ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM CLIMATE READY CLYDE

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

We do not have particular views on the advantages or otherwise of establishing the Bank as a public limited company.

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

Climate Ready Clyde are of the view that the SNIB should adopt the learning from the best practices of wider public investment institutions such as the European Investment Bank – which is that it is important they fit in a landscape of institutions, and direct capital into areas where there is a clear public interest, but where for various reasons it is not being delivered by the broader market. In particular, it should support interventions in areas which are less commercially viable but where financing is still required to support objectives.

We are especially of the view that the Bank should act in the long-term interest of the country. In this context, ensuring investments adequately assess and address future risks and impacts of climate change should be an overriding concern of the Bank, to ensure that the Bank retains a good return on investment, and enhances the overall resilience of Scotland to climate change and extreme weather.

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

It is difficult to assess whether the capitalisation is sufficient to deliver its desired impact, since this will be directly linked to the ambition set in each of the bank’s ‘missions’. It also depends on the Bank’s risk appetite (likely to be low), and the gearing ratio. Other development banks (for example the Asian Development Bank) have gearing ratios of 50%, creating significant leverage. In addition, the limitation of being unable to issue Bonds will hamper the ability of the Bank to raise broader capital independently which will also stifle its overall

Assessing this in the round, £2bn is likely a conservative estimate given the scale of some of the challenges set out in the Implementation Plan such as accelerating the transition to a low carbon economy. In addition, work by Paul Watkiss Associates for Climate Ready Clyde has shown that on average, climate proofing new investments to ensure they are resilient to future impacts adds roughly 3-5% to the total project cost. Alongside climate proofing new projects to future climate risks, significant dedicated funds will be needed for the retrofit of Scotland’s existing infrastructure and built environment to address long-term risks.
4. **What is your view on the proposed costs in the set up and day-to-day running of the Bank?**

We do not have a particular view on the proposed costs associated with the set up and day to day running of the Bank.

5. **What governance arrangements ought to be in place?**

We are not best placed to advise on the direct day to day governance arrangements. However, the Bank should ensure there are strong Environmental and Social Governance frameworks in place which ensure that all activities contribute to environmental and social improvement wherever possible and avoid immoral or negative impacts.

In this context, we would urge the Committee and the Scottish Government to consider adopting climate risk management systems, similar to those employed by other development banks around the world. These would also go part way to ensuring the Bank complies with Policy Statement 11/19 and Supervisory Statement 3/19 from the Prudential Regulation Authority on ‘Enhancing banks’ and insurers’ approaches to managing the financial risks from climate change’, which requires assessment of the physical risks from climate change.

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

The Bank should actively engage with potential borrowers to pump-prime the market and stimulate product demand. There are many forms that this can take – for example, straightforward events and awareness raising through to the provision of technical assistance grants, as well as the potential for blended finance - i.e. the use of both grants and loans, or commercial and concessional funding – though these would obviously need to be State Aid compliant.

In all cases, the Bank will benefit from providing early, clear signals on the types of investments available, as well as the missions and the requirements in place for Environmental, Social and Governance arrangements would ensure the market is ready for the opportunities.

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

Social justice and fairness should be at the heart of any decision making undertaken by the Bank, and this needs to be given equal weighting alongside the economic benefit and achievement of the Bank’s missions. In relation to climate change, we believe the need to support emissions reduction and build the country’s resilience to climate change needs to be done in a way which is socially just – considering the
distributional, procedural and intergenerational effects of climate change and the effects the Bank’s activities will have on these.

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 ‘mission-led’ approach of the Bank, linked to the Sustainable Development Goals, including SDG13 on climate action. In the Implementation Plan, example missions include the transition to a low carbon economy. However both the SDG and the recent consultation on Scottish Government’s climate change adaptation programme consultation also highlight the need for economic development activity to consider future climate risks. As such, we would strongly advocate consideration of an adaptation ‘mission’ from the Bank. To inform such a mission, we would suggest the Bank should consider the risks that climate change poses to Scotland, though the UK Climate Change Risk Assessment. A more detailed statement on the risks and opportunities to Glasgow City Region is available online at www.climatereadyclyde.org.uk

In addition, research by K-Matrix for Climate Ready Clyde shows that Scotland has a small, but strategically important sector of businesses working in Adaptation to Climate Change, estimated at £600m of sales in 2016/17. Adequate support to this sector will be crucial to ensure Scotland is able to meet the broader societal challenges posed by climate change. We would therefore strongly advocate that climate adaptation is considered as a potential future mission for the Bank or is embedded into the other missions brought forward.

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

We would advocate for changing the remit of the Bank to ensure it is able to lend to the public sector as well as the private sector. Achieving missions set by the Bank will likely need action by both types of institution, and there could be significant added value in blended finance arrangements, as well as public-private partnership approaches to projects, as seen in the European Investment Bank.

At present, the departure from the European Union poses a potential risk to public sector institutions will potentially leave a gap in the landscape for public sector institutions, with few options available for such mid-range funding options, other than the Public Works Loans Board or Municipal Bonds, which both have their drawbacks in certain circumstances.