

“The credibility gap for green finance” – paper from Community Land Scotland



Comments from NatureScot, 11th August 2023

Key messages

- We welcome debate about the emerging green finance market in Scotland
- We want to work with Community Land Scotland and other partners to shape the emerging market to deliver the best outcomes for people and nature
- The ‘Finance gap for UK nature’ report was produced by the Green Finance Institute (GFI) and questions about the report and the assumptions it contains should be directed to them
- In Scotland, we have accepted that there is a gap between the public funding available and the anticipated costs of delivering the targets in the Climate Change Plan and the Scottish Biodiversity Strategy. That’s why we are working with the Scottish Government and others to help build a new market for values led, high integrity, private investment in natural capital.
- It’s very difficult to estimate the size of the funding gap because we’ve never attempted nature restoration on this scale before and there are many uncertainties around the costs of delivering this. Despite this, we know there is a gap to fill

We’re in a nature / climate crisis, and it’s time for radical and urgent action to tackle these issues in Scotland

It is clear that public funding alone cannot tackle the climate change and biodiversity crisis we currently face. Responsible, private finance is one, crucial way that we can meet Net Zero. That’s why we are working with the Scottish Government and others to help build a new market for values led, high integrity, private investment in Scotland’s nature that benefits Scotland’s people and communities.

This will help to deliver the [National Strategy for Economic Transformation](#) commitment to developing a values-led, high integrity market for responsible investment in natural capital in Scotland. This is a new area of policy in Scotland. We welcome discussion about how best to deliver this new market, and the recent report from Community Land Scotland makes some useful points about the estimated costs of nature restoration.

The Scottish Government has already invested significant sums into nature, including £65 million through the Nature Restoration Fund and £250 million through

Peatland Action. But we recognise that additional private investment will also be required to meet our policy goals.

Current public funding levels will not deliver the targets in the Climate Change Plan and recently published Scottish Biodiversity Strategy. For example, we've estimated that it will cost between £3 and £4 billion to restore all 1.3 million hectares of degraded peatland in Scotland, and we have a current budget of £250 million.

The figure of £20 billion in the GFI report is an estimate indicating the scale of investment likely to be required to deliver the nature restoration requirements of Net Zero. While this figure is not intended, or being used to drive policy or investment decisions, it is an important indication of the scale of the financial challenge.

The report from CLS challenges some of the assumptions in the GFI report and we will leave it to GFI to comment on these. Land acquisition (the cost of which is reflected in the report from GFI) is not part of the model we are developing with our own investment partners. In that regard we agree that the £20bn figure may be an over estimate.

Given the complexity and unprecedented scale of the nature restoration required, it is almost impossible to estimate the true costs of this activity. We've never done this at scale before, and the costs involved in delivery are highly variable. The cost of creating woodland, for example, is highly variable depending on location, species mix, the density of planting and the methods used.

We agree with Community Land Scotland that there are risks in creating a new market in natural capital. The purpose of the pilot project with our partners Hampden and co, Lombard Odier and Palladium is to see if we can demonstrate a model that both secures new opportunities and addresses those risks, by delivering responsible investment that can help deliver a just transition to net zero.

The interim principles for responsible investment, published by Scottish Ministers in March 2022, are embedded in the MoU we have signed with our partners and our goal is to develop a new model which delivers against them.

Our partners are keen to work with community and NGO land owners and this may provide an opportunity to bring new investment to community / charitably owned land, alongside land in private ownership. Land acquisition is not part of the model we are developing, but we will support communities if opportunities to acquire land arise from the projects. We are keen to work with Community Land Scotland to do that and we have a workshop planned with them on the 22nd of August to discuss this opportunity further.

We agree with the report that we don't yet know whether there will be demand from land managers for £2bn of private investment and we are using the pilot to test that out. We also agree that many land managers may decide to fund woodland creation themselves or through the existing forest grant scheme (FGS). But we must find, and test out, new ways of financing woodland creation in addition to the FGS.

What we are testing through the pilot is whether the provision of additional private capital can both speed up and scale up the delivery of woodland creation, alongside peatland restoration and investment in other habitats. We may find that the continued use of the FGS and other grant schemes is the preferred route to delivery for land managers, but our job is to explore other options to speed up delivery on the ground.

The target of net zero by 2045 is not very far away in the context of nature based solutions which take time to deliver carbon savings. We need to act urgently to scale up nature restoration, to put us on a pathway to net zero. In any approach to climate change mitigation and adaptation, nature based solutions that absorb carbon from the atmosphere, reduce flood risk, reduce water scarcity and support our biodiversity are an essential component of the journey to net zero.

Brendan Turvey, Low Carbon Project Manager at NatureScot said: “This is a new market for Scotland. The aim of our pilot with Hampden, Lombard Odier and Palladium is to test out a new approach to investment through the carbon market which can deliver responsible investment at scale, and which can deliver real benefits for communities and the Scottish economy.”

“We’re keen to work with communities and community land owners to shape that investment and we will be engaging with communities in the first pilot area soon.”

ENDS

For further information contact MEDIA@nature.scot

Notes to editors on detailed points in the CLS report

- 1) We note the analysis, in section 3.1 of the costs of woodland creation. We agree with the author that these costs vary considerably depending on location, species mix and other factors. The figure of 185,000ha is a very indicative figure to give readers a feel for the potential scale of investment, but this could vary significantly depending on what type of woodland is delivered, where and how.
- 2) We also agree with the analysis in section 3.2 that many land managers will prefer to opt for the existing grant scheme to create new woodland. What we are exploring through the pilot is whether we can find a new model which can bring an attractive financial proposition to land managers which can displace that public funding – allowing those funds to be reallocated to other public finance priorities, or indeed to create more woodland in other locations by providing higher intervention rates where required.
- 3) We note the analysis in section 3.3 of carbon sequestration potential. The figures used in the press release are indicative. Any projects financed through the pilot would use the Woodland Carbon Code or the Peatland Code

to calculate, validate and verify any carbon credits that arise from the investment, providing more robust figures at that stage.

- 4) In section 3.4 we acknowledge that current carbon prices are unlikely to support large scale private investment. They are also unlikely to provide for community benefit and investment in local supply chains to scale up nature restoration. We are working with our partners to model these costs and try to develop a viable financial mechanism which can deliver all of these aims along with a return to investors. We may conclude that this isn't viable in the current market – hence the need for a pilot which can inform how the market evolves.
- 5) We agree with the point in section 3.5 that convincing land managers to make land available for planting will be challenging. Hence the need for new financial models that make woodland creation and peatland restoration sufficiently attractive to land managers, but without supporting profiteering.
- 6) Section 4.2 – sales from carbon credits could indeed help fill the funding gap, but revenue from the sale of credits comes later in a project, once emissions savings have been verified and carbon units generated. The main proposition from our private investment partners is effectively a bridging loan to pay for up front capital costs, pending a return from the sale of carbon credits. In most locations that is likely to be a 'top up' to public funds through the FGS. But there is a range of ways the investment could be structured, including, for example, equity in a community interest company.
- 7) The alternative approaches set out in section 4.3 are for Scottish Govt to consider
- 8) Page 14 of the report states: “A reasonable overall estimate for the current mix of woodland creation projects might be in the range £6-8,000/ha, noting that the smallest projects could cost double this and the largest considerably less. The total cost of 185,000 hectares of native woodland, is therefore more likely to be around £1.5bn, although a focus on large scale projects, using natural regeneration where possible and benefitting from better deer control nationally would reduce this substantially.”

This is true, but investment at these rates only covers planting costs, giving no return to the land manager (apart from timber sales), delivering no community benefit and delivering limited additional biodiversity benefits. What we seek to demonstrate is values led, high integrity investment that delivers multiple benefits to local communities and nature. That will cost more than traditional planting models – hence the need for additional investment above current grant scheme levels.