A Co-operative Approach to deliver Ecosystem Benefits

Introduction

The coalescence of a number of important factors has given rise to the need as well as the opportunity to explore new approaches to conservation.

- Firstly, the significance of the climate emergency and biodiversity crisis is now widely recognised, both in media coverage and government policy.
- Secondly the recognition of natural capital (that nature has a value to the economy and society), and the establishment of "Payment for Ecosystem Services" (PES) have created the opportunities for farmers to provide, and a range of parties to seek to pay for such ecosystem services – carbon offsetting, biodiversity net gain, natural flood risk management and nutrient neutrality.
- Thirdly the understanding that to be truly successful in a vision for the conservation of our environment and to deliver the quantum of nature-based solutions needed, there is a need to work at scale – at landscape or catchment scale.
- Finally, the Common Agricultural Policy Reform post Brexit, being centred around public money for public goods, supports payments to farmers for delivering environmental, or derived, benefits.

New approaches to conservation programmes tend to be defined by a particular instigator: either businesses, landowners, charities or government agencies. However, the most challenging factor and need is working *at landscape/catchment scale*, rather than project by project; and addressing this requires a combination of a number of instigators. This applies particularly where locations involve large numbers of landowners and mosaics of habitat types; but also where the needs of different ecosystem services may be in tension with each other.

A number of initiatives have delivered and/or are trialling differing approaches that will meet some of the challenges. As part of the NEIRF "Eco-Regeneration Lancashire Project", a cooperative approach is being developed and tested as a mechanism through which multiple interests can collaborate to deliver conservation benefits at landscape scale. This work is particularly focused on using the mechanism of a cooperative to enable the parties to navigate through the uncertainties that often prevent, or delay, projects and programmes from progressing.

Historically and around the world, cooperatives have emerged as a response to a crisis, where a solution to a problem requires collaborative endeavour. In the context of the climate and biodiversity crises, we believe that a cooperative approach can address the challenges and problems by:

- bringing parties together in a mechanism through which a range of different interests can work together collaboratively, for shared objectives as well as their own particular needs;
- enabling grouping, stacking and bundling of ecosystem services in a way that meets the scale needs of a wider range of interests than would otherwise be possible.

Working at this scale assists farmers as it helps to ensure that the value is sufficient to incentivise delivery. It can also attract a larger number of landowners and farmers by unlocking opportunities for a wider range of ecosystem services. It enables the transparent blending of differing types of funding and finance in a more coherent and effective way, from sales of ecosystem services, through to grants, and investment finance (traditional, social and community based). Importantly, this will be achieved through locally focused stakeholders in a way that delivers shared vision, aims and objectives in a collaboratively developed manner, ensuring long term sustainability.

Ribble Rivers Trust have identified various locations, where the climate and biodiversity needs provide a localised catalyst for action through using nature-based solutions to solve the problems. The solutions offer opportunities to widen the range of potential participants by providing carbon offsetting, biodiversity net gain and flood risk reduction.

At RRT, for some years now we have effectively been trialling a cooperative approach on an informal basis, through our engagement with landowners and farmers, setting out concept plans/programmes of work, and developing associated business plans. We are now seeking to develop this approach in a more strategic and formal way, in order to greatly increase the scale of our ambitions by building relationships with many more who seek to benefit from and engage in the delivery of ecosystem services. These relationships will be formalised through a cooperative.

The range of interests involved

The changing approach to conservation affects farmers, landowners, developers, flood risk management agencies, water companies, the Environment Agency, local authorities, and businesses:

- Farmers and land-owners need to deliver environmental benefits to gain public funding (public money for public goods) and can gain further funding from delivering benefits that other organisations are looking for.

- Developers need to ensure their developments improve biodiversity, known as Biodiversity Net Gain (BNG) and in sensitive areas, don't increase nutrients in waterways meeting Nutrient Neutrality requirements, either by action on their developments or external to them delivered by landowners.

- Water Companies are under increasing pressure to reduce water pollution particularly from sewage overflows. They have been funding farmers and incorporating catchment management for more than a decade to reduce their diffuse pollution as more cost effective than improving their own wastewater and drinking water treatment processes. This approach has been expanded to other land-owners, on the "polluter pays" principle, for whom it is more effective than end of pipe solutions.

- The Environment Agency (EA) is looking to scale up Natural Flood Management (NFM) approaches on a catchment basis delivered by land owners to reduce flood risk. At present the EA is required to incorporate NFM into all Flood and Coastal Risk Management projects.

- Businesses with commitments to achieve Net Zero are looking for land management changes to increase carbon sequestration to offset residual emissions that cannot be removed from reductions within operations.

Broadly landowners and farmers are in a position to change their land management and use practices (nature-based solutions) to improve the natural environment (or deliver ecosystem services) and there is a range of public and private organisations that are willing and/or required to fund such improvements, or pay for ecosystem services, on different bases.

There is also a range of organisations, and potentially communities, that would be willing to provide finance if up front expenditure is required prior to incomebeing received from those seeking to benefit from ecosystem services (beneficiaries). This is particularly the case in markets for carbon and BNG credits, but may be less required where beneficiaries themselves such as water companies and the Environment Agency can provide capital funding.

But how can such a range of different interests and regulatory systems be brought together? This is a time of real uncertainty; but also of opportunity for a new and more collaborative approach to managing and improving our natural environment. If all these interests and funding streams can be brought together (or 'blended'), then this presents an important opportunity to drive the acceleration in the natural environment improvement that we so need.

The challenges

This is not a straightforward matter. There are some difficult challenges that need to be addressed to bring these interests together:

- Measurement uncertainty:
  - While standards for measurement are well developed and in use for some services (such as the Woodland Carbon Code), others are only just emerging (such as the UK biodiversity metric).
  - Measuring the benefits from large ecosystem change, rather than discrete parcels of land, such as water pollution and flood risk reduction is probably impossible to standardise for an open market context, as it will always rely on bespoke monitoring and modelling, which is expensive and time consuming.
  - Ultimately the goal posts could easily move as scientific knowledge (for example, benefits of wetlands for reducing nutrients remain ill understood) and related policy (e.g. cost benefit frameworks for flood risk management projects) evolve.
- Value uncertainty:
  - Markets are in their infancy and, with no track record, are therefore not widely trusted. A lack of consistency and knowledge, e.g. around carbon emissions, Biodiversity Net Gain (BNG) units and the causes of water pollution, means funders and investors might be cautious about the impact of their investment. Likewise, farmers and landowners may be reluctant to take investment from a housing developer for Biodiversity Net Gain if their local community is against the development. Some anticipated markets may never develop. Certain environmental benefits from large ecosystem change are very unlikely to see traditional markets emerge due to their complexity and locational specificity, while governmental frameworks may not yet be developed to reasonably recognise their value.
  - Parties may have different views on the fair valuation of benefits with conflicting perspectives on the appropriate application of beneficiary and polluter pays principles or what costs/income forgone by landowners and farmers should be reasonably compensated for.
  - Principles for a fair sharing of funding obligations to gain co-benefits have not been developed (e.g. who pays what for woodland that delivers flood risk and water pollution reduction, carbon sequestration and BNG).
- Legal complexity: Ecosystem beneficiaries and investors will require legal formalisation of arrangements to deliver ecosystem benefits by landowners and land managers over the long-term, in order to provide all parties with a level of security. This is particularly challenging due to:

- the range and diversity of parties including private, public and statutory interests which need to be balanced;

- there is a need to operate at a substantially bigger scale at catchment level which will involve multiple parties involved in buying and selling services. The aim is to include new organisations buying services, who don't have the time, expertise or knowledge to engage with farmers and landowners;

- multiple relationships are involved amongst and within the interested parties, and those relationships are likely to be interdependent and interlocking;

- the levels of uncertainty in delivery of benefits and the potential for circumstances for individual parties and policies to change substantially over the life of long-term agreements.

These challenges can seem daunting, particularly if we approach the problem as if we need to solve all of them immediately. However clearly any enduringly successful approach, and long-term success is crucial here, will need to effectively engage with all these challenges and probably more over time. This means it must have mechanisms for ongoing adaptation and working to address issues in collaboration at its core. For example:

- **Measurement uncertainty:** the approach will need to use agreed standards for simpler or discrete benefits as they develop, while also securing the required modelling and monitoring capacity to measure system-wide benefits such as water pollution and flood risk reduction. It also need to be able to draw on and respond to the latest, relevant scientific knowledge and public policy assessment frameworks.

- **Value uncertainty:** the approach will need to be able to engage with current emerging markets with integrity and a long-term perspective. It also involves, developing bespoke funding agreements between parties over time as policy frameworks evolve where markets haven't developed and/or are very unlikely to develop as is the case with system wide benefits.

- **Legal complexity:** the approach will need to support and reinforce strong, trusting, collaborative relationships between all the multiple parties around a common purpose so that agreements can be relatively easily adapted by consensus as circumstances and knowledge change, while providing a level of security that the parties need. Flexibility will also be needed to adapt to new projects and programmes, as well as changes in the parties involved.

Different approaches

Currently the most developed approach is summarised in the Green Finance Institute's (GFI) Investment Readiness Toolkit (IRT). In simplified terms, its approach/model is akin to standard business development and involves:

1. An organisation seeking a range of landowners/managers who wish to sell ecosystem services and a range of organisations that wishes to buy them; which then seeks finance to cover any requirements for upfront capital to cover timing differences between revenue and expenditure.

2. That organisation develops individual agreements, generally formalised as a number of independent contracts, with all the sellers, buyers and investors.

This approach is based broadly on the mechanism of traditional investment: the provision of funds for use in activities which are anticipated to generate a particular return on capital to investors. A further feature of an investment driven approach is its reliance on contracts as the basis for creating relationships between the parties. Contracts are a well-designed tool for the pursuit of return on capital invested as they help to provide certainty, which is important to secure investor support. But contracts are not so appropriate in the context of significant uncertainty and complexity of relationships. Contracts can be inflexible, unless the parties agree to change them; and they are negotiated and agreed at a fixed point in time and particular circumstances that can change.

We are seeking to adopt a different approach, for several reasons:

- We believe that cooperatives are uniquely placed to manage current, and inevitable future uncertainty, such as caused by changing science, circumstances or new regulation. Traditional investment dislikes uncertainty, and charges a high price for it. There also those places where standard business models will not be possible.

- The range of parties involved and the variety in the nature of their interests gives rise to a complex web of relationships; having a multiplicity of separate, private and often inter-locking contractual agreements between different parties lacks openness and transparency, and will not be so conducive to building trust. Furthermore, it will be difficult to modify as inevitable changes impact on the project.

- All of those involved have an interest in making the new arrangements work. Founding the new arrangements on a mechanism designed to prioritise a return for investors may give rise to power dynamics which discourage the building of trust. It seems that a mechanism is needed which is capable of attracting investment, whilst also fully respecting the other private, public and statutory interests.

A Co-operative Approach

Our intention is to face these challenges by an approach which is cooperative in nature, but with a number of different types of interests rather than the single constituency approach which is more familiar (that is to say, consumer, worker or producer cooperatives).

This multi-party approach brings together a number of different parties and interests – farmers, businesses looking to offset, statutory bodies and agencies, developers, communities, investors – in a common and collaborative endeavour which recognises and respects each of their particular interests. These interests need to be balanced and considered collectively, but without intending to provide any special reward to any particular party or interest.

In a cooperative approach, the parties all agree that the ultimate intended beneficiary of the whole collaborative venture is not the private interests of any one party, but the collective benefit of them all and of future generations through achieving the environmental goals.[1] That means striking a balance of fairness and neutrality in all decision-making, because the venture only works if all

[1] The underlying aim of policy today is the improvement of the environment for the future. In the 25 Year Environment Plan, it is stated that “Our environment plan sets out our goals for improving the environment within a generation and leaving it in a better state than we found it.”

different interests get what they need out of it, and remain engaged and committed to the ultimate objective.

This alternative approach is designed to cope with uncertainty, and to move the drivers away from return on capital invested (the conventional business approach), and towards meeting the needs of everybody (the common good) which involves striving to meet all needs collectively. It is rooted in traditional cooperative thinking, and requires a willingness to be innovative, and to form long-term trusting relationships.

This does not mean that cooperatives don't or cannot access investment funding. They are clearly able to borrow and can issue shares. They are also particularly well placed to access community investment, which can also help build wider community engagement and buy in. But investors are only one of the interests to be taken into account, rather than taking precedence over all other interests.

How does it work?

This approach works by establishing relationships *through a cooperative*, where those relationships are managed and developed inside the cooperative, between the different types of members. Those relationships are therefore governed by the rules of the cooperative, which provides flexibility; and not by a fixed contract, agreed at a particular point in time.

This is how it works.

- All the relevant parties sign up to the cooperative (become members) which binds them to to achieving the collective benefit, and to follow the rules of the cooperative in how they interact with each other. (The rules of the cooperative are actually a contract between the parties, ultimately enforceable in a court of law. But the whole point is that that will never be needed because the rules provide a mechanism for resolving disputes.)
- The rules set out the scope of what is covered by the cooperative. This may be limited geographically, or by activity. These are the "objects".
- The rules also set out the essential purpose of the cooperative. This includes the broader collective purpose (reducing environmental impacts, rebuilding biodiversity), but also the particular interests of the individual parties. The nature of cooperation is that unless all parties basic needs are met – or all parties are treated fairly – then compromises have to be made. It means sharing both burdens, and benefits.
- That broader purpose is generally expanded by some values and principles, which articulate both the importance of individual members having a voice and participating in decision-making,
- The mechanism by which decisions are made within the cooperative (governance) are carefully set out in the rules. Some matters require all members to agree them (such as amending the rules themselves); some decisions have to be made by a smaller group which represents all of the key interests – some sort of representative body, so not all members need to be involved. Other decisions can be made by a committee or board comprising people with the right skills and experience, that members trust to make such decisions.
- Through these decision-making mechanisms, relevant members can then form agreements on particular matters which will be contained in regulations which are made under the rules. These are visible to all and can be varied from time to time under the mechanism of the rules. For example, this might cover plans as to what land management or use changes are to be made to deliver what ecosystem benefits for which members (such as water companies and the

Environment Agency); the principles for determining payments to land managers and/or owners who are delivering those changes and the basis for sharing the funding requirements by those members benefiting. The relevant parties can agree and set these down in regulations, which sit below the rules and are binding on the members like the rules.

- These plans and agreements can be reviewed and updated under the decision making rules as circumstances and knowledge changes.
- The reason for having separate regulations is as follows: A cooperative is registered with the Financial Conduct Authority, rather than Companies House. If the members want to change the rules, they must pass a general resolution which must then be approved and registered by the FCA. Much day-to-day business is not relevant to the FCA, and to avoid continually amending the rules, provision is made for the members to agree regulations, which can themselves be amended by whatever process the rules then provide. It is this which provides the practical flexibility.
- The rules also need to contain a range of other provisions including who can become a member, whether there is more than one type of member, any eligibility criteria for membership, provisions for exit or removal in extreme circumstances, dispute resolution, the size and composition of any representative body, the committee or board, their roles and responsibilities, how they take or leave office (election, appointment etc.), types of shares/share capital, and a range of other administrative matters.

So a cooperative approach, in summary, seeks to bring the parties together not through a series of binary inter-connected contracts, but through being members together of a collaborative endeavour along the lines set out above. It seeks to replace relationships based on contracts by relationships based on governance. Some contracts with external parties will still be needed; some internal contracts might be needed for transactional purposes between particular parties (employment contracts), but the overarching framework is established by the rules or constitution which the parties agree.

Being members of a cooperative provides a framework for the parties to work together collaboratively. It is not a magic wand – they need to *make* the arrangements work; but if they want to work collaboratively, it provides a mechanism.

How will this approach meet the challenges we have identified?

This approach provides an adaptable yet secure framework to build enduring collaboration between multiple parties while also engaging effectively with evolving external knowledge, regulations and markets:

- **Measurement uncertainty**: the cooperative can adopt measurement standards as they develop but is not dependant on them. It can also draw on its members' measurement and modelling capabilities, particularly the Environment Agency and water companies, to explore and demonstrate complex system benefits such as reductions in flood risk and water pollution. These members, in turn, can receive 'free' co-benefits from discrete measures to deliver carbon sequestration, BNG and nutrient neutrality, which have to demonstrate 'additionality' ie be fully funded by beneficiaries, if members cooperate to ensure they are strategically located by the right water courses. While members receiving discrete benefits can also demonstrate that they are supporting wider ecosystem understanding. This can allow the cooperative, through pooling interests, to build its evidence over time on the benefits of the changes in land management and use.

- **Value uncertainty**: the cooperative, as an organisation and/or its members individually, are able to engage with markets as they develop. However it is not dependant on such markets and can manage exposure to changing market prices. It can work to establish core long-term, reliable funding from its member beneficiaries based on principles agreed as fair and reasonable by all its members. Even where markets exist, such as carbon sequestration, BNG and nutrient neutrality, it can engage directly with large beneficiaries outside the market, offering 'premium' benefits compared to the market, based on its secure governance arrangements, its 'brand identity' and the fact that these discrete benefits contribute to wider ecosystem regeneration. In turn, the cooperative can do its own due diligence on these beneficiaries to ensure they are fully committed to environmental goals rather than just greenwashing and/or merely meeting minimum regulatory requirements.

- **Legal complexity**: cooperatives function on the basis of the pursuit of a collective endeavour, and developing ongoing trusting relationships underpinned by fair and transparent decision-making processes including dispute settlement procedures. There is no need to develop long and complicated legal agreements at the outset to cover all possible scenarios that can be imagined. There is no need for endless 'small print'. Instead, the cooperative provides the mechanism for the parties to agree in future how to address issues as they arise. Some arrangements are likely to be multi-party which can be contained in regulations as explained above. As such, they can be updated relatively easily as opposed to situations where there are multiple, interlocking, long and complicated agreements between different parties.

How can this approach be developed and established?

The starting point is to bring the relevant parties together and confirm that they collectively agree to work together. This should include those needed to provide funding as participants interested in particular outcomes (water company, for example), as well as representatives of potential external funders interested in financing the pursuit of the environmental outcomes. It is important that they are part of the process to understand the opportunity.

From here, through a process of co-design the different parties and interests can proceed to address the matters described above: purpose and objects, membership criteria and entitlement, and governance arrangements. They also need to develop their ideas on basic values and principles, as well as practical matters such as name, registered office, and website address.

This can be done following a template and needs to take place over a period of weeks. Once the initial intended members have worked through the template and set out their optimal arrangements, these can be confirmed with other potential members and interested external parties, whose acceptance of the arrangements is likely to be needed. Other potential members need the chance to express views before draft rules are finalised as it may affect their willingness to participate.

At some point, a decision is needed to proceed to registration. A minimum of three founder members is needed to register the rules. Once registered other members can be admitted. Start-up arrangements are commonly agreed in advance, to populate at an early stage any representative body and committee or board.

So the process is one of co-design by those available to be involved – all of the relevant interests having a voice in developing ideas. So, for example, not all farmers need to be involved in the co-design, but once developed, all farmers need to have the chance to comment and decide whether they wish to join.

The process of co-design – a series of meetings bringing the relevant parties together to agree how to take things forwards – is itself the first step in the building of the collaborative relationships.

Conclusion

The issues discussed in this note pose complex challenges. There is no single solution, no magic bullet. The investment-driven approach will probably receive the most attention: it is the most familiar, what the business-world is most comfortable with.

We are committed to trialling a cooperative-based approach. Whilst this is less well-known, we believe that it offers a viable alternative to opportunities, particularly where circumstances require more flexible options for innovation, but maintain the ability to blend finance include private funding and where appropriate investment.

Next Steps

To review the opportunities identified where cooperatives offer a viable solution to a problem that requires collective endeavour, through:

1. Exploring Cooperative membership of benefactors and potential benefactors
2. The individual and collective needs of benefactors, administratively and practically

It is proposed to explore this through working through a series of questions, via 1-2-1 sessions and workshops.

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