



Community Investment Opportunity in Renewable Energy Developments on the national forests and land

1. Introduction

Hydro and wind development opportunities on the national forests and land (nfl) that have been negotiated for certain projects over recent years include an opportunity for communities to take equity in individual projects. However, questions have been raised about appropriate sources of finance for communities who wish to take advantage of this investment opportunity but do not have sufficient funds themselves. This note outlines the principles which Forestry and Land Scotland (FLS) will apply to the financing of the community investment opportunities in renewable energy developments on the nfl.

2. Principles

The principles apply to the investments by appropriate community organisations¹ in developed projects. These principles are as follows:

- a) **debt finance:** provided that the funding comes from lawful sources and the community retains control of its investment in the project, then FLS will not constrain the community in terms of where it borrows money;
- b) **equity (or quasi-equity) funding by third sector organisationsⁱ (including other community groups):** this is acceptable, provided the local community retains control of its investment in the project, including the process of deciding whether or not to invest. For example, Housing Associations could make such an investment via the community – and the allocation of returns would be a matter for those two parties to determine between themselves; and
- c) **other cases of equity (or quasi-equity²) funding:** the community group concerned would need to demonstrate to FLS that there is an advantage for the community in accepting such investment (for example from private individuals). The most likely way they could demonstrate this would be to show that the private equity investors are accepting a return that is lower than a normal commercial return from similar investment on the grounds that some of the returns will accrue to the community, i.e. they are making what amounts to a ‘social investment’ⁱⁱ.

¹ Download our [Definition of an appropriate community organization](#) Guidance note

² Quasi-equity - hybrid between debt and equity finance

ⁱ Definition of third sector organisations: those which have a positive community purpose; which are run by an unpaid (or mostly unpaid) committee; which are not principally set up to distribute profit to share holders; and which are not run by or affiliated to a political party or a government body

ⁱⁱ Social investment: investment activity which has an expectation of both a specified social outcome and an explicit financial return (usually below "market-rate")