Friends of the Earth Scotland

Evidence for the Scottish Parliament Economy, Energy and Fair Work Committee on the **Scottish National Investment Bank**

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Friends of the Earth Scotland

Friends of the Earth Scotland (FoES) is campaigning for climate justice and 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 return to publicly-owned and orientated banking for Scotland, including the establishment of a Scottish National Investment Bank. Over 1,000 of our supporters responded to the 2018 consultation on the Bank, calling for the SNIB to focus on climate change and rule out lending to fossil fuels.

1. What are the advantages or otherwise in establishing the Bank as a public limited company?

The classification of the SNIB as a PLC owned at arms-length by the Scottish Government and classified as a public body will enable transparency by ensuring the Bank is covered by the Freedom of Information Act. This model also requires the Bank meets requirements regarding gender diversity on its board (via the Public Sector Equalities Duty) and meet the public bodies duties of the Climate Change Act.

Long-term involvement of the public-sector in finance is sorely needed given the steep falls in renewable energy funding *(see Q3)* and the poor track record of the UK's private banking sector to deliver public benefit. The Bill as published helps ensure the Bank remains publicly-owned by requiring primary legislation before privatisation can be enacted.

2. What in your view are the fundamental characteristics of a national investment bank?

The Scottish Government's Implementation Plan said the Bank's should provide investment that would transform Scotland by "accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy."

There is an emerging consensus in the Scottish Government and Parliament that a fundamental role of the SNIB is to use its lending to tackle climate change.

On 24th April the Scottish Parliament backed a **Green New Deal**, calling on the "Scottish Government to work with other parties to ensure that this agenda is a central part of the Scottish National Investment Bank's core activities". The agreed motion seeks "an inclusive and sustainable economy that **prioritises decarbonisation**, the eradication of inequality and the restoration of Scotland's environment in a way that supports community and employee-led actions."[1]

[1] https://www.parliament.scot/parliamentarybusiness/28877.aspx?SearchType=Advance&ReferenceNumbers=S5M-17000&ResultsPerPage=10

Speaking at the STUC in April the First Minister said “a key mission of the new national investment bank will be to **support the transition to carbon neutral society**.”[2] The Scottish Government’s 2018 consultation found “overwhelming support” for such an approach and the Cabinet has agreed that one of the Bank’s initial missions will be to the transition to a “low carbon economy”.[3]

With this approach established, we support three fundamental characteristics of a well-purposed SNIB:

1. Wholly focussed on **lending for the public good**, not for private profit.

2. A key delivery mechanism for a Green New Deal that spurs the **transition to a zero-carbon economy**.

3. World-leading **ethical standards, governance and transparency**, with tackling inequality and climate change at the heart of the Bank’s corporate culture.

The following features of the Bill are aligned with these characteristics:

- The ancillary objective of intervening to create and shape markets is essential if the Bank is to be afforded sufficient scope to generate new supply chains – sorely lacking in renewable energy.

- The ancillary objective to lend patiently and in the long-term. The SNIB Implementation Plan proposed a 10-15 year pay-off timescale.[4] Given that Scotland’s Climate Change Act requires the economy is primarily carbon-free within 10 years, this implies that high-carbon investments will be out of scope, which is welcome (although a specific exemption is also desirable, *see Q7*).

However, we believe the Bill fails on other counts:

- **The Bill does not mention climate change, the environment, decarbonisation, carbon or greenhouse gas emissions.**

- The Bank’s ancillary objective of investing in “sustainable economic growth” is unhelpfully ambiguous. Instead of implying a concern for environmental protection this is often interpreted as referring to economic growth that continues *in perpetuity*.

- The dominance in the Bill of alignment with economic policy objectives, which are primarily orientated around increasing the *quantity* of economic activity, come at the expense of more meaningful national outcomes on health, wellbeing, environmental quality, equality and human rights.

With the right missions, lending criteria and Board the Bank could transform the lending landscape for socially useful projects in Scotland, unlocking vital finance for the just transition to a zero-carbon economy and tackling inequality.

But the current Bill does little to ensure the Bank *must* do these things. As such, a future Scottish Government, whilst they might struggle to privatise it, could easily wreck its public-spirited intentions by setting entirely pro-corporate missions and providing no scrutiny to who it lends to.

In this way, the Bill fails on its most crucial test: it does not require the Bank to be socially useful, it simply requires the Bank to exist.

To remedy this, we would support amendments to the Bill that require minimum ethical standards be applied to its lending and give the Bank the objective of tackling the two overwhelming challenges of

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[2] https://news.gov.scot/speeches-and-briefings/stuc-first-ministers-speech
[3] https://www.gov.scot/publications/scottish-national-investment-bank-consultation-analysis-responses/
[4] https://www.gov.scot/publications/scottish-national-investment-bank-implementation-plan/pages/3/

inequality and decarbonisation.

3. Is the level of capitalisation proposed sufficient for the Bank to deliver its desired impact? Please expand.

Scotland's climate targets necessitate a rapid increase in green investment. However, in 2018 the Environmental Audit Committee reported a "**dramatic and worrying collapse**" with annual investment in clean energy now at its lowest since 2008.[5]

The Committee cited UK Government policy changes including:

- Early closure of the Renewables Obligation to onshore wind.
- Removal of the Climate Change Levy exemption for renewables.
- Reduced Feed-In-Tariffs for small scale renewable generation.
- Cancellation of the Zero Carbon Homes policy.

Brexit has also precipitated a dramatic reduction in finance from the European Investment Bank and the UK Green Investment Bank has been privatised. At the same time the STUC reported a decline in the number of low-carbon and renewable jobs in the Scottish economy.[6]

Public finance for the transition to a zero-carbon economy is urgently needed in the following areas:

- 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 123GW offshore floating wind power is practicable in Scottish waters. Building new offshore wind power could create 106,000 jobs in Scotland.[7]
- As of 2017 people in 649,000 households in Scotland live in fuel poverty. 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.[8]
- The Scottish Government Energy Strategy requires a rapid transition away from fossil fuel heating towards renewable district heating and geothermal. This is a huge technological challenge on which Scotland could become a global leader.
- Investment in public buses, trams and light rail, and walking and cycling infrastructure can boost local business, improve health, and cut our currently dangerous levels of local air pollution. 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.
- Decommissioning Scotland's oil industry will require creating an estimated 40,000 jobs.[9]

[5] https://www.parliament.uk/business/committees/committees-a-z/commons-select/environmental-audit-committee/news-parliament-2017/green-finance-report-published-17-19/

[6] https://www.gmb.org.uk/sites/default/files/Broken%20promises%20and%20offshored%20jobs%20report.pdf

[7] https://greens.scot/sites/default/files/Policy/Jobs_in_Scotland_New_Economy.pdf

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

[9] https://greens.scot/sites/default/files/Policy/Jobs_in_Scotland_New_Economy.pdf

It is highly likely that the level of finance required to deliver these programmes will exceed that currently set-aside for the SNIB. If the Bank proves its ability to spur the zero-carbon transition, **increased funding would be appropriate**.

The Bill required that the Bank may only borrow from the Scottish Government and is prohibited from raising capital from pension funds or private sources. This seems needlessly restrictive and deserves scrutiny.

We note the Scottish Parliament and Government's interest in instigating a *Scottish Green New Deal.*[10] Since the SNIB will not lend to public bodies at scale, additional channels of funding and finance for public bodies will be needed to deliver a just transition *(see Q9)*.

4. What is your view on the proposed costs in the set up and day-to-day running of the Bank?

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

The New Economics Foundation notes:

> "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."[11]

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.

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.

5. What governance arrangements ought to be in place?

A number of issues regarding the Bank's governance are beyond the scope of the Bill but will be of interest regarding the Committee's wider role in scrutinising the establishment of the SNIB.

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. The governance of the Bank needs to reflect this ambition.

To be meaningfully *inclusive* the **board** must include people from communities currently *excluded* from Scotland prosperity. The board must be gender diverse, reflect Scotland's population including its marginalised groups, and include employee representatives.

Public trust in UK banks was severely damaged by the financial crisis and continues to be undermined by **misconduct**. In 2016 Bank of England governor Mark Carney warned "the incidence of financial sector misconduct has risen to a level that has the potential to create systemic risks"[12] and in April 2019 former Barclays traders were jailed.[13]

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[10] https://www.gov.scot/publications/stuc-first-ministers-speech/
[11] https://neweconomics.org/uploads/files/8c16eabdbadf83ca79_ojm6b0fzh.pdf
[12] https://citywire.co.uk/investment-trust-insider/news/dodgy-bankers-again-threaten-economy-warns-carney/a945535?section=wealth-manager
[13] https://www.bbc.co.uk/news/business-47779993

To regain public trust there must be no revolving door between the SNIB and the private financial sector. The Bank should instead consider drawing on expertise in public banking and ethical lending, if needed, from outwith the UK, for example seeking talent from the established Nordic Investment Bank or the German KfW.

An **Advisory Group** could have a role in independently scrutinising the Bank's lending, with representatives of civic Scotland and local communities. However, it will be ineffective unless it is sufficiently funded to produce work that represents the views of the wider public and civil society outwith their own expertise.

Regardless, the Board must retain full responsibility, and be fully equipped, to deliver the public purpose of the Bank and its missions – it cannot delegate these concerns to an external Advisory Group.

Delivery of each of the Bank's missions will require specific expertise to ensure the needs of identified sectors are fully understood and appropriate ethical standards are applied.

6. How can we ensure the market is ready for the investment opportunities the Bank can offer?

We do not wish to contribute on this topic at this time.

7. What ethical and equalities considerations do you think should inform the Bank's ethos and decision making?

Without specifying them in detail, the Bill should commit the Bank to set minimum ethical standards and ensure lending doesn't undermine its missions. No such commitment is present in the Bill. These elements may appear in the Strategic Framework and Performance Framework but without even being referenced in the Bill their longevity is not secure.

Given the Bank's proposed focus on climate change there should be an exclusion for lending to companies extracting fossil fuels or producing excessive pollution.

With ethical lending or minimum standards missing from the Bank's current approach we provide a proposal derived from industry best-practice.

Ethical lending framework

The Bank must have processes to weed out unethical projects and promote those most deserving of lending.

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

1. <u>Minimum standards assessment</u>: lending must contribute to at least one of the Bank's missions; it must not significantly undermine other missions; and it must adhere to basic environmental, human rights and financial transparency standards.

2. <u>Scorecarding</u>: lending is awarded points according to its positive alignment with missions and aims.

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

Many major banks and pension funds have lending exclusions including RBS[14], the Norwegian Sovereign Wealth Fund[15], Green Investment Group[16] and Triodos[17].

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.[18]

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 aims and missions. These could be derived from the Bank's own priorities as well as wider public sector objectives such as those in the National Performance Framework, as suggested by SPICE.[19] The Bank could offer preferential rates to projects and companies which score highly, or prioritise sectors which align with these areas for lending.

For example, the German state Bank KfW offered preferential mortgage rates to self builds that had high environmental standards, significantly increasing the installation of zero-carbon housing.[20]

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

[14] https://www.rbs.com/rbs/news/2018/05/rbs-introduces-new-energy-financing-policies-to-support-low-carb.html

[15] https://www.nbim.no/en/responsibility/exclusion-of-companies/

[16] http://greeninvestmentgroup.com/media/185862/gig-green-investment-policy.pdf

[17] https://www.triodos.com/downloads/about-triodos-bank/triodos-banks-minimum-standards.pdf

[18] https://eurodad.org/files/pdf/1546743-public-development-banks-towards-a-better-model.pdf

[19] See p.16, https://sp-bpr-en-prod-cdnep.azureedge.net/published/2019/4/26/Scottish-National-Investment-Bank-Bill/SB%2019-25.pdf

[20] Described on p.13 of the following: http://www.zerocarbonhub.org/sites/default/files/resources/reports/Lessons_from_Germanys_Passivhaus_Experience%28NF47%29.pdf

on boards

- Lending that benefits deprived areas (according to the Scottish Index of Multiple Deprivation[21]).

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.

Equalities

The Bank's objective of lending to make prosperity more inclusive is encouraging but means little if not woven through the rest of the Bill and the Bank's operations.

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."[22]

A 2019 study found that less than 1% of the EU's Structural and Investment Funds have been set aside for the promotion of gender equality.[23] The SNIB will need to do better.

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 the Bank will need to acquire high-level expertise and develop a credible strategy, potentially including:

- A detailed analysis of who benefits from existing services provided by Scottish Enterprise and the Scottish Investment Bank, to identify challenges for the Bank lending to promote equality.

- Developing specialised lending to companies and projects led by and designed for marginalised groups including women, disabled people, people of colour, and economically deprived communities.

- Leading on the employment of marginalised groups through processes that promote women, people of colour, disabled people within the Bank.

- A gender diverse board that reflects Scotland's population including its marginalised groups, and includes employee representatives.

The Bank should deliver relevant National Performance Framework outcomes and meet regulatory standards such as the Fairer Scotland Duty and the Public Sector Equality Duty.

Continues overleaf

[21] http://simd.scot/
[22] https://www.engender.org.uk/news/blog/seven-principles-for-a-gender-competent-scottish-national-investment-bank/
[23] https://eige.europa.eu/publications/gender-budgeting-mainstreaming-gender-eu-budget-and-macroeconomic-policy-framework

8. It is proposed that the Scottish Government will set the strategic direction of the Bank but the body itself decide on its investment approach. What is your view on this “mission-led” approach?

We strongly support the Bank’s approach to address public-purpose missions. However, we have concerns about the primacy of this approach in the Bill:

- The mission-led approach is not referenced in the Bank’s objectives.
- The Bank must merely report on how is “intends to respond” to any mission, suggesting they are merely advisory.
- The lack of Parliamentary oversight over the setting and delivery of missions could contribute to their low-profile.

Without care there is a real risk that the missions are seen as something delivered by a small part of the Bank, a “mission-led department”, whilst the majority of lending finances “business as usual”:

9. Is there any other aspect of the Bill you wish to address? Please elaborate.

We offer the following additional considerations:

- The Bill prohibits the Bank from lending to public bodies such as local authorities and universities. We understand this is due to restrictions in the Scotland Act. However, this raises questions about the future of infrastructure financing and funding, and local government debt. We hope these will be addressed with some urgency.
- The Just Transition Commission was set up by the Scottish Government to work towards how to plan, invest and implement a transition to environmentally and socially sustainable jobs, sectors and economies in Scotland. The Committee should consider the Bank’s role in delivering the Just Transition, including what the SNIB *cannot* do, such as lend to public bodies or fund infrastructure.
- The Environment, Climate Change and Land Reform Committee recommended that work be commissioned to assess and evaluate how Scotland’s carbon targets could be embedded in the work of enterprise agencies and the SNIB. We would support this recommendation.[24]
- Local apparatus will be critical for ensuring the Bank lends across Scotland. The SNIB would benefit from local authorities having a role in governance and implementation and we would recommend a network of local agencies is supported. 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.[25]

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24 Environment, Climate Change and Land Reform Committee, Stage 1 Report on the Climate Change (Emissions Reduction Targets) (Scotland) Bill, p.102

[25] https://foe.scot/resource/banking-common-good/