Introduction

The UNFF Facilitative Process was created with the adoption of the Resolution on the Means of Implementation for Sustainable Forest Management (SFM), adopted at the Special Session of UNFF9 in October 2009. It is one of the two main components of the UNFF strategic work on financing sustainable forest management, and primarily aims to assist developing countries mobilizing funds for forests. This assistance includes helping in identifying obstacles and opportunities for accessing to required financing from all sources and for all types of forests.

Immediately following its creation, the FP was launched with a project on identifying gaps, obstacles and opportunities in financing SFM in Small Island Developing States (SIDS) and Low Forest Cover Countries (LFCCs). The SIDS-LFCC project was strategically selected to kick-start the FP for two reasons.

First, despite a number of studies on forest financing in the late 1990s and early 2000s, knowledge remains very limited on what untapped funds exist for forest financing a decade later in these two categories of countries. As a result, the FP needs to begin with data-collection projects that highlight existing gaps, obstacles and opportunities to forest financing. Secondly, a report on forest financing commissioned by the Advisory Group on Finance of the Collaborative Partnership on Forests in 2008 showed that the two categories to have suffered the most from the drop in donor forest financing in the past two decades were SIDS and LFCCs.

Forested areas in LFCCs are often degraded and their rehabilitation requires significant investment. Due to low profitability and difficulties in monitoring progress related to fragmentation of forest stands, there is little justification for the private sector and other investors to invest alone. Therefore, public investment and financing are necessary to confront land degradation and deforestation and act as a leverage for mobilizing private funds, but there is to date little cohesion among LFCCs to aid with accessing funds at the international level.

In SIDS, pressure on the land is high due to the small size of the countries and frequent overcrowding; coupled with increased vulnerability due to exposure to economic shocks and extreme weather, forests in SIDS have been badly affected in recent years. The lack of local training and expertise often prevents governments of SIDS from acting effectively to combat deforestation, while donors pay less attention to these countries’ because of their small size and the misperception that funds will go further where larger forested areas are located.

Analysis of official development assistance (ODA) for LFCCs and SIDS shows no significant change between 2008 and 2012. Among all recipients of ODA, 27 countries reported no funding whatsoever to forests between the years 2002 and 2010. Of these countries, 30% are LFCCs and total of 63% are SIDS. These countries continue to experience decreases in forestry ODA. In addition, distribution of the limited ODA flows among these countries is highly uneven. Despite the level of forest cover, forestry ODA in these countries plays a catalytic role, in particular in promoting markets for non-wood forest products (NWFPs).

Improving forest financing in LFCCs and SIDS requires a strategic approach to the full potential of forests for these countries and inclusion of cross-sectoral, cross-institutional policies that embrace all values of forests, including land management, agriculture, water, energy, climate and the environment.

Overview of Small Island Developing States (SIDS) and Low Forest Cover Countries (LFCC)

Out of the 78 countries analysed in this project, 49 are Low Forest Cover Countries and 38 are Small Island Developing States (with an overlap of 9 countries, which fall into both categories [see list of countries). Together they represent 40% of
the world’s countries, but are home to a little less than 4% of the world’s forest cover.¹

Most LFCCs are located in Africa, the Middle East and Central Asia, where mostly naturally arid and semi-arid conditions and low rainfall prevent forests from growing as a form of natural vegetation cover. However, a number of “outliers” exist, notably Uruguay and Haiti in the Americas, both of which have witnessed high rates of deforestation until recent years; Iceland, Ireland and Malta in Europe; and a number of Indian and Pacific Ocean SIDS such as the Maldives, Tonga and Nauru. As for SIDS, they are generally regarded to fall into three categories: Caribbean, Pacific, and AIMS, a residual category that refers to “Africa, Indian Ocean, Mediterranean and South China Sea”.

As country groups, SIDS and LFCCs have distinct histories, although both were born out of multilateral environmental discussions. The relative success of the emergence of SIDS as a country group is partly due to two additional factors. First, despite their geographical disparity, they represent a relatively homogeneous group in terms of language (with one exception, English, French, Spanish, Portuguese are among the official languages) and history (all are former European colonies). Secondly, they share a number of economic and ecological issues that arise out of their geographical remoteness. These include overcrowding and high rates of deforestation; distance from international markets and therefore high transport costs, making both importance and exports expensive; heavy reliance on externally manufactured products because of limited domestic manufacturing capacity; importance of the sea as a source of livelihoods and food; and vulnerability to both economic fluctuations and ecological disasters, including sea-level rise.

As with SIDS, the definition of what makes an LFCC has more to do with political and socio-economic factors than purely geographical ones. There has been disagreement as to what criteria should be used to define the category, but the most frequently used one is the “10%” rule, which defines an LFCC as a country with up to 10% forest cover according to the latest Forest Resources Assessment (FRA) by FAO. This means that a handful of countries either become or cease becoming an LFCC at every new FRA. This is notably the case of Mali, whose forest cover has decreased from 11.3% to 10% between 1990 and 2010. LFCCs as a country category have not benefited from the coherence which made SIDS come together as a country group. Their geographical disparity is not compensated by either a common history or a common language, although Arabic, Russian and French are spoken in many LFCCs. In addition, political animosity between certain LFCCs for reasons unrelated to forests further exacerbates the lack of cohesion of LFCCs as a country grouping.

Despite this, and a small number of outlying countries, the majority of LFCCs stand to benefit from sharing common experiences. While these countries are grouped together using FAO forest cover as the main criterion, one should not forget that this figure is not always a useful proxy for the state of forests in LFCCs. Far from being a mere attempt to see this figure increase, SFM is also a means of ensuring that forests deliver the myriad functions that they are able to produce when managed sustainably, and many of these cannot be reduced in a single figure.

The SIDS-LFCC Project: Overview and Structure

The SIDS-LFCC project is part of the Facilitative Process with in turn is one of the main building bricks of the UNFF Strategic Work Plan on Forest Financing. This project, whose full title is “Facilitating Financing for Sustainable Forest Management in SIDS and LFCCs”, is being implemented over a period of three years with funding from the UK Department for International Development and the Global Environmental Facility (with UNEP as the Implementing Agency and the UNFF Secretariat as the Executing Agency).
The SIDS-LFCC Project has three phases or “components”: (i) a series of 11 papers on forest financing in SIDS and LFCCs, including four thematic papers and 7 country case-studies, and (ii) four inter-regional workshops on forest financing in SIDS and LFCCs that had two objectives (receive feedback from key stakeholders on the 11 papers produced in Component I, and share ownership of the findings and encourage appropriation of the results with key stakeholders in SIDS and LFCCs).

The third and last component revolves around two pillars: (i) elaborating, consolidating and validating a common forest financing strategy for SIDS and LFCCs, but also for Africa and LDCs (as part of a sister project funded by the Government of Germany), and (ii) setting up and implementing a communication strategy enabling to disseminate the findings emerging from the first two components of the project.

Throughout the project, care has been taken to emphasize a cross-sectoral perspective. It has now long been recognized that many of the causes of deforestation lie outside of the forest sector such as in agriculture, planning and infrastructure development. Likewise, forests have an impact on connected sectors, notably climate change. In the same way, financial flows outside of the forest sector can have both positive and negative impacts on forests and in turn, forests can contribute significantly to the national economy and reducing poverty. At this time, however, these linkages have only been partially acknowledged by decision-makers and only rarely implemented in policy and practice.

The SIDS-LFCC Project: Gaps and Obstacles

Data obtained during both Components I and II revealed a number of constraints characteristic of, but not limited to, SIDS and LFCCs. Within LFCCs, interviews and workshop discussions revealed a recurring problem, namely the low level of political attention given to forests and trees outside of forests. This is visible in the fact that over half of LFCCs do not have an established forest policy strategy. Half of the LFCCs do not mention forests in Poverty Reduction Strategy Papers (PRSPs), which in turn is likely to explain the low level of forestry ODA allocated to this category of country. In many LFCCs, forests are simply non-existent in the political agenda.

This problem is by no means new. In 1999, this same issue had been highlighted during the International Meeting on the Special Needs and Requirements of Developing Countries with Low Forest Cover and Unique Types of Forests (UNEP et al. 1999:31). Despite proposed recommendations, some of which were implemented (such as the creation of the Tehran Process Secretariat (TPS) for LFCCs), weak political attention continues to hamper forest financing in LFCCs over a decade later.

Lack of political attention has a number of ramifications which feed back into it like vicious circles. One of these is the lack of technical capacity to implement SFM or to address the lack of forest financing, both at national and international levels. Many LFCCs do not have specialised ministries or agencies devoted to forests. Government bodies responsible for forests have difficulty hiring qualified technical personnel due to the absence, in many cases, of educational or training programmes, let alone research, in relevant disciplines. This was even made visible during the data collection phase of this very project, as witnessed by the low level of response and participation in both the email survey (Component I) and the workshops (Component II), as mentioned above.

As a result, these government institutions lack the ability to raise awareness on the importance of forests for livelihoods, economic development, etc. which in turn would encourage increased sources of financing. Yet even when funding is available, they often lack the absorptive capacity to justify increased expenditures or even to tap into donor funding which frequently requires complex technical knowledge and experience.

This problem is shared with SIDS as a group, albeit for different reasons. While the lack of technical capacity and institutional weakness in
LFCCs is mostly due to low forest cover and the limited contribution of forests to GDP figures (which only reveal cash values of forests), in SIDS it is mainly caused by the small size of the country which only rarely reaches the “critical mass” required to have specialised courses that produce the expertise necessary for adequate forest-related institutions.

In both categories of countries, stakeholders who were interviewed or took part in the project workshops also emphasised the lack of data on SFM and forest financing in their countries. Not only does this stop them from valuing the forest resource, but it also prevents them from raising awareness on the importance of forests and thus harnessing greater amounts of forest financing. This problem is particularly acute for cross-sectoral data on forests and SFM. While the cross-sectoral nature of SFM has been a well-known fact among researchers for over a decade, it is only starting to be recognised by practitioners and decision-makers. It is rare to find it mentioned in policy and official documents in SIDS and LFCCs, and even rarer to find it reflected in national statistics which continue to produce data by sector. As a consequence, the myriad connections between forests and other sectors go undetected, and therefore do not translate into policy or practice.

The need for cross-sectoral data is all the more important for LFCCs where forests are frequently not even considered as a sector because of their limited cash value. Instead, they are subsumed in other sectors such as agriculture. In these cases, in order to make forests visible at all – whether in statistics or on the political agenda – recognising the cross-sectoral nature of SFM is vital.

The lack of a cross-sectoral approach was acutely felt during both data collection components of this project. During Component I, Indufor consultants were unable to collect sufficient qualitative data concerning the cross-sectoral dimension of forest financing in SIDS and LFCCs, let alone quantitative data. Attempts were made to address this gap during Component II’s workshops by requesting participation of country representatives from different sectors, but despite this, the vast majority of participants were representatives of the forest sector. Only a handful had a background in other sectors such as agriculture or finance.

In addition to the issues above, a number of high or urgent priorities tend to turn the attention of decision-makers even further away from SFM, thus exacerbating the forest financing crisis in some of these countries. Economic vulnerability is a well-known characteristic of SIDS which tends to suffer more than other countries from global economic downturns because of a series of disadvantages. First, their geographical isolation often makes their imports expensive and their exports uncompetitive. Secondly, many SIDS rely heavily on tourism as a major source of income – a sector which is usually among the first to be hit by economic crises.

As for LFCCs, many are currently or have recently been affected by political conflict, particularly with recent events in West Africa and the Middle East, where many LFCCs are located. In these conditions, and despite the crucial long-term importance of forests to rural livelihoods and poverty alleviation, decision-makers tend to give priority to shorter-term measures to address post-conflict reconstruction and development, thus largely ignoring the financing needs of SFM.

The SIDS-LFCC Project: Recommendations

Based on the observations and discussions that emerged from the four workshops of Component II, the following recommendations emerged as potential solutions to secure forest financing and implement SFM more effectively in SIDS and LFCCs.

1. **Harness Cross-sectoral Opportunities Specific to SIDS and LFCCs.** National forest financing strategies require recognition of the fact that there is no one-size-fits-all solution. Instead, each country should capitalise on its own strengths in order to tap into the opportunities specific to the cross-sectoral nature of SFM in a national context. Given the
limited size of the forest sector due to low absolute forest biomass in both categories of countries, many of these opportunities are to be found outside the forest sector, hence the vital importance of a cross-sectoral perspective. As presented in the section above, opportunities specific (although not limited) to SIDS and LFCCs include the following:

- Harnessing the potential of non-timber forest and agroforestry products including water, gum, nuts and fruit, both for subsistence and commercial purposes;
- Recognising the value of forests for food security both locally and globally, especially in areas of high biodiversity;
- Encouraging the implementation of payments for ecosystem services as this instrument has yet to be fully deployed in SIDS and LFCCs;
- Promoting the ridge-to-reef approach, especially in SIDS to increase visibility of forests and increase financing;
- Including trees outside of forests, partly as a means of emphasising the continuity between forests and other types of land use; and
- Promoting forest landscape restoration in areas of SIDS and LFCCs identified by the Global Partnership on Forest Landscape Restoration.

2. **Strengthen Institutions at all Levels.**
Limited capacity and weak coordination were identified at national, regional and international levels, leading to the following recommendations:

- **At the national level**, promote capacity-building activities enabling national agencies and other forest financing stakeholders to secure forest financing more effectively, whether from national, international or innovative sources;
- At the national level, set up national processes composed of focal points of the members of the Collaborative Partnership on Forests (CPF) with the aim of (i) inserting chapters on forests into the respective national instruments of the Rio Conventions and (ii) drawing up national forest financing strategies;
- **At the regional level**, strengthening the role and involvement of regional organisations, including (but not limited to) the Secretariat of the Pacific Community (SPC), the Secretariat of the Pacific Regional Environment Programme (SPREP), the Caribbean Community (CARICOM), the Association of Caribbean States (ACS), the Organisation of Eastern Caribbean States (OECS), the Economic Commission of West African States (ECOWAS), the Permanent Inter-State Commission to Combat Drought in the Sahel (CILSS), and the Economic Cooperation Organisation (ECO).
- **At the regional level**, encouraging cooperation with regional organisation by scaling up real-life examples of forest financing, carrying out audits of the needs of SIDS and LFCCs in terms of forest financing, and promoting South-South cooperation and exchange of experiences between SIDS and LFCCs.
- **At the international level**, urging donors to streamline and simplify the procedures and processes to access forest financing for SIDS and LFCCs, in particular given the vulnerability of their economies and ecosystems.

3. **Reveal the Potential of the Private Sector.**
As a group of stakeholders highlighted time and again as an emerging and promising source of innovative forest financing (e.g., Centre for International Forestry Research 2001), the role of private companies in forest financing should be strengthened and enhanced in the following ways:
- Encouraging governments and national agencies to implement an enabling environment, particularly in reducing the risks of investments in sustainable forest management, including non-timber forest products; and
- Committing to ensuring that the actions of private actors in other sectors which impact on forests and trees outside of forests, including extractive industries (for example oil, gas and mining), are consistent with national sustainable forest management plans.

4. **Promote Research and Data Management.**

The extent of the lack of knowledge on the forests, their values and their financing in SIDS and LFCCs was revealed by this project and should be addressed in the following ways:

- Building on the list of participants to the four workshops on forest financing in SIDS and LFCCs to develop a network of forest financing experts with the aim of sharing knowledge and experiences at the national level;
- Encouraging Member States to carry out a full valuation of forest goods and services, in particular with regard to how forests contribute to connected sectors, with the aim of revealing the importance of forests to local and national economies;
- Based on the results of forest valuation, establishing a communication/marketing strategy aimed at decision-makers outside of the forest sector, underlining the importance of forests not only to the forest sector, but to all 7 billion of us;
- Promoting research coordination on forest financing between academic and other relevant institutions working in SIDS and LFCCs, including strengthening existing initiatives such as the University Consortium of Small Island States (UCSIS); and
- Urging the Organisation for Economic Cooperation and Development (OECD) to take account of the cross-sectoral nature of forest financing in data on official development assistance.

The most glaring conclusion – valid for both SIDS and LFCCs – is that cross-sectoral data are mostly unavailable. This preliminary observation confirms that not only do most forest financing stakeholders continue to work in “silos,” but that researchers and entities responsible for data collection and statistics have largely failed to take account of the linkages between sectors when building databanks. This has resulted in neglect of the contribution of forests to the economy, especially in terms of (1) food security (notably through agroforestry), (2) preventing soil erosion (and thus acting as a natural barrier against desertification) and (3) providing clean water (a precious resource in many SIDS and LFCCs).

SIDS and LFCCs have largely not benefited from two decades of discussions on forest financing, and with a few exceptions, have actually seen forest financing levels drop between 1990 and 2010. This project’s holistic and cross-sectoral perspective is key in highlighting opportunities to revert this trend and once again see forest financing increase for more effective implementation of SFM in SIDS and LFCCs.

**List of SIDS & LFCCs**

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1 159,058 hectares of forest are split among the 78 SIDS and LFCCs, out of a total of 4,033,060 hectares (FAO 2010).