



Scottish National Investment Bank

A National Investment Bank for Scotland: ambition to realise potential

In neighbouring European Countries, National Investment Banks play an important role in providing long-term investment to support economic growth. We know this because our Council of Economic Advisors told us so in 2017. We listened to this advice and have introduced legislation to support the establishment of the Scottish National Investment Bank.

Based on the mission based approach to investment advocated by Professor Mariana Mazzucato, a Council member and author of *The Entrepreneurial State*, the Bank will be a cornerstone institution in Scotland's financial landscape, there to help transform the economy.

We accepted all of the recommendations put to us by Benny Higgins, former CEO of Tesco Bank, in his Implementation Plan which will see the Bank operational by 2020. The Implementation Plan provided the following vision for the Bank:

“Provide finance and act to catalyse a step change in growth for the Scottish economy by powering innovation and accelerating the move to a low carbon, high-tech, connected, globally competitive and inclusive economy.”

We have committed £2 billion of capital to the Bank to invest over 10 years; this is both ambitious and achievable. Prior to this we have to date allocated £94 million to a range of housing, regeneration, industrial and commercial projects through the £150 million Building Scotland Fund, a precursor to the Bank.

Doing things differently: Patient and Growth Finance

“The Scottish Government is already demonstrating global leadership in areas such as transitioning to a low carbon economy and promoting inclusive growth, but fulfilling this potential will require finding new ways of promoting investment in a smart, inclusive and sustainable direction.”

Professor Mariana Mazzucato

Financial returns from investment in riskier innovative activities are not always assured and it usually takes time before they can materialise. Thus, achieving smart, innovation-led growth requires not just any type of finance, but long-term patient strategic finance.

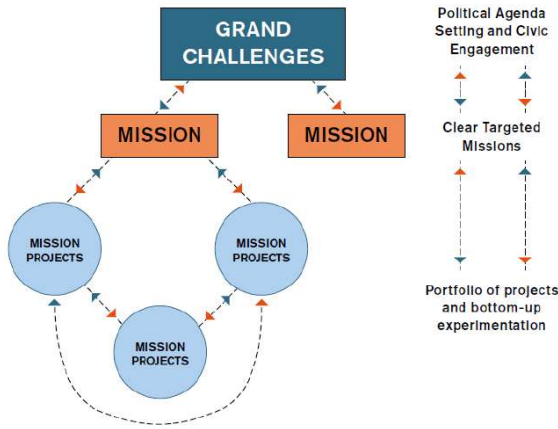
Short-termism and risk-aversion means that the private sector will often not invest in higher-risk areas until future returns become more certain. This is why across the world the early stages of the innovation chain are disproportionately occupied by public sector actors.

Early stage public investment helps to create and shape new markets, nurturing new landscapes which the private sector can develop further. In countries that have achieved smart, innovation-led growth, the state has often supplied the patient strategic finance that the private sector was unwilling to provide.

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Mission Driven: from the beginning

The Implementation Plan for the Bank sets out that it should take a mission-oriented approach to investment. Each mission will work towards tackling a problem specific societal challenge. These challenges will align with the National Performance Framework to ensure that the work of the Bank contributes towards achieving the National Outcomes.



Source: Mazzucato (2018)



Source: Scottish Government

A mission-oriented approach encourages transformative solutions that are sector and business neutral. The missions, therefore, will not specify the types of businesses or sectors in which the Bank should invest. So far we have talked about the following possible missions to set the strategic direction of the Bank:

- Transitioning to a carbon neutral economy
- Responding to demographic change
- Regeneration and placemaking

Scotland is well placed to benefit from a mission-based approach. The Scottish Government's Economic Strategy (2015) sets out a clear economic approach which aims to establish an inclusive, fair, prosperous, innovative country, ready and willing to embrace the future. It acknowledges that the successful economies of the future will be resource efficient, low carbon and harness the power of technology and illustrates a bold and forward-looking vision of a futureproofed, high-tech, low-carbon Scottish economy.

Doors open: a trusted financial institution

The Scottish Government is committed to ensure that the way the Bank operates – its culture, governance, and approach to businesses and individuals – will define it as an ethical, inclusive and trusted institution. The Bank will hold to the principles of equality; transparency; diversity; and inclusion.

The Bank will develop its own Ethical Statement setting out how the Bank will act as an ethical, inclusive and trusted institution. The Investment Strategy will set out how it will achieve the objectives set for it and conduct its activities in line with the risk appetite and target rate of return which Scottish Ministers will set for the Bank.

SNIB PLC: “commercially minded as well as publicly accountable”

The Implementation Plan recommended that the Bank should be a limited company and a public body. The Bill places a duty on Scottish Ministers to establish the Bank as a public limited company.

The limited company model is consistent with the Bank being a financial institution with a readily understood system of Governance which allows for a clear divide (underpinned by a Shareholder Framework Document) between the shareholders of a company setting its strategic direction and Bank itself, through its Board of Directors, making the (independent) investment decisions. We recognise the Bank, being a public body, will be accountable to the Scottish Ministers as sole shareholders for its performance and through them to the Scottish Parliament.