

# THEIR FUTURE OUR ACTION

An action-research project to improve climate finance attractiveness for Small Island Developing Countries of the Commonwealth

INTERIM  
REPORT  
2021-2022



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# OUR ACTION

*An action-research project to improve climate  
finance attractiveness for Small Island  
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Interim Action-Research Report  
(2021-2022)

Prepared for the Commonwealth Secretariat by the Centre for Resilience and Sustainable  
Development, University of Cambridge

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*This interim report concludes year 1 of the research*

# Acknowledgements

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## Reviewers and Experts

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# About the Centre for Resilience and Sustainable Development, University of Cambridge, UK

The overarching mission of the Centre for Resilience and Sustainable Development is to offer valuable and actionable insights that will help leaders to cope and thrive; to drive policy innovations and institutional development in a changing world. Through a blend of system dynamics, political and economic analysis and rigorously developed business cases, we have helped over 1,000 leaders from the public and private sector, scientists, policy makers and researchers to share research and learn new analytical methods across our core areas of sustainable investment, good governance and responsible innovation.

## **Disclaimer**

The authors of this report have made every attempt to ensure that the information contained in this report is accurate at the time of completion. This has included working in close collaboration with the Commonwealth Secretariat and stakeholders right across the Commonwealth. However, any errors that remain are with the authors.

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## BRIEFING NOTE

### SUMMARY OF ISSUES AND STRATEGIC FIT

- *Their Time, Our Action* is a two year multi-stakeholder research collaboration between the Commonwealth Secretariat and University of Cambridge.<sup>1</sup> The partnership uses a “whole of system”<sup>2</sup> perspective, through the application of the CRSD<sup>3</sup> action-research approach<sup>4</sup> (see Appendix 1), to accelerate Small Islands Developing States (SIDS) access to sustainable finance,<sup>5</sup> particularly in support of improving socio-economic resilience in the post-COVID 19 recovery phase. The focus is on the strategic question: *How can we transform the capacity of governments in SIDS to attract sustainable finance to contribute to resilient economies?*
- There are three phases of this collaboration, Phase one and Phase two have been delivered on time and within budget. In addition, two country consultation events have taken place in Spring 2022 at no additional cost. This was to ensure that the needs of the member states underpin this collaboration.
- A key outcome is the proposal for an innovative collaborative approach to accessing international finance flows called the ‘Common Pool Investment’ approach<sup>6</sup>. Our

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<sup>1</sup> This research is led by Dr Nazia Mintz Habib, FRSA at the Centre for Resilience and Sustainable Development <https://www.crsd.landecon.cam.ac.uk/>

<sup>2</sup> For a broader discussion see Commonwealth (2022) Implementation Guidelines: The Whole System Approach in Addressing Violence Against Women and Girls in the Commonwealth. June, 2022.

<sup>3</sup> [Centre for Resilience and Sustainable Development at the University of Cambridge](https://www.crsd.landecon.cam.ac.uk/) developed an unique model of whole systems based inquiry to improve decision making process.

<sup>4</sup> Action-research tests theories and engages in activities that are geared towards planning and conducting the research process with those people whose life-world and meaningful actions are being studied.

<sup>5</sup> Climate Finance is a subset of ‘Sustainable Finance’ which we define as investment opportunities that are both environmentally and socially rewarding while minimising negative unintended consequences by integrating good governance and responsible innovation.

<sup>6</sup>Our approach is inspired by the success of global pool investment approaches that leverage public/private partnerships to diversify funding - for example the Global Environment Fund (GEF) <https://www.thegef.org/who-we-are>

proposed approach applies different investment theories to identify and collate evidence, and unconventional data, to improve the economic viability for investors and political commitment to collaborative investment in the contexts of uncertainty, data limitations and growing inequality.

- In this approach, SIDS may wish to enhance sustainable finance by collaboratively developing investable projects that address common challenges. Once finance is secured, projects are simultaneously rolled out in multiple countries – increasing economies of scale, boosting opportunities for sharing experiences, knowledge and skills, and reducing transaction costs and risks of unintended consequences (Appendix 2).
- Based on this research, several million US dollars have already been committed to investments in preventive digital health across the Caribbean<sup>7</sup>, which will lead to new youth employment opportunities as well as improved health outcomes.
- Using the CRSD action-research approach and the principles of co-creation and partnership, this collaboration worked with stakeholders across the Commonwealth to co-design features and present the evidence for improving attractiveness for sustainable investment. Key interim outcomes across three phases include (Appendix 2):
  - **Phase 1** – Collaborative Localised Vision Building with Cambridge Policy Boot Camp. Using a tried and tested Cambridge Policy Boot Camp (CPBC) methodology, stakeholders identified ‘nature’<sup>8</sup> and ‘youth’ (redrawn age boundary at age of 35)<sup>9</sup> as common *untapped-assets*<sup>10</sup> across all SIDS, representing key areas to attract investments. Investments in shared *knowledge systems* and shared *institutional capacity* in decision making are also key to unlocking untapped values, and to build trust and transparency among the diversity of stakeholders. Over 150 young people participated from across the Commonwealth, with global experts and multilaterals participating in proposals for policy solutions.
  - **Phase 2** – Building Institutional Consensus with Cambridge Country/Expert Consultation. Using insights from Phase 1, several investment concepts proposed by stakeholders were further analysed by the Cambridge CRSD research team together with the Commonwealth Secretariat team, country level experts and global experts by applying Cambridge Country Consultation Methods.

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<sup>7</sup> A preliminary announcement can be found [here](#).

<sup>8</sup> This includes biodiversity, ocean, and forests. This research is going beyond areas of ‘natural capital’ that have been explored elsewhere - for example looking at the development of royalties from indigenous knowledge about nature (One-third of the world’s indigenous people live in the Commonwealth).

<sup>9</sup> There is no internationally accepted definition for ‘youth’. In this research the definition was raised to 35 so that the investment benefits capture approximately 65% of the SIDS population.

<sup>10</sup> An untapped-asset is defined as an asset that has unused or unaccounted value (see Appendix 2).

- Two Country consultations took place in (northern hemisphere) Spring 2022 (no additional cost) to ensure that the needs of SIDS underpinned this collaboration.
- Over 90 representatives from country nominated experts<sup>11</sup> and industry stakeholders together with policy experts evaluated the system level impacts of proposals to better understand the scope of the proposals, system level linkages and leverage points in potential investment concepts. To support the valuation of ‘youth’ and nature as assets, new measurement tools – the Political Economic Resilience Index (PERI) (Appendix 1) - have been developed to capture and track these assets.
- Phase 3 – Policy Stress Testing with Cambridge Policy Simulation Labs – using a policy simulation lab methodology, stakeholders stress test the government's institutional capacity to support projects to build up to a self-supporting scale. In the next round of Cambridge Policy Simulation Labs, participants will explore risk within a ‘common pool investment approach’ from the perspective of investors, to identify policy gaps that need addressing in order to attract sustainable investment.
- All collaboration phases are designed to be inclusive and responsive to SIDS needs. So far, the collaboration has engaged directly with over 400 young people, global and national experts, and national policy makers from across the Commonwealth, multilateral agencies, regional development banks and civil societies.
  - All of the activities were delivered online and were designed to ensure socio-cultural and demographic diversity. This included interactive evaluation and monitoring by subject matter experts to improve research outcomes.
  - Collaboration activities also provided leadership and technical training to improve participants' capacity for policy systems and resilience thinking in policy making.
- *Their Time, Our Action* was developed as part of the urgent response needed to support SIDS following the economic impact of the COVID-19 response and contributes substantially to:
  - CHOGM Mandate 2022 - on declaring 2023 as a year dedicated to youth-led action for sustainable and inclusive development and strengthening commitment to youth engagement and empowerment.<sup>12</sup>

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<sup>11</sup> The participating countries are Mauritius (Africa), Kiribati(Pacific), Guyana (Caribbean), Fiji (Pacific), Vanuatu (Pacific), Maldives (Asia), Barbados (Caribbean), Dominica (Caribbean). While the detailed analysis in Phase 2 focussed on these eight countries, the research team was in constant contact with other countries and drew on their experiences. Other countries will be invited to participate in Phase 3 activities.

<sup>12</sup> See Communique Of The Commonwealth Heads Of Government Meeting “Delivering A Common Future: Connecting, Innovating, Transforming” and [Commonwealth Heads declare 2023 the Year of the Youth](#)



- CHOGM mandate 2018 on SIDS - promoting financial inclusion of SIDS in the global economy. The initial research focus is on SIDS, however it is anticipated that the learning outcomes of the research has the potential to benefit all Commonwealth members.
- To produce action-oriented solutions that will benefit SIDS urgently.
- Contribute to the ongoing CHOGM dialogues between Heads of Government and youth representatives.
- This investment represents a near 50-fold return on investment for the collaboration, which has more than a year remaining until the research is complete<sup>13</sup>.

This Report presents the interim results of this project. The second part of this research will focus on exploring the regulatory framework that is required to generate (institutional) investor support for the Common Pool Investment Approach. This will include, *inter alia*, generating the data required to:

- Undertake additional analysis on the research concepts to examine their viability.
- Recognise tensions and potential challenges to overcome.
- To identify specific investable proposals under 'youth' and 'nature'.
- Undertake a survey of the sustainable investment market to map potential opportunities.
- Conduct interviews and work with potential investors through workshops to test the Common Pool Investment approach with the investor community, and to familiarise them with the concept, through, for example, working with members of the Conservation Finance Alliance<sup>14</sup> to identify potential projects and potential investors.
- Conduct a second Cambridge Policy Simulation Lab to co-create a risk management system for accessing capital.
- Create a derisking framework that can be used to develop evidence and data that is systematically collected and documented (institutionalise), through use of technology solutions, and to support the development of national regulatory frameworks for the investor and investee countries.

This research will complete its work programme in early 2023 and will submit a final research report by Dec 2023.

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<sup>13</sup> Look up more on this project see [here](#)

<sup>14</sup> The Conservation Finance Alliance is a global network of conservation finance experts, practitioners and organisations to promote awareness, best practice and innovation in conservation finance.

# KEY QUESTIONS INSPIRING THE BACKGROUND

## ***Why is it difficult to access sustainable finance?***

Research by the Commonwealth Secretariat shows that Commonwealth Small Island Developing States (SIDS)<sup>15</sup> are losing out on an estimated \$4.1 billion of aid opportunities because governments do not have the capacity to deal with the complex process of negotiating, receiving and managing development assistance.<sup>16</sup> Similarly, while the private capital (investment) markets have re-bounded rapidly following the COVID-19 pandemic<sup>17</sup>, due to issues of scale, isolation, cost and risk management, SIDS have not been able to adequately tap into this source of finance.<sup>18</sup> Further, just 5% of global climate funding is dedicated to climate adaptation<sup>19</sup> – a key priority for SIDS.

Despite innovative financing approaches such as blue and green bonds, sustainability linked loans, debt swaps or debt restructuring led by the climate finance market ecosystem, the inequality between SIDS and potential investors is deepening. The current climate finance model relies on multilateral agencies (e.g. World Bank) to identify, vet and manage projects and (expensive) external verification to certify and report on impacts – drawing decision making power and agency away from SIDS and from the projects direct beneficiaries.<sup>20,21,22</sup>

Recognising and challenging such structural and systematic barriers to accessing public and private finance, in the context of COVID recovery strategies, are the key motivations for this research.

## ***Why is addressing ‘youth’ and ‘nature’ as an untapped-asset important?***

In financial systems, ‘asset’ refers to something that returns value over time, and mechanisms that specify and protect asset ownership/stewardship, institutionalised within

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<sup>15</sup> Formally, the Commonwealth defines small states as sovereign countries with a population of 1.5 million or less. The Commonwealth also designates some of its larger member countries – Botswana, Jamaica, Lesotho, Namibia and Papua New Guinea – as small states because they share many of their characteristics. This project focuses on a subset of these small countries - SIDS who are defined as small island states with low or middle income status. In this project they are Antigua and Barbuda, Barbados, Belize, Botswana, Brunei Darussalam, Cyprus, Eswatini, Fiji, Guyana, Jamaica, Lesotho, Maldives, Malta, Mauritius, Namibia, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Sao Tome and Principe, Singapore, Solomon Islands, Tonga, Trinidad and Tobago and Vanuatu.

<sup>16</sup> See [The Commonwealth and Climate Change](#)

<sup>17</sup> See for example [McKinsey Global Private Markets Review \(2022\)](#)

<sup>18</sup> See for example: [External Financing to Small Island Developing States Where do we stand?](#)

<sup>19</sup> See for example [The broken \\$100-billion promise of climate finance — and how to fix it](#)

<sup>20</sup> <https://www.un.org/ohrrls/news/fostering-private-sector-partnerships-small-island-developing-states>

<sup>21</sup>

<https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/SIDS-factsheet.pdf>

<sup>22</sup> [OECD Policy Responses to Coronavirus \(COVID-19\): COVID-19 pandemic: Towards a blue recovery in small island developing states](#)

national governance systems, are a necessary precursor to generating investment opportunities. *Untapped-assets* refers to an undiscovered asset, or one whose value is not recognised, and hence stewardship/ownership has not been identified - leading to under (or no) investment.

Conventional financial thinking focuses on the limited investment opportunities in SIDS and the lack of scale. This research flips this thinking on its head to consider what assets SIDS already have in abundance which can be used to build value creating opportunities. Research participants identified 'youth' and 'nature' as two critical abundant assets that are common across all SIDS (see Appendix 2).

Developing investment initiatives for 'nature' and 'youth' is important because Commonwealth SIDS:

- Manage 11.5% of the world's Exclusive Economic Zones (EEZs<sup>23</sup>), including 7 out of 10 coral hotspots, and are stewards for about 20% of all land based bird, plant and reptile species, many of which are endemic. By comparison SIDS land mass is just 3% of the total global. These resources underpin valuable economic activity (e.g. tourism and fisheries)<sup>24</sup> within SIDS and are also a major global resource in addressing climate change and biodiversity loss, particularly in the context of the indigenous knowledge held by island communities. Investing in nature to safeguard existing industries, and ensuring that SIDS are appropriately recognised and rewarded for nature stewardship is a key strategy to underpin sustainable development.
- Are facing a so called 'youth bulge' with 65% of the population under 35<sup>25</sup> with an average of 28% of these people not engaged in education or employment. This represents a significant risk of creating social deprivation, inequality and political exclusion of youth, and is also a significant underutilization of human potential that could be harnessed for sustainability development.

### ***Why use a Common Pool Investment Approach to improve accessing sustainable finance?***

The Post-COVID recovery period represents a unique opportunity to explore innovation in public sector governance and many governments now are currently undergoing changes in operational practices to adjust to reduced capacity and the disproportionate shocks/impacts from the COVID-19 crisis (e.g. loss of tourism, economic shocks and disruptions in public welfare services and health care) as well as the ongoing challenge of climate change.

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<sup>23</sup> Data obtained from [The Sea Around US project](#)

<sup>24</sup> [OHRLLS Small Island Developing States in Numbers: Oceans and Biodiversity.](#)

<sup>25</sup> Calculated using data from [United Nations, Department of Economic and Social Affairs, Population Division](#) except for Dominica, St Kitts and Nevis and Nauru, whose data is sourced from: [UN Statistics Division Demographic Yearbook System](#)

Against this context, this collaboration seeks to complement and build upon the success of Climate Finance Action Hub by extending its principle of knowledge and skill sharing to developing a finance model that develops common pool investment proposals.

While each SIDS is unique, there are common systemic challenges and opportunities across the Commonwealth – for example in education, public health or climate change. Using this insight, this collaboration has worked with stakeholders to identify commonalities across economic and social systems which represent opportunities for investment projects that could be rolled out simultaneously across multiple countries. Going to market with a common investment project across multiple countries will increase project scale, reduce risk profiles and transactions/management costs – making them more attractive to investors and politically more attractive for SIDS by reducing the risk of falling into a ‘debt trap’. We develop a framework for collective risk profiling, risk sharing and risk governance to manage risk-related attitudes and thinking that to guide investments.

A key output for this collaboration is to develop the evidence and data to support this approach, and to identify potential investment concepts that could be developed into a collective investment proposal. So far, some proposed investment concepts include:

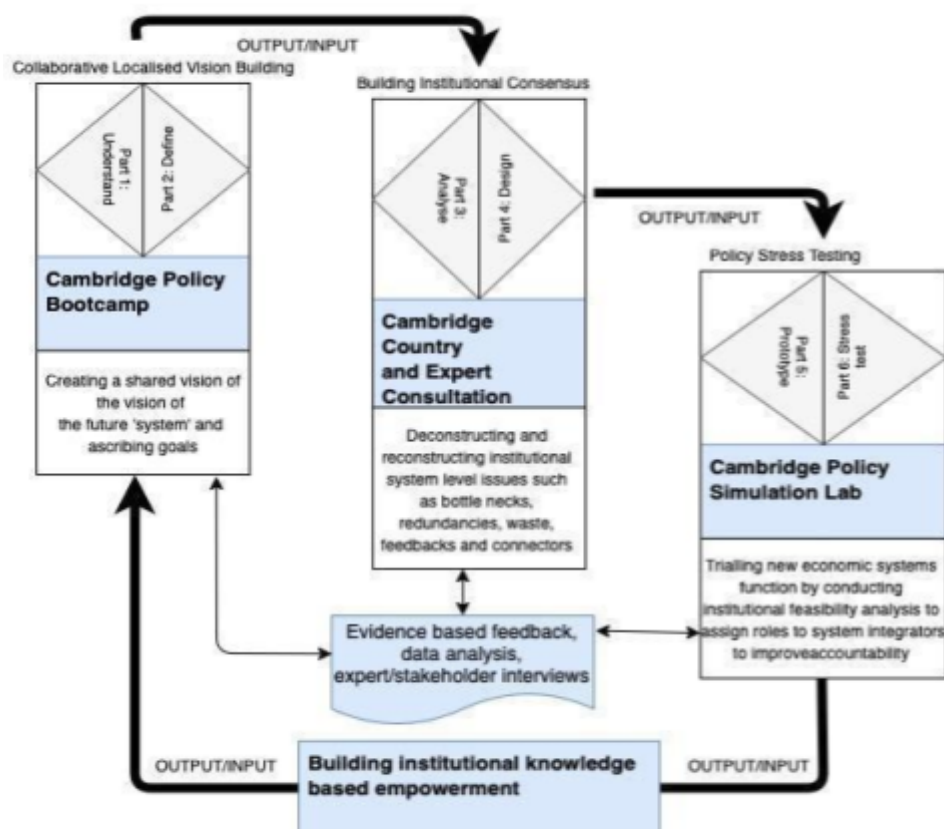
- Information tools to support investments in untapped-assets like ‘nature’ and ‘youth’, to help generate and gather the evidence required for investors. Some of these are under development, including the development of the Political Economic Resilience Index (PERI) to define and benchmark natural and human capital. If PERI, EPI and Untapped Youth indices are institutionalised and tracked regularly, it can capture and track the ability of a government to invest in these untapped-assets.
- Capitalise on the movement towards remote working to engage skilled workers to use SIDS as a remote working/retirement opportunity and engage in knowledge sharing.
- Implement a Technical and Vocational Skills Training Programme for environmentally conscious and climate resilient industries.
- Facilitate knowledge exchange between SIDS diaspora, international networks and national citizens and intergenerational knowledge exchange between older and/or indigenous citizens and youth.

An example of attracting investment in a pooled approach is Fly Pop airline’s recent commitment that Caribbean Udan will promote regional connectivity and employment opportunities for the youth in the Caribbean region as a result of the research applied to Cambridge Collaboration Investment templates.

# CAMBRIDGE ACTION-RESEARCH APPROACH

Using a ‘whole of system’ perspective, *Their Future and Our Action* uses a non-linear and transdisciplinary research methodology that combines political economic theories, systems based thinking, and a leadership training approach to better understand challenges both from the perspective of the state and the potential private sector investors. The Cambridge Centre for Resilience and Sustainable Development (CRSD) methods were used to develop the evidence base required for the proposed new investment approach, while also providing training for policy makers and experts in applying resilience thinking techniques and, through this, familiarising them with the proposed approach. Using a combination of primary and secondary data collection, surveys, interviews and four types of experiential laboratory workshops, over 400 primary beneficiaries, decision makers and experts, from across the Commonwealth were brought together to identify and test key concepts and ideas for collaborative investment in SIDS. An overview of the research process is set out in Figure E1.

**Figure E1: Cambridge Action-Research Approach**



# COMMON POOL INVESTMENT APPROACH

The proposed investment approach has two components: a set of indices to support the development and use of untapped-assets of 'youth' and 'nature' and a conceptualised model for accessing finance.

## ***Data Indices***

A key challenge in developing a common pool investment approach is collecting and analysing relevant data that will support the conceptualisation of 'youth' and 'nature' as investable assets, alongside other forms of data required by investors.

The research developed two new indices and utilised two other existing indices to fulfil this role. The two existing indices used in this research are:

**The Environmental Performance Index** published annually by Yale University<sup>26</sup>. The EPI quantitatively assesses the sustainability performance of countries against 40 indicators across 11 issues categories including climate change, environmental health and ecosystem vitality and assess how close countries are to achieving established environmental targets.

**An Internal Stability Index**, which is based on the "Internal Violence Index - Lack of Structural Resilience Index" (IVI-LSRI) component of the Commonwealth Universal Vulnerability Index.<sup>27</sup> The IVI-LSRI is a measure of the structural vulnerability SIDS face to internal political violence that would undermine the attractiveness of a country to investors.

In addition, two new indices were developed for this research. They are:

**The Untapped Youth index** which is composed of SDG indicator 8.6.1 which is the proportion of youth aged 15-24 not in education, employment or training multiplied by the percentage of the population that is aged 15-34 years old (published by UN DESA).

**The Political Economic Resilience Index (PERI)** is composed of the arithmetic average of policy strength which is derived from the Commonwealth UVI (Lack of non-structural resilience index - LNSRI) and Financial Resilience from UN MVI - and measures the level of exposure (risk) of a country to funds from Tourism, Foreign Direct Investment (FDI).

The four sets of indices can be combined and visualised (Figure E2) to identify commonalities and differences between SIDS - not to determine correlations but to identify clusters and outliers as part of a broader discussion on common investment proposals. Examining the data, in Figure E2, there are two potential interpretations:

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<sup>26</sup> For more information see [Environmental Performance Index](#) hosted by Yale University.

<sup>27</sup> See [The Commonwealth Universal Vulnerability Index](#).

1. Countries with higher PERI and EPI may be seen as less risky to invest in. Such countries would have a stronger starting point with political-economic resilience and existing natural assets to leverage when engaging untapped resources among the youth. In other words, where there is some pre-existing institutional capacity, so the opportunity to make a faster difference is greater.
2. Countries with lower PERI and EPI may be seen as more risky to invest in. But systemic interlinkages between these underperforming factors may be hidden opportunities to be discovered in the process of Phase 2 and 3 to provide much greater value for money investments in 'youth' and 'nature'. In other words, where there is more room for improvement, so the opportunity to make a difference is greater.

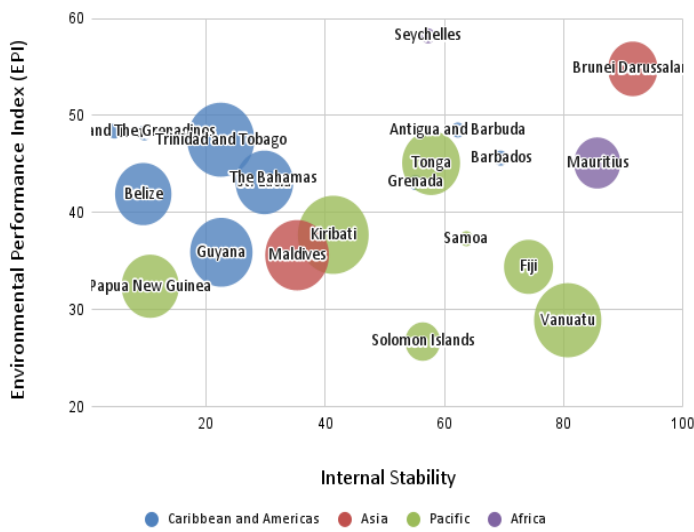
Additional research is required for several countries to collate and verify data in order to accurately incorporate them into the indices. To avoid misrepresentation, these countries have been excluded from the preliminary calculations of the indices until further research is undertaken in the second phase of this project. These are:

1. **Internal Stability** - Dominica and Nauru
2. **EPI** - Nauru, St. Kitts and Nevis and Tuvalu
3. **PERI** - Brunei Darussalam, Dominica, Nauru and The Bahamas

**Figure E2: Asset-like characteristics across countries.**

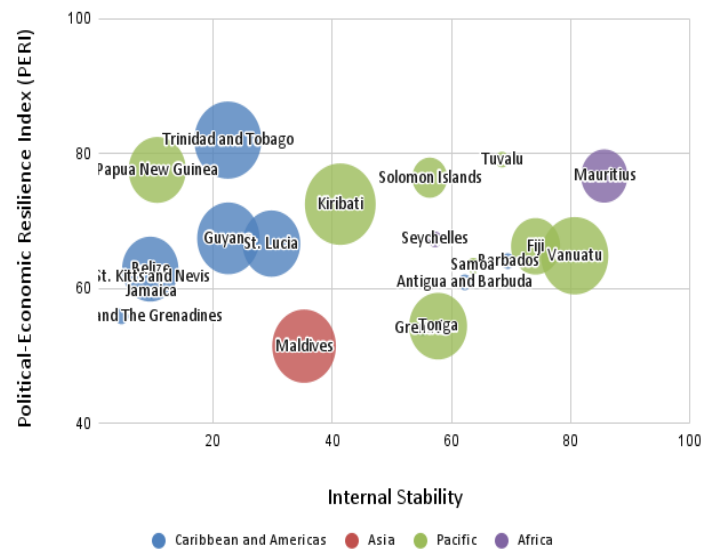
### 1. Environmental Performance vs Internal Stability

Bubble Size = Youth Untapped Resource. No Data is smallest bubble. Note: Bubbles placed ON an axis



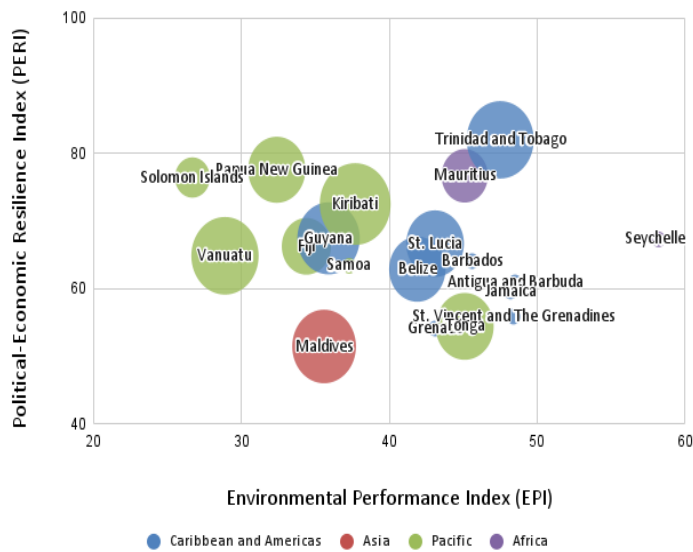
### 2. Political-Economic Resilience vs Internal Stability

Bubble Size = Youth Untapped Resource. No Data is smallest bubble. Note: Bubbles placed ON an axis



### 3. Environmental Performance vs Political-Economic Resilience

Bubble Size = Youth Untapped Resource. No Data is smallest bubble. Note: Bubbles placed ON an axis



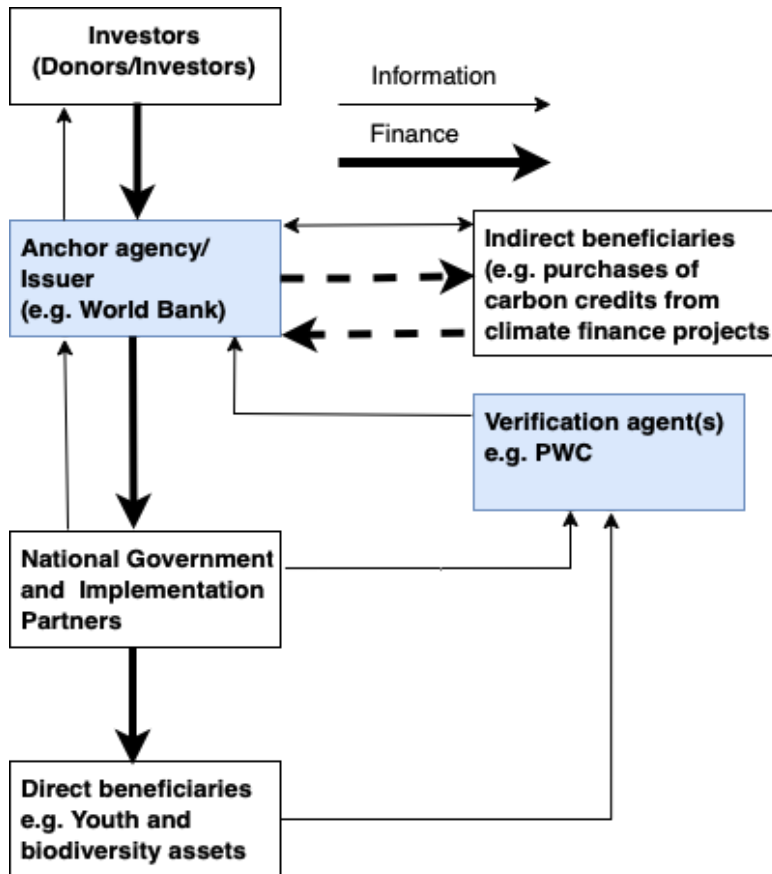
## Common Pool Investment Model - conceptualisation

The current funding model for climate finance relies on the use of a multilateral agency (e.g. World Bank) to identify, vet and manage projects and an (expensive) external verification



agent to certify and report on impacts. This draws decision making power and agency away from SIDS and the direct beneficiaries of climate financed projects (Figure E3).

**Figure E3: Current Model of SIDS Climate Finance**



To address these limitations in existing climate finance models, the research complements and builds upon the Climate Finance Action Hub (CFAH) by extending its principles of shared knowledge and skills exchange to develop a common pool investment approach.

In the new proposed approach (Figure E4), Investors engage directly with finance advisers working on behalf of national governments or, regionally, collaborate with implementation partners who coordinate between project beneficiaries. The investment

relationship is facilitated through open dialogue and through the use of accessible, transparent and robust data sets made available via a dedicated software platform that is co-designed by the Commonwealth SIDS and meets the information and data needs of SIDS, investors, and beneficiaries. Further consideration of the software platform format will be undertaken in the second phase of this project, taking into account, for example, the different data verification processes used by different types of investors. The multilateral agent undertakes the role of administrator, and facilitator. The software reduces the use of certification agencies.

To achieve a cost-effective scale, investments should focus on elements of specific systems that are common across all SIDS. In this way, investment projects and activities can be initiated simultaneously across multiple SIDS allowing for pooling of resources, reducing transactions and facilitating mutual learning and support. The critical finding from this one year of research offered demonstrable insights that individually each SIDS has numerous untapped-assets, but ‘youth’ and ‘nature’ are two important untapped-assets. Without a significant shift in leadership mindset and support of verifiable evidence, these resources will remain untapped to unlock additional funding opportunities into SIDS.

This research also provided the rationale for the Commonwealth to exercise its Multilateral Development Agency power to expand the definition of 'youth' from under 30 to under 35. This was done in the recognition that 31-35 year old citizens are experienced, economically productive who contribute extensively to the political and social life of the community. Incorporating them into the youth category ensures that investments under our proposed model are also incorporating a cohort of economically active people who may also become investors themselves.

**Figure E4: A New Model of SIDS Finance**

