



**Friends of  
the Earth  
Scotland**

## **Response to the Scottish National Investment Bank Bill Consultation**

**31 October 2018**

**Friends of the Earth Scotland exists to campaign, with partners here and across the globe, for a just transition to a sustainable society, working in Scotland for socially just solutions to environmental problems.**

Building on our significant legacy of driving sustainability in the private financial sector, we proposed a Scotland National Investment Bank as part of our Banking for the Common Good programme in 2016. We are excited to see these ideas bearing fruit.

We believe the SNIB should be a public purpose, mission-driven, patient, sustainable and ethical public Bank which provides financial investment to public and private entities to build an inclusive, zero carbon Scottish economy.

The Bank can be Scotland's key opportunity to end the fossil fuel age by mobilising public and private finance to deliver a just transition to a zero-carbon Scotland and developing our economy to benefit the poor and marginalised in our society.

We hope our proposals continue to provide a useful contribution to the SNIB's development, helping bring about a powerful public bank that invests for the common good of all.

*In preparing this response Friends of the Earth Scotland greatly acknowledges the ideas brought forward by our colleagues and partners at the event 'For a Green and Ethical SNIB' on Monday 29th October 2018.*

*For more information please visit: [www.foe.scot/campaign/just-transition/snib](http://www.foe.scot/campaign/just-transition/snib)*

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### Question 1:

**Are the proposed objectives and purposes for the Bank the most appropriate to deliver the Implementation Plan's recommendations, and to fulfil the Bank's potential contribution to increasing sustainable economic growth?**

### Question 2:

**Do you have views on the statement of the Vision which has been set for the Bank, in paragraph 3.2?**

#### Objectives and approach

The purpose of 'enabling, promoting or sustaining economic development or employment in Scotland', when seen alongside an improved vision and clear missions, is appropriate, and the proposed set of eight objectives (*p.7-8 in the consultation document*) are laudable. If vision and missions are clear and useful, these objectives will outline an ambitious but robust description of the future Bank.

We hope the mission-based approach featured in the implementation plan will enable the Bank to deliver for the public good, as opposed to generating economic activity with narrow benefits.

The commitment to patient lending is critical in ensuring the Bank can support emerging technology, including those poorly served by existing short-term focussed lending, such as tidal and wave energy. These kinds of projects will also entail risks, and the Bank must be willing to take significant, albeit hedged, risks in the fulfilment of its aims.

#### A focussed vision

We are encouraged by those aspects of the Scottish Government's proposals which envisage the Bank as delivering missions that benefit Government policy across its portfolios, instead of narrowly sitting within Scotland's Economic Strategy.

***Original vision, proposed by the Scottish Government in 2017:***

*"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."*

***Revised vision, proposed in the Implementation Plan, 2018:***

*"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."*

***FoES proposal:***

*"Provide finance and act to catalyse public and private investment for the just transition to a zero carbon and inclusive economy."*

We propose omitting the phrase "a step change in growth for the Scottish economy" as we believe the size of the economy is not a useful indicator of national

performance. The introduction to the Scottish Government's new National Performance Framework (NPF) discusses the disadvantages of GDP as an indicator of national performance:

“...is the economy growing at the cost of the environment, or our health, or education? Are communities in Scotland thriving? Or, are the people in Scotland generally happy? GDP provides limited insight into the quality of life of our people, our environment, our democracy, and other aspects of wellbeing that we value.”<sup>1</sup>

Economic growth is not an end in of itself, so the SNIB should be directed towards attaining improvements in indicators of wellbeing and environmental protection, achieved through driving economic activity that is inclusive and environmentally sound (*our position on economic growth is detailed in the Scottish Environment LINK report 'Helping Scotland Flourish'*<sup>2</sup>).

The 2018 vision (*see above*) added the word “private investment” suggesting the Bank should be restricted from public capitalisation or co-lending. This is short-sighted and misses significant funding opportunities from local authorities, pension funds and other potential future sources. Our proposed vision emphasises the Bank's potential to be capitalised by and lend to public and private entities. We have discussed this further under Q9.

It has been clearly demonstrated that inequality drives poverty.<sup>3</sup> We support the aim of building an inclusive economy, both because we believe Scotland needs to address rural and urban deprivation, and the exclusion of marginalised groups, with women, people of colour and disabled people benefitting less from Scotland's economic prosperity.

Our proposed vision doesn't include the terms “high-tech, connected, globally competitive” not because we believe these outcomes to be pernicious, but because we do not see that they add any useful, achievable objectives for the Bank's work: something that drives inclusion and zero-carbon is most likely inherently socially useful, on the other hand, something that is high-tech, connected and globally competitive could also be polluting, or undermine human rights. Furthermore, something that is low-tech could also be very valuable in driving inclusion and zero-carbon development, such as loft insulation.

This vision should be enshrined in the Bill to ensure that the Bank is not required to sharply change direction to align with political changes.

### **Question 3:**

**Do you agree that the overall direction for the Bank should be set by Ministers through a Strategic Framework, including the setting of missions and performance objectives and a target rate of financial return?**

<sup>1</sup> <http://nationalperformance.gov.scot/>

<sup>2</sup> <http://www.scotlink.org/files/policy/PositionPapers/LINKHelpingScotlandFlourish.pdf>

<sup>3</sup> <http://www.lse.ac.uk/News/Latest-news-from-LSE/2017/11-November-2017/Higher-inequality-in-the-UK-linked-to-higher-poverty>

The Strategic Framework should embed the Bank being wholly mission-led and public-purpose driven in all it does. It will need to be proactive not reactive, recognising that sufficient demand for finance will not always exist to deliver on its vision and missions. Where demand for finance doesn't exist the Bank should seek to create and shape new markets and supply chains, working with the enterprise agencies and other public bodies.

For example, Scotland has a limited domestic supply chain for off-shore wind power and oil and gas decommissioning, industries which will offer significant opportunities for Scottish enterprise. The Bank will need to intervene in the market to create value in these industries.

We emphasise this because despite some reassurances the mission-led character of the Bank is not clear in the Scottish Government's plans. The Implementation Plan states that the a "strategic role" fits "alongside the mission-oriented approach" enabling investment to "support innovative, high growth Scottish firms in whatever sector they appear" (bar some caveats). Broadening the Bank's lending outwith the missions could mean that lending for public-purpose becomes a niche department of the SNIB, sidelining the missions and leading to the Bank providing less benefit to society at large.

We also note that the mission-led, public purpose approach was strongly backed by responses to the 2017 consultation with respondents identifying "addressing complex social problems", "financing infrastructure projects" and "mission-oriented finance" as their top impacts areas for the Bank.

The Strategic Framework should be clearly aligned with public policy on inclusive growth and climate change, delivering outcomes in concert with the Just Transition Commission and Infrastructure Commissions, realising delivery of the Climate Change Plan and the UN Sustainable Development Goals, and abiding by the public bodies duties of the Scottish Climate Change Act, the Fairer Scotland Duty and the Public Sector Equality Duty.

#### **Question 4:**

**Do you have any views and suggestions on the example of missions, outlined in paragraph 4.7 and what are these?**

As the world passes 1°C of global warming the effects of climate change are already proving devastating. The last three years were the warmest ever recorded, and global warming is driving hurricanes in the Caribbean, wildfires in the US and Europe, heatwaves in Australia and devastating floods and typhoons in Asia. 26 million people are already being pushed into poverty by weather and climate disasters every year.<sup>4</sup>

In 2017 the First Minister addressed the United Nations conference on climate change in support of efforts to keep global warming to 1.5°C:

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<sup>4</sup> <https://unfccc.int/news/un-collects-data-on-losses-from-climate-change>

“We recognise the economic and social opportunities of a just transition to create new jobs; to protect our natural environment; and to tackle pollution and save lives. But, above all else, we understand this – tackling climate change is an overwhelming moral obligation that we owe to this and future generations.”<sup>5</sup>

To tackle climate change a huge acceleration in investment in zero-carbon technology for both production and consumption of energy is required, alongside the ordered and fair decommissioning of fossil fuel infrastructure. Yet global fossil fuel investment continues apace and in the UK investment in renewable energy has dramatically dropped (*as evidenced by the Environmental Audit Committee*<sup>6</sup>).

We welcome that the Scottish Government has identified the low-carbon transition as an aim of the Bank. At the launch of the SNIB Implementation Plan the First Minister said:

“Given the challenge we face in terms of the transition to a low carbon economy and the potential huge opportunities for our economy of that transition, the idea that you would set up a Scottish National Investment Bank right now without that being a central part of what its mission was, is unthinkable.”<sup>7</sup>

Responding to this challenge will require an unprecedented investment programme, for example:

- Upgrading Scotland’s housing stock to Energy Performance band C or above requires financing of £4.5 bn over 10 years. A project of this scope could generate a net increase in jobs of 8,000-9,000 per year.<sup>8</sup>
- Decommissioning Scotland’s oil industry will require creating an estimated 40,000 jobs.<sup>9</sup>
- Building new offshore wind power could create 106,000 jobs in Scotland.<sup>10</sup>
- We estimate it would cost £100 million to retrofit the 6,500 buses and coaches in Scotland which do not currently meet top emissions standards.

Although exact numbers are unavailable it is clear that investment on this scale is beyond that already committed to the SNIB.

As such, in its early stages at least, to deliver on the First Minister’s ambitions for the Bank, delivering zero-carbon lending will need to be an *overwhelming* focus of the Bank’s activities.

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<sup>5</sup> <https://www.snp.org/first-minister-nicola-sturgeon-speech-to-the-un-climate-change-conference-in-bonn/>

<sup>6</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/617/617.pdf>

<sup>7</sup> <https://foe.scot/press-release/national-investment-bank-zero-carbon-transition/>

<sup>8</sup> <http://www.stopclimatechaos.org/sites/www.stopclimatechaos.org/files/Warm%20homes%20-%20SCCS%20Climate%20Bill%20briefing.docx.pdf>

<sup>9</sup> [https://greens.scot/sites/default/files/Policy/Jobs\\_in\\_Scotland\\_New\\_Economy.pdf](https://greens.scot/sites/default/files/Policy/Jobs_in_Scotland_New_Economy.pdf)

<sup>10</sup> As above.

Some emerging technologies such as wave and tidal power will involve higher-risk finance, whilst others will be low-tech and low-risk, such as energy efficiency upgrades.

Nonetheless a focus on zero-carbon lending can be expected to bring long-term benefits to the Bank. With only 0.07% of offshore wind is owned by UK public bodies and 51.2% is owned by foreign public companies there is a clear opportunity for the SNIB to enable public benefit to be derived from Scotland's renewable potential.<sup>11</sup>

**Question 5:**

**Do you agree that the Bank should identify and implement an Investment Strategy, which is along the lines suggested?**

The investment strategy should consider multiple areas of zero-carbon investment required including renewable electricity generation, renewable heat, zero-carbon public transport, energy efficiency measures, decommissioning, waste reduction and sustainable agriculture.

We would expect significant lending to be provided to tackle areas of great need which are currently poorly served by lenders including housing insulation, public transport, district heating networks and offshore wind power.

Expertise should be employed at the earliest stage to assess the state of these industries, the scale of the investment gap, and what products and interventions may be required to begin lending effectively.

**Question 6:**

**Are there any arrangements or requirements not already considered that would inform the Equalities Impact Assessment and strengthen and enhance the Bank's ethical approach to investment, and what are these?**

**Question 7:**

**Do you agree with the principles approach that is proposed for the Bank, including publication of an Ethics Statement by the Board?**

Ethical lending framework

Many responses to the 2017 consultation emphasised the importance of the Bank being seen as an ethical lender. This raises two challenges: how to weed out unethical projects, and how to promote those most deserving of lending?

To deliver the Bank's vision and missions we propose an ethical lending framework covering two phases:

1. Minimum standards assessment: lending must contribute to at least one of the

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<sup>11</sup> [https://labourenergy.org/wp-content/uploads/2017/08/Who-owns-the-wind\\_2017\\_Labour-Energy-Forum.pdf](https://labourenergy.org/wp-content/uploads/2017/08/Who-owns-the-wind_2017_Labour-Energy-Forum.pdf)

Bank's missions; it must not significantly undermine other missions; and it must adhere to basic environmental, human rights and financial transparency standards.

2. **Scorecarding:** lending is awarded points according to its positive alignment with missions and vision.

In line with international best practice, the minimum standards assessment will ensure that projects which do not meet basic environmental and ethical standards are excluded.

Many major investment banks and large pension funds have lending exclusions including RBS<sup>12</sup>, the Norwegian Sovereign Wealth Fund<sup>13</sup>, Green Investment Group<sup>14</sup> and Triodos<sup>15</sup>.

A 2017 report by the European Network on Debt and Development assessed development bank best practice on environmental and social standards, emphasising their importance in both minimising negative impacts and improving the long-term social impact of lending.<sup>16</sup>

They suggest that minimum standards should be set regarding Respect for human rights; Respect for social, labour, gender and environmental standards; and Financial transparency and responsible taxation. Ensuring that all lending meets such standards will safeguard the reputational of the Bank and ensure basic public-purpose compliance.

We propose exclusions for:

- Fossil fuel production and supply
- Non-sustainable energy sources such as agrofuel, waste incineration and nuclear power
- Tobacco production
- Involvement in tax evasion, corruption
- Involvement in human rights abuses, nuclear weapons and illegal weapons

The scorecarding stage would enable the Bank to highlight and prioritise those projects which best align with its vision and missions. These could be derived from the Bank's own priorities as well as wider public sector objectives such as those in the NPF. The Bank could offer preferential rates to projects and companies which score highly, or prioritise sectors which align with these areas for lending.

Such an approach has been used in practice: the German state Bank KfW offered preferential mortgage rates to self builds that had high environmental standards,

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<sup>12</sup> <https://www.rbs.com/rbs/news/2018/05/rbs-introduces-new-energy-financing-policies-to-support-low-carb.html>

<sup>13</sup> <https://www.nbim.no/en/responsibility/exclusion-of-companies/>

<sup>14</sup> <http://greeninvestmentgroup.com/media/185862/gig-green-investment-policy.pdf>

<sup>15</sup> <https://www.triodos.com/downloads/about-triodos-bank/triodos-banks-minimum-standards.pdf>

<sup>16</sup> <https://eurodad.org/files/pdf/1546743-public-development-banks-towards-a-better-model.pdf>

significantly increasing the installation of zero-carbon housing.<sup>17</sup>

We suggest the following characteristics should receive points:

- Democratic and wealth-distributing ownership models including social enterprises, cooperative, community and public ownership.
- Businesses where women, people of colour and disabled people are represented on boards and in senior management roles.
- Promoting energy efficiency, renewable energy, zero carbon transport, waste reduction, fossil fuel decommissioning, sustainable agriculture and the circular economy.
- Ethical procurement, including using existing schemes such as Fair Trade, Organic, Marine Sustainability Council, Forestry Stewardship Council.
- Living Wage Commitment and low pay ratios and gender pay gaps, employee representatives on boards
- Lending that benefits deprived areas (according to the Scottish Index of Multiple Deprivation<sup>18</sup>).

To ensure that the Bank is delivering on its public purpose this ethical lending framework would need to be an integral part of the lending process.

A team leading on the design and delivery of this framework will need to be recruited at the earliest opportunity to ensure lending from the outset meets the Bank's vision and to reduce the risk of the Bank lending to unethical projects and companies.

The Bill should commit the Bank to lend in a way that doesn't undermine its vision and missions, commit to minimum ethical standards, and outline a proposed scorecarding approach.

The Bank's Ethics Statement should then detail minimum standards, including exclusions, and the scorecarding process.

### Equalities Impact Assessment

The Equalities Impact Assessment should be seen as an opportunity to seriously interrogate the Bank's potential to drive inclusion in its processes and lending.

The Bank can focus on companies and programmes led by and designed for marginalised groups including women, disabled people and people of colour, and directing investment into deprived communities and regions.

The Scottish Women's Budget Group state: "Inclusive growth means including men and women and meeting the different needs of disabled, LGB & T, Black and minority ethnic, and older and younger women, and non-binary people... Our investment bank should invest in research and development, but the jobs and

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<sup>17</sup> Described on p.13 of the following:

[http://www.zerocarbonhub.org/sites/default/files/resources/reports/Lessons\\_from\\_Germanys\\_Passivhaus\\_Experience%28NF47%29.pdf](http://www.zerocarbonhub.org/sites/default/files/resources/reports/Lessons_from_Germanys_Passivhaus_Experience%28NF47%29.pdf)

<sup>18</sup> <http://simd.scot/>

technologies it creates should benefit men and women, boys and girls.”<sup>19</sup>

There is a risk that the Bank will be run and lend in a way that disproportionately benefits high-income white men. To counter this, and therefore to deliver on the Bank’s vision of being inclusive, the Bank will need to acquire high-level expertise and develop a credible strategy, potentially setting up special programmes to lend to marginalised groups and deprived communities and regions.

Research should be commissioned to analyse who uses and benefits from existing services provided by Scottish Enterprise and the Scottish Investment Bank, to identify challenges for the Bank lending to promote inclusion and equality.

From top to bottom the Bank should lead on the employment of marginalised groups, with a gender diverse Board that represents Scotland’s diversity, putting where possible processes in place that promote women, people of colour, disabled people within the Bank.

**Question 8:**

**Is there a better option than the Public Limited Company model, and if so what is it and why?**

**Question 9:**

**Do you have views at this stage on the proposals for capitalisation of the Bank?**

**Question 10:**

**Do you have views on how the governance and classification of the Bank should evolve over time, and if so, what measures and protections should be included now to guide and inform a future change in governance and classification of the Bank?**

Classification

The public sector classification of the Bank is welcomed.

The Bank should also have full powers of a Bank so that it can leverage its subscribed and paid-in capital, issue bonds, and have more power over how it lends. It is concerning that a programme of developing local branch banking is rejected on the grounds that it would require “the agreement and cooperation of the UK Government” as we believe such cooperation will be required for the Bank to be operational and successful.

Capitalisation

The Bank should be capitalised by public and private investment, enabling local authorities, pension funds and other public bodies to invest in the Bank.

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<sup>19</sup> <https://www.engender.org.uk/news/blog/seven-principles-for-a-gender-competent-scottish-national-investment-bank/>

For example, Scottish local government pension funds currently invest £1.8 billion of pension fund assets in fossil fuel supply companies.<sup>20</sup> Some fund trustees have indicated they would like to invest this money in fossil-free local infrastructure, but many funds are too small to do this efficiently. The Bank could offer green bonds to pension funds as an ethical and low-risk alternative to equity investment.

Globally, assets under management valued \$6.24 trillion have been committed to divestment from fossil fuels.<sup>21</sup> To supply this growing market many national development banks have issued green bonds. As more institutions commit to divestment from fossil fuels, capitalisation opportunities for the SNIB will rise.

### Lending locally

The Bank will need national and local public bodies to implement its lending programme.

At a national scale, entities like the forthcoming Publicly Owned Energy Company could serve as a useful partner in delivering zero-carbon energy lending.

Much of the lending required will need to be small scale. For example the Bank would be very well suited to lend to community renewable energy projects and start-up businesses owned by disabled people. To do this it will need to utilise intermediary institutions and lenders to provide business advice and tailored lending, operating locally.

Local apparatus will also be critical for ensuring the Bank lends across Scotland, not just focussing on areas already well connected to economic prosperity.

The SNIB would benefit from local authorities having a role in governance and implementation at this level. To maximise their ability to respond to local needs, over time these bodies could become more independent and eventually be established into a fully-functioning local banking network, similarly to the German Landesbanken and Sparkassen model, as proposed in our paper *Banking for the Common Good*.<sup>22</sup>

#### **Question 11:**

**Do you agree with the proposed approach to the Bank's governance and Board arrangements which will inform the Bill, the Articles of Association and a Strategic Framework document?**

#### **Question 12:**

**Do you have any comments on the need for the Bank to have Delegated Powers, in order to achieve the aim of it being operational and administratively independent?**

#### **Question 13:**

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<sup>20</sup> <https://foe.scot/campaign/divestment/local-government/councils-gambling-fossil-fuels/>

<sup>21</sup> <https://www.arabellaadvisors.com/wp-content/uploads/2018/09/Global-Divestment-Report-2018.pdf>

<sup>22</sup> <https://foe.scot/resource/banking-common-good/>

**Do you have views on whether and how an Advisory Group could provide advice to Ministers on issues relating to the Bank?**

Scotland's economy does not currently benefit everyone equally, which is why it is laudable that the Bank has the objective of making prosperity inclusive. To make this credible, the Board must include people from communities currently excluded from this prosperity. This means the board must be gender diverse and reflect Scotland's population including its marginalised groups.

The Board should also include employee representatives, and trade unions should have a role in the Bank's governance and operations.

Public trust in Scottish banking has been severely damaged by the financial crisis. To gain public trust in the SNIB Directors and senior managers must not have a revolving door with the private sector. We are deeply concerned about staff from the private financial sector having key roles in the SNIB, bringing with them a culture of toxic and even criminal behaviour. Instead the Bank should draw on expertise in public banking and ethical lending, if needed, from outwith the UK.

An Advisory Group could have a role in independently scrutinising the Bank's lending, with representatives of civic Scotland and local communities, and be sufficiently funded to enable it to put in place a work programme that enables it to represent the views of the wider public and civil society outwith their own expertise.

However the Board cannot delegate concerns about the Bank's public purpose to the Advisory Group. The Board must retain full responsibility, and be full equipped, to deliver the public purpose of the Bank and its missions.

Delivery of each of the Bank's missions will require specific expertise to ensure the needs of identified sectors are fully understood and appropriate minimum standards and scorecarding applied. This may require additional levels of oversight alongside those proposed.

**Question 14:**

**Do you have views on the initial operating model and costs identified in the Implementation Plan and what are these?**

**Question 15:**

**Do you have views on any criteria for the approach to remuneration for senior and specialist roles in the Bank?**

**Question 16:**

**Do you have views on areas where the current approach to public sector pay would suit the needs of the Bank, and are there other examples of variations in public pay policy that would be suitable for the Bank and any areas where some changes may be needed?**

Given the Bank's stated objective of making the economy more inclusive, we believe it is essential that the Bank seeks to lead, not follow, the banking industry on fair and

equal pay.

According to a report by the New Economics Foundation:

“The Royal Navy, John Lewis department stores and the Ben and Jerry’s ice-cream company have all at times imposed limits on wage differentials in the belief that a measure of equality would benefit organisational performance.”<sup>23</sup>

Given the Scottish financial sector's track record of failure, there is no credible case for the Bank paying senior staff as private bankers instead of public servants.

We welcome the proposal to pay all staff at the Bank the Scottish Living Wage or more, and would propose this is extended to sub-contracted services such as cleaning and IT as well.

We propose that pay within the Bank should not exceed the First Minister’s salary, which currently stands at £151,721. When compared with current the Scottish Living Wage this gives a pay ratio for the Bank of 9:1.

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<sup>23</sup> [https://neweconomics.org/uploads/files/8c16eabdbadf83ca79\\_ojm6b0fzh.pdf](https://neweconomics.org/uploads/files/8c16eabdbadf83ca79_ojm6b0fzh.pdf)