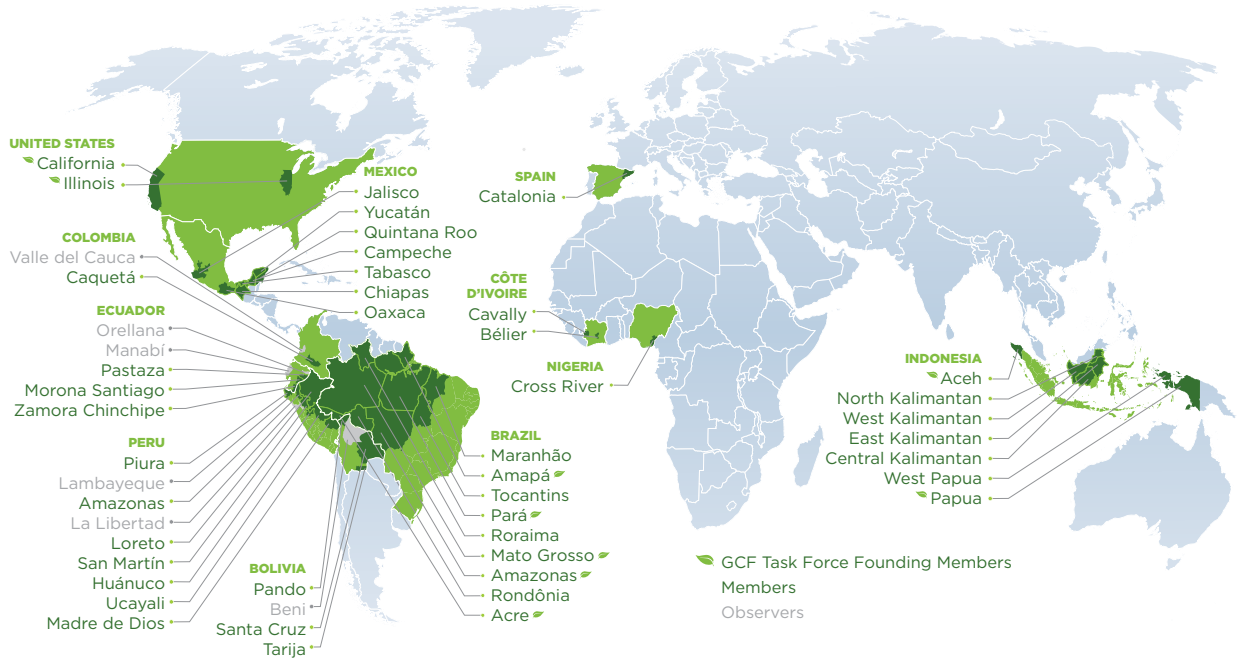
BLUEPRINT FOR A NEW FOREST ECONOMY

GCF task force

UCAYALI, PERU | OCTOBER 11, 2024



INTRODUCTION

Building a New Forest Economy is one of the most important challenges of our time. This is critical for the climate. It is critical for biodiversity. And it is critical for the livelihoods and economic security of billions of people all over the world. Without a New Forest Economy — one that protects intact forests, restores degraded lands, and creates jobs and economic opportunities for the millions of people who live in these forests — the world's tropical forests will not survive and entire regions will face ecological collapse.

We know that short-term command-and-control actions can slow deforestation. But we also know that these measures alone will never lead to the long-term economic transformation that is essential to solving the problems of tropical deforestation and climate change. Like the clean energy transition, building a New Forest Economy requires a sustained commitment to creating whole new industries that will generate the jobs and economic opportunities that our people need and deserve.

This is an investment challenge. But it is also a challenge of planning and coordination — and a challenge of innovation and imagination. **There are no silver bullets — no single pan-tropical approach that can be scaled and replicated everywhere.** Our regions are too different.

But we do face common challenges and we have learned an enormous amount from each other over fifteen years of working together through the Governors' Climate and Forests Task Force (GCF Task Force). We know that subnational action and leadership are critical in the effort to build a New Forest Economy. We know that we are responsible for much of the hard work on implementation and in testing new approaches. And we know that we cannot move forward without the trust and collaboration of our Indigenous and local communities.

To that end, our approach starts with comprehensive jurisdictional strategies and investment plans that respond directly to the realities on the ground and establish realistic pathways for a New Forest Economy in our individual jurisdictions. Over the last fifteen years, we have worked with key partners to design, elaborate, and continuously improve these jurisdictional strategies and investment plans across our entire network. Taken together, these jurisdictional strategies and investment plans make it clear that we have the vision and political will, the overarching frameworks, and the fundable projects and activities that are necessary to build a New Forest Economy.

But we cannot do this alone. Our governments continue to struggle with budget and staffing cuts. The modest international commitments of funding for forests have generally failed to reach us. And our national governments are facing ongoing fiscal crises marked by massive debt burdens and net capital outflows to the Global North. Most fundamentally, many of the people living in our jurisdictions have yet to see any tangible benefits from the forests and climate agenda, which compounds the political challenges we face in trying to make this agenda politically attractive.

To state the obvious, the status quo is not working and we are running out of time. And, so, we continue to call upon our national governments and the international community to work with us to mobilize new funds and, just as importantly, to design new mechanisms and redesign existing ones that can deliver finance in a rapid and nimble fashion to support our efforts. **Last December we called upon our national governments and the international community to mobilize $1 billion to support our efforts to build a New Forest Economy. Today, we are putting forward a Blueprint for how this money can be deployed.** And, make no mistake, we are not naïve enough to think that simply saying any of this will somehow make it happen. But we also know that we have to continue pushing for real and lasting support.

Our Blueprint outlines four key activities that are the building blocks for a New Forest Economy:

- **BIOECONOMY**
- **NATURAL INFRASTRUCTURE**
- **RESTORATION**
- **INTENSIFICATION**

The specific initiatives within each of these building blocks will obviously look different across our network depending on local and regional conditions. Some of our jurisdictions will also need to focus more heavily on certain activities than others. More generally, each of these activities also entails different funding needs and poses different design challenges for how that money is deployed. So, for example, funding for bioeconomy may require rapid, relatively small-scale grants to communities and entrepreneurs whereas restoration and natural infrastructure funding may require larger flows of funds that are tied to development finance, different types of credits instruments, and payment-for-ecosystem services approaches.

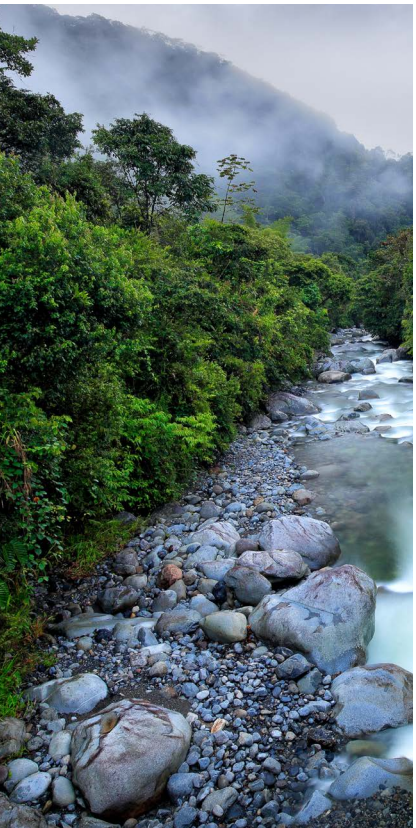
In addition, **given the regional and national differences across our network, we believe that new and existing mechanisms should have a regional or national focus**. What works in Brazil or across the Amazon region may not work in Indonesia. Domestic financing mechanisms, such as agricultural and rural credit systems or new carbon pricing regimes, could also play a critical role. This Blueprint elaborates on these differences and outlines some of the new and existing mechanisms that could be used to support promising initiatives in these four key areas. In our view, the **most important thing is to get started now and adopt a continuous improvement approach** as we move forward and learn from experience.

HOW WE GOT HERE

In 2022, we launched the Manaus Action Plan for a New Forest Economy (MAP), committing our governments to substantial reductions in deforestation and calling on partners to support our efforts to build comprehensive, jurisdiction-wide approaches to a New Forest Economy. The MAP centered on four key pillars: our efforts must work first and foremost for the people and communities in our territories; this work must be based on mobilizing science and technology, along with traditional knowledge and wisdom; recognition and support for our on-the-ground efforts will require substantial, flexible financial support from all sources; and we will ensure this work lasts through good governance and durable public policies. As the MAP emphasizes, we know our realities best, and with support, we are best situated to implement solutions.

In 2023, we followed up the MAP with a Call-to-Action to finance our efforts to build a New Forest Economy launched during the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change. This Call-to-Action, released together with our Global Committee for Indigenous Peoples and Local Communities, seeks to co-create flexible, substantial funding mechanisms — leveraging existing mechanisms and commitments as much as possible — to direct $1 billion of investments into implementing our jurisdictional low-emission development and forest governance strategies.

In April 2024, one of our newest members, Santa Cruz, Bolivia, hosted a technical exchange of GCF Task Force member jurisdictions, Indigenous leaders, donors, and other partners, to begin the process of co-designing a set of regional funding mechanisms to support New Forest Economy efforts in our jurisdictions. Out of this exchange, we identified a clear set of design principles and key activities for these regional funding mechanisms. Today, during our 2024 Annual Meeting in Ucayali, Peru, we share this Blueprint and look forward to working closely with partners toward the New Forest Economy.



DESIGN PRINCIPLES FOR NEW FOREST ECONOMY FUNDING

New Forest Economy funding will need to be tailored to the specific needs and realities across our jurisdictions. Some of this funding will need to come from international partners, including through bilateral agreements, philanthropy, multilateral development banks, private sector investors, and other sources; but, much of it will ultimately have to come from domestic sources in our own countries and jurisdictions, including national, regional, and subnational development banks, new public/private financing schemes, and tax and credit programs. Different activities will require different approaches to funding and in all cases, we should look to utilize and, where necessary, repurpose existing mechanisms and funding facilities where possible. To that end, it is critical to keep in mind the following principles and commitments that inform our work:

- **Context-Specific Solutions** | As a global network spanning 11 countries, we must recognize that each jurisdiction and each region is unique. And while our problems are often general (deforestation and forest degradation), the solutions will often be context-specific. We cannot look for a single, pantropical approach, but must develop fit-for-purpose mechanisms and actions based on the local context, circumstances, and legal structures.
- **Learning, Adaptation, Replication** | Despite these differences, we work together most effectively when we can share what works and see if it can be replicated, adapted, and experimented on within our own contexts.
- **Trust and Inclusivity** | Our outreach and partnerships by design must be broad and inclusive in order to build the trust that is necessary for any effective approach to forest governance. We must work across different sectors and government departments and build processes that include our communities and other stakeholders in co-designing solutions.
- **Integration** | Our existing partnerships and mechanisms are vital, but we must find ways to reduce fragmentation and competition, in particular within the international financial and philanthropic communities. We have all tried to fit within the various calls for proposals, grant and loan application processes, and reporting requirements. Fragmentation and lack of coordination across funding mechanisms and funding partners hampers our ability to experiment and advance.
- **Agility** | Likewise, we must find ways to reduce barriers to creating more agile, robust partnerships. The time and capacity required to evaluate, apply for, and report on outcomes often serve as barriers for accessing existing funding mechanisms.
- **Rapid Delivery** | The length of time required to access current funding hinders the deployment and experimentation of innovative actions on the ground. Given the urgency of action, we must find ways to ensure these funding mechanisms can be accessed and disbursed rapidly.
- **Large-Scale Impact** | The scale of the climate, deforestation, and biodiversity crises is immense and our solutions must also seek to be large-scale. Funding mechanisms must prioritize strategies and actions that have the best potential for large-scale impact.

BUILDING BLOCKS FOR THE NEW FOREST ECONOMY

At the Santa Cruz workshop, we identified four key activities that serve as building blocks for the New Forest Economy across our network:

Establishing a thriving bioeconomy: Promoting sustainable use of natural resources to create economic value and provide sustainable and fulfilling livelihoods. For instance, Brazil has launched the Global Bioeconomy Initiative under the upcoming G20, aiming to harness the economic potential of its biodiversity while promoting sustainable practices.

Sustaining natural infrastructure: Much as we do when developing transportation or electricity infrastructure, we should consider our forests and tropical ecosystems as essential natural infrastructure with respect to their management and to financing their protection. Obvious examples of the life-essential services provided by our forests include regulating local weather, reducing flood damages, securing safe and ample water supplies, and creating the right conditions for agricultural growth. There is a need for GCF Task Force members and partners to think creatively about who uses these resources and if and how this could be funded, for example, through government bonds, user fees, payments for ecosystem services, or carbon market programs where resulting revenue contributes directly to the protection of these natural ecosystems.

Restoration of degraded areas: Restoring ecosystems to their natural state to provide environmental and economic benefits. Incentives for restoration include emissions reduction credits, promoting sustainability in supply chains, compliance with environmental requirements, and impact and sustainability positioning (i.e., marketing/reputation). However, barriers for corporate finance of restoration include challenges on the ground such as tenure issues and unsupportive policies, the fact that benefits are largely public goods, and the lack of quantification systems and markets for restoration benefits. Subnational actors can help address these barriers by improving data transparency and storytelling to attract investors for reforestation finance.

Intensification of current economic activities: Enhancing productivity of existing agricultural commodities and forestry activities to increase value, meet demand, but prevent further expansion into natural ecosystems. Intensification can ensure economic growth and spare land for conservation and/or regeneration, providing a de-facto integrated landscape management approach at jurisdictional scale. The benefits of intensification of agriculture can include higher yields on existing farmland or ranchland, or conversion of cattle pastures to high protein yielding fish farming, which reduces the need to convert additional natural habitats into agricultural land, thereby protecting ecosystems.

Many GCF Task Force member jurisdictions are already working hard to attract investment partners into each of these key activities and have developed projects that are ready to receive investments now. Our task is to match these actions with funding mechanisms, and to work together to tailor these mechanisms for increased flexibility, scale, and impact.

FUNDING MECHANISMS FOR A NEW FOREST ECONOMY

Establishing funding mechanisms to support these New Forest Economy activities should focus, where possible, on utilizing and repurposing existing mechanisms and, where necessary, on co-designing new mechanisms. The specific form of the mechanisms will vary by region and activity. The following outlines one possible approach to structuring these mechanisms around the four activities we identified above. We provide additional examples of funding mechanisms, as well as case studies, in Appendix C. And, we invite partners to improve on these ideas and partner with us to invest and scale urgently needed action where it matters most.

BIOECONOMY INNOVATION HUBS

Multiple GCF Task Force jurisdictions (Amapa and Amazonas in Brazil and Peru's Amazonian Regional Commonwealth) are already advancing their own bioeconomy efforts within their jurisdictions through support of the GCF Task Force, USAID, CIAT, and other partners. These initial pilots need to be expanded and scaled up. To do this, we are calling on funding to establish four regional Bioeconomy Innovation Hubs — in the Brazilian Amazon, the Peruvian Amazon, Indonesia, and Mexico. Each of these hubs would serve to link government, private sector actors, communities, civil society, and academia through a research and grantmaking collaboration with a focus on innovating new products, supply chains, logistics operations, e-commerce platforms, and traceability tools to drive bioeconomy investments and jobs. They can also align closely with partners in civil society and national institutions that support innovation and business, like SEBRAE (in Brazil).

The funding mechanism would require establishing a fiscal sponsor to manage funds — like a regional development bank or an investment management firm like GCF Task Force partner KPTL — and clear rules, including on:

- **Types of funding they would accept.** This could include venture capital, philanthropy, domestic and international funding support (e.g., government climate budgets, regional development banks, and USAID), and other sources.
- **Representative engagement and oversight.** Each hub could be structured through a "board of directors" of sorts — including representation from state governments, key private sector actors, Indigenous and local community leaders, investors, lawyers, and academic researchers.
- **Rapid access to and distribution of grant funding.** The GCF Task Force has identified key criteria grounded in existing jurisdictional decarbonization strategies and investment plans that could form the basis of rules for accessing and distributing funds. These criteria can be found in Appendix A. These rules would specify how products developed through the hubs will support ongoing job creation, community benefits, and lower deforestation.

Initial funding will be needed to set up the hubs and support them in establishing their structure, rules, and grantmaking criteria.

- This could be launched through an open competition for proposals to host and set up these hubs, similar to how GCF Task Force partners XPrize and Conservation X Labs issue challenges and prizes to innovate and co-design solutions.
- We envision these regional Bioeconomy Innovation Hubs as functioning similarly to the recently announced $7 billion in support to launch regional clean hydrogen hubs in the United States.

NATURAL INFRASTRUCTURE FINANCE FACILITIES

For protecting and improving our natural infrastructure, we envision the creation of domestic public financing mechanisms to aid state and local governments protect, develop, and bolster their natural infrastructure – in particular their forests and the ecosystem services they provide. Specifically, we are calling for the creation of regional **Natural Infrastructure Finance Facilities** that would act as public financing entities that would channel funding to state and local governments and their partners to support the development of Payment for Ecosystem Services schemes.

These new public financing facilities could be newly created or housed within existing financial institutions, such as national development banks. They would require clear rules and structures, including around:

- **Types of funding they would accept.** This could include funds from the sale of government bonds, deposit of user fees (e.g., water bonds or water use fees), revenues from carbon taxes or from the sale of jurisdictional carbon credits and/or from the sale of permits through carbon market auctions, fees or taxes from the sale of sustainably certified timber, direct funding from national and domestic budgets, and other sources.
- **Rapid access to and distribution of funding.** The GCF Task Force has identified key criteria grounded in existing jurisdictional decarbonization strategies and investment plans that could form the basis of rules for accessing and distributing funds from a Forest Infrastructure Development Bank. These criteria can be found in Appendix A. These rules could also include clear repayment terms and cost-share provisions to ensure the bank funds also attract additional investment.
- **Transparent reporting on results from the expenditure of funds.** An example of how this can be done comes from GCF Task Force member jurisdiction, California, which reports on how proceeds from the sale of its carbon market auctions are disbursed as California Climate Investments through government grant programs to benefit communities and the climate.

These Natural Infrastructure Finance Facilities could operate similarly to:

- The Brazilian Development Bank (BNDES) or the Reconstruction Finance Corporation established in the 1930s in the United States to provide financing to state and local governments to support agriculture, commerce, and industry.
- Another example of the type of effort these facilities could support comes from the Reciprocal Water Agreements in Santa Cruz, Bolivia, wherein upstream landowners agree to conserve their forests in exchange for compensation in the form of beehives, fruit trees, or other resources that enhance their livelihoods that are funded from downstream water user fees. This type of fee could be structured as a source of funding that could help capitalize a development bank.

REGIONAL RESTORATION AUTHORITIES

Many GCF Task Force jurisdictions have already identified key areas within their territories for focusing restoration efforts. However, significant upfront capital is required to start a restoration project and maintain a sufficient workforce to conduct the restoration, forest management, and benefits calculation activities required. We are proposing to leverage public and private funds through the creation of regional Forest Restoration Authorities that pair agile upfront investment opportunities with longer-term repayment based on the ecosystem benefits stemming from restoration results. To enable work at the regional scale, these funds could be designed to focus on geographic regions like the Ecuadorian Amazon, transboundary areas within the Amazon Basin, and the provinces of Indonesian Borneo.

These Forest Restoration Authorities could work as follows:

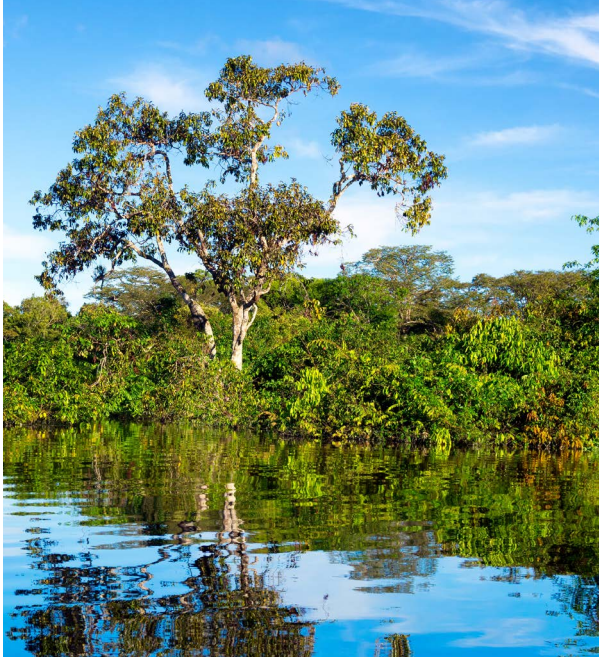
- **Identify priority areas and organize local workforce.** Subnational governmental technicians and communities identify priority areas for restoration based on GCF Task Force jurisdictional strategies and organize/prepare a qualified local workforce (foresters, wildfire fighters, forest monitors).
- **Private investors provide upfront capital.** Private investors (foundations, banks, companies) contribute concessional and/or market-rate finance to start restoration activities, including supporting workforce development.
- **Implementation partner.** An implementation partner is selected to manage the on-the-ground work.
- **Accounting of benefits.** Third-party partners ensure transparent accounting of results and benefits.
- **Results and benefits are monetized.** This could be through carbon finance (e.g., through the sale of carbon credits, revenues from a local or national carbon market or carbon tax) and budget savings (e.g., lower cost to manage drinking water quality post restoration).
- **Repayment of initial investors.** Resulting revenues/savings are used to repay the initial investors and ensure ongoing work to manage the forest.

Two examples highlight how this could be set up:

- A growing effort to address wildfire-related risks in the United States has resulted in the creation of Forest Resilience Bonds (FRB). These FRBs were spearheaded by a conservation non-profit, Blue Forest, together with the World Resources Institute, the United States Forest Service, and the National Forest Foundation. Private investors — philanthropy and banks providing below-market rate concessional capital, together with banks and insurance providers providing market-rate capital — provide loans/grants to fund the initial restoration work. This ensures immediate funding to hire local contractors, conduct planning and restoration activities, and calculate the resulting benefits (carbon, water quality, etc.). Based on those benefits, public and private beneficiaries then repay the initial investors. This may take the form of repayment through revenues from the sale of carbon credits, grant funding from taxes/carbon market proceeds managed by the government, savings resulting from water quality improvements, or other innovative repayment sources.
- Nature-based carbon removal projects have been focusing on reforestation efforts in the Global South. Voluntary carbon market offtake contract purchases — where the buyer provides upfront finance to support reforestation efforts, including local employment and other community benefits, and receives carbon credits over a set time period — can also support large-scale reforestation. For instance, Microsoft has entered into multiple partnerships for carbon removal credits coming from reforestation activities on degraded pasturelands in Brazil and Central America, including recent partnerships with re.green (restoration of 16,000 hectares over 15 years in the Brazilian States of Maranhão and Bahia) and Ponterra (restoration of 10,000 hectares in the Azuero Pensinsula in Panama).

SUSTAINABLE COMMODITY HUBS

Producers across the GCF Task Force network — fishers, farmers, ranchers, and others — are keenly aware of the impacts deforestation has on their long-term development opportunities. Intensifying and enhancing productivity while decreasing land clearing, deforestation, and degradation of natural ecosystems is key to building the New Forest Economy. Assessing alternative production methods — and alternative production opportunities — requires significant research, access to funding, and innovation on the ground. While many of our member governments have worked to create the policies and legal enabling conditions for this work, increasing yields in a more sustainable manner also requires academic and private sector leadership. We call for the creation of four regional Sustainable Commodity Hubs that bring together producers, commodity companies, transparency organizations, and community organizations with agricultural research networks to leverage public science and research with private sector investments that will benefit producers, communities, and regional economies.



These Sustainable Commodity Hubs would require establishing a fiscal sponsor to manage funds, established research partners, and clear governance rules, including on:

- **Types of funding they would accept.** This could include commodity company investment, venture capital, philanthropy, domestic and international funding support (e.g., government climate budgets, regional development banks, and USAID), and other sources.
- **Expert research partners.** This should include established regional universities and research networks (e.g., IMBRAPA in Brazil), as well as networks like the GCF Task Force's partners at CIFOR-ICRAF, and other non-profit and for-profit research organizations.
- **Representative engagement and oversight.** Each hub could be structured through a "board of directors" of sorts — including representation from state governments, key private sector actors, Indigenous and local community leaders, investors, lawyers, and researchers.
- **Clear guidelines on what best practices for sustainable intensification.** Each hub would build on existing best practices for sustainable agricultural intensification from international groups such as the International Fund for Agricultural Development or the Food and Agriculture Organization of the United Nations, and agree on adapting those to best meet regional conditions.
- **Rapid access to and distribution of grant funding to support applied research.** The GCF Task Force has identified key criteria grounded in existing jurisdictional decarbonization strategies and investment plans that could form the basis of rules for accessing and distributing funds. These criteria can be found in Appendix A. These rules would specify how products developed through the hubs will support ongoing job creation, community benefits, and lower deforestation.

Examples of how GCF Task Force jurisdictions have focused on intensification include:

- Mato Grosso's (Brazil) Produce, Conserve, Include (PCI) strategy aims to promote sustainable cattle and soy intensification by increasing productivity while reducing deforestation and environmental impacts. The strategy focuses on improving land-use efficiency through advanced agricultural practices and conservation measures. Mato Grosso's soy productivity is among the highest globally, with yields averaging over 3.5 tons per hectare, reflecting the effectiveness of these intensification efforts.
- Acre's (Brazil) efforts to encourage cattle farmers to pursue more sustainable, higher-protein-yielding native fish farms on their already-degraded land. This initiative aims to enhance protein yields and reduce the environmental impact of traditional cattle farming. By using degraded lands for fish farming, Acre improves land use efficiency and supports local food security.

ADDITIONAL CONSIDERATIONS ON FUNDING MECHANISMS

Importantly, multiple funding mechanisms could (and may need to) bundle diverse sources of funding (and mechanisms). For instance, a reforestation program in Amazonas, Brazil could commence with a low interest loan from a rural development bank to acquire saplings and train workers, together with direct corporate investment to engage with landowners and/or obtain a concession, and then build in longer-term financing through an offtake contract with a domestic or international donor/corporate entity through a carbon market or payment for ecosystem services scheme. The key to ensuring these investments build a New Forest Economy will depend on ensuring the investments align with strategic priorities of the jurisdiction and communities. **This may also require adapting existing funding mechanisms to reduce barriers to access and align with the building blocks.**

NEXT STEPS

This Blueprint outlines key design principles, building blocks, and funding mechanisms to align with needed investments on the ground. The GCF Task Force will continue to build additional tools for jurisdictions and partners to utilize this Blueprint and build a New Forest Economy. These tools will include recommendations for reducing barriers to existing funding mechanisms, ongoing research on funding mechanisms and design elements, and updated data tools to support implementation. Check our website for updates and more information.

PARTNER WITH US

We urgently need faster, more efficient, and more flexible funding mechanisms to build a New Forest Economy. We have proposed bold strategies and ideas, and we need bold, innovative partnerships to make them happen. Come partner with us.

We are grateful to our long-time partners at the Norwegian International Climate and Forest Initiative and the Norwegian Agency for Development Cooperation for their ongoing funding support and partnership with the GCF Task Force. This Blueprint is intended to be a living document and we will update it on our webpage as new information becomes available. Any errors or omissions are unintentional, but solely the responsibility of the GCF Task Force Secretariat.

APPENDIX A.

TABLE 1. *Criteria for mechanisms aligned with the New Forest Economy*

CRITERIA	DESCRIPTION	COMPONENTS
Alignment with Climate and Forest Goals	Funding should support initiatives that address deforestation and promote sustainable land use.	• Relevance to forest conservation and sustainable land management • Contribution to carbon sequestration and emissions reduction • Integration with climate-smart practices to align with global climate targets
Support for Sustainable Economic Development and Bioeconomy	Projects must promote a sustainable bioeconomy, enhancing value chains and economic resilience.	• Economic viability and sustainability of bioeconomy initiatives • Development of sustainable value chains, including agroforestry and non-timber forest products • Integration with local and global markets
Traceability and Transparency in Value Chains	Ensure traceability and transparency across the value chain to promote sustainability and equity.	• Implementation of traceability systems for forest products • Certification and labeling that support sustainable practices • Transparency in sourcing and production processes, ensuring fair trade and ethical practices
Inclusivity and Community Engagement	Funding should prioritize community involvement, adhering to GCF Task Force Guiding Principles and Gender Policy.	• Partnership with Indigenous Peoples and Local Communities (IPLCs) in project planning and implementation • Empowerment of marginalized groups, particularly women and indigenous populations • Respect for traditional knowledge and practices • Ensuring communities benefit directly from value chains and bioeconomy initiatives
Scalability and Replicability	Projects should have potential for expansion and adaptability across different regions or contexts.	• Ability to scale successful bioeconomy models • Replicability of sustainable value chains in other regions • Potential to create regional or global impacts through scalable initiatives
Governance, Transparency and Institutional Strengthening	Strong governance frameworks should ensure transparency, accountability, and collaboration across stakeholders	• Clear governance structures and accountability • Transparent fund management and accountability • Collaboration among governments, private sector, civil society, and local communities in managing value chains and bioeconomy projects
Innovation, Flexibility and Long-term Resilience	Funding should encourage innovative approaches and be adaptable to evolving conditions while ensuring long-term impact.	• Promotion of innovative bioeconomy models, including circular economy practices • Flexibility to adapt to changing market demands and environmental conditions • Ensuring durability and resilience of projects to deliver long-term benefits
Environmental Integrity and Ecosystem Services	Projects should protect biodiversity, promote ecosystem services, and support sustainable land management.	• Enhancement of biodiversity through conservation and restoration • Sustainable management practices that safeguard ecosystem services like carbon sequestration and water regulation • Minimization of ecological footprints in value chain processes
Measurable Outcomes and GCF Task Force member objectives	Projects should have clear, measurable outcomes and align with the GCF Task Force's strategic goals, ensuring accountability and transparency.	• Defined metrics for tracking sustainability, economic impact, and social equity • Alignment with GCF Task Force strategies, including the Manaus Action Plan • Transparent monitoring and reporting systems for continuous improvement

APPENDIX B.
REGIONAL PROCESSES FOR DEVELOPING SPECIFIC MECHANISMS

To support jurisdictions and partners, we provide a step-wise process for how the four investment building blocks identified above could draw on partners and funding mechanisms to establish New Forest Economies.

STEP 1 | Identify Investment Type

Describe the investment type based on jurisdictional priorities.

Example: Identify restoration program through consultation process with local communities.

STEP 2 | Identify Potential Mechanisms

See Appendix C for a non-exhaustive list of different mechanisms.

STEP 3 | Identify Sources of Funds

Emphasize the need to explore diverse funding options due to the limited and somewhat slow international public financing available. It is essential to also assess domestic opportunities to ensure a steady and sufficient flow of funds.

Outline domestic funds — such as national budgets, local government funds, and private sector investments — and international sources — such as climate funds, international development agencies, and global carbon markets.

STEP 4 | Specify Design Requirements

Ensure that the funding mechanism align with the jurisdictional priorities and operational realities, and that funds are used for their intended purpose.

Design mechanisms to meet criteria for a New Forest Economy in Appendix A (Align with Low Emissions Development Strategies, support biodiversity conservation and economic development, and adequately address local needs and realities.)

Funding mechanisms should align with the strategic priorities of the GCF Task Force, including promoting sustainable land use, reducing deforestation, enhancing climate resilience, and ensuring social equity and community engagement. Funding must also adhere to the GCF Task Force's Guiding Principles for Partnership and Collaboration between Subnational Governments, Indigenous Peoples and Local Communities and Gender Policy, which emphasize inclusivity, respect for traditional knowledge, and gender equity.

STEP 5 | Pair with other mechanisms

Highlight synergies between different funding mechanisms.
Leverage the GCF Task Force's expertise and network to maximize effectiveness of combined mechanisms.

Example: Combining Payment for Environmental Services with sustainable tourism initiatives.

STEP 6 | Assess Outcome

Measure impact on deforestation rate reduction and community livelihoods.

Example outcomes: increased forest area under sustainable management and increased jobs.

STEP 7 | Replicate, Scale or Modify

Discuss strategies for scaling successful models with partners and adapting to other regions.

APPENDIX C.
CASE STUDIES AND EXAMPLES OF ADDITIONAL FINANCIAL MECHANISMS

This appendix provides several specific case studies of various types of financial mechanisms that have been deployed within GCF Task Force jurisdictions, followed by a brief overview of additional financial mechanisms we have assessed that are used to support climate change mitigation and adaptation initiatives. This is not an exhaustive list, but a list of resources and different financial instruments to protect nature and improve social standards in the GCF Task Force member jurisdictions and communities. The financial mechanisms described in this document often overlap and can be applied in combination.

I. WATER FUNDS

Water funds are innovative financial mechanisms designed to protect and manage vital water resources by investing in watershed conservation and sustainable land use practices. They play a critical role in ensuring the availability and quality of water, particularly in regions where natural water sources are under threat.[1] They operate as a locally funded and managed advance payment for ecosystem services.

Key components

- **Water funds are typically financed through a mix of public and private sources.** These may include government agencies, international organizations, corporations, and local communities. The funds are used to support projects that enhance water quality, manage watersheds, and implement conservation practices.
- **Successful water funds have well-defined governance structures that include a multi-stakeholder board or committee.** This body oversees fund operations, sets strategic priorities, and ensures transparency and accountability in decision-making processes.
- **Effective water funds engage a broad range of stakeholders such as local communities, government bodies, businesses, and non-governmental organizations.** This engagement helps align interests, fosters collaboration, and ensures the fund addresses the needs and concerns of all stakeholders.
- **Water funds support various conservation projects, including reforestation, sustainable agriculture, erosion control, and pollution management.** These initiatives are aimed at improving watershed health, enhancing water quality, and promoting sustainable resource use.
- **Regular monitoring and evaluation are crucial for assessing the impact of water fund projects.** This involves evaluating improvements in water quality, changes in land use practices, and the overall health of the watershed. Effective monitoring helps demonstrate the fund's value and guides future investments.

Expected outcomes

- **Improved Water Quality:** Water funds contribute to reducing pollution and enhancing the quality of drinking water by supporting watershed conservation and sustainable practices.
- **Enhanced Ecosystem Health**: Conservation projects funded by water funds help protect natural habitats, maintain biodiversity, and sustain ecosystem services.
- **Sustainable Water Management:** By promoting sustainable practices, water funds ensure the long-term availability and management of water resources, balancing ecological and human needs.
- **Economic Benefits:** Improved water quality and ecosystem health can support local economies through increased agricultural productivity, enhanced tourism opportunities, and reduced costs for water treatment.

1 What is a water fund? The Nature Conservancy Water Funds Toolbox

▸ **Case Study:** Santa Cruz, Bolivia - Fundación Natura Bolivia and Reciprocal Water Agreements

Fundación Natura Bolivia has pioneered the use of Reciprocal Water Agreements (Acuerdos Recípricos por Agua, ARAs) to protect millions of hectares of Bolivian forest. These agreements are based on a simple principle: upstream landowners agree to conserve their forests in exchange for compensation in the form of beehives, fruit trees, or other resources that enhance their livelihoods. By securing the cooperation of local communities and promoting sustainable land use, these agreements have successfully protected critical watersheds, ensuring a steady supply of clean water to downstream communities while preserving biodiversity. The success of these ARAs lies in their reciprocal nature, where both upstream and downstream communities benefit from the arrangement. Since their inception, these agreements have led to the conservation of over 6 million hectares of forest, directly impacting the lives of 60,000 people across Bolivia. Fundación Natura Bolivia's model has become a leading example of how water funds can be effectively implemented to achieve both environmental and social goals, promoting long-term sustainability and resilience in vulnerable ecosystems.

II. THE AMAZON FUND

The Amazon Fund is a significant initiative in Brazil, designed to support efforts to reduce deforestation and promote sustainable land use in the Amazon rainforest. Established in 2008, the fund is managed by the Brazilian Development Bank (BNDES) and is primarily financed by donations from the international community, with Norway being the largest contributor. The Amazon Fund plays a crucial role in supporting Brazilian states, particularly GCF Task Force states in the Amazon region, by providing financial resources and technical support for state-led initiatives. This collaboration enhances state capacities to implement environmental policies, improve forest governance, and promote sustainable development aligned with regional priorities. The Fund's participatory governance structure ensures that state perspectives are included in decision-making processes, further aligning its activities with the specific needs of each state.

Key Components

- **The Amazon Fund is financed through donations from foreign governments, notably Norway and Germany, and other international donors.** The funds are disbursed based on verified emissions reductions in the Amazon, with an emphasis on supporting Brazil's efforts to curb deforestation. The Fund has received a total of approximately USD 236 million in donations, primarily from Norway, Germany, and Petrobras. Out of this total, about USD 150 million has been disbursed to finance more than 100 projects aimed at reducing deforestation, promoting sustainable land use, and enhancing the capacity of local and indigenous communities in the Amazon region according to the Amazon Fund website.
- **The Amazon Fund is managed by BNDES, the national development bank, which oversees the allocation of funds to various projects.** A steering committee, comprised of representatives from federal and state governments, civil society, and indigenous organizations, ensures that the fund's activities align with national and local priorities.
- **The fund engages a broad range of stakeholders, including local communities, NGOs, governmental agencies, and private sector partners.** This inclusive approach ensures that projects funded by the Amazon Fund are relevant to the needs of those most affected by deforestation and environmental degradation.
- **The Amazon Fund supports a wide range of projects, including forest monitoring, sustainable agriculture, and the strengthening of indigenous territories.** These projects are designed to promote sustainable land use, improve forest governance, and enhance the livelihoods of local communities.
- **The Amazon Fund places a strong emphasis on monitoring and evaluating the impact of funded projects.** This includes tracking reductions in deforestation rates, improvements in land use practices, and the overall health of the Amazon biome.

Expected Outcomes

- **The Amazon Fund aims to significantly reduce deforestation in the Amazon,** contributing to global efforts to combat climate change.
- By funding projects that promote sustainable land use and improve local livelihoods, **the Amazon Fund supports the long-term economic development of the Amazon region**.
- **The fund's governance structure promotes transparency and accountability**, ensuring that projects are effectively managed and deliver tangible results.

▸ **Case Study:** Acre, Brazil - Amazon Fund's Support for Acre's Zero Forest Fires Project

The Amazon Fund has been instrumental in supporting the State of Acre through the "Zero Forest Fires" project, which aims to significantly reduce the incidence of forest fires in the region. This project, with a **total investment of approximately BRL 15.6 million (around USD 3.2 million)** from the Amazon Fund, focuses on enhancing fire prevention and control measures across Acre. The initiative is crucial for protecting the state's vast forests from the devastating effects of fires, which have become increasingly frequent due to climate change and human activities.

The "Zero Forest Fires" project involves strengthening Acre's firefighting capabilities by improving monitoring systems, training local fire brigades, and raising community awareness about the importance of preventing forest fires. The project also integrates advanced technologies, such as satellite monitoring, with traditional knowledge from local communities to create an effective early warning and response system. As a result, the project has successfully reduced the number of forest fires, safeguarding both the environment and the livelihoods of those who depend on the forest.

This initiative is a key component of Acre's broader strategy to achieve sustainable forest management. The Amazon Fund's substantial investment in the "Zero Forest Fires" project has not only helped protect the region's biodiversity but has also reinforced Acre's position as a leader in environmental conservation within the Amazon. The project's success serves as a model for other regions in the Amazon basin facing similar challenges in forest fire prevention and management.

Sources: Amazon Fund - Zero Forest Fires Project *and the Amazon Fund Overview.*

III. ECOLOGICAL FISCAL TRANSFERS

Ecological Fiscal Transfers (EFTs) are financial mechanisms that redistribute resources from national or central governments to subnational entities (such as states, provinces, or municipalities) based on their environmental performance. This relationship is key to EFTs, as it aligns fiscal incentives with ecological goals, encouraging better environmental management at the local level. National governments establish the framework and criteria for the transfers, while subnational entities are responsible for implementing conservation practices and managing natural resources. This structure ensures that local governments are motivated to improve environmental outcomes, as their financial resources are directly linked to their ecological performance.

Key Components

- **EFTs distribute financial resources based on specific environmental criteria.** These may include measures such as protected area management, forest conservation, or improvements in water quality. The distribution is designed to reward entities that achieve or maintain high environmental standards.
- **The allocation of funds is based on environmental indicators such as the extent of protected areas, biodiversity conservation, or pollution control.** These indicators are used to assess and compare the environmental performance of different entities.

- **The implementation of EFTs involves state or national agencies that set evaluation criteria, oversee fund distribution, and ensure compliance with program requirements.** Collaboration with local governments and environmental organizations is crucial for effective management.
- **Regular monitoring and evaluation are essential to assess the impact of EFTs.** This includes tracking environmental outcomes, evaluating the effectiveness of funding mechanisms, and making necessary adjustments to improve the program.

Expected Outcomes

- **EFTs promote conservation efforts** by providing financial incentives for better environmental management and the protection of natural resources.
- **Aligning fiscal transfers with ecological performance supports more effective and sustainable management of natural resources.**
- **Funds from EFTs can be used to build local capacity** for environmental management, improve infrastructure, and enhance community engagement in conservation activities.
- **EFTs rely on specific environmental indicators and data,** ensuring that funds are allocated based on concrete and measurable outcomes.

▸ **Case Study:** North Kalimantan, Indonesia - Ecological Fiscal Transfer

North Kalimantan has implemented an innovative EFT scheme to promote sustainable forest governance and environmental management. This scheme, initiated in 2019, builds on the province's commitment to ecological-based development by integrating ecological indicators into fiscal transfers. The EFT framework in North Kalimantan operates through various channels, including the Regional Incentive Fund (DID), Specific Allocation Fund (DAK), and Village Funds (DD). These funds are allocated to regions and villages based on their ecological performance, incentivizing local governments to invest in conservation efforts and maintain their ecological integrity.

The North Kalimantan EFT scheme has been instrumental in addressing the region's environmental challenges, particularly in the preservation of its vast mangrove ecosystems and forests. By tying fiscal incentives to ecological outcomes, North Kalimantan has not only enhanced the protection of its natural resources but also improved the capacity of local governments to manage these resources sustainably. This approach has led to better environmental conditions at the village level and has fostered greater environmental awareness among local communities, making North Kalimantan a leading example of how fiscal policies can be leveraged to achieve both environmental and socio-economic goals.

Source: GCF Task Force and CDP pitchbook for North Kalimantan.

IV. ADDITIONAL EXAMPLES OF FINANCIAL MECHANISMS FOR CLIMATE ACTION

Payment for Environmental (or Ecosystem) Services: Perhaps the most well-known financial instrument for nature conservation, Payments for Environmental Services (PES) are financial incentives (payments) offered to land users or stewards in exchange for managing their land in a way that provides environmental benefits. These benefits, known as environmental or ecosystem services, are the natural functions that healthy ecosystems provide for all of us, such as clean water, carbon sequestration, and biodiversity. For example, a funder might pay for hectares of conserved land - as with tropical forests. PES can be seen as an instrument that can be tailored to jurisdiction- or landscape-specific challenges like better fire management or paying landowners to conserve critical areas of their properties as water springs or riverbeds. There is a lot of variety in how PES programs are set up. This includes the type and size of environmental benefits they target, who pays for them, what actions they reward, how they measure success, and how much and how they pay participants. The effectiveness and efficiency of PES programs are demonstrably contingent upon the quality of their design. Ultimately, a well-designed PES program is key to its success.

- **Case Study:** Costa Rica's payment for environmental services managed by FONAFIFO to protect primary tropical forests. Activities funded, either directly by the FONAFIFO or by accredited intermediaries like non-governmental organizations or local associations, include protection, reforestation and agroforestry systems.

  Further information: Payments for Environmental Services: Past Performance and Pending Potentials by Wunder et. al (2020).

Trust Funds: A fund that contains assets on behalf of a person or organization with a specific purpose. The use of trust funds as a financial instrument can provide long-term, stable funding for environmental protection or activities that increase livelihoods in our member jurisdictions. They can be created by both private entities and the government. Examples of this financial instrument are the Water Funds from all over Latin America, where different stakeholders that coexist in the territory of a water basin financially contribute to the trust fund with a designated Trustee (normally a non-governmental organization) coordinating nature-based solutions, like restauration or payment for environmental services, for better social and environmental outcomes in the area. Although Water Funds are an established financial instrument focused on water basins, trust funds can also operate focusing on land management actions.

- **Case Study:** The water funds in Ecuador operate through investments from private and public actors involved and interested in preserving the basin under a participatory scheme. These participatory schemes are in line with GCF Task Force Jurisdictional Approaches, in that participation is critical to enhance and legitimize actions conducted in the landscape.

  Further information: The Latin American Alliance of Water Funds

Debt-for-Nature Swaps: Debt-for-nature swaps convert a country's external debt into local currency that is then used to fund conservation or environmental projects. Within a debt-for-nature swap, an investor, such as a bilateral or multilateral donor, private investor, or NGO, may extinguish a portion of a low or middle income country's debt in exchange for local currency or "ecological bonds." These funds are then used to support environmental projects within the recipient country.

- **Case Study:** In a 2016 collaboration, Seychelles partnered with The Nature Conservancy (TNC) to restructure a portion of its national debt. This innovative approach generates up to $430,000 annually, specifically allocated towards marine conservation and climate change adaptation efforts within the country.

  Further information: World Economic Forum article

Concessional capital: Mobilizing concessional capital means financing at below-market interest rates, making it easier to fund environmentally sound projects. This can come in the form of grants (no repayment required), soft loans (with low interest, long repayment periods and extended grace periods), or debt relief (partial or complete forgiveness of existing debt).

- **Case Study:** Incentives for Sustainable Soy in the Cerrado (TNC, 2019), and Brazil's decade-long ABC Plan using subsidized public credit to finance low-carbon agricultural practices.

  Further information: The role of transitional finance in meeting land-use and climate goals (UNEP et al., 2023)

De-risking mechanisms: De-risking mechanisms focus on addressing investment concerns, lowering the risk for the investor or money provider. This can involve guarantees that cover potential loan defaults, technical assistance to enhance project efficiency, and first loss guarantees that mitigate initial losses in case of project failure. By addressing these risk factors, de-risking mechanisms encourage private sector participation and unlock additional financial resources for sustainable development goals. De-risking can also come in the form of government laws and policies that establish transparency and certainty in a market, or in a jurisdiction, that can help attract investors.

- **Case Study:** The Responsible Commodities Facility (RCF) will provide revolving working capital loans with discounted interest rates to soybean farmers that go beyond legal requirements in environmental protection.

Further information: Financing Nature-Based Solutions for Adaptation at Scale: Learning from Specialized Investment Managers and Nature Funds (Global Center on Adaptation, 2023)

Blended finance: Blended finance combines public and private resources to de-risk investments and unlock private capital for climate solutions. Public or philanthropic funds can act as a catalyst, increasing the attractiveness for private sector investment. Most financial instruments described above might be classified as blended finance mechanisms if they are a mix of public and private financial resources, with the aim to leverage those resources to accelerate progress towards environmental goals. Project Finance for Permanence (PFP) is an example of how a blended finance plan can be designed.

- **Case Study:** The Herencia Colombia initiative funded through the PFP model secured $245 million from public and private sources to permanently protect 32 million hectares of landscapes and seascapes in Colombia.

  Further information: PFPs serves as a tool for governments and local communities, in partnership with funders and NGOs, to take advantage of an array of financial instruments and secure long-term management and financing for networks of conservation areas.

Results Based Payments: Results Based Payments (RBP) are payments promised on the basis of achieving an agreed-upon result (e.g., reduction in deforestation rates). RBPs are a fundamental element of reducing emissions from deforestation and forest degradation (REDD+) mechanisms, ensuring REDD+ performance is properly incentivized and rewarded, and providing a revenue stream for jurisdictions and communities to continue to implement programs and activities to reduce deforestation.

- **Case Study:** Forest Carbon Partnership emissions reduction agreement with the province of East Kalimantan, Indonesia (World Bank, 2022).

  Further information: Evidence review: Results-based payments (Green Climate Fund Independent Evaluation Unit, 2020)

Carbon Market Finance: Carbon market finance combats climate change through tradable emission instruments (e.g., credits and permits). There are two market types: voluntary, where companies can offset their emissions voluntarily, usually through the purchase and retirement of verified offset credits that result from forest protection and other types of activities; and regulated or compliance markets, where participation and compliance with market requirements are mandatory. In a compliance market - often called an Emissions Trading System (ETS) - a government may set a limit (cap) on total greenhouse gas emissions that declines over time to meet an emissions reduction target. The ETS would apply to capped sectors (e.g., industry, electricity, transportation, manufacturing) and the cap would be divided into permits, which are made available in various ways, including through auctions, which helps set a clear price signal on emissions. Entities must turn in enough permits to match their actual emissions, and with permits decreasing over time and increasing in price, they are incentivized to invest in clean technologies and low carbon approaches and reduce their emissions. Many ETS also include opportunities to incentive reductions and removals in sectors that are not covered by the cap (e.g., nature-based solutions) through the generation and inclusion of offset credits.

- **Case Study:** Initiatives like California's Cap-and-Trade Program include carbon allowances and offset credits that can be traded and used to fund emission reduction activities. Programs like the LEAF Coalition seek to generate jurisdictional REDD+ credits for jurisdictions utilizing the ART/TREES standard.

  Further information: GHG Market Report 2023 (IETA, 2023)

Biodiversity Credits: Biodiversity credits are a market-based instrument that incentivizes actions that enhance biodiversity. Similar to carbon credits for greenhouse gas reductions, biodiversity credits represent measurable improvements in the health and diversity of ecosystems. Landowners, communities, or organizations that implement practices promoting biodiversity can earn these credits. These credits can then be traded in a marketplace, allowing companies or individuals to offset their negative biodiversity impacts by purchasing credits. This creates a financial incentive for biodiversity conservation and restoration efforts.

- **Case Study:** Biodiversity credit schemes are still nascent, but they are being developed across the world. A recent report from Pollination assesses multiple schemes.

  Further information: Can "Biodiversity Credits" Boost Conservation? (WRI, 2024)

Community-led financing: Community-led funding in forest and climate projects empowers local communities to manage and benefit from conservation efforts. It involves local decision-making and benefit-sharing, leveraging indigenous knowledge and promoting sustainable practices. Funding sources include multilateral development banks, bilateral aid from developed countries, international climate funds, NGOs, philanthropic foundations, private sector CSR initiatives, crowdfunding, government grants, and international environmental agreements like REDD+. These diverse sources ensure that communities, often the most affected by climate change, have the necessary resources for effective natural resource management.

- **Case Study:** The Community Land Rights and Conservation Finance Initiative (CLARIFI) is designed to empower local communities by securing land rights and facilitating access to conservation finance. The initiative provides technical assistance, financial resources, and strategic partnerships to help communities sustainably manage their lands and benefit from conservation efforts. CLARIFI aims to align conservation funding with community land rights, enhancing both environmental outcomes and local empowerment. The initiative seeks to raise $10 billion to support these goals, disbursed in grants of $100,000 to $50 million USD, fostering sustainable development and biodiversity conservation.
- **Case Study:** The Mesoamerican Territorial Fund is an alternative financial mechanism designed by the Mesoamerican Alliance of Peoples and Forests, by and for Indigenous Peoples and Local Communities. The Fund seeks to increase direct funding to an annual average of 30 to 40 donations with amounts starting at USD 50 thousand. It is governed by a 7-person Board of Directors.

  Further information: Home (clarifirights.org) and Fondo Territorial Mesoamericano