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Key findings and recommendations on Climate Finance and Carbon Pricing Opportunities for the Forestry Sector in Ukraine

Roundtable “Climate Finance, EU Alignment, and Forest Governance Support for Ukraine”
October 15, 2025

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Climate mitigation options in Ukrainian forest sector

Starting point

- Forest in Ukraine is already a net carbon sink → forest in Ukraine remove carbon from the atmosphere
- Overall forest area remains relatively stable and is even growing but removals from forests are fluctuating
- Main factors for fluctuations according to Ukraine’s Greenhouse Gas Inventory
  - intensity of wood harvesting
  - frequency, intensity and the nature of fires and other disturbances
  - area of afforestation

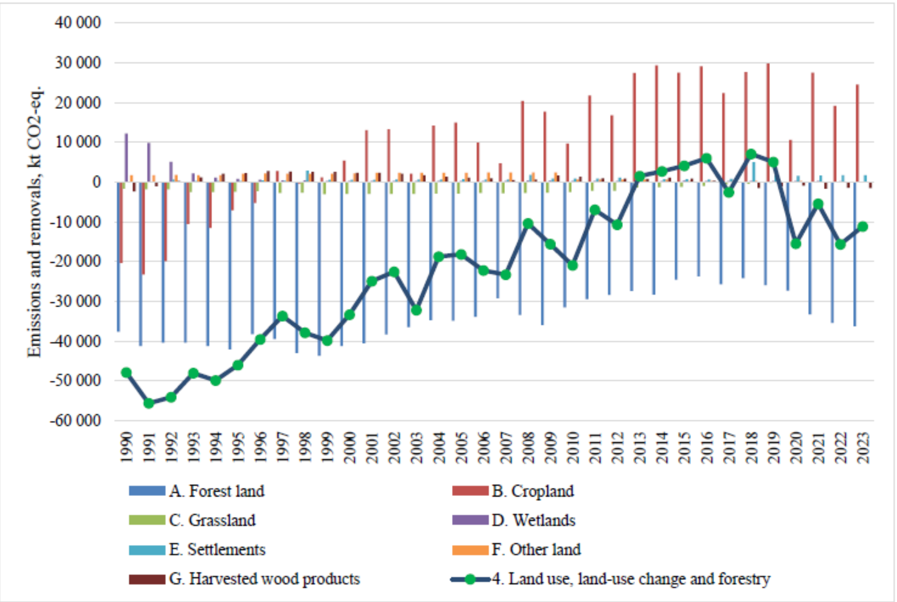

Fig. 6.1 Emissions and removals in the LULUCF sector in Ukraine in 1990-2023

Climate mitigation options in Ukrainian forest sector

Options for Ukrainian forest sector to further contribute to climate change mitigation efforts (and therefore attract climate finance)

1. Keep annual removals at a constantly high level through Improved Forest Management (IFM), for example
   - Extend rotation length and improved practices (such as selective thinning) to reduce the need for reactive interventions (sanitary cuttings) and contribute to long-term forest health
   - Manage fire risk
   - Control illegal or illegitimate felling
   - Promote long-lived forest products in rebuilding efforts
2. Increase afforestation efforts in line with Ukraine's Green Country Campaign

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How can climate finance support these options - terminology

Activity-based Climate Finance	*finance for achieving climate impacts that is made available prior to project implementation and is often used for meeting upfront investment costs.*
Results-based Climate Finance	*finance for achieving climate impacts that is provided upon achievement of agreed climate results*
Carbon pricing	*policy instrument that assigns a monetary value to greenhouse gas emissions, with the aim of creating economic incentives for their reduction*

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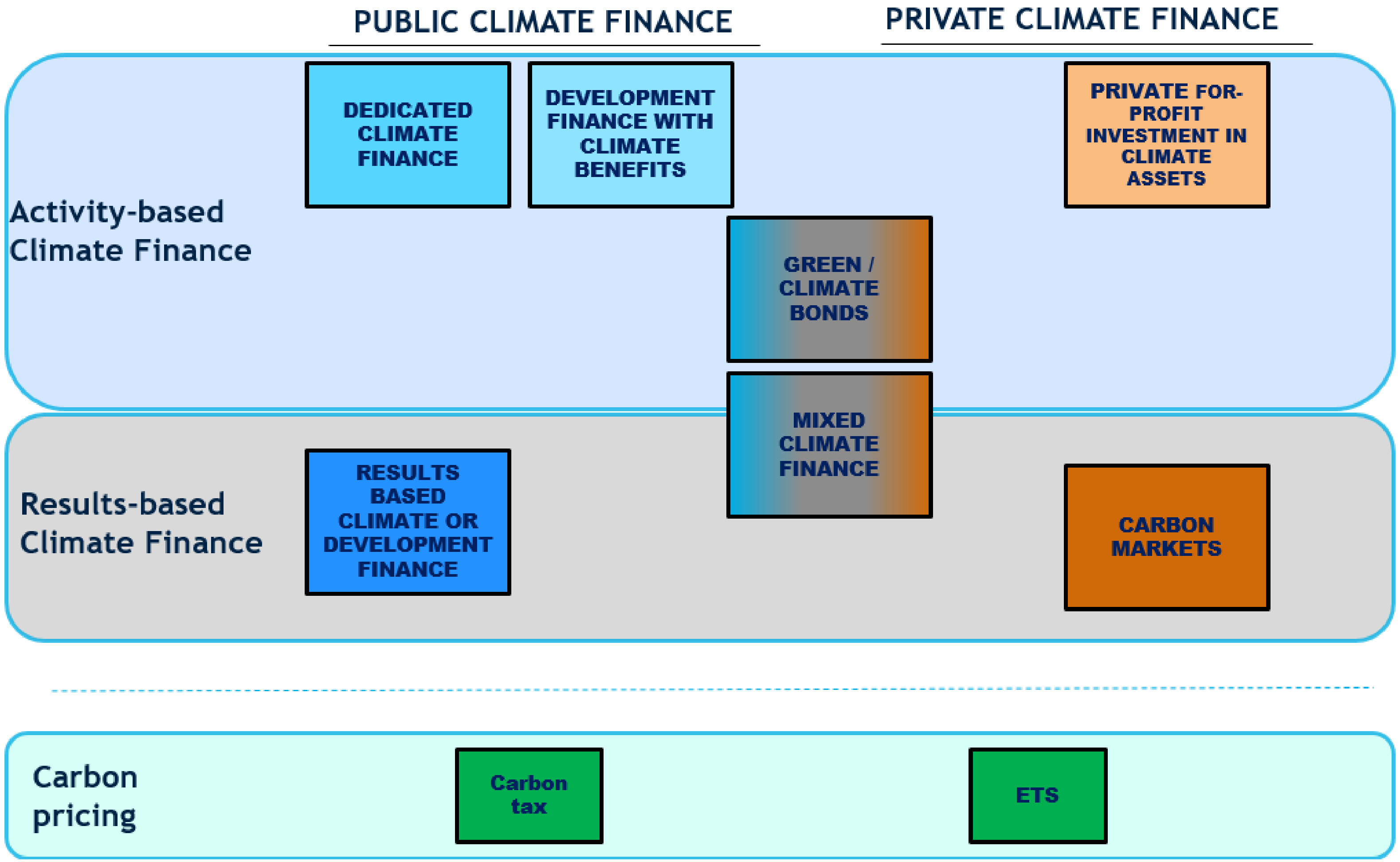
Possible climate finance options for the Ukrainian forest sector



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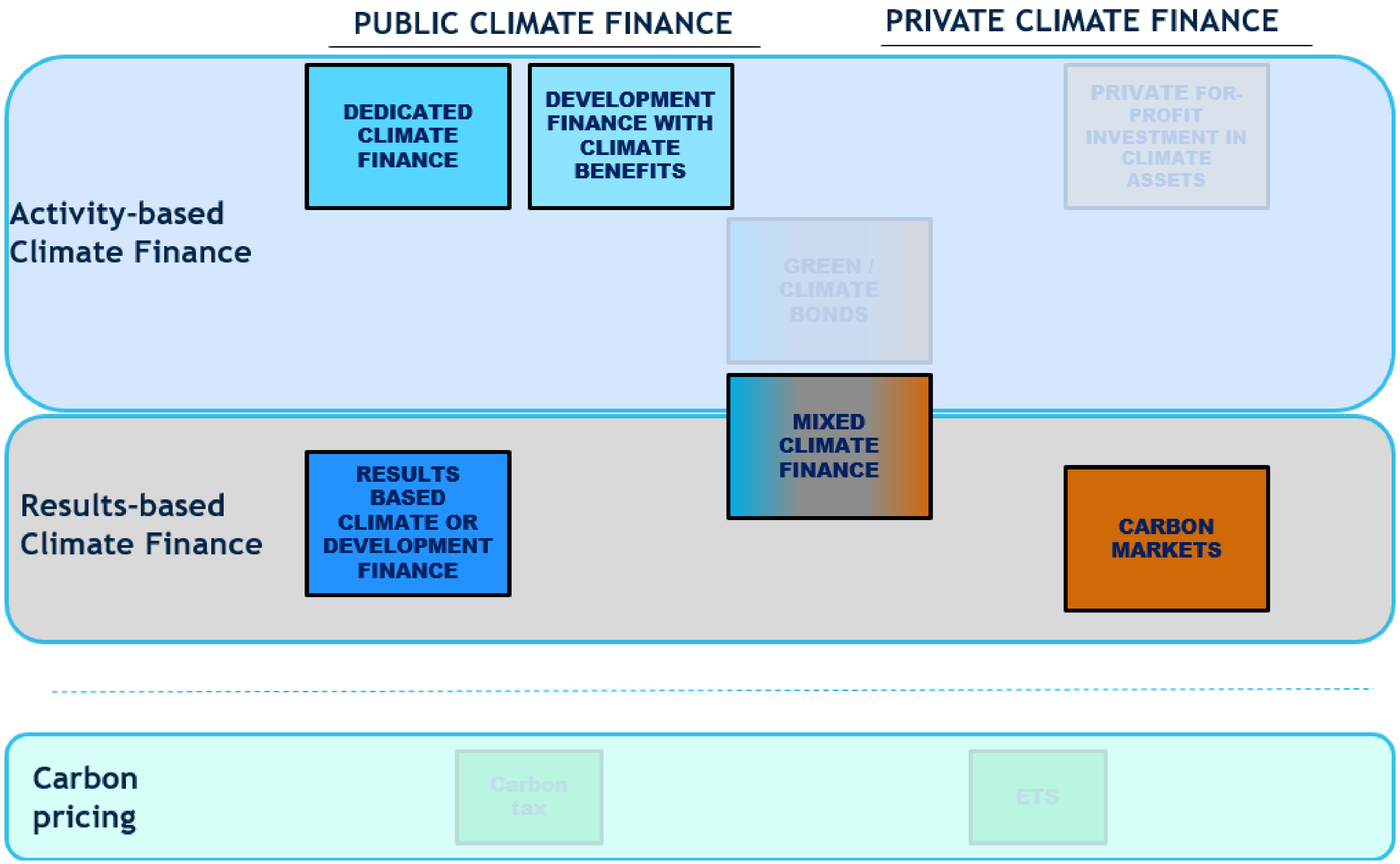
Possible climate finance options for the Ukrainian forest sector



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Climate finance options for improved forest management

GENERAL CHARACTERISTICS	OPTION	SCORE	NOTES
• Investment needs are generally low • Longer term returns from timber can be strongly positive but in short/medium term can involve decreased timber yield • Mitigation impact per hectare usually limited • Can be combined with climate adaptation measures	Dedicated Climate Finance / development finance with climate benefits	****	• Provides upfront financing • Government priorities for taking on loans might be on other sectors, if pursued requires at least partial grants • Grants potentially easier with climate adaptation component
	Carbon markets	**	• Result-based so somebody to take the risk of making upfront investments → no room in operational budgets • Attracting external (foreign) investors currently unlikely because of ongoing war and relatively low carbon credits
	Results Based Climate or development Finance	***	• Could be structured as staggered payments, with payments released on the achievement of intermediary goals • No concrete example, negotiate on bilateral basis
	Mixed Climate Finance	****	• Could provide upfront financing + continued incentives to maintain practices • Would require support to structure deal and derisk the underlying financing

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Climate finance options for increased afforestation

GENERAL CHARACTERISTICS	OPTION	SCORE	NOTES
• High upfront costs (planting and early maintenance) • Ambitious targets but limited implementation • Mostly implemented by forest enterprises who are constrained by budgets and access to land • Mitigation impact per hectare can be attractive but long time before returns (carbon and timber) occur	Dedicated Climate Finance / development finance with climate benefits	****	• Provides crucial upfront financing • Government priorities for taking on loans might be on other sectors, if pursued significant grant portion might be required
	Carbon markets	***	• Significant carbon market interest in removal projects • Result-based so somebody to take the risk of making upfront investments → attracting external (foreign) investors now unlikely because of ongoing war but could improve after the war
	Results Based Climate or development Finance	**	• Upfront funding required from domestic sources before finance is made available • Upfront cost concentrated in first years → difficult to use staggered payments unless each tranche of payments can be used to afforest additional areas
	Mixed Climate Finance	***	• Could provide upfront financing but long time before revenues (timber, carbon) occur

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Recommendations on next steps

- Climate finance can play a role in generating financing for the forest sector in Ukraine, especially when blended with other types of finance
- General discussions required with partners on accessing upfront financing to support the forest sector and within government on priorities of forest sector vs other sectors
- Improved Forest Management comes with trade-offs and potential short-term loss of timber revenues
    - Consider customized management strategy to ensure forest stability and sustainability, promote climate adaptation/mitigation, and align objectives
- Potential possibility to attract carbon market finance for afforestation projects but regulatory clarity needed
    - Define ownership of carbon credits for projects on state-owned lands
    - Develop host country approval procedures for carbon crediting under Article 6 of the Paris Agreement (project eligibility criteria, Corresponding Adjustment requirements, tax policies, and benefit-sharing arrangements)
    - Perform land use planning to identify (degraded) land for forest area expansion and develop procedures to allow private sector entities to develop and manage projects on state-owned forest lands

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Recommendations on next steps

- Climate finance requires robust system for measuring, and reporting data on forest to ensure transparency, accuracy, and accountability
  - Existing data collection mechanisms provide a basis but lack what is needed to track emissions and removals at the scale and the accuracy required for carbon market mechanisms
  - Recommended to build on the ongoing National Forest Inventory (NFI) and invests in a more digital and remote sensing based forest information system.

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Questions and discussion

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Questions and discussion

- Any clarification questions on the presentation?
- Comments on the content:
  - Are there key mitigation options or other aspects that are missing from the discussion?
  - Are there parts of the presentation that you don't agree with or think should be presented differently?
- Potential for climate finance in the forest sector
  - Based on the presentation, do you think it is worth pursuing climate finance for the forest sector in Ukraine and where would you see the priorities (both in terms of the activities to be financed and the type of climate finance that should be prioritized)?