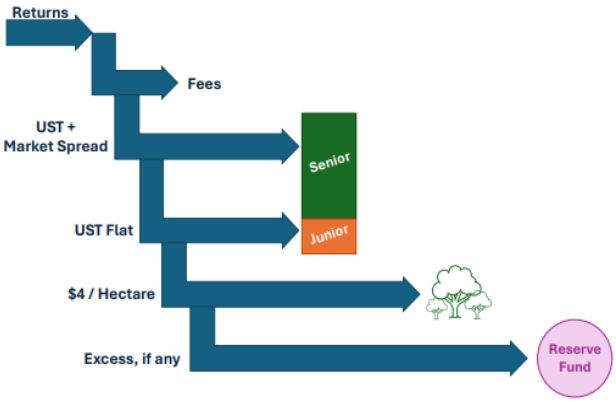
How TFIF could multiply forest impact of TFFF

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At COP30 in Brazil, a new financing initiative was announced: the Tropical Forest Forever Facility (TFFF). This potentially innovative mechanism aims to use blended finance to mobilise funding for forest protection.[1]

Figure 1. Payment order of TFFF. Source: TFFF.



Much has been written analysing the challenges and opportunities of such a structure. What is clear is that there is high motivation to create an effective solution to fund forest protection, and that by attracting concessionary capital there should at least theoretically exist excess returns which can be used for such payments.

The TFFF is seeking to raise USD25 billion in first-loss capital from sponsors, and an additional USD100 billion through a senior bond issuance, to create the Tropical Forest Investment Fund (TFIF) – a vehicle for investing in fixed income securities. The returns from the TFIF follow a payment waterfall as shown in Figure 1. After distributing returns to investors, they fund forest protection in eligible Tropical Forest Countries (TFCs), based on the number of hectares of forest that are restored. Based on the target size, payments for forest protection are estimated to be USD2 billion per year in the initial years of operation.[2]

There are a number of potential routes through which the fund could amplify the impact of the TFFF.[3] In this paper, we explore how spread tightening associated with TFIF investments could produce additional financial benefits to TFC sovereigns.

The TFIF has potential to become a significant investor in emerging market debt. We estimate that for every 1bp of tightening across TFC government debt, around USD3.2 billion could be generated in annual saved interest expense,[4] an amount similar in size to the targeted forest payments.

Going further, and adjusting allocations according to forest protection performance, could bring extra benefits. Aside from incentivising additional protection, as the links between forest preservation and economic performance strengthen, this could also improve returns for investors.

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[1] "Over USD 5.5 billion Announced for Tropical Forest Forever Facility as 53 Countries Endorse the Historic TFFF Launch Declaration", COP30, 6 Nov 2025.
[2] P40 "Tropical Forest Forever Facility (TFFF) Concept Note 3.0", TFFF, Nov 2025.
[3] For more discussion on these topics please see "Market implications of the Tropical Forest Forever Facility", AFII, 14 Nov 2025.
[4] Saved interest expense would be if all debt was refinanced at the tighter levels, so is an illustrative figure.

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TFIF investment policy

Sponsor capital for the facility is still being raised from countries.[5] As of the time of writing, USD6.7 billion had been pledged.[6] The World Bank is acting as trustee and interim host of the fund.[7] Once senior debt is issued, the TFIF will be operationalised and start investing.

The TFFF concept notes offer some guidelines as to how the fund may be allocated. However, it is high-level, and final investment decisions will be determined by the investment manager and board.

The stated investment policy commits the TFIF to: "*a portfolio of liquid, publicly listed bonds, […] diversified by type of issuer and geography, comprising bonds from sovereign and corporate issuers from both emerging markets (EM) and developed markets (DM), subject to the Negative Exclusions List.*" [8]

An earlier version of the TFFF concept note suggested the fund would be designed to invest a significant part of its portfolio in assets from countries eligible for Official Development Assistance (ODA),[9] but this is absent from the latest version of the concept note. This note does, however, describe three hypothetical portfolios: 0% non-ODA, 10% non-ODA, and 25%-non-ODA. This could imply an ongoing intention to focus on ODA-eligible assets.

USD125 billion is a substantial amount to invest in emerging markets, even if the focus on ODA-eligible countries has been relaxed.

Does this represent new capital?

The senior notes planned for issuance by the fund are described as: "*highly rated, liquid senior bonds, targeting institutional investors such as pension funds, insurance companies, and sovereign wealth funds.*"[10] Given this represents senior risk in an emerging market debt structure, with an associated lower return, we interpret the target investors as being those with currently low exposure to emerging markets. This means TFIF investors could bring meaningful amounts of new capital into this space.

Indeed, TFFF itself is clear that "*the TFFF does […] act as a significant new investor in debt issued by Emerging Markets and Developing Economies.*"[11]

Impact on funding spreads

There is a wealth of evidence that increasing investment capital, especially from international investors, can reduce funding costs in emerging markets. A 2010 working paper from the International Monetary Fund (IMF) concluded that increasing foreign ownership of bonds by 1% would reduce yields by 6bps.[12] More recent research shows that in the Chinese market this

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[5] Most recent pledge "Germany pledges €1 billion to Brazil's rainforest fund", dw.com, 20 Nov 2025.
[6] "Tropical Forest Forever Facility (TFFF) Watch", Plant for the Planet, 20 Nov 2025.
[7] "Financing Nature Conservation: Will the Tropical Forest Forever Facility Finally Do It?", WRI, 11 Jun 2025.
[8] P37 onwards "Tropical Forest Forever Facility (TFFF) Concept Note 3.0", TFFF, Nov 2025. The Negative Exclusion List dictates that "*TFIF will refrain from investment that cause significant environmental impact, such as deforestation and GHG emissions. This includes activities related to coal, peat, oil and gas.*"
[9] "Tropical Forest Forever Facility (TFFF) Concept Note 2.0", TFFF, accessed 12 Nov 2025.
[10] Page 32 "Tropical Forest Forever Facility (TFFF) Concept Note 3.0", TFFF, Nov 2025.
[11] Page 10 "Tropical Forest Forever Facility (TFFF) Concept Note 3.0", TFFF, Nov 2025.
[12] "Foreign Participation in Emerging Markets' Local Currency Bond Market", IMF Working Paper, Apr 2010.

reduction could extend to 12.6bps.[13] Separately, a 2025 analysis of holders of Colombian sovereign debt concluded that an increase in ownership of one standard deviation by non-residents reduced bonds yields by 0.5% and reduced volatility by 10%.[14]

If we use these findings to estimate the impact of potential TFIF investment on TFC bond yields. First, we consider the total government debt outstanding from the IMF's Global Debt Database. We add Central Government Debt to General Government Debt (both given as percentage of GDP), and USD latest figures for GDP to derive total debt figures. This gives total debt of USD32.3 trillion (top ten shown in Table 1), or USD15.8 trillion excluding China.

Table 1. Total government debt outstanding for TFC countries, and GSS outstanding, top 10 (includes central and general government debt). Source: IMF, Bloomberg Finance L. P., accessed 13 Nov 2025.

Country	ISO Code	Continent	ODA	TFFF	Total debt (USDbn)	GSS outstanding
China	CN	Asia	TRUE	TRUE	16,561	29
India	IN	Asia	TRUE	TRUE	5,282	17
Brazil	BR	South America	TRUE	TRUE	3,722	6
Indonesia	ID	Asia	TRUE	TRUE	1,109	11
Mexico	MX	North America	TRUE	TRUE	844	28
Thailand	TH	Asia	TRUE	TRUE	599	16
Malaysia	MY	Asia	TRUE	TRUE	562	3
Argentina	AR	South America	TRUE	TRUE	544	0
Colombia	CO	South America	TRUE	TRUE	440	6
South Africa	ZA	Africa	TRUE	TRUE	306	0

ODA compared to TFC

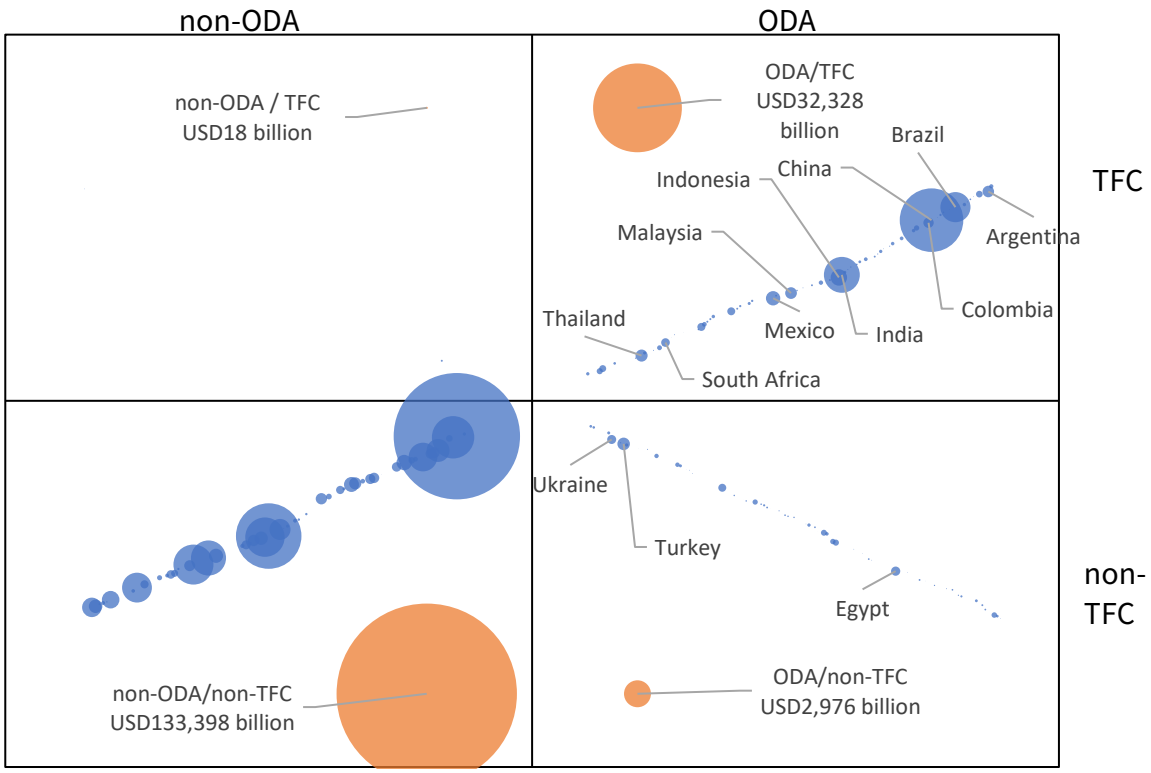
The ODA-eligible universe currently includes 139 countries, and the TFC 73. However, when looking at the amount of sovereign debt outstanding, there is substantial overlap. Figure 2 (overleaf) shows the size of debt by country, split for ODA and TFC including totals for each quadrant.

There are only two TFC which are not considered to be ODA-eligible. These are Trinidad and Tobago and Antigua and Barbuda, which combined have USD18 billion of debt.

The most substantial ODA-eligible issuers which are not included in TFC are Turkey (USD624 billion), Egypt (USD348 billion), and Ukraine (USD332 billion). Combined, these make up for around 1.5% of the IMF dataset.

[13] "Do foreign investors affect the volatility of local currency bond prices? Empirical evidence from China", Heliyon, 1 Jun 2023.
[14] "The role of investor participation on sovereign debt markets: Evidence from an emerging economy", Emerging Markets Review, Jun 2025.

Figure 2. Outstanding government debt (size of bubble) by ODA and TFC inclusion. Source: IMF, AFII.



Estimated financial benefit

If we consider the full USD125 billion the TFIF intends to raise as new international capital, this represents 0.4% of the total market. Such an allocation could reduce spreads by 2.3bps.[15] On a total debt of USD32.3 trillion, this could result in a saving for TFC countries of around USD7.5 billion per annum, over 3x the amount the fund estimates it will pay for forest protection from generated returns.[16]

This is a hypothetical example providing a potential maximum number if: a) the TFIF reaches its total target size and b) the full fund is invested into emerging market debt from TFC and c) if the results from the earlier academic paper would be applicable across the space.

However, it serves to illustrate that the potential magnitude of spread tightening from TFIF is similar to forest payments of TFFF, and there could be value in exploring the investment policy as an additional source of value for TFC.

Differentiated allocations

As the TFFF progresses, and data on its effects are released, there is scope to go further, and differentiate the investment weights by forest performance.

Aside from this providing additional incentive for TFC to protect their forests, this may make good investment sense.

[15] Using the earlier relationship of 1% increase in foreign ownership tightening spreads by 6bps.
[16] This is the hypothetical saving if all debt was immediately refinanced at the tighter levels.

The value of forest protection is being observed and quantified in new ways. In Brazil specifically, Amazon deforestation is jeopardising the country's hydropower generation, leading to direct financial losses which could be reduced through forest protection.[17] Meanwhile, it is reported that deforestation in the Congo Basin, which stretches across six Central African countries, is threatening the region's cocoa production. This is one of the area's most valuable commodities, central to export revenues, making these countries' economies highly exposed.[18]

The TFFF itself may also be relevant to the quantification of forest benefits. Forest payments from the fund are credit supportive (assuming they provide more than the protection costs).[19] As highlighted in earlier work, these payments are likely to be most beneficial for African nations, where debt is relatively high compared to forest area, and where the current forest reduction rates are highest, as illustrated in Table 2.[3] To the extent the payments provide an effective reduction in funding charges, this may improve returns for investors.

Table 2. Regional metrics for government debt and forest coverage. Source: IMF, United Nations, Bloomberg, AFII.

Region	Gross govt debt (USDbn)	Govt debt securities (USDbn)	Forest(ha), 2020	Coverage change 2000-20	Ratio forest/debt
Africa	862.2	703.7	350,398	-11.9%	4.98
Americas	4,719.4	3,700.2	898,933	-9.5%	2.43
Asia ex China	5,181.5	3,516.1	274,246	-3.9%	0.78

Using the TFFF protection data as an indicator may support improved returns for investment, if credit quality improves amongst forest-protecting sovereigns. Aligning TFIF with this strategy may help create a virtuous cycle: greater protection efforts lead to more investments and so tighter funding yields, which in turn incentivises further protection.

Conclusions

The Tropical Forest Forever Facility has made headlines, and raised the profile of investing for better forest outcomes.

As a potential sizeable new investor in emerging market debt, the impact of the TFIF's investment choices could be as impactful to lower financing rates for TFCs, as the performance-based forest payments.

Moreover, once the TFFF starts producing data, there is scope to align investment choices with forest protection performance. This could both increase the incentives for further forest protection and improve investment returns, as the links between forest preservation and macroeconomic performance strengthen.

[17] "Cutting Down the (Hydropower) Plants: How the Amazon Deforestation is Jeopardizing Electricity Generation in Brazil", CPI, 17 Oct 2024.
[18] "Struggles of the world's 'second lung' put one of the most beloved crops at risk", Financial Times, 18 Nov 2025.
[19] The exact economics are complicated as payments depend on total forest volume as well as deforestation rate, but the marginal value of protecting a hectare could be far in excess of $4, for one potential illustration please see "Brazil Organizes Billion-Dollar Fund to Protect Tropical Forests", Rosa Luxumberg Stiftung, 6 Nov 2025.

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