ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM: CBI Scotland

About the CBI  The CBI is the UK’s leading business organisation, speaking for some 190,000 businesses which directly employ at least 500,000 people in Scotland - about a quarter of the private sector workforce in Scotland. With offices across the UK as well as in Brussels, Washington, Beijing and Delhi the CBI communicates the British business voice around the world.

The CBI is committed to ensuring policy makers understand the value of a strong financial services sector in helping businesses create a more prosperous society, promoting policies to ensure a healthy financial services sector that enables growth across the economy.

In principle, the development of a Scottish National Investment Bank (SNIB) is welcome news for the Scottish business community and the CBI is pleased to have the opportunity to respond to this consultation paper. The CBI would welcome further clarity about the size and the volume of the funds that will be under the management of the proposed SNIB.

In this response, the CBI argues that:

- **On the SNIB**: The development of the SNIB could be a leap forward for the Scottish economy that boosts global competitiveness, supporting investment to unlock innovation and growth.

- **On our approach to patient capital**: It is important a wide scope is adopted when assessing where economic growth can originate from, this would allow the SNIB to move beyond addressing market failures to a market shaping and market creating role.

- **On the SNIB’s mandate**: The SNIB should have a national mandate with regional reach to support businesses to start and grow, working with universities and existing mechanisms such as the British Business Bank (BBB) to boost global competitiveness.

- **On industry engagement**: A SNIB business advisory group would ensure the business voice is heard to create opportunities for Scotland, complemented by the SNIB working with existing intermediaries to ensure resources are used effectively.

- **On infrastructure**: A SNIB could be used to encourage greater patient capital investment by pension funds to support infrastructure development which would help improve connectivity and boost Scotland’s productivity.
On providing resilience: The Scottish Government should consider whether the planned scope of the SNIB could be expanded to fill the gap which may be left by a withdrawal from the European Investment Fund (EIF) programme as the UK prepares to leave the EU.

1. A leap forward for the Scottish economy that boosts global competitiveness

It is time to foster a long-term investment culture in Scotland to unlock innovation and growth

Creating the conditions in which businesses of all sizes and sectors can prosper is essential to generating the jobs and revenue needed to fund high-quality public services, and this begins with productivity. With the outlook for the Scottish economy subdued and Brexit-related uncertainty constraining growth in business investment, it is more important than ever to provide a clear sense of direction for the Scottish economy and give confidence to businesses and investors developing their plans for the coming years. The Scottish National Investment Bank could have an important role.

1.1 There is a real need for patient capital to upgrade infrastructure, invest in science, research and innovation; and support businesses to start and grow to boost Scotland’s competitiveness. The UK has a world-leading financial services sector which helps provide the finance necessary for the business community and the wider economy. Many businesses which have reached the scale-up stage now require patient capital to fulfil their long-term growth plans. This is a time to be bold and ambitious.

1.2 The financial services sector offers a myriad of financing options for a growing business, both debt and equity based, with equity relatively under-utilised by SMEs. However, these financing options need to be used more effectively by strengthening the connections between financial services and growth firms to unlock long-term growth. The SNIB could play a key role in achieving this and provide a model for the rest of the UK.

1.3 At a UK level, analysis from the BBB shows that while the gap between US and UK funding of early stage businesses is relatively small, this gap increases significantly for later stage funding. The analysis also shows that UK businesses receive fewer rounds and smaller amounts of subsequent funding compared to similar firms in the US. The most significant drop off is between third and fourth rounds, with the analysis showing that of the firms measured, 32% received three rounds of funding. Only 9% of all firms analysed participated in a fourth funding round. Getting growing firms to continue fund-raising activities is fundamental in ensuring that the UK economy unlocks its true potential and is firing on all cylinders. The SNIB could be well placed to kickstart this as a linking institution between existing financial services

---

1 British Business Bank, 2017
providers and such firms within a connected, globally competitive and inclusive economy.

1.4 Medium-sized businesses make a disproportionate contribution to UK economic growth, representing just 1.8% of businesses they generate 23% of private sector revenue and provide 16% of total employment.¹ There is significant potential for future growth with 41 of the London Stock Exchange Group’s 1000 companies to inspire based in Scotland, with average annual revenue growth of 91%.² Enabling these businesses will be crucial to economic growth, and given the right opportunities and incentives the Scottish Government can help even more businesses grow through the SNIB, creating a strong foundation for the future, post-Brexit economy in Scotland.

1.5 The CBI is aware that many small and medium sized UK businesses choose not to scale up, only 36% of SME’s use external finance, and nearly 8 in 10 of businesses that do not access external finance are defined as ‘happy non-seekers of finance.’³ Clearly not all businesses’ goals include growing to scale. Therefore, the Scottish Government should work through the SNIB with the financial services sector to raise awareness of existing financing options for growth to encourage more businesses to develop a plan and ambition to grow.

1.6 This autumn, the CBI published its report on encouraging business uptake of tried-and-tested technologies and management practices to increase productivity.⁴ For developed economies like the UK’s, McKinsey Global Institute (MGI) estimates that at least 55% of labour productivity growth will come from firms adopting existing best practice also known as diffusion of innovation. Access to longterm capital is crucial to financing investment in technologies and the skills and capabilities to embed them. The CBI recognises that firms struggle to access finance for investment in intangibles such as software and other technologies.

2 Adopt a wide horizon on economic growth

A wide perspective on where growth can come from and where the demand for patient capital lies will allow the SNIB to adopt a market shaping and creating role

2.1 In approaching patient capital, the Scottish Government should adopt a wide scope when assessing where growth can originate from to achieve its economic ambitions. The CBI appreciates that there are certain sectors which offer a particularly attractive proposition to investors, but the Scottish Government must ensure that it adopts a wide scope when assessing where growth can originate from and ensure that the SNIB reflects this in its approach.

---

¹ Stuck in the middle, CBI, 2014
² companies to inspire, LSE Group, 2017
³ SME Finance Monitor, 2017
⁴ From ostrich to magpie, CBI, 2017
2.2 The debate around patient capital must be as welcoming as possible to all types of firms, regardless of their perceived levels of innovation. In turn, this will enable the SNIB to move beyond only addressing market failures to a market shaping and creating role to have maximum impact.

3 National mandate with regional reach

The SNIB should have a national mandate with regional reach to support businesses to start and grow right across Scotland

3.1 It is important that the SNIB has an explicit national mandate to support it in building capital pools with the depth and complexity required to provide and catalyse investment in a significant way. CBI members caution that regional mandates could dilute the impact of the SNIB. The SNIB could best stimulate regional development and economic cohesion through a national programme of investment.

3.2 At the same time as having a national mandate the SNIB should build a programme to deliver regional reach. This will be particularly important to help address Scotland’s productivity challenges, which vary significantly across regions. The most productive local authority areas in Scotland are 50% more productive than the least productive local authority area. The SNIB should work with regional partners, including lending providers, universities, and business networks, to identify issues to be addressed, acting to shape the future.

3.3 The SNIB should aim to build on the success of initiatives that have already been set up, working together with existing mechanisms such as the BBB and the private sector-led Business Growth Fund. The BBB provided £9.2bn of finance to small businesses last year and the SNIB could connect these UK initiatives even more effectively with the Scottish market.

3.4 Universities can play an even greater role in optimising investment across Scotland through strategic alliances with the SNIB. Universities play a vital role in ensuring the future success of our country – whether that is as anchors within their local communities helping to boost regional growth, at the cutting edge of new teaching and research methods, or in expanding our links abroad. As the Scottish Government looks to foster a long-term investment culture in our growing businesses, it should explore the role universities can have within the SNIB’s work.
4 Industry engagement to create opportunities

An SNIB business advisory group would ensure the business voice is heard to create opportunities for Scotland, complemented by the SNIB working with existing intermediaries to ensure resources are used effectively

4.1 As a potential cornerstone institution in the delivery of long-term investment to support economic development, the SNIB has a role to play in supporting private and public initiatives to do even more for the Scottish economy. It is therefore critical that the business voice is heard at a strategic level within the SNIB. A business advisory group consisting of financial services providers, advisory firms and businesses of all sizes would provide a valuable conduit to ensure that the SNIB has the relationships it needs to consider market trends, international competition and make an impact.

4.2 CBI members believe that an effective outreach and partnerships programme is critical to the success of the SNIB. A business advisory group would be a key stakeholder in achieving this, promoting the regional reach of a national institution. That said, it must be appreciated that the SNIB’s objective could best be achieved in the short to medium term by working with existing lenders through financial guarantees to allow them to scale up their activities and use their existing market expertise to make an immediate impact.

5 The role of the SNIB to unlock infrastructure investment

An opportunity to consider how the Scottish Government could encourage greater patient capital investment by pension funds to support infrastructure development in the long-term

5.1 The development of the SNIB is an opportunity to consider how the Scottish Government could encourage greater patient capital investment by pension funds to support infrastructure development in the long-term.

5.2 CBI research highlights that continued investment is needed across the country, with only 23% of businesses satisfied with the infrastructure in Scotland. Government investment can crowd private investment into patient capital if it is seen to signal good potential investments, supporting the development of major infrastructure projects that can help lift productivity.

5.3 The CBI has previously recommended that connectivity should be the Scottish government’s top infrastructure priority, welcoming continued progress in this area. In CBI Scotland’s 2017 report on regional growth, it was recommended that the Scottish government must keep up the momentum and continue to improve connectivity, both between Scotland’s City Deal regions and with key markets across the rest of the UK and abroad. The SNIB could play a

---

[7] Pursuing prosperity, CBI, 2017
[8] Pursuing prosperity, CBI, 2017
strategic role in engaging with the investment community to improve the flow of private capital into the next generation of priority infrastructure projects that would deliver maximum benefit to the economy.

5.4 CBI research shows 91% of firms rank digital networks as a key factor in investment decisions. CBI Scotland have previously recommended that the Scottish government ensures digital connectivity is integrated into all future infrastructure planning and development decisions so that it meets business’ needs, working with the private sector to provide the funding necessary to deliver its commitment of ensuring that every business in Scotland is able to access superfast broadband by 2021. The SNIB could be an important mechanism to support the goal of ensuring Scotland becomes a world-class digital nation.

6 Support and encouragement to provide resilience beyond Brexit

The SNIB has a role to play in providing on-going advice and support to entities and projects it has supported to catalyse investment, providing resilience as the UK prepares to leave the EU

6.1 In order to provide resilience as the UK prepares to leave the EU, the SNIB should provide on-going advice and support to entities and projects it has supported to catalyse investment. The SNIB should not duplicate existing provision or initiatives, working with partners to provide a simple one-stop for access to finance.

6.2 The Scottish Government should consider whether the planned scope of the SNIB ought to be expanded to fill the gap which may be left by a withdrawal from the EIF programme which specifically targets the needs of small and medium sized businesses, as the UK exits the European Union.

6.3 The business community need contingency plans for the long-term replacement of EIF finance in the UK as soon as possible to avoid more uncertainty and the stemming of long-term business decisions. With the current status of EIF applications on operational pause, these contingency plans must look to replace all types of funding offered via the EIF. However, whilst there is a need to ensure that any gap left by the EIF is addressed, this should not detract from the long-term issues that the SNIB seeks to address to realise Scotland's economic potential.

6.4 The CBI would also welcome clarity from the Scottish Government that the SNIB will provide a range of financial instruments, including the provision of financial guarantees. This will ensure funding is reaching businesses across Scotland by making existing channels more effective and potentially opening up new avenues for growth.

---

9 Taking the long view: a new approach to infrastructure, CBI-URS Infrastructure Survey, November 2014
10 Pursuing prosperity, CBI, 2017
General points

- In principle, the CBI welcomes the Scottish Government’s intention to create a SNIB.

- The CBI would echo the Council of Economic Advisors (CEA) suggestion that a SNIB could be a cornerstone institution in the delivery of long-term investment to support economic development in Scotland.

- CBI members seek further clarity about the size and volume of the funds under the management of the SNIB.

- The CBI would urge the SNIB to have a strategic dialogue with the BBB to unlock growth effectively and seize opportunities for Scotland. It should not duplicate existing initiatives but seek to add value to the whole Scottish investment ecosystem.

This is an important moment at the start of a journey in fostering a long-term investment culture that creates opportunities for Scotland and enables economic growth. With Scottish economic growth fragile and business uncertainty prevalent as the UK prepares to leave the European Union, it is a vitally important that the Scottish Government acts to support investment and boost global competitiveness. This will provide resilience in changing international circumstances whilst promoting prosperity across the whole of Scotland.
30 October 2018

Derek Mackay
Cabinet Secretary for Finance, Economy and Fair Work
The Scottish Government

Dear Mr Mackay,

Consultation on the Scottish National Investment Bank Bill

CBI Scotland has welcomed the Scottish Government’s commitment to establish a Scottish National Investment Bank and has since its announcement prepared a number of ideas for its purpose and objectives. The response submitted last year after consultation with CBI members is enclosed here for reference.

CBI Scotland continues to believe that creating the conditions in which businesses of all sizes and sectors can prosper is essential to generating the jobs and revenue needed to fund high-quality public services, and this begins with productivity. With the outlook for the Scottish economy subdued and Brexit-related uncertainty continuing to constrain growth in business investment, it is more important than ever to have a clear sense of direction for the Scottish economy and give confidence to businesses and investors developing their plans for the coming years. CBI Scotland thinks the Scottish National Investment Bank can play a pivotal role in that.

CBI Scotland sees the Bank having a number of key objectives, which were set out in detail in the response last year:

- **Crowding-in**: the creation of the Bank is an opportunity to consider how the Scottish Government can encourage greater patient capital investment by pension funds to support infrastructure development in the long-term. By using government investment to signal good potential investments for long-term private capital, we can support development of major infrastructure projects and help lift productivity.

- **Mission-orientated**: a wide scope should be adopted assessing where growth can originate from to achieve the Bank’s economic ambitions. While certain sectors offer a particularly attractive proposition to investors, the Scottish Government must ensure that it adopts a wide scope when assessing where growth can originate from and ensure that the Bank reflects this in its approach to patient capital. Equally, the Bank will be better placed to stimulate regional development and long-term economic strategy through a national made for its programme of investment.

- **Open and transparent**: the intention to set up an Advisory Board to inform the strategic direction of the Bank is welcome. It would be important to have a strong business presence on the Board through representation from financial services providers, advisory firms and businesses of all sizes who would be able to provide a valuable conduit to ensure that the Bank has the relationships it needs to consider market trends, international competition and make an impact.

The creation of the Scottish National Investment Bank is an important step towards fostering a long-term investment culture that creates opportunities for Scotland and enables economic growth. In a time of fragile economic growth and wide-spread business uncertainty, the Bank has the potential to provide resilience in changing international circumstances and promote prosperity across the whole of Scotland.

CBI Scotland and its members are ready to assist with further business feedback as the work to establish the Scottish National Investment Bank continues.

Yours sincerely

Tracy Black
CBI Scotland Director