**Consultation on the creation of a
Scottish National Investment Bank**

**Friends of the Earth Scotland**

**November 2017**

Friends of the Earth Scotland is working to encourage individuals, civil society organisations and socially beneficial industries to engage with the Scottish Government’s plan to create a Scottish National Investment Bank (SNIB).

**Our vision is for a green and ethical bank that invests for the common good of the people of Scotland.**

A public consultation is open until 20th November 2017 and Benny Higgins, CEO of Tesco Bank, with an Advisory Group, will publish a set of proposals for the Bank in February 2018.

The consultation paper states that the Government wants to ‘seize the economic opportunities of tackling climate change’ and that the Bank will be purposed with ‘accelerating the transformation to a low carbon, high-tech, connected, globally competitive and inclusive economy.'

Following discussion with a number of stakeholders we believe consultation responses should emphasise that the SNIB should:

1. Exist to make Scotland **greener and more equal**.
2. Be a **public body** with the **full powers of a bank**, such that it can intervene to direct the development of Scotland’s economy.
3. Be able to invest in **publicly-owned infrastructure**, as well as ethical businesses.
4. Have governance structures that **reflect Scotland’s** **diversity** and include people from across the country’s regions, industrial sectors, trade unions and civil society.

We have provided our initial consultation response below which we encourage you to adapt and draw in any way that is useful to you.

Responses to the consulation should be entered on the Scottish Government website: <https://consult.gov.scot/economic-policy-unit/scottish-national-investment-bank/>

If you would like to become more involved, or have **reflections, comments or criticisms** regarding our proposals, please contact:

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*(continues overleaf)*

### **1. What are the top 3 areas of interventions where you think the Scottish National Investment Bank can have the greatest impact on sustainable economic growth?**

*This question addresses investment gaps and market failures which SNIB could focus on addressing.*

* Option 6: Promotion of investments that help address complex societal problems e.g. the provision of infrastructure in deprived areas or addressing financial constraints in the housing sector
* Option 7: Targeting groups that evidence shows have less access to capital than others (e.g. female and BME entrepreneurs)
* Option 8: Providing mission-oriented finance e.g. providing finance for transformational technologies to reduce carbon emissions.

### **1a. Can you explain why you chose these as the most important?**

Investment that promotes inclusion and sustainability is least likely to be championed by those who are succeeding in our currently uninclusive, unsustainable economy.

However none of the eight areas listed are well provided for by existing investment institutions, public or private, and the SNIB’s activities should be expected to offer all of these functions.

Rather than identifying specific investment gaps or market failures the SNIB should seek to support long-term public policy objectives such as tackling inequality and cutting carbon emissions, and undertake patient, long-term interventions to address these challenges.

The starting point should be the purpose of the SNIB. The draft mission statement, as published, is laudable: “The mission of the Scottish National Investment Bank is to provide and catalyse investment in order to create opportunities for Scotland, by powering innovation and accelerating the transformation to a low carbon, high-tech, connected, globally competitive and inclusive economy”.

The focus on developing a low or zero carbon economy, and the avoidance of a focus on generating economic growth purely for its own sake, are commendable. An additional focus on 'tackling inequality' – both regional and between people of different genders, abilities and ethnic backgrounds – should be added to the SNIB’s purpose statement.

### **2. Which of these financial instruments might have the greatest impact in addressing your chosen areas of intervention?**

*This question addresses the stages of business development the SNIB might focus on in delivering its objectives.*

The SNIB should have the flexibility to invest in whichever ways are most appropriate towards achieving its purposes, and may well play a role in all the listed areas.

Public-private schemes have burdened public bodies, including local governments, with unsustainable levels of debt. A necessary part of fulfilling the SNIB’s broad but focused role must be lending for public infrastructure projects, which are underserved by existing structures.

### **3. In terms of existing international models, is there a particular example that you think is appropriate for Scotland and why?**

*This question asks for best practice from other public development banks.*

Germany's KfW is a strong example for Scotland to follow, making a significant intervention in the economy to improve household and business energy efficiency, the development of new forms of renewable energy, and support small-scale programmes via regional and local public banks. As Scotland currently lacks smaller-scale public banks, the SNIB should work with local authorities to provide local advice and shop-front lending services to businesses. The SNIB could at a later time seed fund new local banking institutions to assist with dispersing lending to small-scale projects and businesses.

### ***4. Do you think that the Scottish National Investment Bank should have explicit regional mandates within Scotland, to address specific regional issues and/or to contribute towards greater regional economic cohesion?***

*This question addresses whether the SNIB should have a role in tackling regional inequalities.*

* Yes

Regional inequalities within Scotland are acute. The SNIB should include within its purposes an objective to address inequality. In practice this might mean directing investment into communities with high unemployment and low life-expectancy, and by investing to preempt economic shocks, for example by funding green employment in the North East to replace lost oil and gas jobs. Tackling inequality also requires funding schemes that benefit marginalised groups including women, disabled people and people of colour.

### **5. Bearing in mind the potential cost implications, should the Scottish National Investment Bank...**

*This question addresses to what level the SNIB should become involved with entities it lends to.*

* Option 2: Provide advice and support to assist entities / projects in becoming “funding ready”

The SNIB should have all the powers listed, but may need to work hardest in assisting entities to become funding ready. It should take this approach seriously by intervening fully in the economy to create new entities, markets and supply chains where they do not exist but are much needed, such as in renewable heat, off-shore floating wind power and public transport. For example the Offshore Valuation Group assesses that Scotland could have 86 GW in floating wind capacity but the supply chain in Scotland is limited: the first such facility opened in September 2017 was built by the Norwegian company StatOil.

A narrow approach focused on addressing market failures, such as that adopted by the Green Investment Bank, had a limited impact compared with other development banks worldwide.

### **6. Do you think that the Scottish National Investment Bank should act...**

*This question addresses what forms of finance the SNIB should provide.*

* Option 5: Differently in different areas of activity.
* Option 6: Other

Existing public bodies deliver investment, lend in partnership and offer finance guarantees including Scottish Futures Trust, Scottish Investment Bank and Scottish Growth Scheme. Whether or not their functions are consolidated within the new Bank, it should be able to provide any of the financial instruments listed above in pursuance of its purposes. It should also be significantly *more* powerful than the sum of existing public bodies, and to achieve this it will need sufficient capital and borrowing powers.

### **7. Are there particular issues on governance and the operational model, including issues such as public/private classification, that you think would strengthen, or constrain, the bank's ability to deliver on its mission?**

*This question addresses the governance and structure of the SNIB, and whether it should be a public or private institution.*

The SNIB should be a public bank, owned and financed jointly by local authorities and the Scottish Government. The Green Investment Bank was a private bank owned fully by the UK Government, leaving it open to its eventual privatisation. By sharing ownership with local authorities, the SNIB will have more sticking power and be able to use local authorities’ borrowing powers to increase its lending power.

As a public body the SNIB should be transparent in its activities, covered by the Freedom of Information Act, with an automatic disclosure approach to information about its lending and internal practices.

The SNIB should have a governance structure which includes people that represent Scotland's regions, industrial sectors, civil society and trade unions, and reflects the genders, abilities and ethnic backgrounds of the population. Although aligned with public policy objectives, it should be able to carry out its functions free from day-to-day political interference.

The SNIB should have a strict code of practice that ensures the entities it lends to adhere to the highest environmental and workers rights standards, and do not engage in tax avoidance, or undermine other public policy objectives. Civil society and trade unions should have a role in ensuring compliance with these standards.

In general, the SNIB should look to public sector best practice internationally and not seek to emulate the toxic culture and bloated pay scales of the private financial sector.

### **8. Do you have any more comments about the establishment of a Scottish National Investment Bank?**

*This question offers a space for additional comments.*

**Further reading**

Papers accompanying the Scottish Government’s announcement, September 2017:

Terms of Reference to Benny Higgins
<https://beta.gov.scot/publications/national-investment-bank-implementation-plan-terms-of-reference/>

Council of Economic Advisors report on Scotland’s industrial strategy
<https://beta.gov.scot/publications/uk-government-green-paper-building-our-industrial-strategy/>

**Key reports on development banks:**

Blueprint for a Scottish National Investment Bank (New Economics Foundation and Common Weal, 2016)
<http://allofusfirst.org/tasks/render/file/?fileID=3B9725EA-E444-5C6C-D28A3B3E27195B57>

Public Investment Banks: Towards a Better Model (EURODAD, 2017)
<http://www.eurodad.org/files/pdf/1546743-public-development-banks-towards-a-better-model.pdf>