Community benefit options for natural capital markets in Scotland

Workshop report

Mark S. Reed, Imogen Cadwaladr-Rimmer and Rosie Everett
Natural Capital Challenge Centre, Scotland's Rural College (SRUC)

Summary

Context: Engagement and community benefit are prominent in the Interim Principles for Responsible Investment in Natural Capital, Scottish Government's Land Rights and Responsibilities Statement, and are intended to be a key component of the Natural Capital Investment Framework through the adoption of Scottish Land Commission's guidance 'Delivering Community Benefits from Land'. A recent Theory of Change funded by RESAS identified a number of challenges that will need to be overcome to achieve effective community benefit equitably and effectively and avoid unintended negative consequences. This report acknowledges the debate that continues over the legitimacy of natural capital markets in tackling climate change and nature recovery and the solutions needed to address them. The workshop identified ideological concerns around market integrity and the financialisation of nature that may prevent engagement by some communities. Notwithstanding these deep-seated concerns, this report seeks to explore practical options for delivering benefits from natural capital markets to communities that are interested in engaging.

Methods: In response to this, an expert workshop was held on 1st May 2024 to identify options for tackling these challenges in policy and practice. The workshop was developed in collaboration with Scotland's Rural College (SRUC), Scottish Government, Scottish Land Commission, Community Land Scotland, the Centre for Local Economic Strategies, the Woodland Carbon Code and the Peatland Code, co-funded by RESAS[1] and UKRI[2] and Horizon Europe[3].

Challenges: The workshop identified a number of challenges that need to be addressed to realise Scottish Government's ambition for natural capital markets. Though natural capital markets are not the only way to achieve community benefits, where nature markets do exist, there should be provisions in place for community benefits. Specifically, the workshop identified issues related to a lack of:

- Agreement on definitions (e.g., geographic versus community of interest) of community, who should benefit and on what terms;

[1] RESAS Natural Capital - Galvanising Change (D5.3)
[2] UK Research and Innovation's GGR-Peat project, a Demonstrator Project in the UKRI-funded GGR-D Programme, a component part of the Strategic Priorities Fund (ref. BB/V011561/1)
[3] EU Horizon programme's Wet Horizons project (project 101056848)

- Actual human communities who could engage or benefit from projects in more remote/rural locations;
- Capacity among communities who could benefit, to either engage with projects or effectively manage potential benefits. Communities are being asked to engage on a number of land use changes but don't feel equipped to make strategic decisions about land use;
- Awareness around the risks of community benefit going wrong, for example leading to elite capture, exacerbating inequalities, creating additional work for already overstretched bodies that often rely on volunteers, and inflaming conflicts within communities whilst recognising the role of conflict within diverse priorities of multi-community voices and partnerships;
- Training among project developers and validation and verification bodies working with natural capital markets to understanding and delivering on community benefits objectives through natural capital;
- Mechanisms within natural capital markets to facilitate, validate and verify community benefit; and
- Investor concerns around a lack of interest in community benefits which is currently seen as a hurdle to investment rather than a necessary part of their investment in Scottish natural capital

Policy options: There were a number of suggestions that could be considered for inclusion in the Natural Capital Market Framework. Key considerations included:

1. Whilst the Framework may state that market actors should engage with community benefit, **it cannot be mandatory for communities to engage with projects or receive benefits**, given the range of risks that have been identified for communities.

2. The Scottish Land Commission's (SLC) **definition of community benefit** is a useful starting point for the Natural Capital Investment Framework: "the intentional social and economic benefits from land that are offered to the local community on a negotiated basis for their lasting well-being"[4]. Key considerations include:
    a. Whether to accept the SLC focus on local geographical communities, which excludes recreational visitors and others from further afield who may benefit from services such as access/aesthetics, water quality or flood risk alleviation.
    b. The SLC guidance linked to this definition emphasises meaningful engagement, aligning where possible with local strategic plans. A definition of engagement may also be needed in the Framework, for example building on SLC definitions and guidance on community engagement
    c. In many cases non-economic benefits may be more important than economic benefits to local communities, for example, taking part in governance decisions and shaping the cultural or historical interpretation of sites

[4] Scottish Land Commission (2023) Delivering community benefits from land. Available online at: https://www.landcommission.gov.scot/downloads/65572c79e77be_Guidance%20on%20Community%20Benefits%E2%80%9316.11.23.pdf

    d. It is important that definitions of community do not impact or come into conflict on other land rights (for example, the rights of crofters).

3. Although community ownership of land and development of projects for natural capital markets gives communities maximum agency (an approach that has been described as a “gold standard” for community engagement by Alastair McIntosh[5]), these arrangements are unlikely to be widespread, given limitations in capacity and funding which may prevent communities from accessing Scottish land. Nevertheless, **communities that already own land or are interested in applying to the Land Fund[6], may be encouraged to capture the full benefits of natural capital markets** with guidance, as appropriate, from experienced intermediaries with relevant legal expertise, following guidance from Community Land Scotland[7]. Experience with community benefit in the renewables sector suggests that the stable annual income arising from community owned natural capital projects may help build capacity among these communities.

4. The majority of community engagement and benefit is likely to arise from land that is not owned by communities themselves, requiring engagement with both landowners and project developers, proportionate to the scale of the project area and the likely impact of the project on the community (e.g., this may include a Memorandum of Understanding - see McIntosh’s “silver standard”). **Procedures need to be developed to assess the scale of projects and their risks** to help target engagement and benefit activity and avoid disincentivising small-scale projects.

5. **Development officers could be appointed to work with communities in their region by pooling funds** between policies (e.g., linking to Rural Land Use Partnerships), funding streams (e.g. from natural capital, renewables and infrastructure projects) and the private

[5] MacIntosh A (2023) The Cheviot, the Stag and the Black, Black Carbon. Available online at: https://www.communitylandscotland.org.uk/wp-content/uploads/2023/05/2023-CLS-Full-Cheviot-Carbon-Discussion-McIntosh.docx.pdf

[6] The Scottish Land Fund is a fund developed and funded by Scottish Government and delivered in partnership with the National Lottery Community Fund and Highlands and Islands Enterprise. It offers grants of up to £1 million for communities seeking to take ownership of land and buildings that matter to them, as well as offering practical support to develop projects.

[7] Community Land Scotland has identified a number of risks that need to be highlighted to community landowners interested in engaging with natural capital markets, including:

- The length of commitment and associated maintenance obligations and implications for future generations;
- Managing different perspectives within the community on engaging with natural capital markets, and how these perceptions may change over the course of a long-term contract;
- Management of reversal risk via buffers or insurance policies;
- How communities and Government can help manage financial risks, for example via standardised contracts (including whether or not to forward-sell carbon) and the introduction of price floor guarantee mechanisms;
- How communities and government can avoid inadvertently enabling polluters to greenwash, for example by doing due diligence on credit buyers or working towards a system in which only accredited buyers can offset residual emissions; and
- The future need of community organisations to use units internally to meet net zero and other targets, which may be harder to reach if units have been sold to third parties.

Community Land Scotland (2023) Guidance on Communities and Carbon Credits. Available online at: https://www.communitylandscotland.org.uk/resources/guidance-on-communities-and-carbon-credits/

sector (e.g., project developers and agents in the forestry sector currently spend significant amounts on community engagement).

a. Development officers could coordinate between existing community organisations, helping identify community needs and facilitating more effective and efficient engagement between project developers and communities. Working at Area Committee or ward scales, development officers could save project developers time and money, enable more effective engagement and facilitate collective bargaining for more strategic community benefits.
b. Development officers could provide specialist knowledge around legal and accounting issues in order to aid communities in negotiating terms and contracts.
c. The appointment of development officers could be piloted to quantify savings to project developers, and make the business case for private funding of posts.
d. If the Natural Capital Market Framework states that nature markets should engage with community benefit in Scotland, a mechanism needs to be developed to accept and distribute funding for community benefits for projects in remote locations where there is no human community, or where communities do not have interest or capacity to engage with natural capital initiatives. Part of this fund could be used to fund development officers or build capacity for community engagement in other ways, as demonstrated success in models developed by environmental NGOs (e.g., Trees for Life).
e. Alternatively, a regional registry of relevant and competent organisations could be created at Area Committee or ward scale to enable project developers to work with relevant bodies during project development.
f. Although existing community benefit infrastructure exists for the renewables sector, this does not always align with best practice guidance, so a balance needs to be struck between the use of existing approaches and the development of new capacities and capabilities that can achieve the goals of the Natural Capital Investment Framework without exposing communities to unnecessary risks such as disempowerment, the further concentration of landownership and increased top-down control over landscapes and ecosystems (e.g., citizen budgeting approaches where people are paid for their time, with a recommended gender mix and inclusion of under thirties).

6. **Specialist support is likely to be needed** (e.g., via development officers) to:
    a. Enable communities to be fully aware of the risks likely to arise from projects, to inform engagement with and feedback to project developers and inform decisions around whether or not to accept community benefit from projects
    b. Ensure community engagement is inclusive and meaningful which supports local culture and a holistic understanding of social requirements in the community. It should support those who may be vulnerable or marginalised
    c. Engage with complex forms of community benefit (e.g., including community right-to-buy, ownership of land and natural capital projects, and socially productive use of land and buildings)

d. Enable communities to accurately and fairly assess needs, to ensure benefits are inclusive and equitable, and where possible linked to a wider strategic vision for the community
e. Facilitate networks to enable communities to learn from each other, including opportunities to learn from Regional Land Use Partnership (RLUP) pilots and Climate Challenge Fund projects.
f. Offer training to community members and development officers. Scottish Land Commission guidance (on community engagement, community wealth building and community benefits from land) provides a useful starting point for future training provision and support.

7. **The market framework should make clear whether community benefit applies only to privately funded projects** or whether partially or fully publicly funded projects, or those funded by eNGOs or philanthropically funded natural capital projects should also deliver community benefit.

8. Methods for evaluating the delivery and outcomes of community benefit are being developed by the FIRNS[8] funded Community Benefits Standard and a forthcoming BSI standard on community engagement. **Community benefit standards need to be translated into training and guidance for validation and verification of community benefits by independent verification bodies** operating with natural capital markets. Guidance and training is also needed for project developers on effective community engagement. There are a range of existing training providers that specialise in community engagement, who could be funded for this provision. If community benefit is also applied to publicly funded projects (see previous point), the community benefits standards could be used to ensure compliance with funding agreements.

[8] FIRNS (the Facility for Investment Ready Nature in Scotland) is a programme which aims to support the development of environmental projects in Scotland that value and monetise ecosystem services from the restoration of natural capital, and that generate social and economic benefits in line with Scotland's Just Transition principles. It is a joint initiative between Scottish Government, NatureScot and the National Lottery Heritage Fund, and offers grants of up to £160,000.

1. Workshop overview

1.1. Introduction

The *Community benefit options for natural capital markets in Scotland* was hosted via zoom on Wednesday 1st May 2024 by SRUC in collaboration with the Scottish Government, Scottish Land Commission, Community Land Scotland, the Centre for Local Economic Strategies, the Woodland Carbon Code and the Peatland Code. The aim of the workshop was to build on Scottish Government's interim principles for responsible investment in natural capital, and the work of two ongoing research projects, one being undertaken by the Centre for Local Economic Strategies for the Scottish Land Commission, and the other on community benefits in peatlands funded by UKRI Greenhouse Gas Removal (GGR) project, in which SRUC are a project partner.

The workshop followed a roundtable discussion on recommendations for integration of community benefit into the Peatland Code and support for further development for the Natural Capital Market Framework on community benefit in broader investment in peatland restoration.

This was achieved with the following objectives:

1) Three plenary presentations of evidence of current state, knowledge gaps and known mechanisms for understanding and delivering community benefit in projects associated with ecosystem restoration from invited organisation participants;
2) Breakout groups discussion of options for the integration of guidance to support community benefit in the Peatland Code and guidance for project developers ahead of any requirements for community benefit in Scotland;
3) The production of collaborative recommendations on the integration of community benefit in programmes of enhancement, creation, and restoration of peatland within Scottish frameworks and the Peatland Code.

This report details a summary of the discussions undertaken at the workshop and the key recommendations made as a result of the discussions. Throughout the workshop, the focus was predominantly on carbon markets, though the findings are relevant across any natural capital market that seeks to deliver community benefit.

2. Workshop structure

2.1 Attendees

A total of 35 individuals were present for the workshop (Table 1) representing 25 different organisations and 8 sectors.

Table 1: Workshop attendees

Sector	Organisation	Attendee number(s)
Academic	Leverhulme Centre for Nature Recovery	1
	Scotland's Rural College (SRUC)	4
Carbon market codes, schemes and platforms	UK Peatland Code	2
	UK Woodland Carbon Code	1
Community representative organisations	Centre for Local Economic Strategies (CLES)	1
	Community Land Scotland	1
	Deciding Matters	1
	Foundation Scotland	1
	RLUP NorthWest 2045	1
Environmental NGOs	Archaeology Scotland	1
	Scottish Environment LINK	1
	Scottish Wildlife Trust	1
	John Muir Trust	1
	Trees for Life	1
Investor representatives	Highlands & Islands Enterprise	1
Landowner representative groups	Scottish Land & Estates	1
	Highlands Rewilding	1
Private Carbon market investors	BeZero	2
	Zulu Ecosystems	1
Scottish Government and associated organisations	Scottish Crofting Federation	2
	Climate Xchange	1
	Historic Environment Scotland	1
	Peatland ACTION	1
	Scottish Government	3
	Scottish Land Commission	3
Total		**35**

2.1 Workshop agenda

The workshop was divided into four key sessions across a two-hour period and is summarised in Table 2. The results of the sessions are detailed in section 3.

Table 2: Workshop structure

Session	Outline
1	Plenary speakers: 1) Introduction on community benefit in carbon markets (SRUC) 2) Community benefit and the Natural Capital Investment Framework (Scottish Government) 3) Community benefit and carbon codes: questions to be answered (SRUC on behalf of The Peatland Code and Woodland Carbon Code)
2	Breakout session 1: Integrating community benefit into carbon markets
3	Breakout session 2: Building capacity for engaging with community benefit
4	Feedback session: Key recommendations for integrating community benefit to carbon markets and the Natural Capital Investment Framework

Following the plenary speakers in Session 1, each participant was assigned to one of three breakout groups for Breakout session 1 and session 2. The division of participants was based on the aim to have a representative from each sector in each breakout group, in which each group was tasked with a series of questions for discussion (Table 3).

Table 3: Summary of breakout sessions and breakout groups

Breakout group and associated sector (no. of representatives)	Breakout session 1 questions	Breakout session 2 questions
Breakout group 1: Academic: 1 Carbon market codes, schemes and platforms: 1 Community representative organisations: 3 Environmental NGOs: 1 Investor representative: 0 Landowner and farming	What types and levels of community benefits could legitimately be delivered via carbon markets like the Peatland Code and the Woodland Carbon Code, including direct benefits integrated into projects and different levels of profit sharing? For each benefit, what methods could be used to verify delivery?	What are the existing support mechanisms available and where are the gaps?

representative groups: 0 Private carbon market investors: 1 Scottish Government and associated organisations: 4		
Breakout group 2: Academic: 3 Carbon market codes, schemes and platforms: 2 Community representative organisations: 1 Environmental NGOs: 1 Investor representative: 0 Landowner and farming representative groups: 1 Private carbon market investors: 1 Scottish Government and associated organisations: 4	How can benefits be delivered to the right communities, in a way that is fair and effective, especially in sparsely populated areas or where communities have limited interest/capacity? What is the role of the public sector in facilitating this?	What different types of capacity are needed for different contexts and purposes, for example communities that are project developers and investors themselves, sometimes owning their own land, versus communities that are project partners or simply consulted on projects in privately owned land?
Breakout group 3: Academic: 1 Carbon market codes, schemes and platforms: 0 Community representative organisations: 3	What are the barriers to delivering community benefit via carbon codes, what could go wrong and how could these barriers and challenges be overcome? Issues may include for example, issues around community capacity, concerns around being involved in greenwashing, the potential to create conflict around the	How can communities be empowered to engage in higher-risk, more complex forms of community benefit, including community ownership of land and projects, and socially productive use of land and buildings?

Environmental NGOs: 2 Investor representative: 1 Landowner and farming representative groups: 0 Private carbon market investors: 1 Scottish Government and associated organisations: 3	distribution of funds or prioritisation of activities for integration with projects, and identifying relevant communities in sparsely populated areas.	

3. Workshop results

The results of the discussion for each breakout group per each breakout session is detailed below. These results are summarised from a Miro Board made in real-time by the groups during each including a Miro board for final recommendations.

Breakout session 1: Integrating community benefit into carbon markets
Group 1: https://miro.com/app/board/uXjVKN2dXk4=/?share_link_id=376888676104
Group 2: https://miro.com/app/board/uXjVKNNXPC0=/?share_link_id=370477204578
Group 3: https://miro.com/app/board/uXjVKNMO5BI=/?share_link_id=457873270197

Breakout session 2: Building capacity for engaging with community benefit
Group 1: https://miro.com/app/board/uXjVKNMMLeA=/?share_link_id=176741039825
Group 2: https://miro.com/app/board/uXjVKNMVLfw=/?share_link_id=921588064413
Group 3: https://miro.com/app/board/uXjVKNMSgdU=/?share_link_id=957120435901

Key recommendations for integrating community benefit to carbon markets and the Natural Capital Investment Framework:
https://miro.com/app/board/uXjVKNSYKBo=/?share_link_id=362626209457

3.1 Breakout session 1: Integrating community benefit into carbon markets

Group 1: Benefit types, mechanisms to deliver and profit share and delivery verification

Prior to the discussion on benefit types, questions were raised around:

1) The purpose and extent of community benefit - it was noted that if engagement in community benefit was done well, this would help to build consent and buy-in from communities
2) The capacity of communities to engage with natural capital opportunities
3) The mechanisms to distribute wealth generated through natural capital projects to ensure long-term social and economic benefits for the community.
4) The mechanisms within the context of community benefits to enable communities to hold greater control over the value generated by natural capital projects.

The role of *economic benefits* was discussed in the context of source of funding. For example, there was a concern that many projects currently are blending private and public funding. This raised the question as to whether community benefits could be partly publicly funded.

The role of *non-economic benefits* was discussed as potentially more important than economic benefits. A concern was raised over the fact that profit-sharing mechanisms may not deliver their promised benefits, and could prompt a focus on profitability over other potential, non-economic benefits. For example, taking part in governance decisions and the ability to shape the cultural and/or historical interpretation of sites were identified as important non-economic benefits. Further, access to land was cited as an established right of communities and the importance of public benefits such as flood risk reduction, and environmental co-benefits such as improved aesthetics were also noted.

For the *delivery and verification process*, it was suggested that a programme of monitoring and reporting of community benefits should be implemented. A wider concern with verification and land management in Scotland more generally was raised, accompanied with the idea that the expectations of land management need to be fundamentally reshaped in a context where few community benefits are delivered.

Overall, discussion opened up more questions on the management of community benefits. Unrealistic additional expectations from natural capital markets were cited as a potential barrier to entry for land managers, and a question of how to manage expectations around the level of benefits that natural capital projects can yield was raised. This discussion formed part of a wider discussion on how expectations from natural capital projects differ from existing expectations around land use and management more generally in Scotland.

As a closing point, it was suggested that lessons could be learned from community benefit schemes in the renewables sector.

Group 2: Delivery of benefits to right communities (sparsely populated or areas of limited interest/capacity) and facilitation role of the public sector

Discussion began with the *definition of community,* with concern around the point that many felt the term needed further clarification. It was seen as important who defines a community, and there was an identified need for a clear definition of ‘community’ which can be applied to landownership of all sizes. For example, it was questioned whether benefits only encompass profit-sharing, or if benefits include cleaner air, community access, local flooding reduction, and other ecosystem services and public goods?

In the *delivery of benefits,* a need for transparency was cited as a main concern, as well as allowing communities to begin engagement early in the process. Second, a question was raised as to how communities can formally respond to project proposals given that community councils have no approval authority. The need for balance between permission from local authorities for land management changes and the scale of these changes was also cited (for example, it would be unrealistic for a landowner to have to seek local authority permission for planting a hedgerow).

As part of this *delivery,* the distribution of costs and benefits was identified as an important issue. It was noted that currently, landowners are expected to bear all the costs and risks associated with natural capital projects, and that this is a disincentive to develop projects. Profit-sharing was identified as an increased cost to landowners, with the question being raised as to whether communities should share in the costs and risks if they are expecting to share in the profits. Another question raised here was how sharing and monitoring may be applied to small-scale projects such as hedgerows or regenerative farming.

Landownership and land-use types were raised as a potential barrier to delivery, for example if it would be possible to combine grazing with restoration, and whether such compromises could reduce the potential for profit from natural capital projects. Crofting in Scotland was often cited as an area of concern with questions around how consent and landowner commitments may be balanced without compromising crofting rights.

The role of *delivery* also raised issues around profit generation and sharing. For example, if profits are generated through the sale of carbon credits and carbon units may not be generated for a long time after the development of a project (for example, 50 to 100 years), how would this work for profit-sharing in reality? This also raised the issue of taxation and that under Scottish and English law a distribution of returns to a party outside of the landowner would constitute a mandated dilution of equity or a tax on profit. The point was also made that by granting tenants permission to undertake natural capital projects, a landowner could open themselves up to taxation liabilities.

Finally, in the question of *delivery,* the question of ownership in the community was challenged. If carbon sequestration and subsequent carbon credits are generated through a natural capital project, where does community agency in ownership of the carbon play a role in regulation of community benefit? One response stated that '*no one owns the carbon itself, and that rather carbon should be treated like water, where landowners can take action to modify the flow through their land but cannot view it as their property'*.

Further legal clarification by the Scottish Government could potentially help to shift the focus towards verifiable action in community benefit. There was an overall consensus here that there was a need for clearer, more robust legal contracts as well as national level policies to determine carbon rights. Further, it was felt that the public sector governance could assist in providing guidance and templates for legal contracts.

Group 3: Barriers to delivering community benefit via carbon codes and what could go wrong

The barriers identified by group 3 can be discussed in the context of potential process stages of delivering community benefit:

1) Community engagement

The management of community expectations around benefits schemes was noted. Despite some great promises of financial benefits from natural capital projects, it was pointed out that there can be problems in the systems and regulation processes for delivering these benefits, creating the potential for delays. More clarity is required from projects with regards to what financial benefits communities can actually expect from an immature market such as natural capital markets, as well as clarity on the discrepancies between what benefits are on offer and what communities actually need (for example, jobs, affordable housing, money for social care).

The capacity of communities was also raised as a potential barrier. It was stated the language around natural capital and markets can be a barrier to communities understanding and engaging with natural capital projects. Varying capacity between different communities was also pointed out as something which will impact different perceptions and reactions to natural capital markets.

2) Management of community benefit benefits

A robust regulatory framework was identified as a requirement in order to ensure that community benefits were delivered. It was generally thought that community benefit should be a required part of the development process rather than an additional add on, particularly given a long history of extractive economic practices in rural Scotland. The issue of community needs was also raised here, with initial conversations with communities suggested as an option to find out what it is that specific communities need and what their level of understanding is in relation to natural capital projects.

Although it was recognised that there are potentially significant opportunities for inclusive governance to deliver community benefits, this would require innovative thinking and time to develop, and there is an accompanying confusion over issues such as liabilities, timeframes and prices.

A final point raised here was in relation to the estimated size of the ‘green finance gap’, with concerns that current estimates are exaggerated. This point was noted to be important as the larger the finance gap is, the greater the moral and policy imperatives are given to yield to and accommodate green investors, something which has implications for how community engagement and participation are included in development plans.

3) Delivery of Community Benefit

Financial transparency was identified as an important issue, with clear definitions required as to what the financial benefits from natural capital projects could be. There was also an identified need for more clarity on how natural capital markets may sit in relation to other projects such as renewables.

The inclusion of non-financial benefits was also raised. As mentioned previously, community rights to access land were cited as important to be recognised, and ongoing difficulties faced in relation to access to housing were also raised as concerns. Non-financial community benefits included the involvement of communities in governance and decision-making bodies.

As a final point, it was noted that the introduction of natural capital frameworks requires a huge paradigm shift in ways of thinking, and that there are questions to consider such as whether this is the right time to introduce nature markets as another layer for thinking about nature restoration.

3.2 Breakout session 2: Building capacity for engaging with community benefit

Group 1: Existing support mechanisms available and gaps in support of community benefit

It was clear in this discussion that there is an awareness of the existing frameworks and mechanisms in place to support community benefit delivery.

The Scottish Land Commission was identified as a primary avenue for providing guidance and support in the coming years given their increasing focus on natural capital investment and communities. The Scottish Land Commission's partnership with the Nature Finance Certification Alliance Community Benefits Standard, as well as a partnership with Cairngorms National Park Authority were two upcoming opportunities for further development cited.

It was noted that currently, community capacity is random in nature and support is sporadic, with a concern raised that some communities are "lightyears away" from having an anchor organisation in place to manage community benefits. As such, a need for increased funding to pay for community development officers was identified, with DTAS raised as a potential avenue for this. In addition, there was a call for the development of practical steps to be developed that communities can follow without requiring unfeasible resources and avoiding common pitfalls. A question was raised around the possibility of coalescing benefits from natural capital projects with other benefits (geographically or thematically) in order to enable the scale of funding required for community support.

Part of this challenge is that the issue of community scepticism was raised, alongside the point that while hearts and minds need to be changed on the topic of natural capital, communities cannot be forced to engage with benefits from natural capital markets. Currently, there are unknown risks to communities from natural capital projects, and this may lead to a lack of engagement due to perceived complexity, risk or moral hazards (for example, greenwashing).

The need for good practice guides and the identification of exemplars from existing projects were cited so that lessons can be learned from them. Climate Challenge Fund and RLUP pilots were cited as two options for potential learning. Further, it was raised that there is currently insufficient knowledge and understanding around how natural capital community benefits can function in terms of providing opportunities such as upskilling, as well as the availability of ‘people with the right skills’, such as green finance officers.

Key knowledge gaps were the role of place-based community benefits, which were seen to be a practical solution but questions were raised around the gaps this could create in terms of equity.

Group 2: Capacity needed for different communities

This discussion highlighted key concerns around the role and agency of the community and the return to the lack of understanding and definition of what the community is in the context of benefits.

It was suggested that the key to capacity building is around co-creation practice capacity, rather than presenting pre-defined approaches and objectives to community benefit delivery. The role of ‘bottom-up’ parameters for building community groups would allow for the identification of different capacity building in different communities. As one participant stated, we ‘*shouldn't assume a local community does not know what is needed’.*

In terms of what *capacity* is required, it was agreed that administrative (project management, time and understanding) capacity was a key concern, in which the Woodland Carbon Code offered a perspective that most local communities don't have capacity in:

1) Understanding of what carbon credits are
2) How to navigate carbon standards
3) Legal aspects of carbon credits

It is clear from these discussions that the primary capacity of time and money is required for equitable processes in community benefit for communities. This will support capacity for consultation and due diligence of projects, practical capacity to deliver projects, legal and financial support and risk management of potential negative impacts.

However, it was suggested that on the question of capacity, we need to take a step back. With each community of interest we need to have a better understanding of the definition of community and what we are trying to achieve with community benefit. It was made clear that we cannot build something that is one size fits all and that community benefits need to be defined in such a way as to empower communities within their specific requirements. It is also critical that communities are not being drawn into projects where they risk breaching primary legislation due to lack of information/governance and that there is an appropriate level of protection for communities.

As evidence for the impact of lack of agency, one participant noted that in the context of the agricultural transition to net zero, there is a distinct lack of independent moderators for the transition and the agricultural community have highlighted that an assumption of pre-defined community can lead to the assumption that a defined community is unanimous in decision making. This highlights that we cannot assume only one land use per community and that it is not necessarily a lack of capacity, but not enough incentive to change land use to meet Natural Capital targets. It was questioned whether the focus on capacity building was an attempt at trying to get communities to do things that would be better done by a local (municipal) government of a type that doesn't exist in Scotland.

Group 3: Empowering communities to engage in higher-risk, more complex forms of community benefit

The initial discussion for this group focussed on the definition of 'high-risk', accompanied by the argument that communities should not be asked to take on more risk. Rather, there was an identified need to have risk management in place, and focus on how risks can be lowered for communities. As part of this challenge, the definition of communities was raised, as well as legal uncertainties about who owns the carbon and who is entitled to benefits. Given that this is currently unclear, it was suggested that there needs to be a roundtable discussion on these issues.

There was a universal concern that community landowners are facing challenges around the promise of income from natural capital projects and how they might use that income. Although communities may be empowered in this situation, they are struggling with the complexity of projects and the high risks associated with their development. These issues raised questions around how communities can have access to dedicated experts - who are neutral - in paid positions who can provide the necessary support. Access to land was identified as the key way to empower communities, as well as the most secure way to bring about community benefits. This was identified as an important issue to communicate to investors and landowners.

Cooperative work was identified as a potential avenue for development, with it noted that this should give agency to communities to participate in decision-making. Local expertise and skills would then be developed locally, although it was also stated that communities should not have to take on all the responsibility for finding experts to provide the necessary support.

As a regulatory solution, the possibility for the development of a specific Community Carbon Code was raised. It was argued that this could be developed by and for community landowners, with reference made to an ongoing project at Knoydart. Such a development was thought to have the capacity to relate natural capital and community benefits directly to communities and would be a code that they could directly access. Another option considered alongside community benefits schemes was the possibility of creating a national fund where a proportion of profits generated through natural capital projects would go and could then be directed at community projects that way.

4. Capacity building - Key recommendations

4.1 Community agency

Throughout this workshop, it was clear that the role of the community is poorly understood by those involved in developing community benefit policy and mechanisms within carbon markets and the Natural Capital Investment Framework. There was an identified need to take a step back and clarify the terms around community and community benefits, with a concern raised that at a fundamental level it is not clear that this process of community benefits from natural capital projects understands what it is trying to achieve.

The ability for communities to dissent from natural capital frameworks was raised as a key recommendation here. It was suggested that communities should have a right to reject large-scale natural capital developments, and that a mechanism for this should be built-in to future frameworks. This option, it was felt, would align natural capital frameworks with land reform law, and help to prevent the consolidation of further concentrated ownership and power over land in Scotland. In addition, it was noted that by accepting natural capital markets as inevitable from the outset, communities may lose agency and empowerment within the engagement process, thus leading to less desirable outcomes for them.

A second key recommendation is that a definition of community is established prior to a project commencing, often defined by the community itself to allow for community agency in community benefit. This definition of community needs to be established as a baseline before questions of capacity can be raised. Further, it was noted that communities need to have the capacity to assess their own needs in order to be able to lead their own community benefit agenda. Further support for the development of community management plans is needed here.

In line with this, a concern was raised around the use of community engagement language without any genuine engagement processes in place, or, the potential for community engagement to be ignored and not implemented. This was followed by a sense that genuine, bottom-up approaches need to be in place to allow communities to define how, and if at all, they want to engage with benefits from natural capital markets. It was suggested that this could be made a requirement or compliance criteria of the development of natural capital projects.

In addition to this, there was an identified need for support networks to be established to provide communities with support on questions such as how to engage with natural capital markets and how to identify and realise potential benefits - both economic and non-economic. Alongside this point, it was suggested that mechanisms are put in place to help communities to inclusively assess needs, with training and tools made available to ensure that community development plans capture a wide range of community needs (including those who may be vulnerable or marginalised). This could be supported by the identification of exemplars. Once communities have this training, it may be possible to establish community anchor groups who have the capability to lead engagement with natural capital projects. It was also noted that it would be beneficial to utilise community evaluation measures - allowing the community to decide for themselves whether benefit has been delivered.

Finally, the loss of community agency and empowerment was discussed as playing a key role in *democracy washing*[9] in community benefit projects at a broader national level and that the role of agency for the community remains an imperative in all decision making, as evidenced by projects such as the Highlands Rewilding Community Joint Ventures[10]. The key understanding to this process is to not define what 'good' community benefits looks like within the market framework but to allow space for community agency and empowerment to make those decisions for themselves.

4.2 Development of existing guidance/governance

It is clear from this workshop that there is concern on the governance of community benefit and how this will be regulated to support communities. A fundamental concern was raised around the way that natural capital markets work, with a particular focus on how they might shape the flow of wealth out of communities. This concern was raised in the context of the historical extraction of value from communities in rural Scotland, and links strongly to questions of land reform and how land should be managed in general in Scotland. It was noted that there needs to be mechanisms in place to counter the potential extraction of value (both market and non-market) from communities.

In relation to the Codes themselves, it was recognised that they cannot create all the mechanisms required to manage community benefits from natural capital projects. On a governmental policy level, it was suggested that multiple streams of funding could be brought together, creating a national way to both build capacity and signpost relevant people (such as community anchor groups). It was felt that a coordination between policy, projects and funding streams (for example, between natural capital projects, renewables developments and infrastructure)) could allow for the appointment of development officers who could perform a similar role to a development trust by providing a holistic overview of options for communities. Through this, anchor groups within communities could start to be established, and become points of contact for a range of project developers. However, it was also pointed out that the Codes are "*not just a carrot, but can also act as a stick".* In other words, it was felt that rather than solely focusing on attracting investment, the Codes could be developed alongside policy to establish rules and requirements for natural capital projects, particularly in terms of community benefits.

In terms of guidance, it was noted that existing guidance from the Scottish Government and Scottish Land Commission should be used as a framework for specific community benefit policy and regulation for carbon markets. It was felt that the creation of entirely new guidance might

[9] Pickering *et al.* (2020). https://www.tandfonline.com/doi/full/10.1080/1523908X.2020.1703276
[10] https://www.highlandsrewilding.co.uk/community-joint-ventures

overcomplicate the process, and that building on what is already out there would be a better option. In addition, it was suggested that community benefit structures for natural capital markets should be aligned with existing public/private infrastructures for the delivery of community benefits.

Finally, funding was raised as an issue, with the suggestion that other sources and avenues of funding nature restoration also be developed so that nature markets are not the only funding option for communities, and are not required to solve all problems themselves.

4.3 Risk mitigation

The risk to communities was a concern throughout the discussion sessions during the workshop. The definition of terms came up again here, with the point being made that the details of the terms and conditions of projects needs to be more clearly developed. This was accompanied by a conviction that additional risk should not be placed on communities, and it was suggested that there is a requirement for "harder" regulation from the government to implement risk mitigation effectively. In addition, increasing the transparency of project development plans was suggested in order to allow communities to make an informed choice about whether they want to engage with projects.

Linking with the points raised in *Section 4.1 Community Agency*, increased community agency was identified as an important way of ensuring that communities are actively involved with project development plans and the defining of what community benefits should look like. Again, the development of clearer terms and conditions for natural capital projects, including the development of definitions of communities, was cited here, with an additional point made that these definitions should not impact on other land rights (for example, the rights of crofters).

In terms of the Codes, it was felt that they could provide an opportunity for the development of a failsafe between landowners and communities, though the details of this would need to be further developed. Another point raised was the need for the Codes to have a much clearer vision for what it is they wish to achieve, as well as a more coherent and direct link to land management plans.

Finally, it was noted that there needs to be an incentivisation for natural capital projects to be developed under current landownership structures. Alongside this, it was felt that a series of practical steps available and/or required to be taken by communities to engage with such developments should be developed, which could help communities to understand and be protected from additional risks associated with natural capital projects. It is clear from these recommendations that risk mitigation is to be integrated as a key recommendation within policy and governance mechanisms surrounding natural capital markets.

5. Knowledge gaps and future work

The key knowledge gaps from this workshop were primarily focussed on the 'community' at the centre of community benefit policy. We need to better understand the role of place-based community benefits as a practical solution where financial incentives may be considered too 'risky' or without direct benefit to communities, whilst developing an understanding on the gaps this could create in terms of equity within the community. There is also currently insufficient knowledge and understanding around how natural capital community benefits can function in terms of providing opportunities such as upskilling, as well as the availability of 'people with the right skills', such as green finance officers and needs to be better understood for addressing recommendations one to three.

Acknowledgements

This report was funded by RESAS as part of the RESAS Natural Capital - Galvanising Change (D5.3) project, UK Research and Innovation's GGR-Peat project, a Demonstrator Project in the UKRI-funded GGR-D Programme, a component part of the Strategic Priorities Fund (ref. BB/V011561/1) and EU Horizon programme's Wet Horizons project (project 101056848).
Internally reviewed by Andrew Barnes on 10/07/2024. Reviewed by RESAS on 19/08/2024.