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TECHNICAL NOTE

TFFF: controversial solution to deforestation

Brasília-DF, 2025

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Introduction

In this study, we aim to analyze Concept Note 3.0 of the Tropical Forest Forever Facility (TFFF) , constructed by Brazil and the result of a process that began at the 28th session of the Conference of the Parties (COP 28) of the United Nations Framework Convention on Climate Change (UNFCCC) , held in Dubai, in the United Arab Emirates (UAE). We will present the organizational elements of the TFFF defined to date, analyzing the creation of this financial mechanism.

Concept Note 3.0 was developed based on ideas and contributions gathered during a consultation process conducted on the TFFF website, and updates six core areas of the Fund.

The creation of the Fund is based on the argument that tropical forests provide countless ecosystem services to humanity, without having their value recognized, due to the absence of direct market benefits. In addition, financing for forests is insufficient in quantitative terms and is still fraught with difficulties in terms of access and scope of proposals. The stated purpose of the TFFF is to reverse the current situation by providing funding to countries that manage to keep their forests standing.

The TFFF is based on core principles that determine that the Fund is a simple mechanism, whose management, operational and organizational structures are based on objective rules, with transparency and accountability, using existing systems and ensuring national sovereignty.

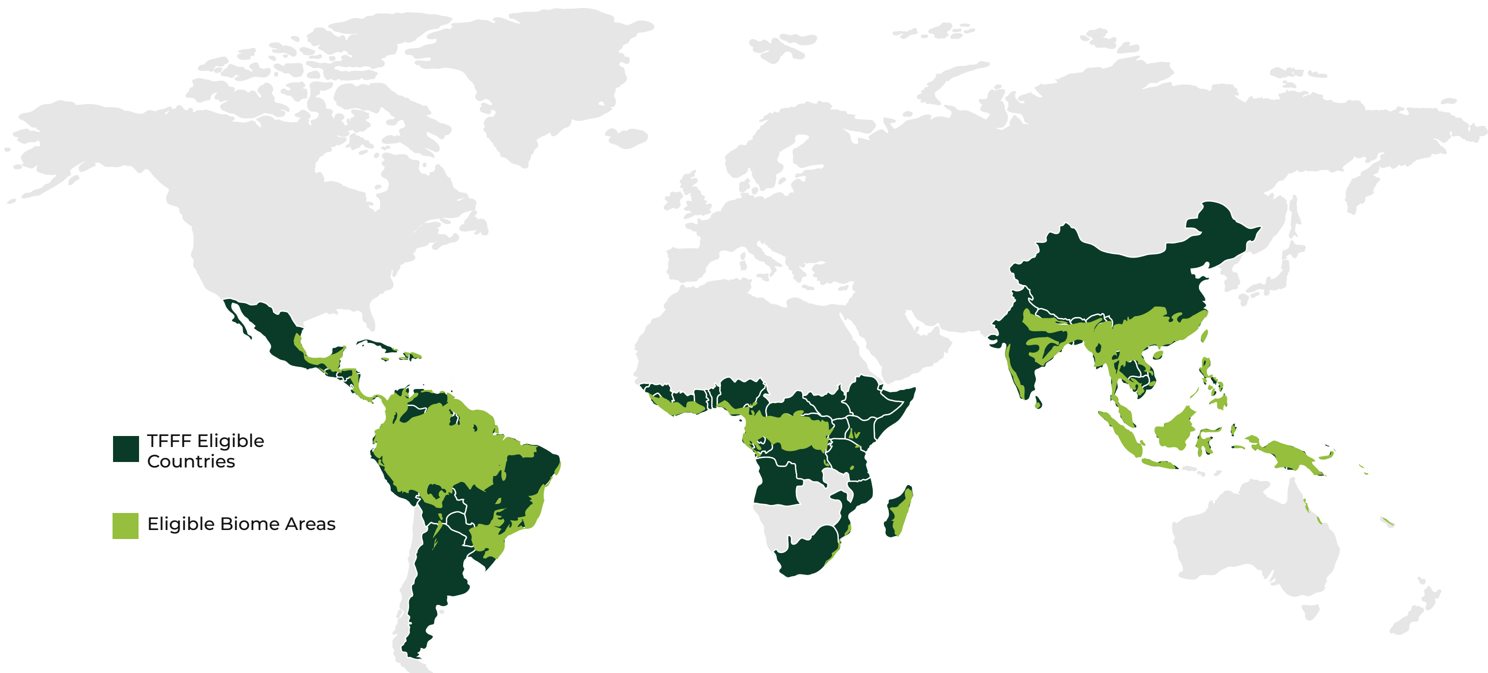
The overall goal of the TFFF is to provide a results-based payment structure that encourages tropical forest countries (TFCs) to conserve their natural and subtropical moist forests, thereby having a positive effect on reversing forest loss. Results-based payment was chosen because satellite technology makes monitoring simple, transparent and consistent.

Among the advantages and benefits of creating the Fund announced by the government, we mention its scale and permanence, which enables forest conservation actions to be financed for a longer period.

Eligibility and requirements

Potential beneficiaries of the Fund include more than 70 developing countries[1] that fall within the boundaries of tropical and subtropical moist broadleaf forest biomes. Figure 1 shows which countries are eligible to receive funds and which biome areas are eligible.

FIGURE 1 TFFF: ELIGIBLE COUNTRIES AND BIOME AREAS



Source: https://tfff.earth/.

The eligibility of a TFC goes through a multi-step process that meets criteria established by the Fund's board of directors. This is followed by a procedural review of information provided by the country: first, data on the country's forest cover monitoring system is forwarded to the TFFF secretariat. The secretariat then sends this data to a third party to verify if the eligibility criteria are met. If they are not met or the country does not have a system, a third-party system may be used. The requirements and processes for evaluating national and third-party systems will be included in the TFFF operations manual.

1 According to the classification of the United Nations Conference on Trade and Development (UNCTAD).

FIGURE 2 TFFF: ELIGIBILITY REQUIREMENTS

Submit to the TFFF Secretariat their deforestation rate, calculated according to the three-year moving average, which must:
- be less than 0.50%
- show a downward trend in the year of accession

Submit to the TFFF Secretariat the extent of areas that are not tropical and subtropical moist forests, considered forests ineligible for payment by the TFFF.

Present a transparent, standardized and reliable method for measuring eligible forest area.

Commitment to develop the necessary governance structures for IPs and LCs for the financial allocation dedicated to them.

Demonstrate that it has a national grievance and redress mechanism or action plan to establish such a mechanism

Publish a list of national programs and policies that support forest conservation and sustainable use, and that can be financed by forest payments.

Demonstrate that it has adequate Public Financial Management mechanisms in place to receive and allocate *Forest Payments*

Submit to the TFFF Secretariat the exact boundaries of the eligible area of the proposed biomes. Including Tropical and Subtropical Moist Broadleaf Forests, which may include adjacent mangroves. Explaining significant deviations.

Commit to allocating at least 20% of Forest Payments to local communities (CL)

Demonstrate that forest payments will not replace existing budget allocations for policies and programs that promote the conservation and use of tropical and subtropical moist broadleaf forests.

Source: own elaboration.

Once a TFC begins participating in the Fund, its monitoring system will be evaluated every five years. In addition, the country must submit an annual report on its eligible forest area to the secretariat, which will determine the payments. The amount received annually will depend on the availability of resources from the Tropical Forest Investment Fund (TFIF).

Another assessment that will be conducted before entry into the TFFF concerns the Public Finance Management system, based on a standard described in the *TFFF Operations Manual*. The assessment will be conducted using standardized and pre-approved methodologies and will be updated periodically. If the system is considered inadequate, the TFC must appoint an alternative public financial manager.

The TFFF uses the biome and monitors its total extent because it understands that this: (i) allows for a consistent structure for all countries; (ii) avoids perverse incentives that could arise from countries proposing their own forest cover area if the alternative to using the biome were self-declaration; (iii) ensures that forest restoration is captured within a fixed, unbiased monitoring area, among other factors listed.

Operation

One of the basic principles of the TFFF is the understanding that the forest cover measurement system should be based on satellite monitoring to ensure that data is reported accurately and verifiably.

Restored areas will be eligible for forest payments, except for tree plantations (monocultures or extremely low diversity, low complexity forests planted for agricultural, timber and pulp production) and forested areas where a forest has been established where there was none before.

To identify the forest area eligible for the TFFF, forest canopy cover threshold of between 20% - 30% will be considered. In addition, areas with cloud cover of 10% or less may also be considered. Areas above this limit are eligible, those below are not, and those below this limit are considered deforested.

The deforestation rate of a TFC will be assessed based on the percentage of annual forest cover loss, calculated from the standing forest rate in the previous year. Each country's deforestation rate at the time of entry into the TFFF is its limit, except in exceptional circumstances beyond the country's control, such as natural disasters.

Degraded forests still provide ecosystem services within the TFFF criteria, but to a lesser extent. Among the diverse types of degradation caused by human activities, the TFFF proposes the use of forests degraded by fire as the indicator for degraded forests during the initial phase of the TFFF. This choice is because most forest fires are man-made, occur in various regions, affect large areas and cause damage to smaller trees, which are characteristic of a degraded forest state.

The Fund's current financial proposal is for each country to receive a fixed amount per hectare of standing forest. A tiered discount system is being proposed to encourage the reduction of deforestation and degradation, namely:

- deforestation rate of 0% to 0.3%: for each hectare deforested, 100 times that hectare will be deducted from the payment;

- deforestation rate of 0.3% to 0.5%: for each hectare deforested, 100 times that hectare will be deducted from the payment, at a loss of up to 0.3%; and above that, up to 0.5%, the deduction will be 200 times the hectare;

- for degraded forests, the deduction will be 35 times the hectare; and

- if a part of the forest that was degraded in the previous year and had a deduction of 35 times the hectare was later deforested, the standard deforestation discount coefficient will be applied as normal.

The TFFF establishes a process of Technical Review, Update and Progressive Reduction of a specific set of parameters, three years after the first TFFF payment and then every five years, so that the criteria and processes formulated in the construction of the Fund respond to technological and practical updates and the experience acquired. The criteria to be reviewed will be highlighted in the Operations Manual.

PFTs must also meet certain criteria to be eligible to receive Forest Payments:

- Within one year of joining the TFFF, the TFC must establish the National Steering Committee for IPLC and the national account for the Financial Allocation Dedicated to IPLC. Failure to comply with this requirement makes the TFC ineligible to receive Forest Payments in the following year.

- The annual deforestation rate must remain the same or decrease from year to year, based on the remaining forest area from the previous year.

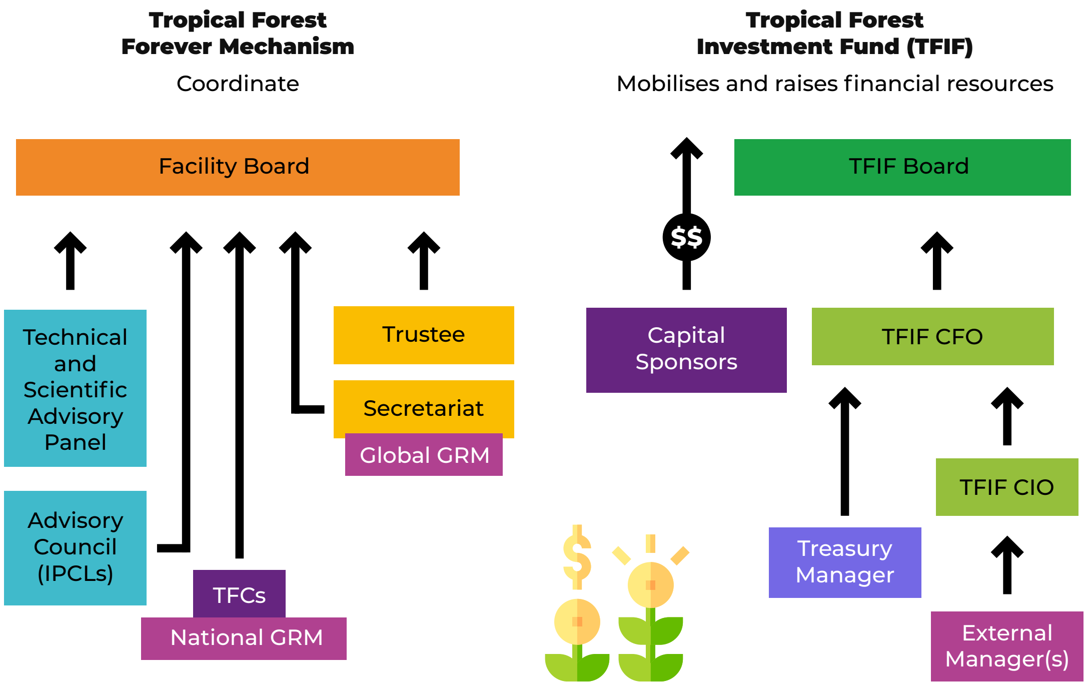
Failure to comply with these requirements will prevent the receipt of funds. If this occurs for more than two years, payments will be suspended for a minimum of three years. In the event of a new entry into the TFFF, the country's deforestation rate will be the same as when it first entered, not that of the year of the new entry.

In addition, the TFFF addresses Incompleteness Risks, which refer to the prioritization of funding in areas eligible for PFTs over those that are not eligible, resulting in forest loss in these areas. To address this, the TFFF requires monitoring of at least 90% of these ineligible areas and additional reports on changes in forest cover. A quantitative trigger defined in the Operations Manual will determine whether deforestation in ineligible areas will generate additional scrutiny, which will be analyzed by the Mechanism Council to decide on the temporary suspension of the Forest Payment.

Governance

The governance of the TFFF is built on two segments: the TFIF and the Facility.

FIGURE 3 TFFF GOVERNANCE STRUCTURE



Source: own elaboration.

Each segment has its own structure, with independent statutes and councils. In addition, the proposal is for the Facility to be created as a trust fund within the World Bank's Financial Intermediaries Fund Management Framework, with the World Bank as the administrator. It is also expected that the World Bank will host, at least temporarily, the Facility's Secretariat.

The Advisory Council for Indigenous Peoples and Local Communities will be composed of ten representatives of indigenous peoples and local communities from the TFCs. Another advisory body established by the TFFF is the Technical and Scientific Advisory Panel, composed of individuals with recognized experience in the areas of influence of the TFFF. The Council and the Panel will have a three-year term, with the possibility of renewal. The Advisory Council is responsible for promoting dialogue with civil society.

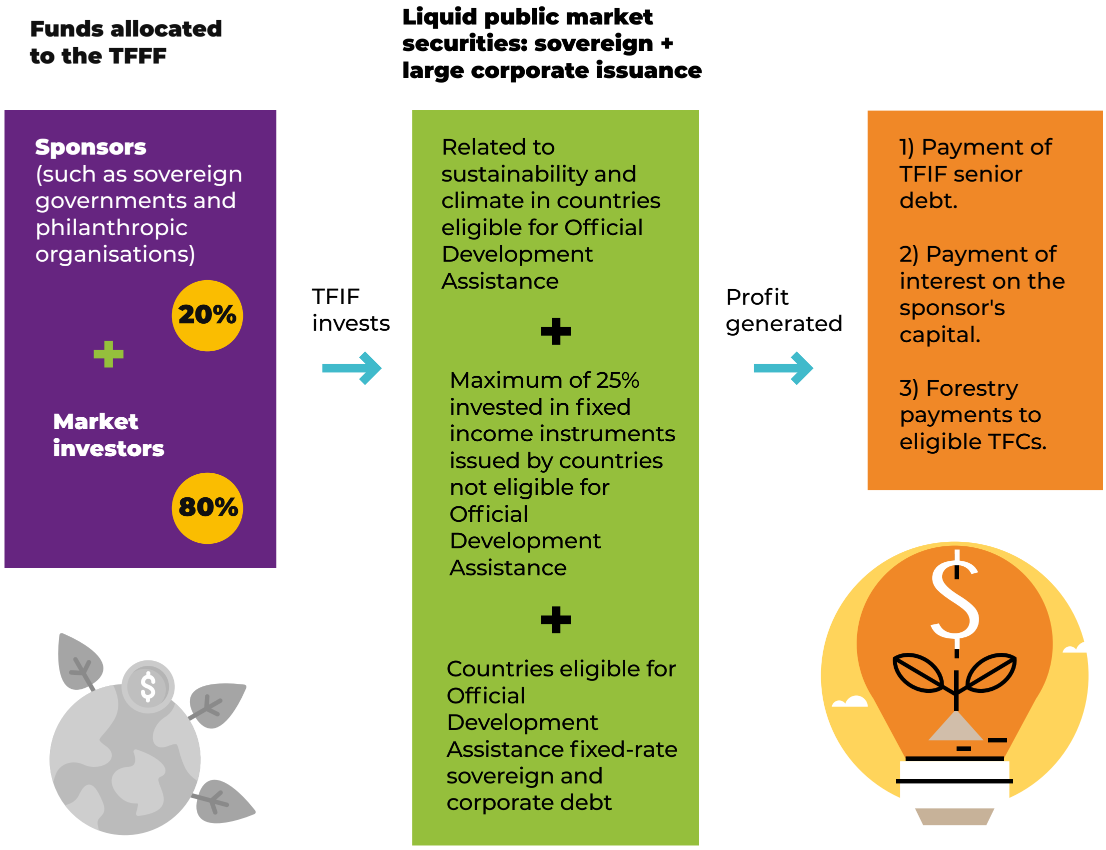
The Grievance Redress Mechanism (GRM) is a resource for situations in which an interested party has a concern about potential or actual impacts arising from the TFFF's support to TFCs or TFC policies and programs. Responsibility for handling complaints lies first with national GRM systems, which require robust systems that meet the standards set by the TFFF. The TFC undertakes to demonstrate that it has such a system in place or to present a plan for its implementation, which is a condition for receiving *Forest Payments*. These systems will be reviewed periodically to certify compliance with the requirements established by the Fund. Global and regional issues, or issues not resolved in the national GRM, will be addressed by the Secretariat, which may involve the Council.

According to the Concept Note, the financial viability of the TFIF depends on its freedom to make market-based decisions. Therefore, the independence of the Facility is considered essential to ensure decisions related to the operation of the TFIF and aims to optimize risk-adjusted returns and maintain a strong financial profile.

Financing

The TFIF is responsible for managing the annual financial flows for payment to TFCs, according to the flow described in Figure 4. The TFIF will be operated in US dollars and currencies derived from the International Monetary Fund (IMF) Special Drawing Rights (SDRs) will be used for investment. The TFIF's investment strategy is multi-level: the first refers to climate and sustainability-related investments in countries eligible for Official Development Assistance (ODA), which aims to meet the criteria of the New Collective Quantified Goal (NCQG) agreed at COP 29; the second refers to investments in ODA-eligible sovereign debt; and only then can investments be made in instruments that are not eligible for ODA.

FIGURE 4 TFFF RESOURCE FLOW



Fonte: elaboração própria.

The TFIF investment portfolio is designed to ensure returns that enable payments to TFCs and a solid credit rating, as well as seeking ODA eligibility. Activities with a negative environmental impact are under discussion for inclusion in a TFIF non-investment list.

Once TFIF investments become profitable, the payment rate per hectare can be determined to ensure the Fund's long-term sustainability. Forest Payments are made annually from surplus revenue, after debt repayment.

If there are insufficient funds in the TFIF, payments are reduced until the Fund's sustainability is guaranteed again, with a consequent reduction in transfers to TFCs. If there is a surplus of funds beyond what is necessary to meet the TFIF's obligations in a given year, it is retained in the TFIF itself for capital construction and accumulation on behalf of the TFCs.

Another factor that conditions payments is the annual submission to the Secretariat of the Forest Payment Allocation Plan for the following year, which indicates the policies and programs that will benefit from the Fund's resources. The transparency of the TFFF will be ensured through the disclosure of these plans and the possibility of raising concerns with the GRM.

Dedicated financial allocation for Indigenous Peoples and Local Communities (IPLC-DFA)

IPCL-DFA will be the mechanism through which the TFC will transfer 20% to IPLC, but after one year of membership, payment depends on: the establishment of a National Steering Committee for IPLC (IPLC-NSC), the opening of a specific account, and the transfer of the 20% to that account.

IPCL-DFA should be direct, governed by IPLC through elected representatives, simple, responsive to diverse contexts, based on successful experiences, inclusive, and progressive.

For the DFA, it is necessary to formulate the following structures, in addition to the IPLC Advisory Council: the Global Executing Agency (GEA), responsible for establishing accounts and transferring the IPCL-DFA to the National IPLC Implementation Agencies (NIAs) ; the IPLC-NSCs are inclusive bodies of IPLC representatives, responsible for using the minimum of 20%; the NIAs, responsible for receiving, administering and distributing the minimum of 20% of the resources to the DFA, in accordance with the Annual Operations Plan.

Final considerations

The information presented on the eligibility and functioning of the TFFF provides an overview for understanding Brazil's proposal and why it has attracted international attention. The country's interest in delivering this Fund stems from the leading role it has assumed internationally by hosting COP 30 in 2025 in Belém.

The Brazilian government has built and promoted the TFFF based on the Fund's innovative approach in terms of its time frame, the importance of the proposal originating in the Global South, the payment method, and the allocation of funds. In addition, the proposal has been presented by representatives of the Ministry of Environment and Climate (MMA) as a results-based payment fund, which could reduce the international climate finance gap. However, some challenges are envisaged, as described below.

- **Criteria that are not consistent with the lifestyles of forest peoples:** even with the adoption of a low forest canopy limit of 20% to 30%, the criteria adopted by the TFFF to measure the maintenance of standing forests, or forest conservation, are outdated, as it is considered that a conserved forest is an untouched forest. This not only ignores the lifestyles of indigenous peoples and local communities whose livelihoods are based on raw materials extracted from forests but also criminalizes the most basic activities of these peoples.

- **Emptying existing mechanisms:** it should be noted that the Brazilian government affirms that the TFFF does not intend to impact existing international instruments that use this system, such as REDD+, since the TFFF will only replace REDD+ once the forest has been conserved. However, this argument is unconvincing since the reduction in deforestation and degradation will finance both the TFFF and REDD+. Furthermore, as it is a new fund with the prospect of financial returns for investors, the TFFF will end up attracting greater attention and more resources.

- **Lack of social participation:** although representatives of the MMA present the TFFF as an initiative developed in dialogue with various sectors of society, it is worth questioning which sectors participated in its development. This is because, for example, leaders of Indigenous Peoples (IP) and Local Communities (LC), such as representatives of the Coordination of Indigenous Organizations of the Brazilian Amazon (COIAB) and indigenous movements in the Pacific region, claim that they have not been so involved in the drafting of the proposal and that they were not consulted regarding the establishment of the percentage that will be transferred to them, much less regarding the transfer mechanisms. Social participation in the TFFF also needs to be reviewed because, in addition to the limited involvement of IPLCs in the creation of the Fund, they are allocated only ten seats on the Advisory Council to share with the multitude of peoples involved in forest issues around the world, which is far from satisfactory. There is no room for the inclusion of other organizations and social movements in the Fund's advisory structures, leaving the IPLC Advisory Council with the task of facilitating this dialogue. Outsourcing this obligation minimizes the importance and work of both social groups. While the need to guarantee significant space for IPLC is understood and defended, it is also urgent to enable similar councils for other organizations and social movements to ensure the representation of all sectors of society that have knowledge that can be used in the implementation of the TFFF.

- **Restriction of funding to tropical and subtropical moist forests:** although the TFFF's Risk of Incompleteness approach attempts to address the problem of reduced funding or actions in ineligible areas, this could be resolved from the outset if the consideration of biomes included tropical savannas. The current formulation of the Fund overlooks biomes such as the Cerrado, which is crucial for ensuring climate and continental stability.

- **Few resources for IPLCs:** recognition and support for IPLCs, while urgently needed to ensure climate justice and forest conservation, seem to be more rhetorical than effective. Considering the vital role they play in forest preservation, a minimum of 20% of total resources is offensive. This is especially true because, in the event of punishment for deforestation, these people will be impacted by reduced availability of resources from the TFFF. Furthermore, once the funds have been transferred to the National Treasury of the countries concerned, it is up to the Treasury to allocate the resources, which may compromise the transfer of funds to the end users if there are changes in government that are unfavorable to the IPLC or governments that persecute these peoples.

- **Risky financing model:** the proposal presented so far requires large-scale investments to guarantee incentives for TFCs to maintain their forests standing, as it is a permanent fund. The design of this instrument at a time when climate finance is not being mobilized in sufficient amounts to address the problem raises doubts about the ability to mobilize the resources necessary for the Fund to function, in addition to reinforcing the understanding that financing is increasingly undergoing a process of financialization of nature.

- **Subordination to private logic:** dependence on return on investment to make payments to TFCs once again places the rainforest in a situation of dependence on the private sector, as market volatility in the face of international turmoil can lead to large fluctuations in profits and, consequently, in transfers.

- **Opacity in the implementation of the proposal, especially at the national level:** in the name of national sovereignty, the argument that each country makes its transfers as it wishes, as long as it commits to a minimum of 20% for IP and LC, is fragile, to say the least, as it maintains the absence of more clearly defined rules for the transfer of funds once they are received by the TFC National Treasury. Based on other experiences with climate finance, it is known that one of the major problems is access, especially in countries where these people are marginalized and criminalized. In addition, this freedom of action for each TFC in the allocation of resources opens the door for greenhouse gas emitting sectors that adopt sustainable practices or comply with national legislation to receive resources from the TFFF and maintain their emitting activities.

As we move towards the presentation of the final version of the TFFF at COP 30 and the publication of the Governance Statute and Operations Manual, it is hoped that the TFFF Steering Committee will review the representation of the advisory bodies to include more IPLC representatives, as well as representatives from other civil society entities and movements, in order to ensure the defense of the people and communities most affected by deforestation and climate change. In addition, it is necessary that the criteria for the internal transfer of funds be detailed and publicized so that changes in government and persecution of IPLC do not affect the transfer of funds.

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