



Economy, Energy and Fair Work Committee

Written consultation response

Consultation on the Scottish National Investment Bank Bill

The Scottish Council for Development and Industry (SCDI) is an independent and inclusive economic development network representing all sectors and all geographies of the Scottish economy. Our mission is to convene our members and partners across the private, public and third sectors to collaborate to deliver inclusive and sustainable economic growth.

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

The **Scottish Council for Development and Industry (SCDI)** agrees that the Public Limited Company model is the most advantageous for the Scottish National Investment Bank. The clear benefit of this model is that it will permit the Bank to raise capital from a range of public and private sources, perhaps including a future share issue or public bond. Importantly, the Articles of Association, as set out in the Policy Memorandum accompanying the Bill, will protect the public ownership of the Bank.

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

It is the view of SCDI that there are four fundamental characteristics of a national investment bank:

- **Public Ownership:**
National investment banks are largely or wholly public-owned. This ownership structure provides democratic oversight and strategic direction;
- **Operational independence:**
Successful national investment banks are operationally independent of government. They operate in the context of democratic oversight and accountability but are led by investment expertise rather than subject to undue political influence. This approach can maximise investment return and minimise partiality, interference or institutional capture. Strong governance arrangements are vital to manage risk and protect the legitimacy of national investment banks;
- **Long-term, strategic mandate:**
Successful national investment banks are empowered to provide patient capital on the basis of a long-term view of the economy, markets and business growth and in alignment with a broader strategic national direction shared across the public sector. Their objective is to make interventions which deliver sustainable economic growth and align with existing interventions to crowd-in investment, creating a powerful synergy of resources and actions. Such institutions are often mission-led; and,
- **Innovation:**
Successful national investment banks support and drive innovation by both correcting market failures and creating new markets. Patient capital from such institutions has been responsible for a significant number of important and transformative technological advances or inventions, particularly in the areas of nanotechnology, telecommunications and renewable energy.

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

The Scottish Government's review of the responses to its consultation on the establishment of a Scottish National Investment Bank notes that "some respondents commented that the capitalisation was inadequate to deliver the transformative impact desired". SCDI was among those to express some reservations about the level of proposed capitalisation. The Scottish Government, however, suggests that these concerns are misplaced, because "international comparison indicates public capitalisation of national promotion banks typically ranges between 0.5% and 1.5% of GDP. In the Scottish context £2 billion broadly equates to 1.3% of GDP, so £2 billion is a realistic and a comparable level."

SCDI welcomes the Scottish Government's commitment to invest £2 billion over the first ten years of the Bank's operation. However, given that this investment is spread across a decade, and given the scale of the ambition outlined by the Scottish Government's vision, it may be challenging to deliver a truly transformative macroeconomic impact for Scotland at this level of capitalisation. The most impactful precedents, such as the oft-cited KfW in Germany, are of a significantly greater relative scale.

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

The Scottish Government has correctly identified that the Bank will face strong competition from the private sector for staff with the necessary specialist skills and experience. The Bank will require substantial technical expertise, including trained statisticians and economists. There will be a need to strike a delicate balance between empowering the Bank to attract talent and retaining public trust in the Bank as an institution serving the public good. Given the scrutiny to which it will be inevitably subject, the Bank will be challenged to achieve financial and economic success whilst abiding by its ethical commitments to inclusivity and sustainability. The highest standards of compliance are also essential. Ensuring that the Bank is a great place to work with a strong identity and a strong sense of mission will also support attracting talent from within and beyond Scotland.

It is SCDI's view that investing in people is vital to organisational success. SCDI therefore supports a judicious approach to remuneration which ultimately reflects labour market realities. However, remuneration, particularly for senior leadership staff, should be closely linked to the performance of the Bank, macroeconomic impact delivered and rates of financial return achieved.

5. What governance arrangements ought to be in place?

SCDI supports the proposed approach to the Bank's governance and Board arrangements. It is important that the Bank is operationally autonomous from Scottish Ministers and that its independence is both legislatively enshrined and culturally observed. The Bank should be empowered to offer loans, make investments, agree joint ventures or create subsidiaries aligned with its agreed Investment Strategy and Risk Strategy without further approval from Ministers.

The Advisory Group which will give advice to Scottish Ministers should be a diverse and dynamic group with the skills and expertise to engage with and support all sectors and all geographies of the Scottish economy. It can play a particularly useful role in providing intelligence and analysis of emerging and future trends, challenges and opportunities in society, the labour market and the wider economy to advise on the creation of new or amended missions for the Bank, or to identify growth sectors which require patient capital.

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

In order to maximise the positive impact of the Bank, it is essential that the purpose, structure and opportunities of the Bank are widely communicated to businesses and organisations across all sectors and all geographies of the Scottish economy in advance of the Bank becoming fully operational. SCDI stands ready to support this signposting activity where appropriate.

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

It is essential in order to build and maintain public trust that the policies and activities of the Bank are ethical and perceived as such. SCDI supports the principles of Equality, Transparency, Diversity, Inclusion and Open Government as the basis for the Bank's approach. The regular publication of a comprehensive Ethics Statement by the Board would be welcome as part of this approach. The Bank must also be an inclusive, equal opportunity employer and investor which reflects and serves modern Scotland in all its diversity in terms of gender, ethnicity, religion, sexual orientation and disability.

Before the Bank is fully operational there will need to be further clarity on the question of whether the Bank will be "specifically prevented from investing in certain sectors or areas as part of its ethical framework, and what these sectors or areas might be", as suggested in the Scottish Government's consultation document.

SCDI agrees that the Bank should be able to invest in UK-registered and non-UK-registered businesses and projects. The Bank's should also refrain from investing in businesses or projects which facilitate tax evasion or avoidance and thereby deny the Scottish Government or the UK Government of legitimate revenue.

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?

SCDI supports the proposed mission-led approach of the Bank to focus its activities and investments in alignment with the Scottish Government's overall strategic approach to the economy. A mission-led approach should enable the Bank to concentrate on maximising innovation, job creation, scale-up and inclusive growth in key sectors and supporting the responses to the key socio-economic challenges and opportunities for Scotland in the 21st

century, including technological, environmental and demographic change.

SCDI has produced significant research with our partners to explore how the Fourth Industrial Revolution is already transforming the way people live, work and spend their leisure time across the world. This should form a nucleus of a mission for the Bank. The Fourth Industrial Revolution involves rapid and radical technological progress in areas of the digital economy such as automation, robotics, artificial intelligence, big data, nanotechnology and biotechnology. The First Minister has declared that Scotland should pioneer the industries of the future, inventing and manufacturing their products and services not merely consuming them. Scotland's resources and skills strengths should be marshalled to develop competitive advantage, as recommended by SCDI's recent reports on ***Building a World Leading AI and Data Strategy for an Inclusive Scotland*** (2019) and ***Automatic... For the People?*** (2018).

The Bank could play a critical role as an early investor in and backer of digital start-ups, scientific spin-offs and technological innovations which require significant capital, and a long-term, patient approach, to realise their full social and economic potential. There are vast opportunities to substantially increase employment and economic growth in these sectors for Scotland to seize if a strategic approach is taken, with action coordinated across the public, private and third sectors in areas such as Electric Vehicles (EVs), Connected and Autonomous Vehicles (CAVs) and Mobility as a Service (MaaS). As highlighted by ***Scotland's Big Mo*** (2018), the final report of SCDI's Connectivity Commission, these technologies could transform our urban economies and communities to create a Smart City or Smart City Region connected by a smart, green and integrated transport system.