

# **The Scottish National Investment Bank: A Green and Ethical Bank for Scotland?**

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Friends of the Earth Scotland (FoES) has been working for some years to champion public finance and funding to stimulate a just transition to a zero-carbon economy. In 2016, working with the New Economics Foundation and Common Weal, we published 'Banking for the Common Good' which proposed a new, publicly-owned and democratic approach to banking reform, including the establishment of a Scottish National Investment Bank (SNIB).<sup>1</sup>

We are delighted that the Scottish Government has accepted this recommendation in the Programme for Government in September 2017, with funding announced in the budget and an implementation plan put forward in February.

## **The Higgins plan**

The implementation plan, prepared by former Tesco Bank CEO Benny Higgins on behalf of the Scottish Government, proposes a purpose of the SNIB to "provide finance and act to catalyse private investment to achieve a step change in growth for the Scottish economy by powering innovation and accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy."<sup>2</sup>

The plan says the SNIB should provide finance, not funding, and focus on the private sector, without ruling out public lending. The plan envisages minimum funding from the Scottish Government of £1bn over the first five years and a further £1bn over years 6 to 10 with some leveraging of capital, as well as incorporating the functions of the Scottish Investment Bank, the Scottish Growth Scheme, the SME Holding Fund, the Building Scotland Fund, and some advisory roles of the Scottish Futures Trust and Scottish Enterprise. "Remuneration terms" for staff should be "sufficiently competitive".

We believe that this new Bank must be a green and ethical bank that invests for the common good of the people of Scotland and drives the

Just Transition to a zero carbon economy. A number of features of the Bank announced so far are encouraging:

1. The implementation plan proposes decarbonising the economy as one of three missions for the SNIB, and the First Minister has said it would be "unthinkable" for the SNIB not to have to this aim.
2. The First Minister and the implementation plan insist that the SNIB should be driven by public-purpose missions, instead of being focused on returning short-term profits.
3. The First Minister and the plan have stated that SNIB should be a public body in perpetuity with the full powers of a bank, investing patiently to drive research and development and industrial transformation, not simply fixing market failures.
4. The implementation plan states the Bank should operate to the "highest standards of transparency and governance" with investment on an "ethical basis" with a "code of ethics that goes beyond regulatory requirements and adopts a best practice approach."

## **Zero carbon lending**

Despite these encouraging early signs much more work is to be done to see the new Bank established on a green and ethical basis.

It is vital that the SNIB's lending to the green economy is driven by the Scottish Government's climate reduction plans, including the forthcoming Just Transition Commission, announced in September. The implementation plan considers the opportunity of developing electric car charging networks, but there are more opportunities for lending in this area including:

<sup>1</sup> <https://foe.scot/resource/banking-common-good/>

<sup>2</sup> <http://www.gov.scot/Publications/2018/02/5676>

- Scotland currently lacks a domestic renewables manufacturing industry but large-scale, long-term public investment could bring hundreds of thousands of new jobs helping replace those lost as North Sea oil declines.
- The Offshore Valuation Group assessed that a staggering 123 GW of floating wind power is practicable in Scottish waters.<sup>3</sup> Such an increase in generating capacity would enable Scotland to become energy secure and export electricity.
- As of 2017 people in 649,000 households in Scotland live in fuel poverty.<sup>4</sup> Dampness, mould, and the cold drive serious health problems. Finance to insulate existing buildings could create homes which are well insulated, healthy, and low-carbon.
- The Scottish Government's Energy Strategy plans a rapid transition away from natural gas heating.<sup>5</sup> A national programme of district heating would reduce fuel poverty, improve energy efficiency and lower emissions. In rural areas, geothermal sources should be developed.
- Investment in public transport and walking and cycling infrastructure can boost local business, improve health, and cut our currently dangerous levels of air pollution. Proposals to extend the Glasgow Subway and Edinburgh Trams are being developed and the upgrading of bus fleets is needed.

## Meaningful missions

It is unclear how the SNIB's public-purpose missions will drive lending practice throughout the Bank. Economic growth, the pursuit of which for its own sake may be at odds with a mission of decarbonisation, has been given as a long-term aim of the Bank alongside alignment with economic policy – rather than Scottish Government policy *in general*.

How this will be addressed in the Bank's lending criteria and reporting may be crucial. The implementation plan recommends using scorecards to report "on the financial

performance as well as on economic impact over time, including social, environmental and ethical returns" but later that "the Bank should act wholly commercially in taking decisions based on the viability of the firms or projects in which it invests".

A key test of whether the public-purpose missions of the Bank are to be meaningful will be if it can refuse to lend to commercially viable projects which would undermine the SNIB's missions – for example high-carbon industries, or companies with poor workers' rights practices.

## Governance

The board will be appointed by the Scottish Government and the implementation plan suggests the SNIB should "adopt a leadership role with regards to diversity and inclusiveness within its governance, operational arrangements and investment strategy" with an expectation that the Board and Executive are "gender-balanced". The appointment of the Chair will be an early test of these principles. We consider that the proposed "Advisory Board" could enable representation from civil society and trade unions. We are eager to see how the Scottish Government is calling on best practice in public banking internationally and making appointments that represent Scotland's diversity, including women, and marginalised groups such as people of colour.

## What's next?

The Scottish Government is expected to respond to the implementation plan within the next few months. A bill will be required to establish the SNIB and Treasury approval will be required to see the Bank fully operational in 2020.

However, the plan proposes the SNIB will be established in "shadow" form by 2019 with the strategic framework, operating model, missions and governance structures developed during 2018. As such MSPs will need to scrutinise a number of key decisions *before* a Bill is brought to the Scottish Parliament.

- For more information visit: <https://foe.scot/campaign/just-transition/snib/>

<sup>3</sup> [http://publicinterest.org.uk/offshore/downloads/offshore\\_valuation\\_exec.pdf](http://publicinterest.org.uk/offshore/downloads/offshore_valuation_exec.pdf)

<sup>4</sup> <http://www.gov.scot/topics/statistics/browse/Housing-Regeneration>

<sup>5</sup> <http://www.gov.scot/draftenergystrategy>