

HIGH FOREST, LOW DEFORESTATION AREAS

PERSPECTIVES FROM THE VOLUNTARY CARBON MARKET

The Nature
Conservancy 

Acknowledgments

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Companion Report



[High Forest, Low Deforestation Areas: Potential Incentive Structures and Business Models](#)

Climate and carbon finance currently focuses predominantly on reducing deforestation, but how can we make sure that forests aren't threatened to begin with? Many of the biggest carbon sinks are in High-Forest, Low-Deforestation (HFLD) areas – places that have maintained high forest cover and low deforestation rates historically. If the world only rewards actors for stopping deforestation, this can create perverse incentives for HFLD areas to start deforesting to reap the rewards of carbon finance that responds only to stopping forest destruction. This report outlines potential incentive structures and business models for HFLD areas that could create more equitable flows of finance.

Definitions/ acronyms

HFLD	High Forest Low Deforestation areas are countries, jurisdictions, or Indigenous territories with large extents of forest cover and low past or low ongoing rates of deforestation
IPs and LCs (IPLCs)	Indigenous Peoples and Local Communities
NCS	Natural Climate Solutions
NGOs	Non-Governmental Organizations
ODA	Overseas Development Assistance
RBP	Results-based Payments
REDD+	Reducing Emissions from Deforestation and Degradation, and the role of sustainable management of forests, conservation of forest carbon stocks and enhancement of forest carbon stocks.
SBTi	Science Based Targets Initiative
tCO₂e	Tonne of carbon dioxide or carbon dioxide equivalent
TNC	The Nature Conservancy
VCM	Voluntary Carbon Market
VCMI	Voluntary Carbon Market Integrity Initiative

INTRODUCTION

What are High Forest, Low Deforestation (HFLD) areas?

High Forest Low Deforestation areas are countries, jurisdictions, or Indigenous territories with large extents of forest cover and low past or low ongoing rates of deforestation¹. There is no universal definition of HFLD, but one commonly used metric is to consider HFLD as having a forest cover greater than 50% and an average annual deforestation rate lower than 0.22% per year².

Why HFLD areas are important?

HFLD are vitally important for carbon sequestration, biodiversity, and many other ecosystem services. HFLD have large amounts of irrecoverable carbon stocks accumulated over centuries, provide strong biophysical cooling effects, and comprise a majority of terrestrial carbon sinks that absorb approximately 30% of the human global emissions each year. They are often biodiversity hotspots and are home to millions of Indigenous Peoples and Local Communities (IPs and LCs), who have traditionally safeguarded these forests.

Climate finance challenge for HFLD

Despite these important functions, HFLD countries and jurisdictions have lacked dedicated financing

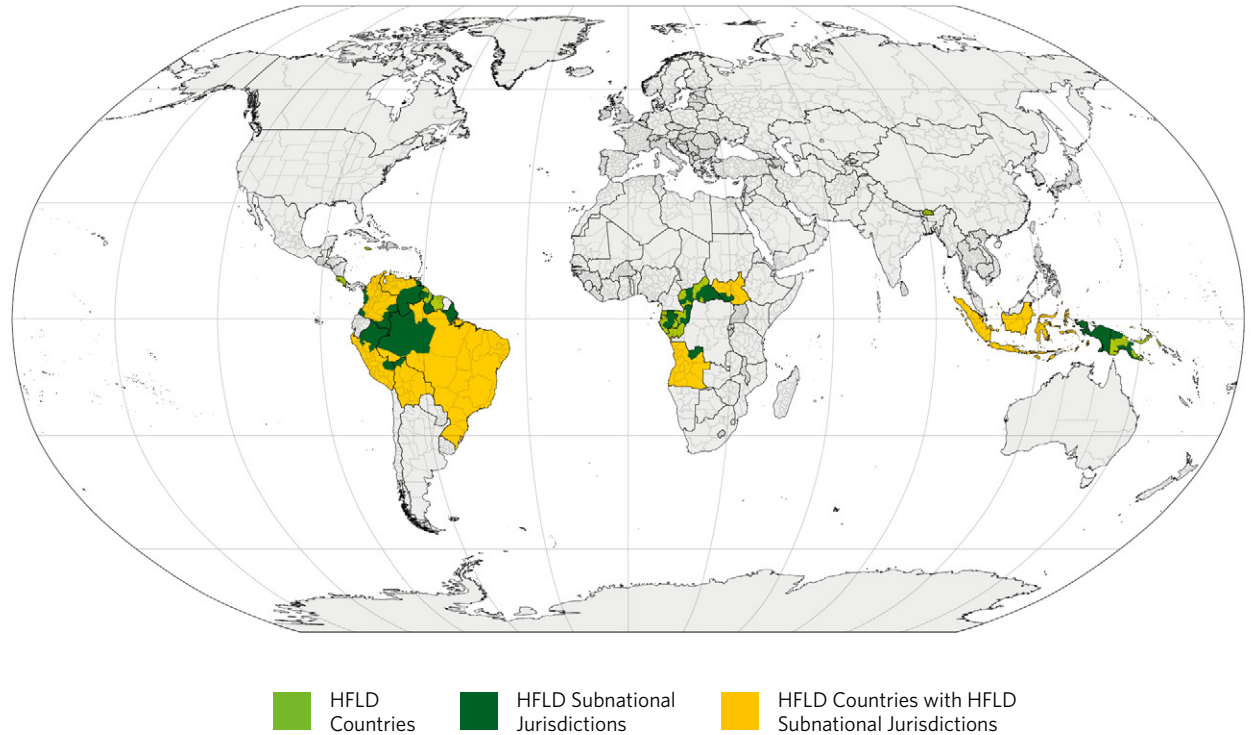


Figure 1: Map of Potential HFLD Countries

Note: Figure 1 contains *provisional*, unpublished analysis by Wildlife Conservation Society. We include it here as a useful starting point for considering *potential* HFLD countries.

opportunities. The Voluntary Carbon Market (VCM) has historically rewarded conservation projects that can demonstrate a material threat of conversion and, through mitigating activities, are able to demonstrate emissions reductions or removals. HFLDs however have mainly been left out, as they do not generate a 'viable product' from the VCM perspective, given they have not faced significant

threats to deforestation. This has led to a severe lack of climate finance for these ecosystems. What's more, the difficulty of obtaining finance and the current rules and definitions for REDD+ may create a perverse incentive: If market mechanisms reward stopping deforestation, there is a potential risk of incentivizing the destruction of forests to access finance afterwards.

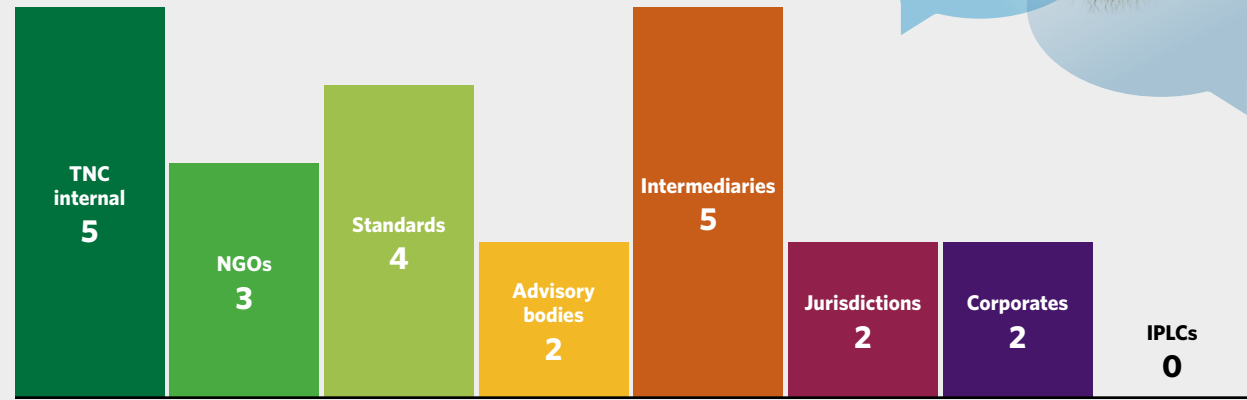
METHODOLOGY

The above challenge and lack of appropriate finance mechanisms within a carbon market context have been highlighted for many years, but no universally accepted solution has yet been found. Finalized in 2023 and published in 2024, The Nature Conservancy (TNC) released a report³ which provided a suite of potential novel financial incentive structures for HFLD areas under the Paris Agreement, within the VCM and other approaches. The overarching aim is for these structures to encourage more finance to flow to these critical areas. It is within this context that further market research was undertaken to identify what new approaches within the VCM specifically are deemed feasible and where challenges may remain. Interviewing 30 carbon market practitioners between August and October 2023 revealed that there are other critical matters to be ironed out first in light of the current state of the VCM. These findings are outlined in the following sections.

Our questions focused on the appropriateness of the VCM for HFLD finance, perceived challenges and risks of HFLD credits, and ways to increase willingness to invest in HFLD areas. Interviews uncovered some **conceptual concerns** regarding HFLD and VCM and unveiled overarching **key themes** in the VCM that may hinder the swift integration of, and investment in, HFLD into the VCM.



Figure 2: Interviews conducted per stakeholder group.



Box 1: Data Collection

The data collection entailed a two-pronged approach. Firstly, a desktop research was undertaken to identify current approaches and progress of including HFLD into the VCM. This information served as background to formulate a list of pre-defined questions. Secondly, key informant interviews were conducted to gather current views on the matter. To obtain a wide spectrum of market opinions, the interview participants were identified from various stakeholder groups and categorized according to the following classifications: Internal TNC, NGOs, standard bodies (this includes both carbon standards and integrity standards),

advisory bodies, intermediaries, jurisdictions and corporates. Note that despite numerous attempts to obtain interviews with Indigenous Peoples (IPs) and Local Communities (LCs) representatives, unfortunately this was not possible and thus poses a gap in this study.

A total of 23 interviews, reaching 30 participants, was conducted virtually between August and October 2023. These interviews generally lasted for 1 hour and participants' identities were kept anonymous. The focus of the interviews was on obtaining qualitative data. Where possible, some quantitative statistics were derived from participants' responses.

CONCERNS WITH HFLD CREDITS

Appropriateness of the VCM versus Results-Based Payments (RBP) for HFLD finance

Participants had diverging views on the appropriateness of the VCM for HFLD finance compared to finance via RBP (meaning from one sovereign to another for actions resulting in reduced deforestation). As per Figure 2 below, the findings revealed that close to forty percent (38%) of the respondents saw a need for both mechanisms and regarded the

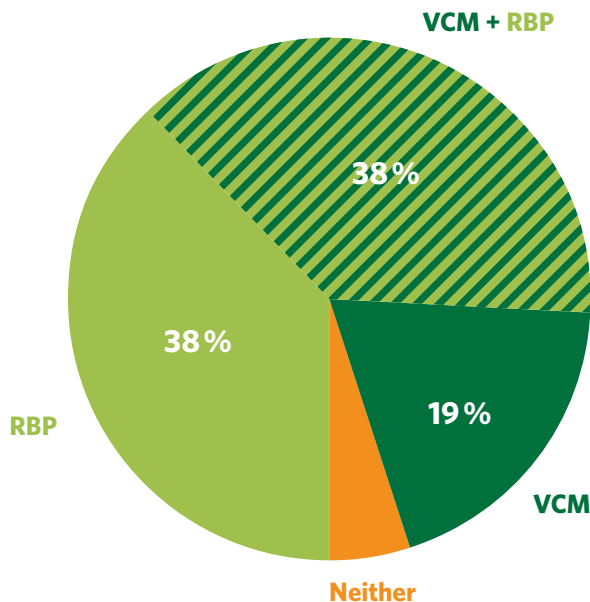


Figure 3: VCM vs RBP appropriateness for HFLD finance

VCM as well as RBP as appropriate mechanisms for channeling finance to HFLD areas. At the same time, another 38% stated a preference for solely RBP, with a view that VCM is not an appropriate mechanism to provide finance to protecting HFLD areas. Combined with the first findings, it would mean a total of 76% supported RBP or both mechanisms. A smaller number of participants, 19%, or 57% overall who supported VCM only or both mechanisms, clearly saw the VCM as a good mechanism to channel finance to HFLD areas. The remaining 5% is representative of one person who disagreed with all options as being appropriate and sufficient to channel the required finance to HFLD areas.

Challenges and Risks

Based on recent market rhetoric, it was expected that the main concerns around HFLD as carbon credits would center around integrity⁴, especially additionality, and fungibility. Indeed, many participants raised the issue of additionality⁵ as a main concern for HFLD credits, mentioning the lack of immediate threat to the forested area. Comparisons to the 'traditional' REDD+⁶ scenario were drawn, whereby REDD+ areas have a much higher degree of threat - and credits are thus more obviously additional - than HFLD areas. Fungibility was also frequently mentioned as a key challenge. Fungibility means that emissions reduction or removal units are interchangeable and that one tonne of carbon dioxide

or carbon dioxide equivalent (tCO₂e) from one project is exactly the same as a tCO₂e from another project. Whilst the carbon market is built on this concept, there is a general acknowledgement that credits vary and differ in the certainty of delivering the same climate outcome. Due to this, many participants did not see HFLD credits as fungible compared to other credits. Other challenges raised include the ongoing criticism of credit integrity in 2023 and the negative impact this has had on prices. **As the criticism was specifically focused on land-based Natural Climate Solution (NCS) projects, in particular REDD+, it was perceived that it would be more important to restore confidence in REDD+ in the first place, before furthering more 'controversial credits', given the integrity concerns of HFLD credits.** Finally, greenwashing accusations and potential financial mismanagement of carbon revenue by host governments were also highlighted as risks regarding HFLD credits. Following a large number of high-level lawsuits in 2023, companies are a lot more cautious about the level of robustness and integrity of credits they purchase so as to be able to make credible claims around their investments. This may make them shy away from investing in HFLD credits due to integrity and fungibility concerns. Whilst financial mismanagement by host governments regarding carbon revenues is not unique to HFLD credits but applies to all jurisdictional carbon finance, it does present a significant risk factor for private sector companies.



Amazon rainforest, Brazil. © Gustavo Frazao/Shutterstock.

Boosting confidence to invest

Following the challenges outlined above, it was further explored what would be required to scale up interest and willingness of buyers to invest in HFLD credits. A key mechanism to reduce concerns and uneasiness about HFLD credits would be the endorsement of the same by either a standard or integrity body, NGOs, governments, or credit rating agencies. This would provide market players, corporates and consumers alike greater assurance when investing in HFLD credits. An early mover and highly visible HFLD purchase by a

reputable entity was also considered a potential way to increase willingness to invest as it would pave the way for others to follow. In addition, the importance of what claims a company can make by purchasing HFLD credits was raised repeatedly, especially given the evolving discourse around compensation claims. Finally, highlighting the co-benefits generated by HFLD credits, including elevating and empowering IPs and LCs into equitable access to finance was seen as another pathway to increase investment willingness.

The conceptual-level findings highlight some major risks and challenges linked to HFLD credits and the hesitancy to fully endorse these. At the same time, it lays out some pathways for increasing the willingness to invest. What's clear is that there are wider challenges at play regarding the VCM more broadly. These are outlined in the subsequent section.

KEY THEMES

VCM Challenges and their Implications on HFLD Credits



Figure 4: Broader VCM Themes Impacting Interest in HFLD Credits

In discussions with market players, it became clear that there are underlying concerns and views regarding HFLD and the VCM more broadly. We refer to these as 'key themes' which emerged during the interviews. It is prudent to highlight these here, as they shed light on current apprehensions surrounding HFLD and the VCM, as well as potential actions to address these concerns.

Clarity of the type of claims

A claim is a statement on the environmental aspect(s) or environmental impact(s) of a company or a product,

which intends to inform a public audience⁷. Multiple participants stressed the need for clarity on the type of claims that can be made when investing in HFLD areas. This need was voiced in light of the evolving concept of **contribution** claims versus **compensation** claims. There was a diversity of attitudes towards what claim a corporate can make when investing in HFLD. Some participants stated that HFLD credits qualify as being fungible and thus are eligible for all offset use, whilst others stressed that HFLD credits must not be used as compensation but could qualify as Beyond Value Chain Mitigation (BVCM)⁸. Furthermore, it was also mentioned that the benefits for businesses to invest

in HFLD need to be made clear. If corporates can't use credits towards their climate or nature goals, it was highlighted that this potential investment would lose its importance and rather fall within their Corporate Social Responsibility (CSR) remit as opposed to their climate priorities, which would consequently result in a much-reduced budget and lesser importance placed on credit purchases from a business perspective. Consensus on and clarity of the type of claims would, therefore, greatly help corporates and consumers to understand the value of investing in HFLD credits.

Scale and Impact of the VCM

Questions about the size and limited impact of the VCM were raised by various participants. Concerns included that even with some increased demand, the VCM may only add minimally to the finance required, given the size of the current VCM versus the size of, for example, the compliance market. While 2021 was the strongest year yet for the VCM, seeing it reach a value of USD \$2.1 billion, compliance markets reached approximately USD \$800 billion, dwarfing the VCM's level of impact. Some participants explored alternative options for generating finance for HFLD through compliance markets or overseas development assistance (ODA). Nevertheless, whilst the VCM is currently limited in size, optimism for its growth persists despite the challenges seen in 2023. In fact, the VCM is estimated to grow to about USD \$100 billion in 2030 and USD \$250 billion by 2050⁹, whilst other estimates suggest that the total size of the VCM could reach \$250 billion by 2030, and \$1.5 trillion by 2050¹⁰.

Risks of shifting funds within the VCM

Several participants raised another concern about the risk of HFLD credits taking away from “more urgent” mechanisms, such as areas with higher risks of deforestation. It was stressed that the available finance should be directed to the areas that make the biggest difference to climate mitigation versus going towards HFLD areas, as it was highlighted that HFLD areas aren't facing the same risk of loss as seen, for example, in REDD+ project areas. On the same note it was stressed that HFLD areas shouldn't be drawing on the same pool of finance as those projects, but that the finance must be additional to what is already being invested.

Regarding the level of HFLD deforestation risk, there was acknowledgement that, indeed, some face an increased risk of deforestation. However, it was noted that some HFLD areas are going to be more threatened in the future than others, so there should be a distinction on how they are treated, and which can and can't participate in the VCM. It was suggested that a forward-looking methodology that considers the likelihood of future threat levels be developed to define where these areas are. Whilst some participants perceived this as not conservative enough, others supported this approach, also indicating that other sectors, such as the insurance sector, already apply such logic.

VCM quality crisis

The VCM endured a significant crisis of confidence in 2023, which was highlighted by many participants. Against this backdrop, there was reluctance about add-

ing or encouraging further uptake of a 'new' credit to the market (i.e. an HFLD credit), or pushing for greater HFLD investment, at a time when the VCM and land-based projects, especially REDD+, are under serious attack over integrity concerns. The scrutiny and criticism of the VCM had slowed sales and the willingness of companies to invest in REDD+ in 2023, which raised concerns from the participants. It was stressed that it would be more important to restore confidence in the existing market. Having said that, the VCM has ebbed and flowed over the years and following COP28, there is a lot more optimism towards its recovery and upward path. The numerous efforts towards establishing improved integrity over the last years are acknowledged, and indeed, 2024 has seen a significant improvement in credit sales in its first quarter.

Disconnect between NGO world and the private sector

It was noted that there is a wide gap or mismatch between discussions and priorities amongst the private sector and NGO perception, which may distort some expectations as to what the private sector is able and willing to take on. Several participants, especially those previously or currently working in the private sector, highlighted the difference in importance that private and public players place on specific issues. For example, whilst the NGO sector is very much involved in discussions around jurisdictional REDD+, it was suggested that the private sector may not have discussed this yet and is still more concerned about project-level credits. Furthermore, whilst a moral obligation for investing in HFLD credits may or may

not exist, the private sector is more concerned with the business case of any investment, especially in a time of declining revenues and spending cuts, which is a different reality to entities engaged in the NGO sector. Acknowledging this wide discrepancy is helpful in determining what would be the best framing of the HFLD issue when approaching corporates. This also links back to the fact that there needs to be a business case and a clear 'claim benefit' for companies to invest in HFLD.

Evolving corporate standards

A final key theme identified was the overwhelm and confusion many corporates experience with the multitude of guidance, including new and updated guidance from the VCM and SBTi. The VCM is complex and an ever-evolving space. Participants interviewed were concerned about adding or advocating for a new 'category' of credit, credit use or claim to the market as it would add to the confusion. It was stressed that simplicity is needed, and that any new idea should ideally be linked to or integrated into an existing approach, as opposed to developing yet another separate tool or guidance document.

The above opinions indicate current hesitancy by carbon market practitioners to act, challenges facing the VCM right now, and the fear of exasperating current tensions and criticism. It also, however, provides pointers as to what would provide greater assurance to corporates, such as clarity of the types of claims they can make and ensuring simplicity and clear communication.

CONCLUSION

The fact that there were no mechanisms that stakeholders clearly coalesced behind on how to increase the attractiveness of, and investment in, HFLD credits indicates that there is more work to be done on mechanisms designed to channel finance to HFLD areas. There is certainly a lot of discomfort around HFLD credits in the VCM and natural climate solutions (NCS) overall, as has been highlighted in the above market research.

A key takeaway of the study is the need for refined project design before we are likely to see broad

acceptance of HFLD credits in the VCM. The areas that stand out to be addressed most urgently include:

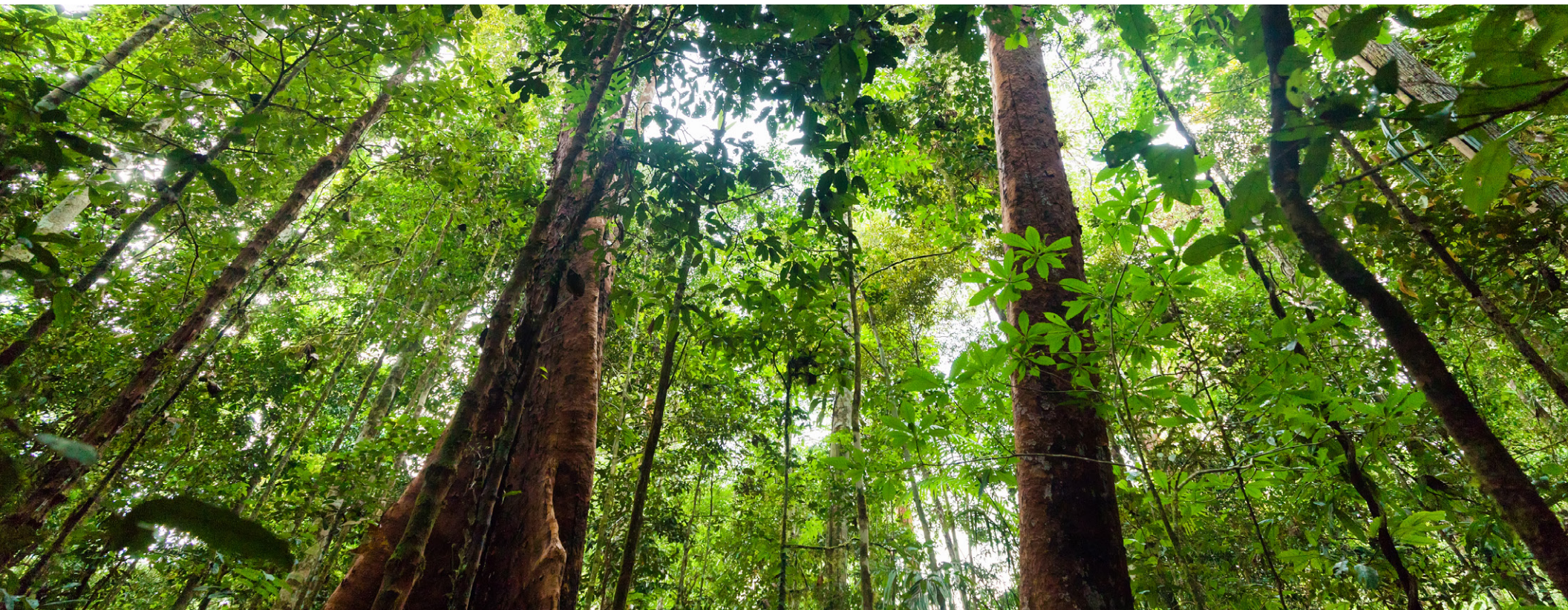
- **addressing integrity concerns**, including the need to more clearly demonstrate imminent deforestation risk, prove additionality, or ensure additionality through the application of discount factors;
- **agreeing on HFLD fungibility** and/or what these credits can be used for, including for compensation or contribution claims;
- **defining claims** a corporate can make when investing in HFLD (thereby clearly demonstrat-

ing an attractive business case for the private sector), and

- **clarifying and ensuring transparency of benefit-sharing mechanisms** for IPs and LCs near HFLD areas.

These actions would greatly increase confidence in jurisdictional REDD+ mechanisms, as would integrating this future guidance into existing initiatives, or obtaining endorsement from established integrity or standard bodies, to help reduce further market confusion.

Aru Islands, Papua, Indonesia. © Stephane Bidouze/Shutterstock



Notes

- 1 Tropical Forest Credit Integrity Guide for Companies, Version 2 (2023) <https://tfciguide.org>
- 2 da Fonseca GAB, Rodriguez CM, Midgley G, Busch J, Hannah L, Mittermeier RA (2007) No Forest Left Behind. PLoS Biol 5(8): e216. <https://doi.org/10.1371/journal.pbio.0050216>.
- 3 High Forest Low Deforestation Areas: Potential Incentive Structures and Business Models (2023). The Nature Conservancy. https://www.nature.org/content/dam/tnc/nature/en/documents/TNC_HFLD_finance_2024.pdf
- 4 Integrity in the sense of carbon credits would encompass elements regarding emission impact, including additionality, permanence, robust baseline, leakage, no double counting of emissions reductions and removals (ERRs).
- 5 Within the integrity criteria, additionality looks at assuring that a tonne of reduced CO₂e would not have occurred in the absence of the conservation intervention. There must be a positive action to minimize the threat to a forest. Historically, however, HFLD jurisdictions have not experienced threats to deforestation, and whilst there is acknowledgement of shifting patterns and some areas are increasingly deforested, trends to the threats are somewhat unpredictable, whilst they may also be limited in the immediate future.
- 6 REDD+ stands for Reducing Emissions from Deforestation and Degradation, and the role of sustainable management of forests, conservation of forest carbon stocks and enhancement of forest carbon stocks.
- 7 Myers K and Gallant M (2023) The Strongest Currents. Key Trends in Climate Target Guidance, Regulation, and Practice. TNC https://nature4climate.wpenginepowered.com/wp-content/uploads/2023/12/TNC_The-Strongest-Currents-111223Final.pdf
- 8 BVCM is defined in the SBTi Corporate Net-Zero Standard as “mitigation action or investments that fall outside a company’s value chain, including activities that avoid or reduce GHG emissions, or remove and store GHGs from the atmosphere.” For more info, see <https://sciencebasedtargets.org/beyond-value-chain-mitigation>
- 9 <https://www.morganstanley.com/ideas/carbon-offset-market-growth>
- 10 Sylvera. State of Carbon Credits 2023. <https://7608351.fs1.hubspotusercontent-na1.net/hubfs/7608351/The%20State%20of%20Carbon%20Credits%202023.pdf>





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