ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM Social Enterprise Scotland

The Scottish National Investment Bank has huge potential to transform and improve Scotland’s economy and achieve the ambition of a fair, inclusive Scotland.

The bank should seek to drive a genuine, new and radical direction for the Scottish economy that places social/environmental missions as the top priority.

This must include the recognition that the only way to achieve this is by investing in social enterprises, co-operatives, local community-owned business, employee-owned companies, B Corporations and other ethics and purpose-led businesses.

Investing primarily in these types of companies frequently means that money also remains circulating within Scotland’s economy and does not leak out overseas, to shareholders or to tax havens.

However, the current draft of the Bill does not communicate any bold, transformative vision or genuine ambition to do things differently. The Bill should, as a starting point, include the previously stated ambition of “accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy.”

The bank should be a leader in economic innovation. Therefore, it’s essential that the bank works in close partnership with - and learns from - Scotland’s established social investment providers, as well as ethical banks and credit unions.

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

There are advantages to establishing the bank as a public limited company. A PLC must have accountability and comply with reporting requirements. In this way a PLC structure aids openness and transparency.

However, serious consideration should be given to establishing the bank as an independent social enterprise model, such as a Community Interest Company (CIC). The bank could also operate a co-operative model.

In either case the bank should certainly learn from the principles of successful social enterprises i.e. placing clear social/environmental missions as its reason for existing, ensuring that all profits are diverted to those missions and operating independently from government.

Though private sector partnerships and investment should be encouraged the articles of the bank must ensure that it cannot be privatised at a future date e.g. it should not be permitted to follow the model of the UK Green Investment Bank.
2. What in your view are the fundamental characteristics of a national investment bank?

- Clarity of purpose - prioritising and pro-actively investing in the development of a green, sustainable and inclusive economy.
- This means prioritising investment in social enterprises, co-operatives, local community-owned business, employee-owned companies, B Corporations and other ethics and purpose-led businesses, to drive their growth and socio-economic impacts.
- A national investment bank must prioritise the building and stimulating of new markets, in line with ambitious social and environmental policy objectives.
- Democratic - anyone in Scotland should have the opportunity to influence the direction of the bank within a genuine, ongoing and regular consultation process.
- Taking risks and prioritising fair and equitable access to finance for social enterprises, other ethics-led businesses and all SMEs.
- A genuine partnership approach - work together with existing social investors, social enterprises and other social economy businesses, as well as national social economy support bodies.

The current wording of the Bill means that it could easily be interpreted so that the SNIB operates just like any other commercial bank, with a veneer of social purpose to make it seem different. The SNIB would not then be a national investment bank or deliver on key social and environmental policy priorities. The SNIB must clearly set itself apart from private sector banks.

The Bill states its objective is to fund “commercial activities”, potentially excluding businesses that are focused on social/environmental issues and not simply profit. Those maximising social impact without making much profit must be specifically recognised.

It must be clarified that “the private sector” very much includes (and prioritises) social enterprises and ethics-led businesses. The wording should be changed so as to be more robust and specific in this regard.

Without the SNIB pro-actively investing in social enterprises and other ethics-led businesses then the key Scottish Government policy of sustainable and inclusive economic growth will simply fail to be achieved. We are happy to suggest specific changes to the Bill.

We support the 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 SNIB.

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

The capitalisation of £2 billion over 10 years is significant. However, the more money available to make investments the greater the opportunity for social enterprises and SMEs to deliver genuine and lasting socio-economic change in our communities.
If the bank is constituted as described in our fundamental characteristics above then this investment could realistically be doubled to £4 billion in order to achieve a radical, positive shift in Scotland’s economic success. This could be increased over time once the bank is established.

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

Proposed costs should be reasonable. A guideline can be formulated by looking at similar examples from overseas, including learning lessons from what has worked well and what officials in other countries would improve from their own experiences.

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

- An independent bank - operationally free from government influence, with an independent board that reflects the population of Scotland.
- A bank with the highest standards of integrity, governance and openness that exceeds both legal requirements and existing best practice.
- The bank should be fully accountable to The Scottish Parliament, including votes on approving the proposed missions of the bank and changes to missions.
- When it comes to performance reporting, this must include social impact reporting not just financial performance.
- The Bank must also report on actual success rates in terms of achieving the missions it has been set.
- The bank must allow ordinary citizens - particularly the most financially excluded - a genuine, regular and direct voice in the direction of travel and bank missions. Similar opportunities should exist for third sector organisations.

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

The third sector investment market in Scotland needs patient capital in both long term equity investments and loan funding to fund innovation and outcomes that support the National Performance Framework and inclusive growth.

Rigorous research must be carried out to ensure that investment matches market need. Businesses and entrepreneurs should also be offered investment readiness training and information. This can be achieved by learning from and working with Scotland’s existing social investment providers.
7. **What ethical and equalities considerations do you think should inform the Bank’s ethos and decision making?**

Investment in social enterprises, co-operatives, local community-owned business, employee-owned companies, B Corporations and other ethics and purpose-led businesses, should be the number one priority for the bank.

This is the most logical and efficient way for The Scottish Government to successfully achieve not just inclusive growth but also the highest ethical standards for the bank.

Criteria for receiving investment should include the adoption of a social enterprise business model, such as a CIC or SCIO, the Fair Tax Mark standard, adoption of the Scottish Business Pledge, Scotland Can B assessment standard or a combination of these.

The Scottish Business Pledge could perhaps be the required minimum standard for receiving investment.

The bank should of course comply with all existing equalities and human rights legislation (and promote these standards) but considering the remit of the bank it should also seek to exceed statutory requirements.

In addition it should have a formal initiative to pro-actively promote comprehensive ethical business standards to all investees.

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?**

It’s important to distinguish “mission-led” in the context of the SNIB (that could be understood to mean simply aims and objectives) as opposed to “mission-led” in business (meaning driven primarily by ethical/social/environmental values, such as that characterised by social enterprises or B Corporations).

As mentioned, The Scottish Government and Parliament should set the strategic direction of the bank. Once this is clearly established then the bank should be independent in terms of the day-to-day investment approach.

Being led by a clear ethical/social/environmental mission is essential for the bank to succeed in its purpose.

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

We would welcome the opportunity to speak with the Committee on any aspect of this consultation and provide speakers for evidence sessions, to ensure that the SNIB has the potential to become the world’s most successful national investment bank.
We would like to emphasise the huge potential of the proposed Scottish National Investment Bank in transforming Scotland’s economy and achieving sustainable inclusive growth.

Only by prioritising investment in social enterprises, ethical businesses and local SMEs can this be achieved.