interest rates of its borrowers.

What lessons have been learned?

The sovereign sustainability-linked loan in Uruguay is the first of its kind for the country and demonstrates how the combination of different tools, including a sovereign bond, a guarantee of an MDB, and a step-up/step-down financing mechanism, can help countries not only with their sovereign debt strategy but also with their climate and environmental goals. They also show that the market recognizes Uruguay's commitment to meet its ambitious targets in terms of greenhouse gas intensity and forest conservation as set out in its NDC. However, it is still too early to draw long-term lessons.

Case study 10. HIFOR Republic of Congo pilot

What is the instrument?

HIFOR is being piloted at several sites, including Nouabalé-Ndoki National Park, which covers over 400,000 hectares in the far north of the Republic of Congo. Established in 1993, the Park is one of the most ecologically intact areas remaining in the Congo Basin and supports exceptionally healthy populations of hunting-sensitive species such as forest elephants, western lowland gorillas, and chimpanzees. Its climate value is also very high, having removed an estimated 11 million tons of CO₂ from the atmosphere over the past decade.

Why was it created?

The Nouabalé-Ndoki Foundation, a public-private partnership that manages the park, receives significant conservation finance, but current commitments remain insufficient to cover all operational and sustainable development goals and are not secure in the long term.

How does it work?

In late 2023, WCS signed an agreement to work with the Foundation,¹⁶² the government of the Republic of Congo, and local community representatives to develop a HIFOR pilot at the Park. Finance from HIFOR sales will enable existing management systems (including improved law enforcement, systematic monitoring, ecotourism, and a community development program) to be expanded and sustained over the long term. In addition to the environmental benefits, this will bring enhanced benefits to Indigenous People and other residents in the only two settlements close to the Park, which are already actively involved in many aspects of Park management. The HIFOR methodology requires extensive and sustained participation of these groups in the design and implementation of the project, including Free Prior and Informed Consent. Per the methodology, the project will run for a minimum of 30 years. Benefit-sharing frameworks will be developed through a consultative process over the coming year.

Because the pilot project is still undergoing implementation, it is too early to draw conclusions about impacts and lessons learned.

Case study 11. Terrasos Habitat Banks

What is the instrument?

Habitat banks are areas of land where actions for the preservation and restoration of ecosystems and sustainable land use are implemented to offset negative impacts on biodiversity.¹⁶³ Habitat banks offer biodiversity credits that can be bought by individuals or businesses wishing to offset negative biodiversity impacts caused by their activities, or simply seeking to contribute to biodiversity conservation. Terrasos, an environmental investment company, designed and implemented the first habitat bank in Colombia and has to date implemented habitat banks in eight regions across the country.¹⁶⁴

Why was it created?

Colombia is one of the world's most biodiverse countries but has seen rapid ecosystem depletion in recent decades, largely driven by land use change for major development projects. The majority of funding for biodiversity comes from the public sector, which spent approximately USD 535 million on biodiversity per year from 2010-2020. Despite this spending, a large funding gap remains.¹⁶⁵ A 2018 analysis identified financing needs of USD 22 million per year from 2017-30 to meet Colombia's National Biodiversity Strategy and Action Plan (NBSAP).¹⁶⁶ A 2021 analysis identified a 32 percent funding deficit if the goals of the NBSAP are to be met, amounting to USD 1.6 billion.¹⁶⁷ This total does not reflect any forthcoming updates to Colombia's NBSAP that may be made following the adoption of the KM GBF.

Colombia has a well-established market for biodiversity offsets, which generates a level of regulatory demand for credits. Planned development projects such as mining, oil, and gas infrastructure are legally required to offset residual biodiversity impacts by restoring or protecting an equivalent habitat elsewhere, according to a 'no net loss' policy. However, the market for land-based credits has a reputation for involving high transaction costs and offering short-term projects with poor transparency around impacts.¹⁶⁸ The market has also come under criticism for various issues including the issuance of poor-quality credits¹⁶⁹ and the violation of the rights of IPs and LCs.¹⁷⁰ Habitat banks were proposed as a solution to current market shortcomings.

How does it work?

Habitat banks represent a new type of environmental conservation mechanism and a departure from traditional, project-based crediting. They aggregate compensations, or outcomes, of biodiversity conservation or

restoration. Each hectare of a habitat bank conserved or restored generates one biodiversity credit. The credits are then sold to project developers of infrastructure, mining, oil, and gas projects with required investments in conservation.

Habitat banks are run through an independently managed trust fund.¹⁷¹ They operate under a results-based payment scheme through which revenue generated from the sale of biodiversity credits ensures the management and maintenance of the habitat bank. Returns are provided to investors in the scheme once credits are sold. Credits have a set starting price, determined by calculating the net current value of all direct, indirect, and opportunity costs (e.g., labor, capital) over a 30-year project lifetime.¹⁷² Final prices are determined through agreements between the habitat bank developer and offsetting parties. Prices are not influenced by any broader regulation or market dynamics.

Terrasos works with private landowners – mostly farmers – in the development of habitat banks. Landowners can provide their land for the generation of credits, in exchange for annual payments, or they can be involved in the operation of the project, which can yield additional payments if the project is profitable.¹⁷³ For landowners seeking to generate carbon or biodiversity credits from their land, habitat banks are an attractive alternative to single project-based crediting. Habitat bank contracts protect land for 30 years, which promises a longer and more stable revenue stream than those associated with conventional offset project models. Compared to project-based offsets, habitat banks also involve lower transaction costs which can make them a more cost-effective alternative for landowners.¹⁷⁴

How much funding has been mobilized to date?

By the end of 2022, Terrasos had sold approximately USD 1.5 billion worth of credits.¹⁷⁵ In mid-2024, a US-based environmental trading platform announced the listing of 10,000 new Terrasos credits.¹⁷⁶

How is funding being used?

Habitat banks have so far been developed in 8 locations in Colombia, covering a total of 2,676 hectares of land. Terrasos has set a target of generating direct benefits for biodiversity and indirect social benefits for landholders over 10,000 hectares of land by 2030.

What lessons have been learned?

One key lesson learned during the development of Terrasos' habitat bank initiative was the discovery that embedding an activity into law can considerably enhance investor interest. During the conception stage, habitat banking was not explicitly recognized as a viable investment opportunity in Colombia's regulation surrounding the use of environmental offsets for compliance purposes. Discussions between Terrasos and the country's Environment Minister led to the inclusion of habitat banking in this regulation, which ultimately helped to raise the profile of habitat banks as a green investment opportunity and increase private sector interest in Terrasos' initiative. Such experiences help to illustrate the importance of ensuring the implementation environment of forest and conservation financing initiatives is conducive to private investment.

Case study 12. Mesoamerican Territorial Fund

What is the instrument?

The Mesoamerican Territorial Fund (Fondo Territorial Mesoamericano, FTM) is an IP and LC-led, coalition-based financial instrument for advancing territorial development and governance in forests across Mexico, Guatemala, Honduras, Nicaragua, Costa Rica, and Panama.

Why was it created?

In Mesoamerica, territorial rights have been recognized across 65 percent of forested areas,¹⁷⁷ and as such, autonomous IPs and LCs have a high potential to shape the future of forests. However, IPs and LCs living in forested areas often face significant challenges related to insecure tenure rights, socioeconomic marginalization, forcible eviction, discrimination, and violence.¹⁷⁸

How does it work?

Activities financed by FTM include strategic initiatives defined by communities that have the potential for replicability, scalability, and public policy development. FTM finances activities across four key areas – climate change mitigation and adaptation, sustainable natural resource management and biodiversity conservation, IP and LC rights and governance, and sustainable community initiatives – with cross-cutting goals related to gender, youth, and social inclusion.

How much funding has been mobilized to date?

So far, FTM has been funded by the Ford Foundation, the Climate and Land Use Alliance, and USAID. The fund deploys direct, rapid finance, ranging from small grants (between USD 10,000 to 50,000) to large grants (starting at USD 51,000), as well as agile, responsive grants for emergencies.¹⁷⁹ FTM aims to increase funding from 30 to 40 donations of USD 50,000 or more annually.¹⁸⁰ The pilot phase during 2020-21 was reported to have a turnover of USD 600,000, 80 percent of which was direct grant financing to member organizations, and 20 percent was administration and technical support to grantees.¹⁸¹

How is funding being used?

By 2022, MTF had supported 10 projects with IP organizations, LC organizations, and mixed IP and LC organizations across its 6 countries. Projects supported nearly 17,000 people in 228 communities, with some

USD 600,000 invested by 2022. Some 80 percent of the total funds were invested directly into territories with 20 percent dedicated to administration, operations, and accompaniment costs. Numerous entrepreneurship ventures were supported by FTM, including initiatives related to food self-sufficiency (25), community forestry (8), alternative tourism (6), and value-added timber products (4). The organization aims to increase direct funding and expand to other geographical areas by 2028.¹⁸²

So far, little information has been made available on the development and implementation of the Fund.

Case study 13. Nusantara Fund

What is the instrument?

The Nusantara Fund is a unique funding instrument developed by and for IPs and LCs in Indonesia. It was established in 2023 by the 3 largest organizations supporting Indigenous People in Indonesia: Alliance of Indigenous Peoples of the Archipelago (AMAN) -- the national representative body of Indonesia's Indigenous population, Agrarian Reform Consortium (KPA), and Friends of the Earth Indonesia (WALHI).

Why was it created?

Before the establishment of the Nusantara Fund, AMAN, KPA, and WALHI each operated independently, directing funding instruments to support different IP and LC groups in Indonesia. The funds merge into a single body to accelerate change, increase the delivery of finance to local-level actors, and make a greater contribution to reducing global emissions.¹⁸³

The objectives of the fund include increased mapping of Indigenous territories; protection and recognition of 28 million hectares of land; rehabilitation and restoration of a further 35 million hectares of land; realization of sustainable models of production, distribution, and consumption; and the establishment of "Peoples' Education" centers to increase the knowledge and capacity for managing lands, territories, and resources.¹⁸⁴

How does it work?

The Fund provides direct financial support to IP and LCs in Indonesia for their efforts to prevent damage and protect and improve the environment, land, forests, and resources. The Fund provides grants of up to approximately USD 64,000.¹⁸⁵ No information is available on the total volume of finance disbursed under the Fund to date.

How much funding has been mobilized to date?

The Nusantara Fund was launched with over USD 3 million from a group of philanthropies, including the AVAAZ Foundation, Ford Foundation, and Tenure Facility, as well as Norway's International Climate and Forest Initiative (NICFI) and International Fund for Agricultural Development (IFAD). It is ultimately intended to attract USD 20 million in investments.¹⁸⁶

How is funding being used?

The Nusantara Fund is intended to directly impact at least 62 million people, equivalent to 25 percent of Indonesia's total population, and 62 million hectares of forest and land, equivalent to one-third of the country's total land area.

So far, little information has been made available on the development and implementation of the Fund.

4. Outlook: Maximizing the impact of forest finance



To achieve forest goals, economies that rely on the extraction and consumption of natural resources must be replaced by a fiscal and regulatory environment that mandates and incentivizes the protection, restoration, and the equitable and just management of forests and ecosystems. First and foremost, the vast quantities of gray finance that have potential negative impacts on forests must be shifted while significantly more and new finance needs to be invested in forests.¹⁸⁷

The emerging financial instruments presented in this brief have the potential to contribute to these objectives and offer new opportunities to:

- Account for the economic value of intact forests
- Incentivize private sector investment into activities that restore and maintain healthy forests
- Deliver finance to high-impact activities, such as the protection and sustainable management of high-integrity forests
- Enable the most effective forest guardians – Indigenous Peoples and local communities (IP and LCs) – to independently determine how to fund and manage their forest ecosystems
- Meet the triple objective of sustainable development, conservation, and restoration of biodiversity and carbon sinks
- Disincentivize activities that act as drivers of deforestation or other unsustainable activities

No instrument or approach covered by this brief should be considered a silver bullet; achieving the 2030 forest goals requires an all-hands-on-deck approach. While the uptake of these instruments could be scaled further, new and emerging financing instruments should be linked to economic, policy, and regulatory levers to support governments and businesses in their

effort to transform business-as-usual practices into feasible sustainable business models. Actors in the Global North must take responsibility for historical harms and provide lasting support to communities that allows the development of stable, equitable, and prosperous livelihoods in forest regions. This requires deeper collaboration and coordination between public and private funders at both the global and local levels and for financial instruments to be tailored to landscape scales and approaches.^d

The Forest Declaration Assessment Partners propose several principles for how forest financial instruments – such as those explored in this brief – can be implemented to satisfy these objectives. The ideas supporting the principles are meant to link broader policy, legal, and regulatory interventions with forest financing instruments. They hopefully catalyze discourse between stakeholders such as policymakers, finance institutions, multilateral development organizations, and companies that want to help protect and restore forests globally.

^d Landscape approaches refer to initiatives operating within a socio-ecological system that consists of natural and/or human modified ecosystems that can address the drivers of deforestation across the landscape and help achieve a broader set of objectives for different stakeholders.

Achieving the 2030 forest goals: Principles for forest financing



1. Align fiscal policies and incentives with forest and sustainable development goals.

For new financial instruments to have a transformative impact, existing regulatory, fiscal, and policy incentives need to shift business-as-usual practices and enable conservation, restoration, and sustainable development. Forest country governments should consider multiple (non-exhaustive) prongs and interventions toward this end.

a. Review and shift harmful subsidies. Governments must align fiscal and financial policies with NDCs and forest goals and accelerate efforts to green and shift existing gray finance. Governments should review policies and investments across all sectors to identify potential negative impacts on forests and shift harmful subsidies toward conservation-based development and green-economy initiatives. Revenue generated from shifting harmful subsidies could be used to finance initiatives that safeguard natural ecosystems and support local smallholder farmers should be supported in sustainable and conservation-based practices. Repurposing subsidies can be a powerful way to implement Target 18 of the Global Biodiversity Framework^e and Article 2.1(c) of the Paris Agreement.

b. Penalize harmful practices while rewarding sustainable ones. Forest country governments should consider establishing financing instruments to incentivize production practices that conserve forests

while discouraging harmful activities. While environmental-linked fiscal policies that address externalities caused by fuel combustion are on the rise, governments have yet to fully leverage these tools for addressing the drivers of deforestation and forest degradation.¹⁸⁸ A tax on drivers of deforestation and unsustainable production practices, e.g., unsustainable livestock production, monoculture plantations, etc. would go a long way to disincentivize harmful behaviors. Alongside this, a preferential tax rate can be given to producers that have fulfilled sustainable production criteria through third-party certification.¹⁸⁹ For example, the government of Gabon requires all forest concessions to be certified under Forest Stewardship Council (FSC) certification. Those that do not comply will be faced with a tax hike, while FSC-certified companies will enjoy a tax rebate.¹⁹⁰

In addition, opportunities to increase fees and fines for forest clearing and other illegal forest activities should be strongly considered. Forest sector-related taxes and fees are often not updated, and in many cases, remain lower than market rates.¹⁹¹ The additional revenue stream generated could be earmarked and channeled to domestic or national forest funds that prioritize conservation and development.

c. Incentivize subnational or provincial actors to act. To incentivize regional-level actors, ecological fiscal transfers (EFTs)^f could be implemented. This can not only serve as an incentive but also unlock more funding for local actors conducting critical activities such as enforcement. For instance, in Brazil, revenues are transferred to local governments based on the percentage and quality of local land designated as protected areas, while in India, states receive revenues based on the proportion of forest cover in the region.¹⁹²

^e Target 18 of the Global Biodiversity Framework calls on actors to “Identify by 2025, and eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, while substantially and progressively reducing them by at least 500 billion United States dollars per year by 2030, starting with the most harmful incentives, and scale up positive incentives for the conservation and sustainable use of biodiversity.” Available at <https://www.cbd.int/gbf/targets/18>

^f Ecological fiscal transfers are a mechanism which distribute federal or regional-level public resources to local governments based on environmental indicators.



2. Ramp up forest financing from industrialized to developing countries that is accessible, affordable, and long-term.

Most Global South countries face challenges in initiating the bold reforms needed to reconcile their development pathways with forest goals. Incentives currently offered by industrialized countries, for example in the context of REDD+, are neither commensurate with this challenge nor with their responsibility for driving resource exploitation in a global economy.¹⁹³ Industrialized nations have benefited from resource exploitation and offshoring their footprint in forest-rich territories.

The Global North bears a historical responsibility to increase flows to nature and forest-rich countries; it is crucial that industrialized countries fully deliver on existing pledges, avoid double counting of their financing and vastly scale up funding. In addition, industrialized countries should:

a. Strengthen trust between financing entities and actors in forest countries. Forest country governments should be viewed as equal partners, instead of the asymmetrical “donor” vs “recipient” relationship. Financial support should be adjusted to meet domestic public policy priorities and contexts and funders should find ways to address complex disbursement rules and processes that currently restrict funding from reaching the intended actors. For example, the average disbursement rate of overseas development assistance for REDD+ funding in DRC from 2010-21 is estimated at 71 percent (i.e., 29 percent of committed funds were not disbursed) compared to a global average of 98 percent.¹⁹⁴ Simplifying funding processes to reach forest country governments and other local actors in reasonable time frames and removing bottlenecks causing delays can go a long way. In addition, funds flowing through international intermediaries should be evaluated based on the success of these intermediaries in training, empowering, and eventually handing over fiduciary responsibilities and roles to domestic entities, enabling

more funding to be channeled via local financial institutions in the future.

b. Consider in earnest and fully support proposals from forest government countries. Proposals such as the Tropical Forests Forever Facility (TFFF) point to the frustration and urgency felt by forest country governments with existing mechanisms as well as the need for new ways of deploying international finance for forests. As discussed previously, the premise of the TFFF emerges from years of insufficient and slow disbursement of public finance, through results-based payment mechanisms such as REDD+. As the clock ticks down to 2030, industrial country governments should follow the leadership of forest country governments and support their efforts in good faith. The TFFF is still in its early stages, and crucially, it remains to be seen how the Facility will mobilize the much-needed large-scale financing to channel to forest countries. Industrialized countries should commit to investing in the facility (e.g., through a portion of a sovereign wealth fund or development banks) to build momentum, which can encourage forest country governments to participate.

c. Leverage multiple instruments or interventions in tandem for maximum impact. Alongside aid and grants, industrial country governments should consider financial and non-financial interventions, e.g., regulatory, policy, and legal levers. Financing entities should consider assessing where their government – through other programs or initiatives – or domestic companies are financing activities or sectors causing forest loss or degradation in the forest country. Engaging and closely coordinating between these actors and linking to other demand-side levers is crucial.



3. Attract new and additional private finance by lowering risks of conservation with blended finance instruments.

Blended financial instruments, such as bonds, guarantees, and concessional finance, can help to reduce risk for private sector investors and unlock new financing for forest conservation and restoration. However, the uptake of blended financing in the forest context has lagged; these instruments are often directed toward lower-risk projects with a solid business case (e.g., energy) or large-scale infrastructure projects with adverse land use impacts.⁹

Existing blended and concessional mechanisms need to be reformed by targeting forest-specific goals, which will enable countries to attract private financing toward conservation, biodiversity, and sustainable development.¹⁹⁵ Upfront funding, complemented by stable and affordable long-term financing can help tip the scale of incentives stacked against forest conservation and restoration. For example, the Forest Investment Program's concessional finance has helped address funding gaps in countries seeking to implement policies and measures from national REDD+ planning but are unable to access results-based payments.¹⁹⁶ In the Congo Basin, a partnership between the Central African Forest Initiative (CAFI) and &Green will enable &Green to make derisked loans backed by a funding entity.¹⁹⁷ This is part of a larger push in the forest-rich region to mobilize more private investment.

In addition, policymakers should develop sustainable finance taxonomies that signal to businesses, banks, and investors that conservation, restoration, and sustainable ecosystem management are the next frontier of investments.

⁹ For example, the Multilateral Investment Guarantee Agency (MIGA) promotes investments in developing countries through guarantees to lenders and investors. However, all 52 projects financed by MIGA in the Congo Basin, home to the largest area of remaining intact tropical forests in the world, are in the infrastructure, energy and mining sectors. There are no investments in the forestry sector. Available at: https://www.fint.awsassets.panda.org/downloads/wwf-congo-basins-forests_discussion-paper-2023_eng_nov_2023.pdf



4. Prioritize building capacities and channeling funds to mechanisms that are directly funding local actors, especially IPs and LCs.

Indigenous Peoples' and local community-led funds reframe the narrative of IPs and LCs as beneficiaries or recipients of finance to partners and leaders in defending their rights, conserving forests, and addressing climate change.¹⁹⁸ Following the leadership of IPs and LCs fundamentally challenges established financial infrastructure and expectations which are based on Global North and colonial assumptions about how money should be used and distributed. Supporting Indigenous Peoples and community-led funds will require funding agencies, financial institutions, and philanthropies to think differently about the purpose of finance and forest or climate goals – for example, to center their support on Indigenous and local communities' self-determination, which includes the ability to own, use, and manage their lands, territories, and resources.¹⁹⁹

IP and LCs continue to call for increased direct access funding to ensure that resources are directed to the strengthening and safeguarding of communities' self-determination.^{200, 201} Some elements of direct access include moving away from funder-centric and -defined areas of support; IPs and LCs should have direct negotiation and discussion with financial partner countries or funders to determine the level of funding, parameters, and agreements on the funding mechanisms. Funders should minimize the use of intermediaries to channel funds and complex institutional layering that results in funding becoming prohibitive or reduce resources reaching the ground. Forest funds, such as those mentioned in this paper, should have the full engagement of IPs and LCs from the outset and establish equitable benefit sharing mechanisms.

Where intermediaries are necessary, they should be the choice of the Indigenous Peoples' organizations. Intermediaries should undergo a thorough vetting process and have funding modalities and systems that are fit for IPs and LCs, and grounded in Free, Prior and Informed Consent (FPIC) best practices. This means funding should be rightsholder-led, mutually

accountable, flexible, long-term, gender inclusive, timely, and accessible.²⁰² For instance, simplifying application and administrative processes, and relaxing or adapting fiduciary requirements can go a long way in enabling grassroots groups' access to much-needed finance.²⁰³ Building and strengthening the capacities of IPOs (Indigenous Peoples Organisations) and local community organizations to be able to take on the financial and fiduciary responsibilities and distribute funding effectively to grassroots organizations should be a priority for international public and philanthropic finance.



5. Reform sovereign debt to create fiscal space for conservation.

While DNS have re-emerged in recent years to generate new financing for forest protection, swaps do not make a dent in a country's overall sovereign debt. Forest country governments need support in enlarging their fiscal space to be able to spend on protecting natural ecosystems, biodiversity, and sustainable development. Beyond swaps, debt forgiveness for conservation and green development can significantly open up fiscal space for forest country governments. This can also help decrease mounting pressures on governments to destroy natural forest areas for economic growth through mining, agriculture, and large infrastructure projects.

As previously discussed, creative approaches are being proposed by various actors, which include pausing debt repayments, reforming the practices of the IMF to better support countries' debt management, and utilizing special drawing rights (SDRs) for climate purposes. Forest country governments, financing entities, and development banks should consider how these proposed reforms could be informed and linked to forest protection, restoration, and management goals. Such efforts would be transformative for forest country governments with multiple positive spillover effects beyond forest conservation and protection.



6. Link financial instruments to emerging measures to reduce the import of deforestation-linked commodities.

An increasing number of consumer countries are implementing demand-side interventions to restrict the import of products linked to forest loss and degradation. Most recent measures have emerged from the EU, with the EU Deforestation Regulation (EUDR) and the Corporate Sustainability Due Diligence Directive (CSDDD), but other major consumer countries such as the U.S., UK, and China have also developed demand-related policies. Importer countries and development institutions should link financial instruments to new trade regulations to incentivize and enable businesses and local public agencies to improve forest-linked supply chains. Without sufficient capital, upfront financing, or affordable credit lines, businesses – in particular small-scale domestic actors – are unlikely to meet these requirements and end harmful activities in forest landscapes.²⁰⁴ For instance, the EU could consider establishing a fund that offers companies and smallholders operating in forest-risk commodity production regions concessional loans or grants that support them to meet EU Deforestation Regulation (EUDR) requirements.

Blended finance mechanisms such as forest bonds should also be used to help mobilize new finance for sustainable commodity production. For instance, large producer companies with strong commitments to reduce and end deforestation in their supply chains could sell corporate deforestation-free forest bonds to raise funds that help improve their supplier traceability mechanisms, engage and provide additional capacity building to local actors, and facilitate their compliance with EUDR. Such bonds could help incentivize companies to work on improving their supply chains, rather than exiting in response to high compliance requirements. They could also be an ambitious investment product for investors who see a strong and profitable future for deforestation-free supply chains.

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ABOUT

The Forest Declaration Assessment is a collaborative process carried out by civil society organizations and researchers, known as the Forest Declaration Assessment Partners. Previously the NYDF Progress Assessment, the Forest Declaration Assessment has since 2015 published annual updates on progress toward global forest goals. All assessment findings undergo a rigorous peer review process conducted by experts across the globe. To learn more about the Forest Declaration Assessment, please visit www.forestdeclaration.org/about/assessment.

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