

## SIAA Response

### Scottish National Investment Bank Consultation

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November 2017

**What are the top 3 areas of interventions where you think the Scottish National Investment Bank can have the greatest impact on sustainable economic growth?**

Please tick the **THREE** that you think are the most important.

Addressing access to finance for SMEs

Financing infrastructure projects which support economic growth

Promotion of investments that help address complex societal problems eg. the provision of infrastructure in deprived areas or addressing financial constraints in the housing sector

**Can you explain why you chose these as the most important?**

These are important because the underinvestment issues that the Scottish economy faces relates to lack of investment in infrastructure, a lack of long-term investment in business, and due to a lack of strategic investments.

As Scotland faces increasing population growth and exacerbated pressure upon public services like housing and transport, it is vital that there is a capacity for long-term and low-cost capital borrowing and investment. Infrastructure projects have increasingly become funded through the private sector raising expensive capital, leading to the Scottish Government paying annual charges to firms that provided the up-front capital. There is an urgent need to move away from this model of infrastructure financing, and

instead harness the capacity of the public sector to raise cheap capital. This capital can then be used to fund vital infrastructure projects, many of which will not only have significant multiplier effects for local economies and SMEs as a whole, but also to strategically funded infrastructure projects that will have a clear societal benefit support local communities. This capital could help address the housing crisis in the private rental sector, work towards goals relating to environmental sustainability, and fund infrastructure projects that will improve the standards of living for communities that have been underinvested in over the past few decades.

The Scottish National Investment Bank (SNIB) could financially support small and medium-sized businesses (SMEs) who are currently forced to rely upon the short-term, shareholder returns model of large commercial banks. The funding from commercial banks to SMEs in Scotland is still however ultimately limited, particularly compared to other regions across the UK. As SMEs account for nearly 60% of private sector jobs in the Scottish economy, it is crucial that a multi-purpose National Investment Bank is established to narrow SMEs financing shortfall, as well as narrowing the productivity gap, and diversifying the business base in Scotland. Particularly, the diversification of this base could also mean ensuring that social enterprises and local community groups are able to access capital far more easily than they are at present.

It is however difficult to identify three areas of intervention that should be prioritised. There needs to be cross-referencing with other legislation such as the Equalities Act, so that policy makers are aware of the barriers that face groups with protected characteristics.

**Which of these financial instruments might have the greatest impact in addressing your chosen areas of intervention?**

**Scottish National Investment Bank would have an impact via**

|                                   | <b>No Impact</b>                      | <b>Low</b>                            | <b>Medium</b>                         | <b>High</b>                           |
|-----------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Providing Microfinance            | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | <input type="checkbox"/> <sub>3</sub> | X <sub>4</sub>                        |
| Helping access to finance by SMEs | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | <input type="checkbox"/> <sub>3</sub> | X <sub>4</sub>                        |
| Guarantee solutions               | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | X <sub>3</sub>                        | <input type="checkbox"/> <sub>4</sub> |

|  |                                       |                                       |                                       |                                       |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Providing patient / long-term finance  | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | <input type="checkbox"/> <sub>3</sub> | X <sub>4</sub>                        |
| Seed/start up equity Solutions         | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | X <sub>3</sub>                        | <input type="checkbox"/> <sub>4</sub> |
| Early stage capital Equity             | <input type="checkbox"/> <sub>1</sub> | X <sub>2</sub>                        | <input type="checkbox"/> <sub>3</sub> | <input type="checkbox"/> <sub>4</sub> |
| Later stage (patient/long term) Equity | <input type="checkbox"/> <sub>1</sub> | <input type="checkbox"/> <sub>2</sub> | <input type="checkbox"/> <sub>3</sub> | X <sub>4</sub>                        |

**In terms of existing international models, is there a particular example that you think is appropriate for Scotland and why?**

The German Kreditanstalt für Wiederaufbau (KfW) has adopted a model that is appropriate for the SNIB. As the SNIB would seek to provide long-term, low-cost patient capital that could fund infrastructure projects that have a societal benefit, the German KfW's "mission-oriented" goals of improving the economic and ecological outcomes of German citizens is a model that should be replicated. The German KfW is also effective in targeting regions across Germany that are comparatively worse off than other regions. The SNIB could provide start-up capital and wider assistance to Local Authorities, who could ultimately act as intermediaries for SMEs to access low-cost capital.

We would also add that particularly in terms of supporting social enterprises within communities, microfinancing models across various countries could serve as an example of best practice the distribution of low-cost capital to groups which evidence shows struggle to access capital, such as women and BME business-owners.

**Do you think that the Scottish National Investment Bank should have explicit regional mandates within Scotland, to address specific regional issues and/or to contribute towards greater regional economic cohesion?**

**Yes**

There is a need to address regional disparities in the level of resources and capital across Scotland. If the SNIB is able to provide long-term and low cost capital, then local authorities could act as intermediaries to public sector entities and private sector enterprises, who could in turn request loans for specific projects in their region. The

SNIB would be able to prioritise low-growth regions, and take into account the various differential rates of regional development across Scotland. Different local and regional businesses will have heavily varied priorities for strategic investment, and it is therefore paramount that explicit regional mandates address the request for capita. These capital injections may serve the purpose of reindustrialisation in one area for example, or for investment in innovate, disruptive technologies in another.

The SNIB should ultimately be supporting a network of smaller banks that are offer localised, bespoke support for businesses, social enterprises and community groups in specific areas. A network of smaller banks would ensure that outcomes are oriented towards the needs of people within a particular area.

**Are there particular issues on governance and the operational model, including issues such as public/private classification, that you think would strengthen, or constrain, the bank's ability to deliver on its mission?**

The governance structure of the SNIB should not be dominated by any single interest groups. Across the Executive Board, the Board of Governors and Advisory Council, there should be representation spanning elected politicians, representatives from SME groups, the third sector and from local communities.

The SIAA believe that while the operational model may include a combination of Scottish Government and Local Authority input, as well as with SME and community buy-in, the SNIB should ultimately be owned jointly between the public sector and the third sector. The SNIB should have an operational and governance structure which will restrict the opportunity for it to be privatised in the future.

**Do you have any more comments about the establishment of the Scottish National Investment Bank?**

Whilst it is important that the SNIB helps accelerate employment opportunities in high-tech industries, the mission statement is ultimately reducing the scope of the SNIB, where it could otherwise provide long-term, low-cost capital that would serve the long-term interests of society and reduce inequality. The SNIB should be established not just to correct market failures and to account for the shortfall of funds provided to SMEs – it should serve as a means to allocate resources that will have socially-optimal outcomes, and to correct regional differentials. The SNIB should serve to support a set of national and local banks that can accommodate for the different needs of various communities; it should provide localised solutions to capital funding issues, and should direct this funding to projects which will have socially-beneficial sustainable outcomes.