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Centre for Resilience and  
Sustainable Development



The Commonwealth

# THEIR FUTURE OUR ACTION

## FINAL REPORT 2024

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



# THEIR FUTURE

# OUR ACTION

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

Final Action-Research Report  
(2021-2024)

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

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## Reviewers and Experts

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

The overarching mission of the Centre for Resilience and Sustainable Development (CRSD) is to mainstream the science of collaboration and co-creation. The research philosophy and practice applied in CRSD research founded by Professor Nazia M Habib has an objective of systematically integrating resilience and sustainable development principles in the decision-making process. The Centre's research has enabled over 75 countries' leaders on topics related to security to sustainability; food to finance, and regulations to resilience. Through a blend of system dynamics, political and economic analysis and rigorously developed business cases, we have trained, supported and enabled over 1,000 leaders from the public and private sectors and civil society with our science of collaboration and co-creation.

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## 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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# Forward



The Commonwealth of Nations is very fortunate to have two-thirds of the world's small island developing states (SIDS) amongst our membership. SIDS have consistently proven their resilience, creativity and adaptability in the face of global challenges like climate change, international economic crisis and the COVID-19 pandemic.

Yet, limited access to investment - particularly from the private sector - hinders their future capacity for sustainable development. This not only deprives SIDS of opportunities, but is also a loss to the world. SIDS are stewards of 22% of the world's Exclusive Economic Zones (EEZs), including 7 out of 10 coral hotspots, and possess valuable cultural resources. Collectively, these are of immense global importance in key industries, in addressing climate change and biodiversity loss, and in building resilience. SIDS youthful populations, as shown by *Their Future, Our Action*, are able and willing to step up as entrepreneurs and leaders in forging a new sustainable, equitable and inclusive future.

Securing the necessary funding that SIDS need, and deserve, to build their sustainable future has always been challenging. This challenge was further intensified by the COVID-19 pandemic and the social and economic crises it generated. That is why, in the depths of the pandemic, we joined forces with the Centre for Resilience and Sustainable Development (CRSD), University of Cambridge for a fresh analysis on the barriers which deter investments in SIDS, and to design innovative, SIDS centred, approaches to overcome them. The academic rigour and the award-winning innovation that CRSD brought to this collaboration upended our understanding of the challenges, and opportunities, for SIDS and gave us confidence in the picture that emerged.

*Their Future, Our Action* reimagines the very foundation of funding sustainable development for SIDS. This comprehensive report is intended to offer a holistic reflection on the research process over the course of this action-research collaboration, along with robust guidance on the implementation of its findings to benefit Commonwealth SIDS.

With the first Commonwealth Heads of Government Meeting in Samoa in October 2024, this report offers a practical roadmap to help our member states to recognise how we, collectively, can deliver better funding pathways for SIDS and build a resilient common future across our Commonwealth family.

**The Rt. Hon. Baroness Scotland, KC**  
Secretary General of the Commonwealth of Nations



# Principal Investigator Statement



In a world profoundly transformed by the COVID-19 pandemic, the increasing threats of climate change and political and social conflict, the urgency to reimagine and reshape our approach to sustainable development has never been more urgent.

The challenges we face demand innovative solutions, radical collaboration and a steadfast commitment to sustainability.

In an era defined by unparalleled global challenges, the Centre for Resilience and Sustainable Development (CRSD) at the University of Cambridge, in strategic partnership with the Commonwealth Secretariat, has formally inaugurated the 'Their Future, Our Action' initiative.

This initiative represents a profound commitment to identifying and implementing transformative pathways for Small Island Developing States (SIDS), to accelerate and enhance their access to international financial mechanisms. As these nations navigate the dual adversities of pandemic recovery and climate change adaptation, *Their Future, Our Action* emerges as a pivotal endeavour, symbolising a steadfast dedication to fostering resilience and sustainable development on a global scale

*Their Future, Our Action* was designed as a radically collaborative, co-creation process right from the start. Our ground-breaking methodologies used whole-of-systems thinking and new research tools created by CRSD to blend cutting edge research with the diverse perspectives, expertise, experiences and insights from around 5000 Commonwealth citizens, technical experts, policy makers, scholars, political leaders and young people.

The willingness of the Commonwealth Secretariat, and Commonwealth citizens, to embrace new ways of thinking and doing and challenging norms around global finance, as well as how we think about SIDS, is a testament to their creativity and ambition for a sustainable, equitable and inclusive future. The outcomes reflect this. *Their Future, Our Action* puts forward fresh and innovative ways for SIDS to forge their own future, with an abundance of resources and opportunities to offer investors across the commercial, public and philanthropic sectors.

As we present this report, we invite readers, policymakers, funders, and stakeholders across all sectors to engage with the insights and recommendations put forth. This report is not just a culmination of research; it is a call to action—a plea for collaboration, innovation, and a shared commitment to sustainable development that places SIDS at the forefront of our global efforts to combat climate change.

Let this publication serve as a reminder of what we can achieve when we come together, challenge conventional wisdom, and co-create solutions that not only address the challenges of today but pave the way for a sustainable and equitable tomorrow.

## Professor Nazia M. Habib

Centre for Resilience and Sustainable Development  
University of Cambridge



# Acronyms

**AIIB** - Asian Infrastructure Investment Bank

**CARICOM** - Caribbean Community

**CCFAH** - Commonwealth Climate Finance Access Hub

**CCYB** - Commonwealth Cooperative Youth Bank

**CERT** - Commonwealth Experts Round Table

**CHOGM** - Commonwealth Heads of Government Meeting

**CIS** - Creative Ideas Studio

**COMPASS** - Common Pool Asset Structuring System

**COVID** - Coronavirus Disease

**CPBC** - Cambridge Policy Boot Camp

**CPSL** - Cambridge Policy Simulation Lab

**CRSD** - Centre for Resilience and Sustainable Development

**CYF** - Commonwealth Youth Forum

**DFI** - development finance institution

**EPI** - Environmental Performance Index

**ESG** - Environmental, Social, and Governance

**EEZ** - Exclusive Economic Zone

**FDI** - Foreign Direct Investment

**FRSA** - Fellow of the Royal Society of Arts

**GDP** - Gross Domestic Product

**IFC** - International Finance Corporation

**IMF** - International Monetary Fund

**IPCC** - Intergovernmental Panel on Climate Change

**ISI** - Internal Stability Index

**IVI** - Internal Violence Index

**LIC** - Low-Income Countries

**LNSRI** - Lack of Non-Structural Resilience Index

**LSRI** - Lack of Structural Resilience Index

**MDB** - Multilateral Development Bank

**MIC** - Middle-Income Country

**MVI** - Multi-Dimensional Vulnerability Index

**NABC** - Need, Approach, Benefit, Competition

**NEET** - [Youth] Not in Employment, Education, or Training

**NSRI** - Non-Structural Resilience Index

**ODA** - Overseas Development Assistance

**OECD** - Organisation for Economic Co-operation and Development

**PERI** - Political Economic Resilience Index

**PERT** - Political Economic Resilience Toolbox

**PIF** - Pacific Islands Forum

**PMT** - Portfolio Management Theory

**PNA** - Parties to the Nauru Agreement

**SDGs** - Sustainable Development Goals

**SES** - Socio-Ecological Systems

**SIDS** - Small Island Developing States

**SRI** - Structural Resilience Index

**STEM** - Science, Technology, Engineering, and Mathematics

**TCFD** - Taskforce on Climate-related Financial Disclosures

**TNFD** - Taskforce on Nature-related Financial Disclosures

**UNCDF** - United Nations Capital Development Fund

**UNESCO** - United Nations Educational, Scientific and Cultural Organization

**UN-OHRLLS** - United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

**UNCLOS** - United Nations Convention on the Law of the Sea

**UVI** - Universal Vulnerability Index

**VC** - Venture Capital

**WGI** - World Governance Indicators

**YIP** - Youth Investment Platform

**IOC** - Indian Ocean Commission



## **INFORMATION BRIEF: *Their Future, Our Action: Improving Climate Finance Attractiveness for Small Island Developing Countries of the Commonwealth***

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[Their Future, Our Action](#) is a two year collaboration between the Commonwealth Secretariat and the Centre for Resilience and Sustainable Development ([CRSD](#)) (University of Cambridge) to ask: ***How can the Commonwealth Secretariat transform the capacity of governments in SIDS to attract sustainable finance to contribute to resilient economies?***

This action-research brought together almost 5000 Commonwealth citizens, policy makers, technical experts, academics and political leaders to collect data and evidence on SIDS and to co-create and test different ideas and concepts for boosting investment in SIDS.

A final report on this action-research has been completed and is available here. This briefing note provides a summary of key findings and recommendations.

### Key findings

**Need for a SIDS-specific financial institution:** SIDS need specific institutional support to diversify investment away solely from the public sector towards accessing private capital markets. Significant opportunities exist. Currently climate and sustainability-themed investment funds are valued at approximately \$USD 442 billion to \$USD 1.16 trillion annually (Climate Policy Initiative 2023 and GIIN in 2022).

**SIDS challenges in accessing funds.** Accessing blended or private sector funding by SIDS is challenged by the small size and isolation of domestic economies, perceived business risks, climate change impacts, lack of project pipelines, high transaction costs and high debt levels. Current funding approaches do not adequately tackle these issues.

**SIDS have significant investable assets.** SIDS manage 22% of global ocean Exclusive Economic Zones (EEZs) and are globally recognised for their biodiversity, cultural richness, and preservation of traditional knowledge about resilience and adaptation. Additionally, SIDS have significant youth populations eager for new economic opportunities.

The research team argues that the ocean and biodiversity assets of SIDS, along with their custodianship of traditional knowledge, hold immense global importance in combating climate change and biodiversity loss and building resilience. Consequently these assets merit substantially increased funding support from the international financial community. Collectively, these investable opportunities are summarised in the collaboration as investing in **'Nature'** and **'Youth'**.



# Key Outputs

To invest in Nature and/or Youth themed projects, two new innovations in international financial architecture was co-developed and tested throughout the collaboration. These innovations are designed to empower the Commonwealth Secretariat to extend their support for SIDS and small state members in accessing finance.

## Introducing the Common Pool Asset Restructuring System

COMPASS is a financial governance framework that is designed to deliver an additional pathway for small states to access international finance using a governance mechanism that will reduce costs, improve efficiency in application and report and and de-risk the investment process for all stakeholders. COMPASS will be demand driven by SIDS and empower the Commonwealth to:

- Support SIDS to collaborate on project development that align with SDGs and are focussed on youth led/focussed and/or nature focussed activities.
- Facilitate SIDS to combine projects into a portfolio of investment opportunities that is used in funding applications for private, public or blended finance.
- Foster relationships between SIDS and investors through strategic use of the Commonwealth’s convening and political power.
- Ensure small states retain sovereignty over projects, data and implementation processes and transactions costs are managed through standardisation.

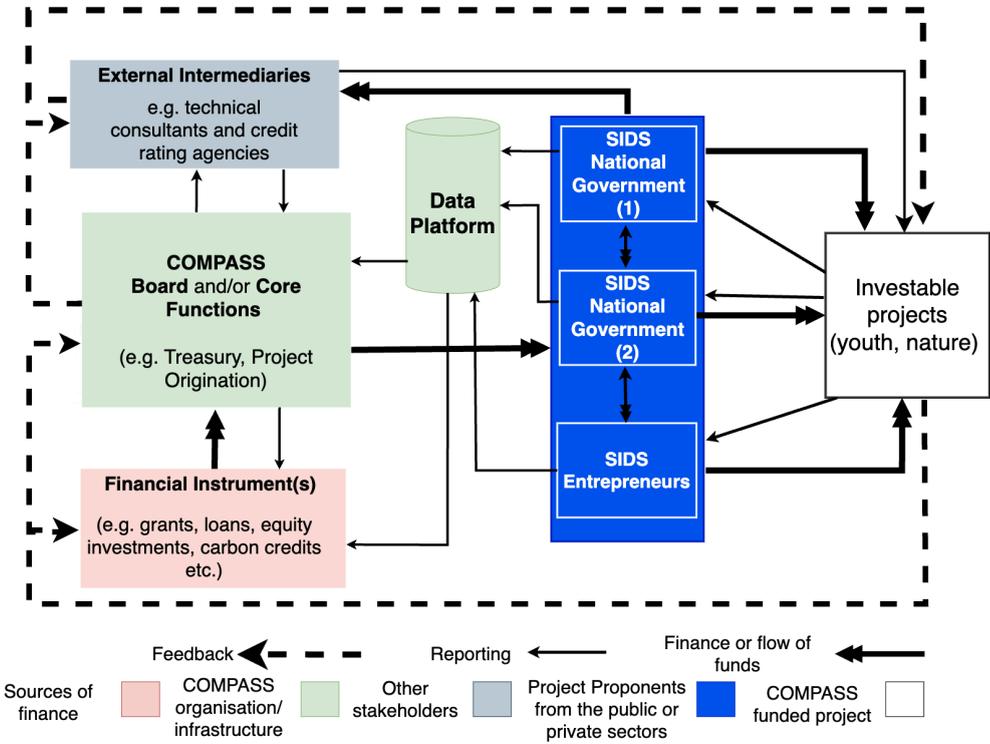


Figure B: Stylised View of COMPASS

Source: CRSD Analysis



## Introducing Political Economic Resilience (and other data sets)

Use of COMPASS will require SIDS and investors to access robust, verifiable and transparent data that supports identification of investment opportunities in **Youth** and **Nature** as well as the quality of economic management and governance in small states that influence investment risk. To address the inadequacies of existing data indices, *Their Future, Our Action* created the **Political Economic Resilience Index (PERI)**, **CamYouth**, and a data visualisation tool to . integrate various data sources into an easily understandable format. Both PERI and CamYouth utilise publicly available data, enabling regular updates.

## Next Steps

COMPASS builds on a very long history of mutual collaboration between SIDS that has delivered both significant economic benefits and made major contributions to global affairs.

COMPASS' design - conceptually and operationally - draws from existing, commercial and multilateral institutions - making it technically and commercially feasible to have it operating within 12 months. To achieve this, the research team, working closely with stakeholders co-created a 'two track' model to transition COMPASS from a framework to an operating mechanism that disperses funds to SIDS:

**Track One (Bootstrapping):** *Youth Entrepreneur Training Hub*. A specific platform developed by the Commonwealth Secretariat and co-developed with stakeholders to support SIDS entrepreneurs access best practice technical and training support programs from across the Commonwealth. This will showcase the investment potential in SIDS.

**Track Two (Scaling up):** A collaborative action-research hub between the University of Cambridge, the Commonwealth Secretariat, SIDS governments, investors, and regional organisations. The purpose of the hub is to co-create COMPASS pilot projects with investors and entrepreneurs to collaboratively develop and test legal, financial, and governance mechanisms to approve projects for investment, evaluate and refine standardised application and reporting processes, and experiment with varying return models within blended finance contracts.

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# Executive Summary

This report is the final report in the multi-year action-research award-winning collaboration *Their Future, Our Action*. This executive summary serves as a succinct overview, providing key insights into its objectives, methodologies, findings, and recommendations. Links to relevant sections of the report are included should the reader wish to explore the topic in more detail.

## A case for a new SIDS-specific financial institution

Since 1945, around the world, specific regions, or groups of countries have developed their own financial institutions to meet their development needs – for example, the World Bank, the European Investment Bank, the Asian Development Bank, the Asian Infrastructure Investment Bank (AIIB), and the African Development Bank.

In the post-Paris Agreement era, there are more than 93 international public funds, 60 carbon markets and 6000 private equity funds involved in climate finance (OECD, 2023) as well as countless other commercial, philanthropic and public funds dedicated to sustainable investment.

Yet, few of these funds meet the needs and circumstances of small island developing states (SIDS), and no international financial institution has been developed specifically for SIDS. SIDS lack specific institutional ongoing support to navigate the complexities of international finance and, consequently, are missing out on vital funds. The funding needs associated with the Sustainable Development Goals (SDGs) and the Paris Agreement reinforce the need to address this gap.

[Accessing funding for Commonwealth SIDS is made difficult by several factors, including,](#) small economies, perceptions around the riskiness of doing business, misaligned priorities of funders, exposure to the impact of climate change, lack of ‘investable’ projects, high transaction costs, the complexity of application processes and high levels of indebtedness (UN- OHRLLS, 2022).

These challenges translate into significant lost opportunities for SIDS. Research by the Commonwealth Secretariat shows that Commonwealth SIDS are losing out on an estimated \$4.1 billion of aid opportunities (The Commonwealth, 2018). Similarly, while the private capital (investment) markets have rebounded rapidly following the COVID-19 pandemic (McKinsey and Company, 2022), SIDS have not been able to adequately tap into this source of finance (OECD, 2020). Further, of the available climate-themed funding, just 5% globally is dedicated to climate adaptation (Timperely, 2021) – a key priority for SIDS.

*Their Future, Our Action* set out to answer the question: **How can we transform the capacity of governments in SIDS to attract sustainable finance to contribute to resilient economies?**

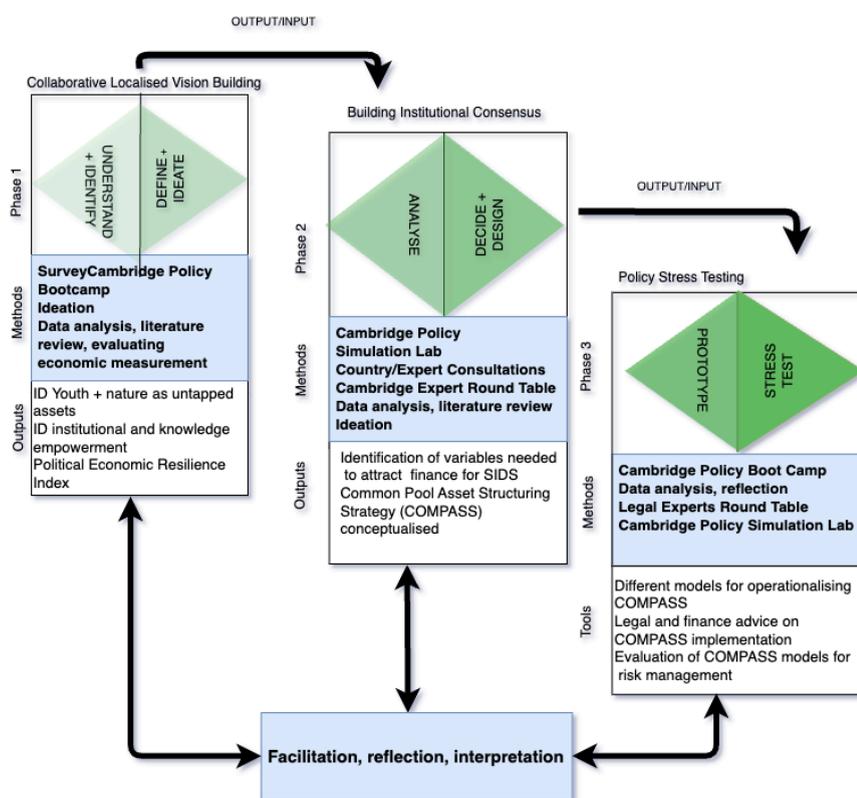


This complements and sits along-side the work of other multilateral organisations that work to support SIDS financing - for example, the World Bank (2018) or the Asian Development Bank (2019) This action-research puts forward the case that addressing SIDS funding issues not only needs to build upon and broaden these existing initiatives but also leverage them to establish a novel category of financial institutions tailored specifically to the needs of SIDS.

In developing these new novel financial institutional arrangements, *Their Future, Our Action* explicitly adopts the perspective of the Commonwealth Secretariat. That is, the research question is interpreted within the context, and mandate, of the Secretariat as an organisation and as a body that links across 56 member states.

### Box A: Whole of Systems Research Methodology

Figure A: *Their Future, Our Action* Systems Based Research Methodology



Source: CRSD Analysis

Using a 'whole of system' perspective, *Their Future, 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 Methods developed by the Cambridge Centre for Resilience and Sustainable Development (CRSD) and Professor Habib were used across three project phases to develop the evidence base required for the proposed new investment approach.

Using a combination of primary and secondary data collection, surveys, interviews and four types of experiential laboratory workshops, almost 5000 stakeholders across the



Commonwealth were brought together to identify and test key concepts and ideas for boosting investment in SIDS. Research activities were designed to maximise collaboration and a diversity of perspectives and inputs. Research findings were iteratively developed across phases, allowing for data triangulation (for robustness), reflection, stakeholder validation and refinement. [Chapter 3](#) sets out details of the research process, with a summary in Figure A.

## Introducing COMPASS

Drawing on an extensive multi-year engagement with over 5,000 citizens, technical experts, and policymakers and using over 15,000 hours of consultation, technical and whole-of-systems research (Figure A), *Their Future, Our Action* introduces a new framework called the [Common Pool Asset Structuring System \(COMPASS\)](#) as a new international financial framework specifically for SIDS, and their private, public and philanthropic investors.

The proposed COMPASS model is co-creation output based on the following idea:

*If SIDS could develop collaborative, investable, large-scale project proposals to address common needs, SIDS and investors can pool and reduce risks for projects that are implemented simultaneously across multiple jurisdictions. This risk pooling and subsequent reduction in risk exposure could allow investors and SIDS to generate and support commercial and non-commercial SDG-themed projects beyond what would be possible with single-jurisdictional investment approaches. Through this, SIDS and investors can address the systemic challenges in accessing finance.*

To achieve this, a new type of risk-informed finance mechanism is required for COMPASS to meet the needs of SIDS and re-disk the investment process for SIDS governments, entrepreneurs, investors and financial intermediaries. An overview of this mechanism within COMPASS, that focuses on investments in youth and nature as untapped assets in SIDS, is set out in Figure B.

COMPASS is a financial governance framework that enables SIDS to voluntarily pool resources to develop a robust pipeline of investable projects and funding applications which is then presented, as a portfolio, to international funding markets. COMPASS aims to unleash access to blended finance deals that combine public, private, philanthropic, market and commercial types of funding. This strategy ensures that all countries - regardless of their development status - have access to appropriate styles of funding.

For investors, COMPASS will wrap together finance across multiple projects that share similar underlying operational characteristics and shared governance to provide a portfolio of investment opportunities.

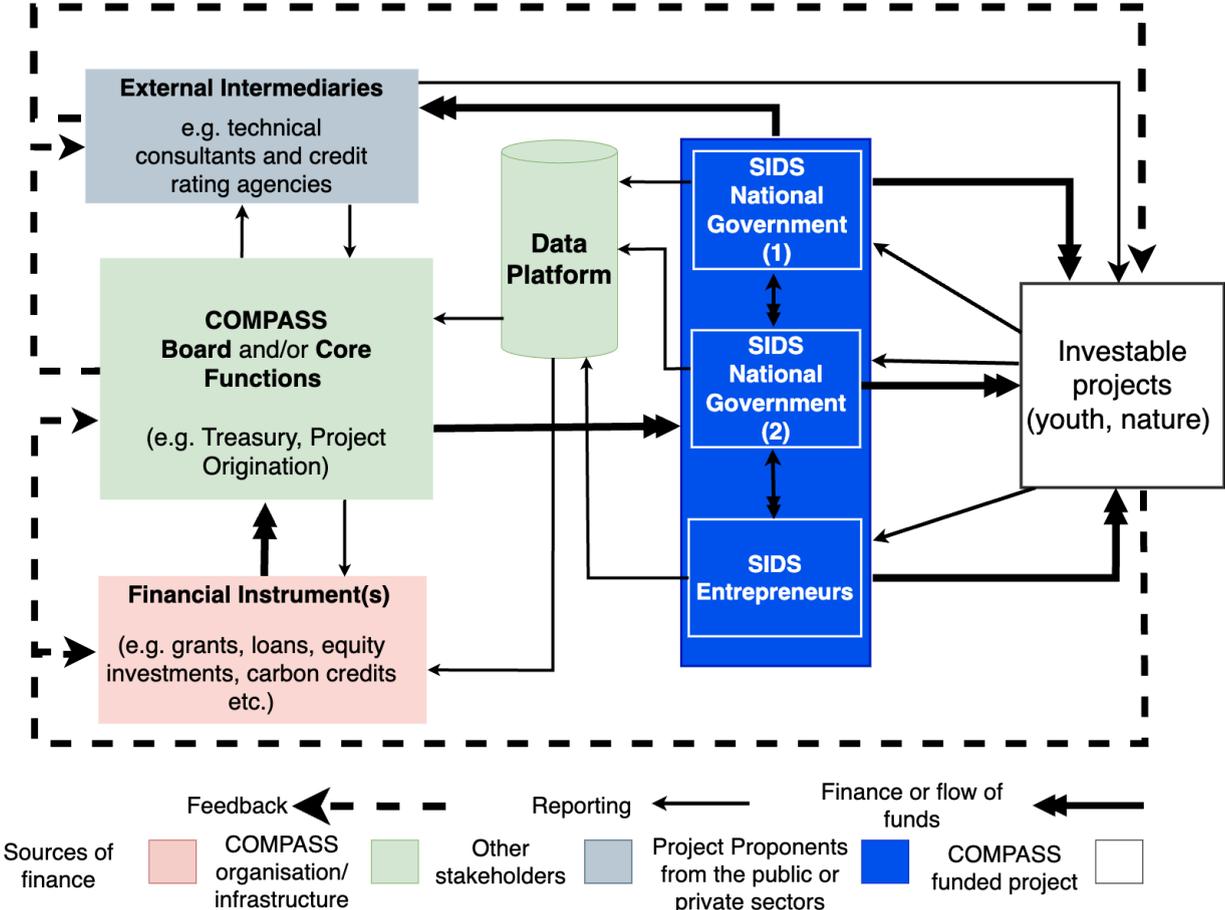
For entrepreneurs or project proponents within SIDS, COMPASS leverages existing multilateral and bilateral partnership models and builds upon opportunities from the impact investment community. It is designed to strengthen and safeguard the interests of small



states in the international financial sector and to provide an additional low-cost tool to support their funding needs.

For intermediaries, COMPASS combines blended finance models and portfolio management practices that aim to reduce risks across the portfolio of investments.

Figure B: Stylised View of COMPASS



Source: CRSD Analysis

Projects developed under COMPASS will be highly flexible and driven by the demands of SIDS. The flexible design of COMPASS will allow the development of projects ranging from large infrastructure and commercial projects, mixed market/public benefit projects in conservation through to community based programs for promoting gender equality, community development or training.

Key risk management strategies within COMPASS include rigorous pre-vetting and quality control measures for project selection, technical assistance and peer support through the project life cycle, transparent application and assessment processes, and spreading project and repayment risks across multiple geographic locations.

In the third phase of *Their Future, Our Action*, the research team worked closely with stakeholders from youth groups, SIDS governments, finance lawyers and financial experts to co-create implementation options for COMPASS.



Five options were co-developed, analysed in detail and stress-tested by experts at the Cambridge Policy Simulation Lab held in February, 2024. In [Chapter 6](#), an assessment of the risks, and risk management strategies associated with each are presented.

## Common Pool Asset Structuring System and Climate Finance

[SIDS are recognised globally as being biodiversity hotspots, stewards of 22% of global EEZs and hold valuable resources](#) that underpin globally significant economic activity in the fishing and tourism sector (Flanders Marine Institute, 2024, Pauly et.al., 2020, Mouillot et.al., 2020) (see [Appendix 1](#)). In the Pacific region, 80% of SIDS (excluding Fiji) population is indigenous - keeping alive valuable knowledge about resilience and adaptation. In addition, SIDS have large youth populations (Habib et.al., 2022). Working with Commonwealth citizens and experts, the research team distilled the broad range of investment opportunities in SIDS into one of two broad categories: [‘nature’<sup>1</sup> and ‘youth’ \(redrawn age boundary at age of 35\).](#)<sup>2</sup> Both asset classes are relatively *untapped-assets*<sup>3</sup> across all SIDS, and are therefore key areas to attract investments through the COMPASS mechanism. Investments in shared *knowledge systems* and shared *institutional capacity* in decision-making are key to unlocking these untapped values.

The Commonwealth Climate Finance Access Hub (CCFAH) has been very successful in supporting Commonwealth SIDS access to over \$ 327.5 million (USD) in public and private climate-themed funds between 2016-2024 (i.e. \$USD 40m per year) with a further \$500m USD in the pipeline (Commonwealth Secretariat, pers com).<sup>4</sup>

The research team contends that the ocean and biodiversity assets of SIDS, along with their custodianship of traditional knowledge, hold immense global importance in combating climate change and biodiversity loss and building resilience. Consequently these assets merit substantially increased funding support from the international financial community.

The opportunities for SIDS are significant. Currently, climate-themed and sustainability or impact-themed investment markets are estimated to be worth \$USD 442 billion and \$USD 1.16 trillion annually - and set to grow (Climate Policy Initiative, 2023, Global Impact Investing Network, 2022). Moreover, leveraging such opportunities could create sustainable or impact investment projects to meet the growing demand within the international finance sector (Global Impact Investing Network, 2022).

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<sup>1</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>2</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>3</sup> An untapped-asset is defined as an asset that has unused or unaccounted value (see Appendix 2).

<sup>4</sup> Figures raised through the CCFAH are constantly updated to reflect developments in this dynamic program. These figures were provided by the program director on 10 March, 2024, for the period from the start of the program to the end of February 2024.



This action-research project is designed to set out the evidence needed to improve SIDS country-level credibility, and creditworthiness, needed to collaborate effectively with regional and international partners to attract this sustainable finance.

## Data for COMPASS

Conventional data collection and evaluation frameworks used in the finance sector struggle to accurately capture the unique circumstances, capacities, and opportunities present in SIDS. To address this gap, *Their Future, Our Action* developed a set of data indices and visualisation tools. These tools aim to provide investors and SIDS with verifiable, transparent, and accessible data concerning youth and natural assets, as well as the economic and governance mechanisms influencing investment risk. Together, these are incorporated into the [Political and Economic Resilience Index and CamYouth - alongside a visualisation tool named PERI-View](#). These resources provide a multifaceted view of SIDS' resilience by layering different types of data offering comprehensive insights into vulnerability, resilience, governance quality, and investment prospects in SIDS through visual means.

## The Potential of COMPASS

As a finance mechanism, COMPASS's impacts for SIDS and investors are indirect because it will depend on the types of projects that are put forward for funding. However, there is significant evidence that improving access to finance - through COMPASS - will generate new businesses with social, environmental and economic benefits for SIDS.

Examples include:

- **The economy:** Strategic alignment of policies in the key economic sector of fisheries has generated significant collective economic benefits and investment for Pacific SIDS under the Parties to the Nauru Agreement (PNA, 2023). **COMPASS is designed to support SIDS in identifying and executing such alignments in other key economic areas where regional or cross-national cooperation would generate new investment that could not be secured by a single SIDS.**
- **Youth employment and training:** As proof of concept, the collaboration has already secured collective non-debt financing of a \$10 million private sector investment in digital training and health programs in the Caribbean (Commonwealth, 2022). **COMPASS will support SIDS to collectively identify, develop and obtain funding for youth-focused projects, including, but not limited to education and training.**
- **Nature Capital:** The Commonwealth Climate Finance Access Hub (CCFAH) (The Commonwealth, 2022) has initiated and completed projects worth USD \$327.5 million since 2016<sup>5</sup>. The majority has been capacity-building and project proposals - indicating that these funds are being used to leverage significantly larger climate-themed investments from the public and private sectors. **COMPASS will**

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<sup>5</sup> Please refer to footnote 4, p24



**expand this model beyond climate change to other environmental issues and, additionally, seek private sector investment.**

## COMPASS: A Cost Effective, Efficient Mechanism to Deliver on the Promise of Climate Finance

The Commonwealth Secretariat, SIDS, and indeed the investment community, are already experienced in successfully implementing projects and policies that embody one or more of the key principles and concepts in COMPASS. In this way, COMPASS can be framed as an extension, or evolution of existing activities, rather than a new approach.

Evaluating different implementation options against impact, lead time and costs, [Chapter 7](#) sets out a proposal for the next steps to this action-research and a vision for COMPASS in 2025 onwards.

COMPASS is designed to deliver an additional pathway for SIDS to access international finance using a governance mechanism that will reduce costs, improve efficiency in the process and reduce risk for all stakeholders.

The development and implementation of COMPASS will unfold in the context where the role of the finance and investment sector in global affairs is in flux. Governments, together with the financial and business sectors around the world are recognising financial innovation as a vital tool to address the twin challenges of climate change and the biodiversity crisis. (e.g. Deutz et.al. 2020, Dasgupta 2021, TNFD 2023, TCFD, 2020). At the same time, there are increasing calls for reform to the international financial sector to deliver on social and climate justice (Commonwealth, 2023, Attridge and Engen, 2019, OECD, 2023, Panwar et.al., 2023), particularly as it relates to SIDS.

COMPASS has the capacity to deliver pragmatic, operational responses to both of these agendas. COMPASS builds on a very long history of mutual collaboration between SIDS that has delivered both significant economic benefits and made major contributions to global affairs - e.g. Paris Agreement ambition for limiting global warming by 1.5°C ([Section 7.1](#))

The research team evaluated concepts developed in this action-region against a framework of cost/time to implementation/ and capacity to deliver impact for SIDS ([Section 7.2](#)). This evaluation generated a set of recommendations for transitioning this action-research to the next phase of COMPASS development ([Section 7.3](#)).

The research team recommends for further consideration a two-track process be created (Figure C) to cover the short to medium term transition of COMPASS from a framework to an operating mechanism that disperses funds to SIDS. The first 'track' would be formed through a '[bootstrapping' youth entrepreneur training hub](#) within the Commonwealth Secretariat that is co-developed with stakeholders.

This training hub builds on existing entrepreneurial support activities currently undertaken in Commonwealth countries and in the Commonwealth Secretariat - through, for example, the



Climate Action Finance Hub or the Blue Charter Project Incubator. The aim is to support youth entrepreneurs in SIDS to generate short-term ‘wins’ to gain traction and a record of success in building projects. This would also create evidence to undertake the detailed design work required for COMPASS.

The outcome of this strategy is to raise the profile with investors and SIDS governments of the potential of SIDS young entrepreneurs and the opportunities that are available. This would serve to showcase the potential for COMPASS and what a successful COMPASS could be supporting.

The second track is to create [a scaling-up option through](#) an action-research collaboration between the University of Cambridge, the Commonwealth Secretariat, SIDS governments, investors, and three SIDS regional organisations (PIF, CARICOM, and IOC). This initiative aims to co-create pilot projects under the COMPASS model.

[The COMPASS scaling-up option has two programs:](#)

**1. SIDS COMPASS Knowledge Hub at Cambridge, Commonwealth Secretariat and in SIDS regions.** This would:

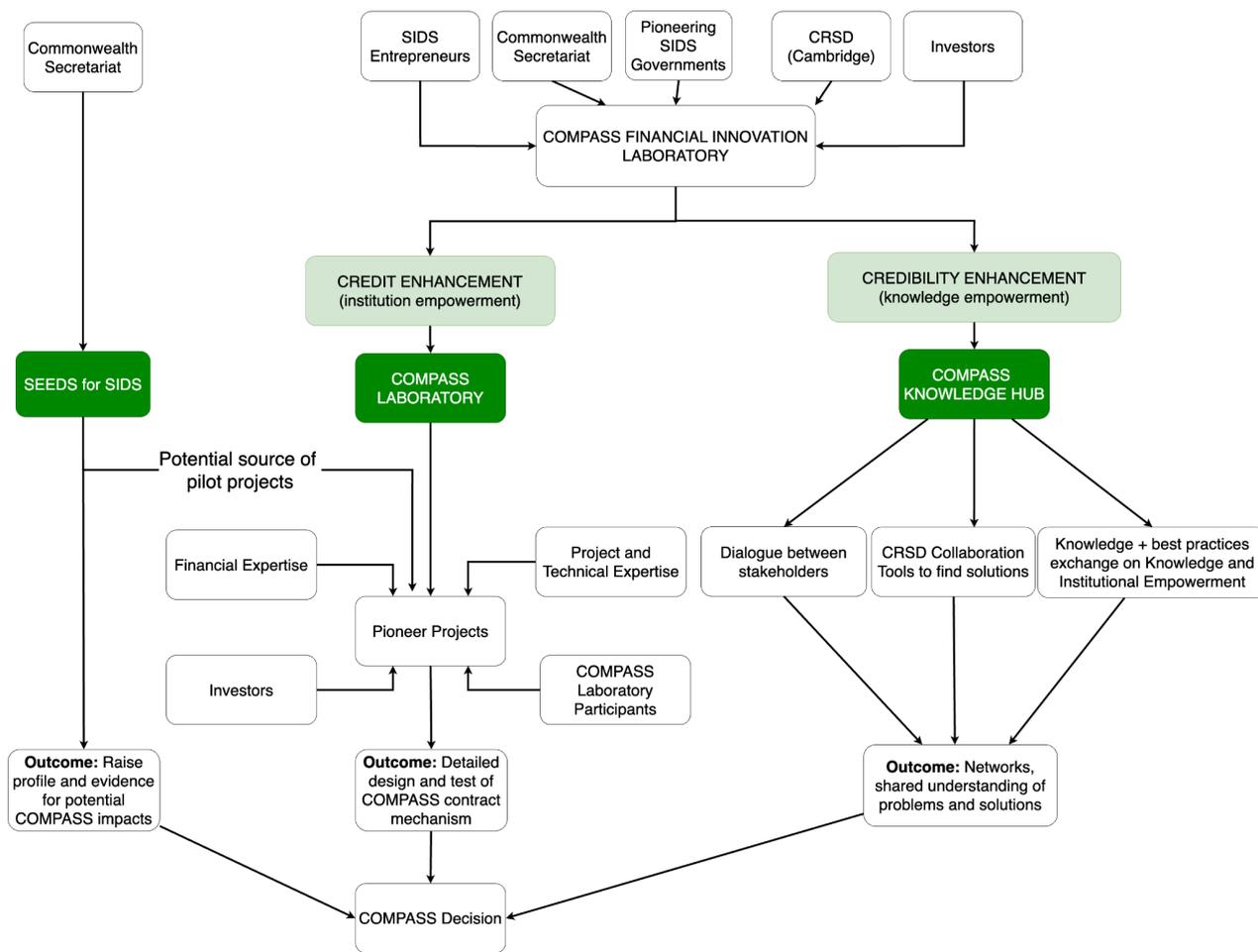
- Enable knowledge exchange among countries, entrepreneurs, investors, financial institutions and scholars on best practices around attracting investment in SIDS.
- Co-create a SIDS-specific financial benchmark focusing on youth and nature to help investors understand multidimensional returns and risks. This will also assist SIDS in aligning their financial and policy systems with international ESG reporting standards.
- Create standardised data on best practice governance mechanisms to support the creation of standardised approaches for COMPASS projects.

**2. COMPASS Pilot Projects.** This program would aim to make COMPASS ‘market ready’ by working with SIDS governments, the Commonwealth Secretariat and investors to select pilot projects that align with COMPASS principles. These projects would then be used to:

- Co-create and test the legal, financial, and governance mechanisms needed to give projects the investment ‘green light’
- Stress-test standardised application and reporting mechanisms
- Trial models for differentiated returns on investment within blended finance contracts.

*Figure C: COMPASS, A Proposal*





Source: CRSD analysis

Additionally, these pilot projects will serve as test cases, linking with investors interested in marketing SIDS-originating products and services in larger markets like India or Canada.

In the final part of this report we set out a potential vision of what [COMPASS may look like in 2025 as a successfully operating mechanism for SIDS funding](#). A representation of this vision is at Figure D. Most of the elements within this model draw from existing, and often commercial structures. Consequently, from a commercial perspective, it is technically feasible to see COMPASS established and operating within 12 months.

Key features of this model are as follows.

**Governance and mandate.** COMPASS is incorporated as a new small agile organisation that is legally and financially separate from the Commonwealth Secretariat. It is mandated to raise and disperse funds using COMPASS principles.

The COMPASS organisation has its own governing board. Board membership comprises at least 1 representative from SIDS, youth, environmental, business, finance, indigenous groups, donors, investors and the Commonwealth Secretariat.



Funding for the new organisation initially comes from investors and philanthropic organisations. Ongoing funding is derived from a small percentage charged against each investment made.

**COMPASS scope funding and projects.** Funding may be sought from multiple sources, including the private sector, public sector, multilateral development banks and philanthropic donors. Funding may include blended finance approaches.

COMPASS supports investment in SIDS-based projects that align with at least one of the Sustainable Development Goals and have a focus on youth development, youth-led projects and/or creation, protection, conservation, management, and/or sustainable development of natural resources within SIDS jurisdiction or with SIDS national interest (including climate change mitigation or adaptation).

**Operations and risk management.** COMPASS is designed to provide an inexpensive, flexible funding application mechanism for derisking investments. Staff working within the COMPASS organisation implement the following strategies to achieve this goal:

- Standardisation of application processes to reduce transactions and administrative costs.
- Technical support for project development and pre-vetting, to improve the quality of projects available for investment. Where possible, technical support will be drawn from existing programs developed by the Commonwealth Secretariat, Commonwealth Learning, regional bodies etc....
- Incorporation of best practice risk management mechanisms drawn from finance (e.g. use of proceeds clauses).
- Standardised contract design to identify risk holders and differentiated rates of return to reflect risk profiles and types of investors.
- Standardised reporting templates and lines of reporting.

## For more information

To find more about Their Future, Our Action and next steps in building COMPASS, please contact

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