

Scottish National Investment Bank

SCVO submission to the Economy, Energy and Fair Work Committee

03 May 2019

Our position

- SCVO welcome the proposals for a Scottish National Investment Bank. Our vision for the Bank is directed towards an investment-led just transition to a zero-carbon economy that accelerates social and environmental impact ahead of economic growth.
- The broad mandate set out by the Bill in the Bank's main and ancillary objects fails to enshrine either the Scottish Government's vision for the Bank - set out in its implementation plan - or the socio-economic and environmental objectives we expected in law.
- With the Bill in its current form, establishing the Bank as a public limited company does not provide sufficient legislative measures to maintain the longevity of the Bank's purpose and vision previously set out and consulted on by the Scottish Government.
- The Bill provides little if any indication of the importance of measuring the success of the Bank's investments on the positive externalities that public purpose-driven initiatives will create beyond generating financial profit and surplus for reinvestment.
- National Investment Banks are most effective when they finance specific missions aligned with government policy. The Bill should make clear that those projects financed by the Bank should show a clear intention to work to Scotland's National Outcomes.
- The Bill is private sector and commercially focused. Narrow and restrictive wording should be changed to indicate that the Bank can lend to any non-public sector body willing to contribute to the Bank's vision, including charities and social enterprises.
- The Bank's governance and lending criteria should reflect the values of openness and participation. This will include drawing on the experiences and expertise of civic Scotland to support the design of a fairer, inclusive and sustainable economy.

Our response

SCVO's vision for the Scottish National Investment Bank (the Bank) is directed towards an investment-led just transition to a zero-carbon economy that accelerates social impacts – such as wellbeing and equality – ahead of economic growth. We therefore support the Scottish Government's vision – previously outlined in the Bank's [Implementation Plan](#) – of transforming Scotland by '*accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy.*'

Defining the purpose and vision of the Bank in the Bill will be crucial to avoiding mission-creep, keeping its public purpose-driven investment-led approach to the Scottish economy on track, and securing the view that profit is not always financial and can mean social and environmental benefits too. SCVO is concerned with the disparity between the Bill and the ambition set out in the Scottish Government's Implementation Plan and welcome the opportunity to respond to the following questions presented in the Committee's inquiry.

1. Advantages or otherwise in establishing the Bank as a public limited company

The Bill's orientation around alignment with '*commercially viable activities*' that support economic policy objectives and economic growth, and a clear side-lining of Scotland's National Outcomes on climate change, health and wellbeing, equalities and human rights, is problematic. While the Bill's main and ancillary objects refer to 'inclusive' and 'sustainable' economic growth, the focus on financial growth-based economics remains. With the Bill in its current form, we believe that establishing the Bank as a public limited company does not provide sufficient legislative measures to deliver the Bank's vision previously set out in the Scottish Government's ambitious Implementation Plan.

We consider an asset-locked model such as a Community Interest Company (CIC) as the most suitable alternative to achieve societally agreed missions driven by public purpose whilst preventing mission-creep towards economic growth at any cost. A CIC is a type of company designed for organisations that want to use their profits and assets for the public good. While SCVO agrees that the Bank should make a return on its investments, we consider the primary objective of the Bank to be something other than financial profit or surplus to reinvest. We agree that the Bank should only invest in commercially viable activities, but these must also be considered viable for the people and communities of Scotland and our environment; how the Bank is set up should build a positive and trusting relationship with citizens.

We understand the reasoning for setting up the Bank as a public limited company. There is precedent set elsewhere and the Scottish Government would like to maintain

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flexibility in how the Bank can raise investment in the future. However, we would ask whether, in its current form, the Bill provides the regulation required to ensure that the Bank's resources as a public limited company can be used not only to invest in '*commercially viable activities*' but also to ensure such initiatives are public purpose-driven in delivering for Scotland's communities, environment and our wider National Outcomes.

The Scottish Government's Implementation Plan said the Bank's vision was to provide investment that would transform Scotland by '*accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy*'; this vision is absent from the Bill. The Bank's main object is outlined as '*giving financial assistance to commercial activities*'; there is no mention of the socio-economic challenges and the Bank's mission-led approach. The ancillary objects of the Bank also include '*promoting and developing the activities of enterprises, where lack of financial investment is holding back economically viable commercial activity.*' This is, or could be, very different to funding mission-led enterprises that will deliver lower than market rate commercial returns because they are focused on maximising the positive societal, inclusive, environmental and external benefits of their mission.

We fully support the need for the Bank to have a broad mandate that allows it to respond to emerging priorities through agreeing new missions, which should not be included in the Bill. However, the broad mandate that is currently set by the Bank's main and ancillary objects fails to enshrine either the Scottish Government's original vision for the Bank or the socio-economic and environmental objectives we expected in law; the reality is that the Bank's purpose could shift over time. At the very least, the Bank's public purpose and mission-led approach will depend far too heavily on circumstances that arise well beyond the existing Parliament.

It is our view that regulations that have the effect of generally attracting equity financiers looking for modest rates of financial return, together with social benefits, would be a positive for the Bank, and could even help to reorient investment models adopted in the private sector. Without sufficient legislative measures in place, there is a danger of the Bank re-creating a pattern of 'pioneers come first, then profiteers', as has been identified by Professor Mazzucato, advisor to the Scottish Government on the Bank. Mazzucato says that the private sector will often not commit until future returns become more certain; while establishing the Bank as a public limited company provides flexibility in how the Bank can raise investment in the future, that future may already be in question without a clear purpose and vision as well as other measures such as lending criteria to prevent the Bank reverting to traditional investment models as it becomes more profitable.

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We consider an asset-locked model such as a Community Interest Company (CIC) as the most suitable alternative option to protect the Bank's assets and profits by retaining these within the Bank, which aligns with Scottish Ministers retaining full control of the Bank and profits. An 'asset lock' would limit the way in which surpluses are distributed only to commercially viable initiatives that serve the missions of the Bank, and it would prevent the transfer of assets and profits except to another asset locked body with similar aims. The Bank should follow a social enterprise philosophy to differentiate itself from the existing landscape and to remain true to its social impact purpose in all the investments it makes, from affordable housing and community development to transport and other major infrastructure.

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

We fully support the approach and characteristics represented in a recent [policy paper](#) from the UCL Institute for Innovation and Public Purpose (IIPP) on how the IIPP's mission-oriented framework can be applied to the Scottish National Investment Bank. On 21 March 2019, Professor Mazzucato presented this major report to the Scottish Government that presents a framework for guiding the Bank's investments towards tackling key societal challenges and promoting transformational change across Scotland's economy. For the benefit of the Committee, we will draw on key aspects of the paper and what this means for the Bill.

Changing how public value is imagined, practiced and evaluated to tackle societal challenges.

As outlined by the IIPP, *'even if the overall mission objective is not reach, the mission might still be considered to be successful if the process produced positive spill overs.'* The same can be said of individual investments. The legislative measures and frameworks needed to manage this tension are absent from the Bill.

With such a prominent focus on *'commercially viable activities'* and no mention of public benefit or a mission-led approach in the Bank's objects, we have concerns that the initial ambition for the Bank could become diluted with public benefit and mission led criteria side-lined in the Bill seemingly as optional asides. The whole point of a mission-led organisation is that its performance cannot and should not be measured just by its own profitability or other financial metrics. While monitoring and evaluation frameworks that capture the wider benefits and spill overs generated by the Bank's investments may appear in other places, this needs to be referenced in the Bill to secure their importance and longevity.

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The Bank has the potential to be a cornerstone of a future Scottish economy that leaves nobody behind. To realise this ambition, it must catalyse investment in a significant way to end poverty, tackle inequalities and combat climate change; just some of Scotland's national challenges set out in the National Performance Framework. It is likely to be the case that investment in activities in some of these areas may not deliver as obvious or sizeable financial returns as other more '*commercially viable activities*.' However, activities that stem from these investments may also sustain economic development or employment in other ways, thereby addressing the key points of the Bank's ancillary objects along the way.

Regrettably, the Bill provides little if any indication on measuring the success of its investments on the positive externalities that public-purpose driven initiatives could create beyond generating financial profit and surplus. While we broadly agree that the Bank should generate a surplus for reinvestment in mission-led and public-purpose driven activities, the Bill should carefully balance this requirement with legislative measures that safeguard the Bank's ability to shape a flourishing future for Scotland; not simply on profit-maximising enterprises that will deliver solely 'commercial' returns.

Measuring these positive externalities is challenging, but such a challenge should not be insurmountable. Unfortunately, this challenge is not considered with any substance in the Bill. The Bill says, '*The Bank must, at the end of each financial year, report to the Scottish Ministers on the performance of its investments.*' Although a larger review that reports on missions and objects is required '*at least once every 5 years*', the yearly report to Scottish Ministers will focus only on the financial performance of investments. While this accountability is important, focusing on financial performance alone is likely to put pressure on the Bank to give greater priority to the balance sheet and not the patient-capital investments Scotland desperately needs.

A need to address our national 'challenges'

The Scottish National Investment Bank provides the opportunity for Scotland to establish itself as a global leader in moving to a high-performing and modern economy. But economic growth is not an end in itself. National Investment Banks are often most effective when they finance specific missions aligned with government policy, and we believe that the Bank should align its investments with Scotland's National Outcomes – our agreed national challenges of relevance to Scottish society – in order to secure a just transition to a zero-carbon economy that accelerates social impacts – such as wellbeing and equality – ahead of economic growth.

In addition to there being no mention of the Bank's vision previously outlined in the Scottish Government's Implementation Plan, the Bill fails to reference this important link to our National Outcomes. The Bank should set the tone for the wider financial

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sector and draw on local experience in the area of sustainable finance and the third sector to adopt lending criteria, outcomes and indicators that ensure that the flow of investments link to Scotland's National Outcomes and National Performance framework (NPF). We recognise the need to find a balance between political representation and independent decision-making, and a clear purpose, vision and link to the National Outcomes in the Bank's objects would provide the framework for such independent decision-making to take place.

The IIPP's report refers to a '*challenge*' as '*a broadly defined area which a nation may identify as a priority,*' such as inequality or climate change. It refers to the UN Sustainable Development Goals (SDGs) as the clearest example of expressing challenges to steer investment. The Sustainable Development Goals (SDGs) have played a key role in the Scottish Government's agenda-setting having recently aligned the NPF with the SDGs. The SDGs are recognised by financial institutions across the world and underpin many new funds offered by Scottish investment houses. This connection provides an ideal eco-system for the Bank to adopt objectives and missions that ensure all investments contribute towards our National Outcomes, act to catalyse private investment towards the SDGs and support a sustainable and inclusive economy that is engaged with the world.

Different sectors coming together

The IIPP's paper states that '*missions require different sectors to come together.*' For the Scottish National Investment Bank to truly live up to its name, the Bank must lend to different actors in the economy. However, the way the Bill is currently drafted is significantly private sector-focused.

The Bill explicitly says the Bank's object is to fund '*commercial activities,*' without defining what is meant by commercial. The Bill also states that '*the Bank will only lend to the private sector,*' without clearly defining the term. Such wording is narrow and restrictive and must be changed to indicate that the Bank can lend to any non-public sector body. This includes social enterprises, community interest companies, private limited companies and registered charities.

There must be complete clarity in the Bill on this issue. Picking the willing should not just be about picking businesses. It should not be a matter of size, private, community or third sector – if organisations are willing to help reach these missions then and deliver for the public purpose then they cannot be ruled out.

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5. What governance arrangements ought to be in place?

If the Scottish National Investment Bank is focused on long term and mission-led investments, the Bank needs to reflect this in its creation, management, governance and accountability. Professor Mazzucato has championed points of diverseness, inclusivity and working with the willing. The Bank's governance should reflect this diversity of involvement at all levels.

The Bank needs to position itself so that it works with people and communities to remove the barriers and structures that prevent a just transition to a sustainable and inclusive Scottish economy. We welcome necessitating gender diversity on the Bank's Board and given that public trust in the banking system in Scotland has been severely hit since the financial crisis, we are concerned to see no further provisions in place that enable and protect the involvement of civic Scotland, local communities and marginalised groups in the governance of the Bank.

The National Investment Bank is a £2b opportunity to shift the economy, so that it benefits everyone. This means governance of the Bank must include different actors in the economy, involving public, private and third sectors from the very top to the bottom. Third sector organisations will provide expertise that can help the Bank to design a smarter, inclusive and sustainable economy, however it must also involve those groups that are traditionally marginalised from financial decision-making. It is critical that these voices are heard at a strategic level within the Bank, and any advisory or stakeholder working groups set up by the Bank cannot simply focus on ensuring the business voice is heard.

Our concern is heightened as a result of a perceived or real lack of an effective outreach and partnerships programme that involves not only the private sector but also third sector, community groups and citizens. With a strong engagement approach in place, it is less likely that the Bill as it stands would have had such a strong focus on the private sector and commercial viability and perhaps more likely for there to have been a greater focus on delivering public purpose-driven and mission-led investments that can transform our economy.

If such a programme does exist, then it should be made publicly available alongside all other key documentation. The highest levels of transparency and governance must be a part of Bank's approach and build on the Scottish Government's commitment to financial transparency. In doing so, it will harness a unique opportunity to shape a different type of narrative and attitude towards financial institutions in Scotland. We fully support the Bank being covered by the Freedom of Information Act. However, there is no framework for lending criteria referenced in the Bill.

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An open lending process for the Bank will be key to articulating a clear view of why certain lending decisions are made. Straightforward, transparent and accessible presentation of this information could lead to more support of public spending in Scotland and result in greater confidence and trust in the Scottish Government's £2 billion funding it will provide over the next ten years. This should also cover how public funding has been spent by recipients of capital and the evaluation of its success to make sure systems are in place for the Bank to be outcomes-focused and to learn from experience.

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

Enhancing our environment

Scotland is highly dependent on fossil fuels as the principal source of energy and we agree with the First Minister's statement that it would be "unthinkable" for the Bank not to focus on low-carbon lending. We welcome the proposal for decarbonising the economy as one of three missions of the bank and call for the bank to commit to financing only those projects that clearly intend to contribute to the transition to a zero-carbon economy. Finance is urgently needed to stimulate this shift.

The integrity of the Bank is strengthened through being aligned with the Scottish Government's climate reduction plans and the forthcoming Just Transition Commission. The Bank should finance transformational technologies and innovation that would otherwise struggle to secure loans and lead to local economies missing out. Renewable electricity generation, renewable heat, low-carbon public transport, and energy efficiency measures should be included in lending and exclusions should be in place for practices that are widely regarded as unsustainable.

Increasing equality

The direct cost of inequality on the Scotland's net fiscal position is estimated at more than £6.4 billion per year, whilst reducing Scotland's gender pay gap (83.4%) to the levels of New Zealand (94.4%) would mean a net fiscal benefit of £3 billion. Reducing poverty and inequality is central to Scotland's National Outcomes and the recommendations on participation and inclusion set out by The Sustainable Growth Commission; the Bank can play a key role in catalysing this shift.

The Bank's governance and lending criteria must improve participation and equality in Scotland's economy. It should finance a portfolio of projects and companies that reflect Scotland's diversity, that are genuinely based on tackling inequalities and that delivers new opportunities for groups marginalised from existing arrangements. A key test of

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whether the Bank can fulfil this equalities objective will be how it supports gender equality; Engender Scotland, the Scottish Women's Budget Group, Close the Gap, and Women's Enterprise Scotland have produced seven principles that are vital for creating a gender-competent National Investment Bank.

Building social capital

The National Investment Bank will be one of the many drivers the Scottish Government has at its disposal to promote fair and progressive work and active employment policies. Projects that receive capital from the Bank should only do so on the condition that they pay the Scottish Living Wage, offer proper contracts, are tax compliant and clearly intend to tackle gender-based inequality. It should also finance projects where employers support those living in deprived areas and offer training opportunities that help Scotland create a more inclusive society.

The Bank should invest to increase productivity in low-wage sectors so that everyone can share the benefits. It should catalyse a shift to valuing the contribution each of us can make beyond what is viewed as regular employment and contributors to growth, such as unpaid work and provisioning for others. One example would be caring, recommended as a key growth sector in the Scottish Parliament's inquiry into the economic gains for closing the gender pay gap.

Investment in re-skilling and preparing for the '4th Industrial revolution'

The Bank should also be proactive and not reactive to the changes in Scotland's future workforce, particularly in the light of increased automation, remote working and a low-carbon approach to workplace commuting. Investment should flow to those projects and companies that can accelerate our efforts towards a highly skilled workforce with transferable skills. Investment in innovation, re-skilling, training and knowledge is critical for the future of work and the skills system in Scotland and getting ahead of the transforming nature of work.

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?

SCVO fully supports patient, long term equity investment and loans to support mission-led investments. Our concern is that the Bill in its current form makes no mention of public benefit and mission-led approaches in the Bank's primary and ancillary objects, failing to provide the legislative measures to ensure that when it comes to performance reporting it is not solely financial performance that is prioritised. The Bill must be far stronger and provide complete clarity in this area.

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There is also no mention on what target rates of return should be. While the Bill is explicit that Ministers will set strategic missions, it does not explicitly recognise that a commitment to mission-led investing for the purposes of social, environmental and economic benefit may result in lower than commercial rates of return, as we have mentioned previously.

Missions are a powerful tool to tackle societal problems. They can provide the means to focus our research, innovation and investments on critical problems, while also spurring growth, jobs and resulting in positive spill-overs across many sectors. They should be far more focused than Scotland's National Outcomes, although the missions of the Bank must be informed by our agreed national challenges and priorities set out in the recently revised National Performance Framework.

We recognise concerns over the Bank's independence from the Scottish Government. We also note concerns relating to the financing of commercially viable projects from an economic growth perspective that undermine our environment and wellbeing. The National Outcomes and SDGs provide a suitable framework to overcome these challenges, whilst providing the Bank with independence to decide on its investment approach. However, the Bill requires strengthening in many areas to ensure this balance of power is appropriate and beneficial to the whole of Scotland.

Conclusion

SCVO welcome the Scottish Government's intentions to set up a Scottish National Investment Bank. However, it is important that the Bank does not contribute to business as usual and that it serves to shift the direction of the economy in Scotland for it to align with our national and international commitments. Central to this will be a clear purpose and vision for the Bank, directed towards an investment-led just transition to a zero-carbon economy that accelerates social impacts – such as wellbeing and equality – ahead of economic growth. This will enable clear missions and outcomes, as well as conditionality to ensure all lending contributes to enhancing our environment, increasing equality and building Scotland's social capital. A coherent and open approach to the Bank's positioning, day-to-day running and lending will be critical for the Bank to deliver on a commitment to being mission led and public purpose driven.

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About us

The Scottish Council for Voluntary Organisations (SCVO) is the national body representing the third sector. There are over 45,000 voluntary organisations in Scotland involving around 138,000 paid staff and approximately 1.3 million volunteers. The sector manages an income of £5.3 billion.

SCVO works in partnership with the third sector in Scotland to advance our shared values and interests. We have over 2,000 members who range from individuals and grassroots groups, to Scotland-wide organisations and intermediary bodies.

As the only inclusive representative umbrella organisation for the sector SCVO:

- has the largest Scotland-wide membership from the sector – our 2,000+ members include charities, community groups, social enterprises and voluntary organisations of all shapes and sizes
- our governance and membership structures are democratic and accountable - with an elected board and policy committee from the sector, we are managed by the sector, for the sector
- brings together organisations and networks connecting across the whole of Scotland
- SCVO works to support people to take voluntary action to help themselves and others, and to bring about social change.
- Further details about SCVO can be found at www.scvo.org.uk.

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