ECONOMY, ENERGY AND FAIR WORK COMMITTEE

SCOTTISH NATIONAL INVESTMENT BANK

SUBMISSION FROM: DR BONE DODDS

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

The establishment of the SNIB as an arms-length PLC owned by the Scottish Government is the correct path. Public ownership will enable the SNIB to make different kinds of banking decisions. This is sorely needed because the mainstream banking system is not supporting the Scottish economy nor the quick transition to a carbon neutral economy that we need to give us the best chance of staying under 1.5 degrees of climate change.

Public banking should always be part of a healthy and robust ecosystem of finance, able to provide patient capital, invest in the public interest, and innovate to achieve the wider aims of society.

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

National Investment Banks play an important role in driving change in the wider economy, the German investment bank, the KfW, through its innovative housebuilder mortgages drove innovation in the housebuilding sector by giving lower interest rates the greater the energy efficiency of the new homes. A passivehaus would thus be cheaper in the long run than a house built to the legal minimum standards, driving customer (and sector) behaviour.

The SNIB needs to lead the market, and not merely invest with the market. If it ends up like the Green Investment Bank, then it is doomed to fail by not living up to the vast potential of what a national investment bank could do.

I herby echo Friends of the Earth Scotland’s submission which is supportive of three fundamental characteristics of a well-purposed SNIB:

1. Wholly focussed on lending for the public good, not for private profit.
2. A key delivery mechanism for a Green New Deal that spurs the transition to a zero-carbon economy.
3. World-leading ethical standards, governance and transparency, with tackling inequality and climate change at the heart of the Bank’s corporate culture.

I also echo their concerns that climate change, decarbonisation, the environment, carbon and greenhouse gas emissions are not mentioned in the bill. We know that it is important to future proof important institutions like these, and if not sufficiently embedded into the DNA of the bank through this bill then there will be an ever present risk that the bank could overwhelmingly fail to achieve the needed social and environmental missions.
Again, I support Friends of the Earth Scotland’s proposal that there should be “amendments to the Bill that require minimum ethical standards be applied to its lending and give the Bank the objective of tackling the two overwhelming challenges of inequality and decarbonisation.”

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

The bill is initially ambitious, but I would suggest not constraining the future ability of the bank to raise funds by other means, giving a vehicle for ethical and safe long-term investments from pension funds and other forms of patient capital. This should be revisited at a future date and not ruled out at this stage.

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

The bank should lead the banking sector on pay and transparency. Executive pay should not exceed the salary of the First Minister and if all employees and contractors are receiving the Scottish Living Wage then this amounts to a pay ratio of 9:1.

5. What governance arrangements ought to be in place?

The board and overall governance structure should ensure diversity and inclusivity. It should not solely rely on expertise from the UK banking sector, principally because the UK banking sector does not have all the expertise needed to create a national investment bank. Where necessary, key staff should be found from other exemplar banks such as the KfW in Germany, the Nordic Investment Bank or ethical banks and investors such as Triodos or Abundance.

The public, unions and civil society should have a meaningful role in the scrutiny of the bank, as well as participating in the achievement of the missions (see answer to question 8).

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

By setting up a stakeholder engagement and innovation team at the earliest opportunity (see question 8). Initially this team will seek to begin to work with stakeholders to find out the investment ‘quick wins’ and to begin to design the on-going process of engagement. If the bank is aiming to be running by September, then staff should be put in place as soon as possible.
7. What ethical and equalities considerations do you think should inform the Bank’s ethos and decision making?

I support Friends of the Earth Scotland’s in-depth answer to this question but would like to add that that there should at minimum clear negative criteria to rule out unwanted and unethical investments. There should also be positive criteria to guide investments to the achievement of the missions. Innovations for products which link social or environmental aims with interest rates could be one way to drive behaviours and this should be investigated further.

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?

The case for mission-driven orientation for the Scottish National Investment Bank has been well made. However, mission-orientated investment requires a different mindset for its operation and success. The organisational structure of the bank and how it designs its processes of stakeholder engagement will be critical to the success in achieving these missions. In short, if the bank does not innovate organisationally and culturally, it will fail to achieve its missions and, indeed, its potential.

A mission driven bank will need to create shared purpose amongst disparate groups, organisations, and sectors to bring them in alignment with the missions. This necessitates a new way of approaching stakeholder engagement. The aim of engagement in mission-oriented policy should be to create healthy, symbiotic ecosystems which are responsive to the continual evolution of a shifting policy and socio-economic-environmental landscape.

The bank needs a way to engage meaningfully with those on the ground who are, or could be, creating transformative change. National Investment Banks elsewhere rely on local banking systems to gather intelligence. We do not have this in the Scottish economy, but there is a wealth of expertise across government, civil society and businesses and it is this energy which should be the focus of SNIB engagement and innovation activities.

We need to build the capabilities and expertise of civil servants and the staff of the bank to embed a culture of meaningful collaborative and participatory methodologies as a clear aim from the outset. A stakeholder engagement and innovation team should be created to hold the process of engagement and align the missions with a diverse range of stakeholders.

Participation with stakeholders should aim to build a culture of innovation and mission-driven risk-taking. The solution for some of our ‘wicked’ problems such as climate change can only be found through a process of co-creation with businesses, communities, local authorities and civil society. This ‘quadruple helix’ is the key to innovation and a well designed stakeholder engagement and innovation process would be able to harness the on-going meaningful co-design of solutions to our biggest challenges.
The spillover effects of innovative process design will enable and support the transition to a more entrepreneurial culture which is strong and robust enough to welcome experimentation and a healthy level of uncertainty.

A stakeholder engagement and innovation team should be part of the organisation of the bank from the outset. Their role would initially be to engage with the missions of the bank with relevant stakeholders from across the Scottish Government, local authorities, academics, businesses and civil society to outline gaps and opportunities for the fulfilment of the mission-driven approach. This must be the start of a meaningful process and should engage with experts in process design, participatory methodologies, and co-design. Exemplars of this approach can be found in the Finance Innovation Lab, Connecting Scotland, and The Innovation School of the Glasgow School of Art.

The stakeholder engagement and innovation team would report back to the central banking teams and propose new sectors to fund, new funding models and products that have arisen through the process. They would also pass on other ideas to other parts of the Scottish Government which would not be relevant for the bank to take forward but which could be actioned elsewhere, for example identification of grant funding schemes or policy changes needed.

The on-going process of engagement would act as a finger on the pulse of Scotland, not just providing a form of replacement for the local banking systems of other countries, but innovating to create a long-term culture change using co-design and meaningful engagement to support the missions of the bank and ensure their success.

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

---