Equality Impact Assessment

Scottish National Investment Bank Bill

February 2019

Scottish Government
Riaghaltas na h-Alba
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EQUALITY IMPACT ASSESSMENT

EXECUTIVE SUMMARY

1. The Scottish Government has committed to establish the Scottish National Investment Bank, and for the Bank to be operational in 2020, investing in businesses and communities across Scotland. The creation of the Bank will deliver an institution that can boost Scotland's economic performance and realise the Scottish Government's ambitions for the economy by providing patient capital to finance growth. The Bank's investment decisions will reflect financial, economic and wider social and ethical interests, in order for it to have the desired impact, contribute to inclusive growth and to fulfil the objectives set for it.

2. 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 a leading financial and investment institution. This will mean that, in particular, the Bank will hold to the following principles: equality; transparency; diversity; and inclusion, and it will be established and run following the spirit and practice of Open Government. This Equality Impact Assessment (EQIA) sets out how these commitments will be met.

3. The Bank is intended to provide a leadership role in terms of diversity and inclusion, as well as in ethical and inclusive investment. This Equality Impact Assessment is intended to set out how this can be achieved by considering the potential impacts on people who share one or more of the protected characteristics as set out in the Equality Act 2010, and on the reduction of inequalities. The scope of this EQIA includes the Bill as introduced and the creation of the Bank, which itself does not form part of the Bill.

4. This EQIA is based on stakeholder engagement and feedback received, the results of the consultation on the Scottish National Investment Bank Bill, and desk based research as well as the previous analysis conducted to support development of the Implementation Plan and Supporting Analysis (published in February 2018).

5. To support the creation of the Bank by 2020 the Scottish Government has now brought forward the Scottish National Investment Bank Bill. The Bill places a duty on Scottish Ministers to establish the Scottish National Investment Bank and gives them powers to capitalise it. The Bill also makes provision for the governance of the Bank including its purpose and objects.

6. It is intended that this EQIA be updated throughout 2019 as the policy for the implementation of the Bank continues to be developed. The findings of the completed EQIA will support the establishment of the Bank in 2020 and the Bank's development of its Investment Strategy and Ethical Statement.

7. As well as considering the effects of the Bill and of establishing the impact of the Bank on people who may share one or more of the protected

characteristics, this EQIA also considers how the creation of the Bank can help to tackle socio-economic inequality. This approach recognises the intended purposes of the Bank, which include the reduction of socio-economic inequality, and is intended to support full consideration of the impact on groups subject to multiple disadvantage as a result of interaction between the protected characteristics and socio-economic inequality.

8. The Scottish Government will also publish a Fairer Scotland Duty assessment, building on the evidence identified and the conclusions drawn in this EQIA, which will consider in more detail how the activities of the Bank can address socio-economic inequality.

9. The evidence identified through this EQIA has shown that the Bill as introduced, and the subsequent creation of the Bank, can be anticipated to have a positive impact on protected groups and individuals, and to address socio-economic inequality.

10. The Bank can deliver the anticipated positive impacts, both directly and indirectly, through:

- Its culture, governance and engagement with its employees (direct).
- Its interactions with its customers (direct).
- Supporting its customers to deliver positive impacts in respect of the protected characteristics and to address socio-economic inequality within their own ventures and through the activities that the Bank's financing will enable (indirect).

11. The Schedule of the Scottish National Investment Bank Bill provides that the Bank be made subject to a number of duties under existing legislation. Of particular relevance to this EQIA are the provisions to make the Bank subject to the requirements of the Gender Representation on Public Boards (Scotland) Act 2018. Equalities legislation will also be amended to ensure that the Public Sector Equality Duty applies to the Bank.

12. To underpin the principle of transparency, the Bill will also make the Bank subject to the requirements of the Freedom of Information (Scotland) Act 2003.

13. In addition, there are a range of initiatives with which it is proposed that the Scottish National Investment Bank align itself. These are: the UN Guiding Principles on Business and Human Rights[1], the UN Global Compact[2] and the Women in Finance Charter[3].

14. The Bank will also conduct its activities in line with Scottish Government policy initiatives such as the fair work agenda, including Fair Work First. The Scottish Ministers will also bring forward subordinate

[1] https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
[2] https://www.unglobalcompact.org/
[3] https://www.gov.uk/government/publications/women-in-finance-charter

legislation to make the Bank subject to the Fairer Scotland Duty. In addition, it will be subject to the standard legal requirements as a public body.

15. This EQIA highlights the areas where the Bank can be anticipated to make a positive impact. It has not identified any anticipated negative impacts but sets out a number of areas which should be subject to further consideration during the establishment and operation of the Bank to ensure that equality issues are properly addressed and progress furthered wherever possible.

16. The Bank's activities will contribute to the achievement of a number of the outcomes of the Scottish Government's National Performance Framework indicators and, through that, help to meet the UN Sustainable Development Goals. More detail on the anticipated impact of the Bank, based on the possible transformative missions set out in the Implementation Plan, will be published on the Scottish Government webpages[4]. The anticipated contribution of the Bank against the National Performance Framework will continue to be considered as the final missions for the Bank are developed.

17. The performance of the Bank against its Investment Strategy and Ethical Statement will be subject to regular review. The Scottish National Investment Bank Bill provides that the Bank will be required to report annually to Scottish Ministers and gives Scottish Ministers a power to specify what information it requires from the Bank in this regard. The Bill also provides that, at least every 5 years, Scottish Ministers must commission a report on the performance of the Bank to be published and laid in Parliament.

NEXT STEPS

18. It is intended that this EQIA be updated throughout 2019. The Bank will take account of the findings of the completed EQIA, and the related findings in the Fairer Scotland Duty Assessment, in the development of its Investment Strategy and Ethical Statement.

19. Those documents will set out how the Bank will meet the commitments set out in this EQIA in its practices and working culture. It is expected that further engagement with stakeholders and with the parliamentary process to take place over 2019 and in 2020 until the Bank becomes operational, not just in relation to this EQIA and other aspects of the Scottish Government's proposals but also specifically in relation to the Bank's practices, will inform their development.

[4] https://www.gov.scot/policies/economic-growth/scottish-national-investment-bank/

EQUALITY IMPACT ASSESSMENT

BACKGROUND

1. The Scottish Government's 2017-18 Programme for Government included a commitment to establish a Scottish National Investment Bank, with the aim of boosting Scotland's economic performance and realising the Scottish Government's ambitions for the economy by providing patient capital to finance growth.

2. The Scottish Government commissioned Mr Benny Higgins, former Chief Executive of Tesco Bank, to provide recommendations on the role, remit, governance and capitalisation of the Bank. The Implementation Plan he produced recommended that the Bank be established as a public body and a public limited company, and that it be capitalised by the Scottish Ministers.

3. As a public limited company the Scottish National Investment Bank is required to have set out in its Articles of Association its company objects; these are provided in the Scottish National Investment Bank Bill. The main object for which the Bank is established is the giving of financial assistance to commercial activities for the purpose of promoting or sustaining economic development or employment in Scotland. The Bill also sets out ancillary objects for the Bank in pursuit of its main object.

4. The Bank will in general take a mission-based approach to its investment. Scottish Ministers will set out missions for the Bank to guide its activities and ensure alignment between the activities of the Bank and Scottish Government policy.

5. The Implementation Plan identified possible transformative missions for the Bank which reflected the priorities set out in the September 2017 Programme for Government: transitioning to a low carbon economy; responding to an ageing population and wider population health; and promoting inclusive growth through placemaking and regeneration. We consulted on those potential missions in September and October 2018 and will consider the views expressed in responses to that consultation, and those expressed in subsequent stakeholder engagement, as the missions are developed.

6. The missions set for the Bank are expected to be assessed every 5 years. Any amendment of the missions, or development of subsequent missions, will also be informed by the review which the Scottish National Investment Bank Bill requires Scottish Ministers to commission at least every 5 years.

7. Scottish Ministers will also agree with the Bank its target rate of return and performance management framework.

CONSULTATION

8. To support the development of the Implementation Plan, the Scottish Government issued a consultation paper in October 2017[5]. The consultation invited comments and suggestions from stakeholders on a series of key issues on the creation of a national investment bank. An analysis of the consultation responses[6] was published alongside the Implementation Plan and the Supporting Analysis[7].

9. Building on that work, the Scottish Government ran a second consultation on our proposals for the creation of the Bank and the supporting Scottish National Investment Bank Bill. The consultation received 1,443 responses; 40 responses from organisations, an email campaign response from Friends of the Earth Scotland with 1383 responses, and 20 responses from individuals.

10. An analysis of responses to that consultation has now been published on the Scottish Government's webpages.[8]

11. Feedback received to both consultations, the associated stakeholder engagement, and the stakeholder engagement that has taken place since have all been taken into account in this EQIA.

KEY FINDINGS OF THIS ASSESSMENT

12. 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 a leading financial and investment institution. This will mean that, in particular, the Bank will hold to the following principles: equality; transparency; diversity; and inclusion, and it will be established and run following the spirit and practice of Open Government.

13. It is anticipated that there are three main ways in which the activities of the Bank, conducted according to the above principles, can deliver positive impacts in respect of the protected characteristics and in the reduction of socio-economic inequality:

- Its culture, governance and engagement with its employees (direct).
- Its interactions with its customers (direct).
- Supporting its customers to deliver positive impacts in respect of the protected characteristics and to address socio-economic inequality within their own ventures and through the activities that the Bank's financing will enable (indirect).

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[5] https://www.gov.scot/publications/consultation-scottish-national-investment-bank/
[6] https://www.gov.scot/publications/scottish-national-investment-bank-consultation-report/
[7] https://www.gov.scot/publications/scottish-national-investment-bank-implementation-plan/
[8] https://www.gov.scot/publications/scottish-national-investment-bank-consultation-analysis-responses/

14. The Bank's Board will develop an Investment Strategy and Ethical Statement. These documents will be informed by the preferences of Scottish Ministers as sole shareholder and will set out the Bank's planned investment activities and how it will meet its objects as stated in the Bill.

15. In particular, the Scottish National Investment Bank Bill provides that one of the Bank's objects be "investing in inclusive and sustainable economic growth" and the conclusions of this Impact Assessment set out a number of ways in which this object can be achieved by the Bank.

16. Scottish Ministers will make the Bank subject to the Public Sector Equality Duty which requires public bodies to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different groups when carrying out its activities. This includes requiring the Bank to have to consider equality issues by carrying out and publishing Equality Impact Assessments in relation to its strategic decisions, including its investment strategy.

17. It is additionally proposed that the Bank align itself the UN Guiding Principles on Business and Human Rights[9] and become a signatory to the UN Global Compact[10]. These are voluntary initiatives through which businesses commit to respecting international human rights standards.

18. In particular, the UN Guiding Principles on Business and Human Rights set out the business responsibility to respect human rights by:

a) making a policy commitment to respect human rights;
b) implementing a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; and
c) facilitating access to remedy for any human rights impacts they are involved in.

19. The UN Global Compact sets out Ten Principles intended to support responsible business practices. The Ten Principles, which cover human rights, labour, the environment and anti-corruption, are derived from: the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

20. Scottish Ministers expect the Bank to set out in its Investment Strategy and Ethical Statement, and in other documents as relevant, how its activities and business practices will reflect and support the UN Guiding Principles on Business and Human Rights and the UN Global Compact. It is anticipated that implementation of these initiatives may impact all areas of the Bank's work including its approach to its governance and staff, its customers and its lending.

[9] https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf
[10] https://www.unglobalcompact.org/what-is-gc/mission/principles

21. The Bank will have to set out how it will realise the potential positive impacts on the protected characteristics, and avoid or mitigate any negative impacts, and in the addressing of socio-economic inequality whilst meeting the objectives, missions and targets set for it by Scottish Ministers. This will include consideration of how the Bank can avoid contributing to the further entrenchment of existing unfairnesses and socio-economic inequality.

22. The Scottish Ministers will also bring forward subordinate legislation to make the Bank subject to the Fairer Scotland Duty under the Equality Act 2010. This means it will have to pay due regard to how it can reduce inequalities of outcome caused by socioeconomic disadvantage, when making its strategic decisions. This will also apply to the Bank's development of its Investment Strategy and Ethical Statement. Separately, a Fairer Scotland Duty Assessment will be prepared by the Scottish Government in respect of the creation of the Bank and published on the Scottish Government's webpages.

The Bank's approach to its governance and staff

23. To achieve the Scottish Ministers' ambitions for the Bank's conduct it is essential that the Bank establishes a culture for itself that supports this method of doing business.

24. The commitments that Scottish Ministers have made in respect of the Bank – and the duties to which it is proposed the Bank will be subject – are intended to frame and facilitate development of that culture.

25. In particular the Bank will be established, and Scottish Ministers expect it to be run, in accordance with the spirit and practice of Open Government. The Bank will be expected to operate in line with the principles of the Open Government Declaration to which the Scottish Government has committed. These are to:

- increase the availability of information about governmental activities;
- support civic participation;
- implement the highest standards of professional integrity through administrations; and,
- increase access to new technologies for openness and accountability.

26. The Scottish Ministers will appoint the Bank's first chair and non-executive directors following the principles of the public appointments process regulated by the Commissioner for Ethical Standards in Public Life in Scotland, before the Bill comes into force. The Bill makes all future appointments by Ministers subject to the regulation of the Commissioner. Establishing an effective and committed Board for the Bank which is representative of the diversity of Scotland's population will be key for Scottish Ministers and will contribute to setting the Bank's culture on establishment.

27. Public appointments are made on merit. When designing a public appointments round, the target pool for potential applicants is based on the board's needs including the knowledge, skills and qualities required, as well

as which characteristics, such as sex, disability, age, ethnicity, and sexual orientation, are underrepresented. The first public appointments will be completed by Ministers before the establishment of the Bank in 2020, with the appointment of the first Chair and non-executive directors to the Bank's Board.

28. The provisions of the Gender Representation on Public Boards (Scotland) Act 2018 will apply to the Bank. The 2018 Act sets an objective of having 50% of non-executive board members who are women and will require the appointment of board members to be done with a view to achieving that objective. The first public appointments, to be made by Ministers before the Bill comes into force, will also be conducted in line with the provisions of the 2018 Act.

29. As a public body the Scottish National Investment Bank will be responsible for ensuring that equalities issues are properly considered in respect of its staff. The strategic framework that will be agreed for the Bank will set out the broad responsibilities of the Bank towards its staff. In particular, the framework will require the Bank's HR policies, practices and systems to comply with employment and equalities legislation and the standards expected of public sector employers. This will mean that the Bank's processes and cultures must promote equality and not lead to discrimination. In particular, the Bank should consider the steps it can take to ensure that, as a workplace, staff (and prospective staff) are not discriminated against as a result of disability, their sexual orientation, for reasons of pregnancy or maternity, gender reassignment, or the individual's gender or race or ethnicity.

30. The Bank should also align its activities and culture with the Fair Work Framework 2016 – which focusses on the effective voice, opportunity, security, fulfilment and respect of employees to the benefit of those employees and the business itself – and become a signatory to the Business Pledge. In particular, the Bank will ensure that all its employees are paid at least the real Living Wage by becoming a Living Wage Employer.

31. These commitments will contribute to implementation of Principles 3-6 of the UN Global Compact in particular.

32. The Scottish Ministers expect the Bank to be mindful of existing diversity issues within the financing and lending industries. For example, 'UK VC and Female Founders', a recent report by the British Business Bank, Diversity VC and BVCA, found that only 13% of senior people on UK venture capital investment firms are women and 48% of investment teams have no women at all[11]. Ministers expect the Bank to ensure that its recruitment and working practices are established in such a way as to improve diverse representation and not to perpetuate existing industry issues. In particular, the Bank should become a signatory to the Women in Finance Charter[12].

[11] https://www.british-business-bank.co.uk/uk-vc-female-founders-report/
[12] https://www.gov.uk/government/publications/women-in-finance-charter

33. The Bank will be subject to the duties under regulations made under the Equality Act 2010 which include reporting on the gender pay gap in the body.

34. In planning and implementing its staff and recruitment practices the Bank should be aware that as a sector finance has the highest gender pay gap in Scotland. For all (full time and part time) employees across all industries the gender pay gap was 15.0% in 2018, down from 16.0% in 2017. The gender pay gap for full-time employees in 2018 was 5.7%, down from 6.6% in 2017 and the lowest on record. By industry the full-time pay gap is highest in Financial and Insurance Activities at 31.0% in 2018[13]. The Scottish Ministers, therefore, expect the Bank to consider how to avoid the perpetuation existing issues and how can it can contribute to efforts to address industry-wide issues.

The Bank's approach to its customers

35. The Bank is intended to serve businesses who wish to innovate and grow but find the traditional routes to finance challenging. It will create and shape future markets and define how our economy will develop. The Bank therefore has the potential to help transform Scotland's economy.

36. The Bank will work with a range of businesses, including some that have previously faced issues when seeking to access finance, and it is vital that the Bank is able to identify and take opportunities to establish productive partnerships. Recognising the barriers to those partnerships will be key to unlocking the potential of a variety of businesses and sectors.

37. The Bank should consider how its lending practices can address the particular needs of its potential customers. Their needs may vary depending on the types of persons leading the business, its sector of activity and the geographic location of its business or activity.

38. Core to the Bank's business will be its respect for its customers. The needs of the Bank's customers will be varied and the Bank will ensure that its procedures can accommodate those needs and that their staff receive the appropriate training and skills. Implementation of the Bank's commitment to act transparently will contribute to this.

39. The Bank will be directly lending to businesses. It will not engage in direct lending to individuals. Where the Bank does engage with individuals it will be in their capacity as representatives, leaders or owners of a business. In that context, the Bank should consider the steps it can take to ensure that it customers (and prospective customers) are not discriminated against as a result of disability, their sexual orientation, for reasons of pregnancy or maternity, gender reassignment, or the individual's gender or race or ethnicity.

[13] Annual Survey of Hours and Earnings 2018, Office for National Statistics

40. The EQIA process has identified a number of potential barriers to businesses gaining finance from lending institutions. It is important that the Bank's activities are not impeded by those barriers. The Bank's activities may also generate opportunities for systems change within the lending industry.

41. In particular, we have identified two areas where action may address specific barriers that relate to the protected characteristics: access to finance for women-led businesses and for female entrepreneurs, and access to finance for businesses owned by ethnic minorities and for entrepreneurs from an ethnic minority.

42. Addressing these barriers– to ensure that a person should not be restricted in their ambitions to develop a business because of any of their individual characteristics, including gender and race –can unlock additional activity and growth in the Scottish economy.

43. The Bank should be aware that there are a number of reasons that entrepreneurs enter business, not all of which relate to 'traditional' routes. For example, academic literature has shown that high rates of entrepreneurial activity amongst members of minority ethnic communities may be as a result of exclusion from sections of the labour market. Women may also start businesses having found previous employment to be unsupportive of childcare needs, or even having been subject to harassment, discrimination related to pregnancy or maternity, or persistent pay gaps.

44. The Bank should also ensure, regardless of where it is eventually located, that businesses are not disadvantaged when it comes to seeking financing from the Bank because of their location within Scotland.

<u>Access to finance for women-led businesses and for female entrepreneurs</u>

45. The EQIA process has highlighted evidence that women-led businesses typically have less access to capital than male-led businesses. 'Women-led businesses' are defined by the Scottish Government as being "controlled by a single woman or having a management team composed of a majority of women."[14]

46. As the Implementation Plan for the Bank set out: "evidence has shown that women on average start their businesses with a third less capital than that of their male counterparts". Stakeholders have also highlighted that women-led businesses start with lower levels of overall capitalisation and are much less likely to use private equity or venture capital. That initial under-capitalisation can have a long-term effect and can constrain business growth prospects.

47. 'UK VC and Female Founders' found that for every £1 of venture capital investment in the UK, all-female founder teams gets less than 1p. All-male founder teams get 89p and mixed gender teams the remaining 10p.

[14] https://www.gov.scot/publications/scottish-framework-action-plan-women-enterprise/

It also found that teams with at least one woman appeared to be less likely that secure subsequent rounds of funding than all-male teams.

48. Research has also demonstrated, however, that notions of women's risk aversion, reluctance to grow and poorer growth performance are wholly unfounded. The data shows no statistical differences in those areas between male and female owned businesses[15].

49. The under-capitalisation of women-led businesses as a challenge cannot be viewed in isolation. While female self-employment has doubled in the last decade[16], women still represent just 35% of the self-employed population. On the other hand, work led by Professor Sara Carter from the Hunter Centre (University of Strathclyde) indicates that if women's participation rates matched men's there would be the potential of approximately 35,000 more direct jobs in the Scottish economy. It could also boost the economy by as much as 5% GDP, a difference of £7.6 billion GVA.

50. Clearly this represents a significant opportunity for Scotland. The ability of the Bank to provide financing to those women-led businesses who may not otherwise have received it can not only make a difference to those businesses and to wider economic performance, but can encourage and support women to start and to progress in business, helping to address the current imbalances.

51. The Scottish Government is committed to tackling the gender gap in enterprise. We have set out our approach in the Scottish Framework and Action Plan for Women in Enterprise[17] and it is important that the Bank aligns its activities and approach with the Framework. This agenda is currently being progressed by the Women in Enterprise Action Group, chaired by the Minister for Business, Fair Work and Skills.

52. While the Bank cannot solely resolve all the issues that require addressing in this context, it can nonetheless take a valuable role to address the issue of reduced access to capital for women-led businesses in its working practices. In particular, the Bank should ensure that its staff are aware of the needs of women-led businesses, through training if necessary, and should consider how its practices can address the issues that can lead women not to take up available finance. Several stakeholders have raised potential actions to support implementation of this which the Bank will consider. For example, Women's Enterprise Scotland has prepared a brief draft guide for panel judges/investors etc. to aid in their assessment of female-owned businesses. 'UK VC and Female Founders' also identified issues within the venture capital industry resulting from its reliance on networking between firms and venture capitalists that can inhibit efforts to address gender-based inequalities.

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[15] Malstrom, Voitkane et al (2018) When stereotypical gender notions see the light of day, will they burst? Venture capitalists' gender constructions versus venturing performance facts, Journal of Business Venturing Insights, 8 pp 32 – 38.
[16] Annual Population Survey
[17] https://www.gov.scot/publications/scottish-framework-action-plan-women-enterprise/

53. We have not proposed that the Bank establish dedicated and separate funds either for women-led businesses and female entrepreneurs, or any other group that may have issues with access to finance. We have taken this approach in line with feedback from stakeholders about the potential for separate funds to 'other' women and hold back mainstreaming of investment in this area.

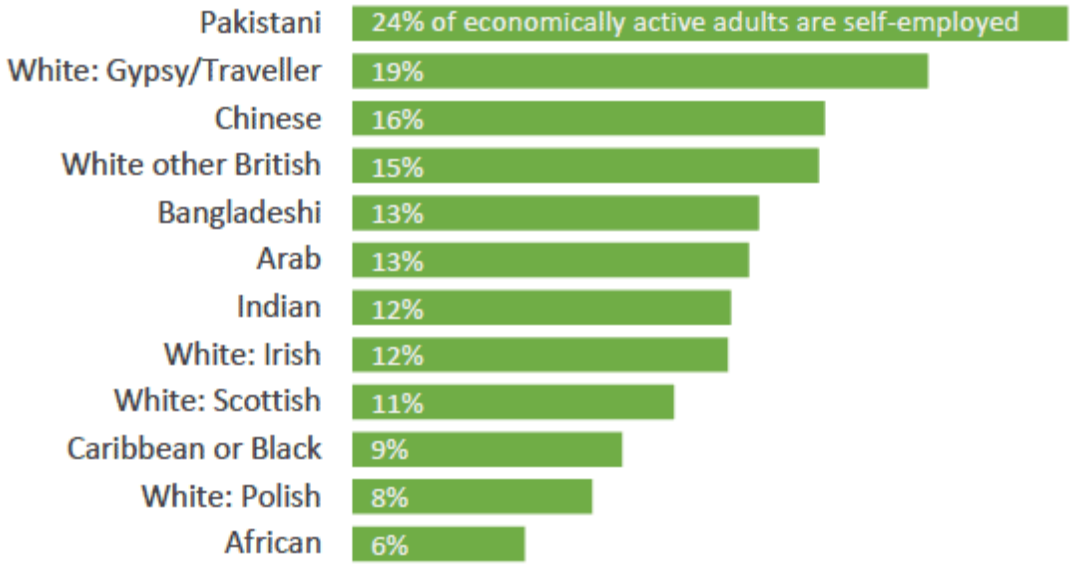
Access to finance for business owners and entrepreneurs from an ethnic minority

54. The EQIA process has identified issues with access to capital that face business owners and entrepreneurs from minority ethnic communities. This is despite typically high levels of entrepreneurial activity amongst members of minority ethnic communities.

55. In March 2016 the Scottish Government published its Race Equality Framework for Scotland 2016 to 2030[18]. It highlights the entrepreneurial rates of minority ethnic groups:

> "The rates of self-employment vary widely between minority ethnic groups, with some communities being over-represented (for example, Pakistani communities) and others under-represented (for example, African communities)."

Figure 11: Self-employment 2011 [21]



Original data source: Census 2011

56. The Framework also found that in Scotland there was overall "a lack of evidence on uptake of available support for business owners and entrepreneurs from minority ethnic communities, and whether the support on offer meets people's needs."

[18] https://www.gov.scot/publications/race-equality-framework-scotland-2016-2030/pages/1/

57. Therefore, the Scottish Government has committed to: "map information and data needs around self-employment and minority ethnic enterprise in order to better understand minority ethnic entrepreneurship to inform a programme of future activities."

58. In May 2018 the Hunter Centre for Entrepreneurship and the University of Strathclyde Business School published the Scottish Government-commissioned study 'Taking steps to combat barriers to ethnic minority enterprise in Scotland'.[19]

59. It found that ethnic minority enterprises – defined as ethnic minority entrepreneurs and ethnic minority-led businesses (all those not of a White British or Irish origin) – tended to be overly reliant on informal sources of finance (such as family members) and were less likely to use more than one source of finance. It also found that ethnic minority enterprises appear to be slightly over-represented in the £5000 - £10,000 category and underrepresented in the £50,000 - £100,000, and over £100,000 categories despite a greater proportion of ethnic minority enterprises indicating that they plan to pursue moderate growth over the next year (45% ethnic minority enterprises compared to 38% of white British and Irish enterprises.)[20]

60. There are a number of potential contributing factors identified. These include a preference for retaining clear control of the enterprise, cultural barriers (such as Muslim entrepreneurs only considering Sharia compliant financing), and perceptions of unfairness in lending institutions.

61. To tackle these finance-related issues, the study recommended that the enterprise agencies better coordinate their activities to reach out to ethnic minority enterprises and highlight what finance is available while tailoring their practices to the particular needs of ethnic minority enterprises and entrepreneurs. The Scottish Government is now looking at how it can take these recommendations forward. The Bank should consider how it can contribute to this and ensure that its own practices can address the apparent issues minority ethnic enterprises face when trying to access finance and, in particular, the underrepresentation of ethnic minority enterprises in the over £100,000 category.

62. The Bank has the opportunity to support further economic activity from business owners and entrepreneurs from minority ethnic communities. It can also contribute to addressing structural issues including perceptions of inhibited access to finance, whether justified or otherwise, which can support the entry of more persons and entrepreneurs from minority ethnic communities into business.

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[19] https://pureportal.strath.ac.uk/files-asset/81463837/Mwaura_etal_2018_Taking_steps_to_combat_barriers_to_ethnic_minority.pdf

[20] Figure 12 and figure 13

The Bank's approach to its lending

63. The principal impacts of the Bank will result from the finance it provides to businesses in Scotland. It has been widely recognised amongst stakeholders that realisation of these indirect benefits is important to the success of the Bank. While it is anticipated that these benefits would have an overall positive impact, due care will be taken to ensure that benefits are accessible to all, and that individual groups are not overtly disadvantaged as a result of the Bank's lending activities.

64. The Implementation Plan set out that: "There should be a presumption, as with existing activity, that those offerings aim to maximise additionality (measured in financial, economic, social and environmental terms), but within the bounds of the Bank being financially self-sustainable." Additionality, in this context, means the Bank working with its customers to deliver different categories of benefit beyond financial benefit including social and environmental benefits such as, for example, Fairer Work initiatives.

65. It is expected that the Bank will use its position to lever ethical and sustainable benefits by working with those applying for finance. The Bank will also clearly have an impact as a result of the allocation of its financing across sectors, activities and areas with associated differential impacts on the protected characteristics and socio-economic inequality.

66. The Bank's Board will develop an Investment Strategy setting out how it intends to meet its investing objectives and this will principally determine how the Bank will focus its investing activities and the types of investment that it will offer. Development of the Investment Strategy will be informed by the UN Guiding Principles on Business and Human Rights and the UN Global Compact.

67. The Bank will consider how to maximise additionality within its evaluation of investment opportunities. When doing so there are a range of metrics it can take into consideration. Environmental, social and governance (ESG) evaluations are frequently used by investors when considering the viability of a prospective investment.

68. The Implementation Plan set out that: "The Bank should also take into account economic, social and environmental returns when making its investment decisions. A balanced scorecard will be developed between the Bank and SG to establish the requirement and measurement of non-financial returns."

69. This approach is consistent with the Scottish Government's commitment to delivering sustainable, inclusive growth including through the fair work agenda. By aligning its lending approach to Fair Work First, the Bank can help to ensure that with economic investment in a business comes investment by the business in its workers. Evidence shows that a commitment to fair work can help businesses to recruit, retain and motivate their staff, boost innovation, productivity and profitability. It is, however, recognised that

businesses are of differing sizes and are each subject to differing pressures in terms of resources and focus and has taken account of that in relevant policy measures.

70. This may have specific impacts on people who share one or more of the protected characteristics. For example, the Bank may work with or otherwise encourage those seeking finance from the Bank to address age-specific issues within their workforce. This could take the form of supporting older members of the workforce to remain in place, or through supporting additional take-up of modern apprenticeships.

71. The Bank should also be aware of the differing experiences and needs across Scotland, including the particular needs of groups who share one or more of the protected characteristics and to socio-economic inequality. The Bank's activities will therefore produce differential impacts on the protected characteristics and on socio-economic inequality as it invests across geographic locations.

72. Scotland's Economic Strategy recognises the significant variations in levels of economic activity between Scotland's regions and notes that "ensuring that all regions and communities can prosper is important for both overall economic performance and ensuring that all areas have the opportunity to fulfil their potential."[21]

73. Differential levels of activity between regions can be seen in economic measures such as business R&D expenditure per head, business birth and survival rates; and also in measures of deprivation[22].

74. Divergences in outcome and in activity are also present within regions as is well recognised in Scottish Government policy including Scotland's Economic Strategy and Scotland's Agenda for Cities[23]. The Scottish Index of Multiple Deprivation well-illustrates divergences in a range of measures at local levels[24].

75. In its Phase 1 report, the Enterprise and Skills Review recognised the need for flexibility to respond to local circumstances[25]. Phase 2 of the Review committed to enhancing the system of enterprise and skills support in Scotland so that it: "Is focussed on the diverse communities of Scotland. HIE and the new South of Scotland Enterprise Agency will have a particular focus on their areas of responsibility. Elsewhere, we will ensure that every

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[21] Pg. 24 https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2015/03/scotlands-economic-strategy/documents/00472389-pdf/00472389-pdf/govscot%3Adocument

[22] http://www.inclusivegrowth.scot/resources/data-and-analysis/2018/06/inclusive-growth-diagnostics/

[23] Pg. 24 https://www.gov.scot/binaries/content/documents/govscot/publications/publication/2016/03/scotlands-agenda-cities/documents/00495349-pdf/00495349-pdf/govscot%3Adocument

[24] http://simd.scot/2016/#/simd2016/BTTTFTT/9/-4.0000/55.9000/

[25] https://www.gov.scot/publications/enterprise-skills-review-report-phase-1/pages/1/

community is represented by a Regional Partnership focused on the needs of the economy of their area. Our agencies will respond more flexibly to local and regional needs. Moving forward we expect future city or growth deals to be focused on the needs of the area, informed by inclusive growth with the private sector an integral part."[26]

76. The Bank should give, therefore, consideration to how its activities can address socio-economic inequality at local, regional and Scotland-wide levels taking into account differing needs of businesses and communities in each setting. This issue will be considered further in the preparation of the Fairer Scotland Duty Assessment.

77. Although the Bank will not prioritise particular sectors of the economy, and the missions that will be set for it will be sector-neutral i.e. accomplishment of those missions can be achieved via investment in a range of sectors, the Bank should be aware that investing in sectors within which certain groups are underrepresented can entrench existing inequalities. For example, research has shown that women are underrepresented in STEM industries, and that there are socio-economic inequality within the life science and banking industries[27].

78. As the Investment Strategy will be developed by the Bank once established, how the Strategy will address the issues identified within this EQIA cannot be set out in full in this EQIA, which is only about the creation of the Bank and the provisions of the Scottish National Bank Bill. This EQIA, however, recognises that in creating the Bank and setting its objectives and missions Scottish Ministers will influence the scope of those considerations and that there are potential equalities issues to consider within the approach currently proposed. Therefore some illustrative examples of the potential impact of the Bank through its investment activities are set out below.

- The Bank may invest in efforts to support the development of assistive technology such as AI and robotics. In its Digital Healthcare Strategy[28], the Scottish Government has recognised the potential of Technology Enabled Care (TEC) to support older people to empower individuals to live more independently and manage their own care at home. By investing in such projects, the Bank can help support older people and disabled people to live independently for longer, improving their quality of life. Investing in technology enabled care will also support family carers, many of whom are women, in providing care within the home.

- The Bank may invest in a property development of 'future proof' homes which incorporates both accessibility and energy efficiency considerations. This would have a positive impact on both disabled and

[26] https://www.gov.scot/publications/enterprise-skills-review-report-phase-2/pages/3/
[27] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/549994/Socio-economic_diversity_in_life_sciences_and_investment_banking.pdf
[28] https://www.gov.scot/publications/scotlands-digital-health-care-strategy-enabling-connecting-empowering/

older people as it increases provision of accessible housing which positively impacts quality of life and supports independent living. Energy inefficiency has been identified as one of the key drivers of fuel poverty with evidence showing fuel poor households are more likely to be poorly insulated and energy inefficient[29]. Fuel poverty is also an issue which disproportionately affects older people. The Scottish House Condition Survey 2017 found that over half of fuel poor households in Scotland are older households[30]. As such, increasing the provision of energy efficient housing stock as may positively impact the current and future generations of older people as a means of addressing one of the drivers of fuel poverty.

- The Bank may invest in new public transport systems to support its low-carbon mission. This may also include improving access to public transport including smart ticketing systems. Such a project may have a positive impact on placemaking by improving the connectivity of an area to the benefit of the community there – with particular benefits to communities and individuals subject to socio-economic inequalities and/or one or more of the protected characteristics. A project of this kind may also have particularly positive benefits for older people and disabled people by improving their mobility and may help to address the problems associated with social isolation. This aspect particularly intersects with socio-economic inequality as evidenced by a 2018 Edinburgh Napier University Study[31].

MONITORING AND REVIEW

79. This EQIA will be reviewed and subject to update throughout 2019. The findings of the completed EQIA will support the establishment of the Bank in 2020 and the Bank's development of its Investment Strategy and Ethical Statement.

80. The performance of the Bank against its Investment Strategy and Ethical Statement will also be reviewed. Section 13 of the Scottish National Investment Bank Bill provides that the Bank will be required to report annually to Scottish Ministers on the performance of its investments, and gives Scottish Ministers a power to specify what information it requires from the Bank in this regard and how it is provided.

81. The information required by Scottish Ministers will be set out in the draft Strategic Framework and will include performance against the Bank's Ethical Statement and the social returns on the Bank's investments.

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[29] Scottish Government. 'Fuel Poverty Evidence Review. Defining, Measuring and Analysing Fuel Poverty in Scotland' (2012)

[30] Scottish Government. 'Scottish house condition survey: 2017 key findings'

[31] https://www.theguardian.com/inequality/2018/sep/13/scotlands-most-deprived-more-likely-die-alone-at-home?CMP=share_btn_tw

82. Section 14 of the Scottish National Investment Bank Bill also provides that the Scottish Ministers be required, at least every five years, to appoint a suitable person or body to review and prepare a report on the Bank's performance. The report will be published and a copy laid before Parliament. The findings of that report should be considered in any updates to the Bank's Strategic Framework, to be made at least every five years, and the Bank's subsequent update of its Investment Strategy and Ethical Statement.

83. It has been widely recognised amongst stakeholders that the Bank should report on the social benefits it delivers, in order that the full spectrum of its activities should be represented and considered. The Economy, Energy and Fair Work Committee of the Scottish Parliament, in its report on Scotland's Economic Performance, published on 21 June 2018 recommended that: "budget for assessment and evaluation is built in to the SNIB from the outset, and that all investment decisions should be subject to equality impact assessments, and any other appropriate assessments."[32] It is essential that the impact of the Bank is properly evaluated and consideration of its social impact will be a key component of that.

84. Further, the Bank should record information about the recipients of its finance to enable comparison of access to finance across the protected characteristics (as appropriate), socio-economic status and geographic location. This information should include unsuccessful applications for finance. It is recognised that it will not always be within the gift of the Bank to address systemic issues – the coordination of efforts across the public sector investment landscape will be crucial as set out above – but the information it collects can helpfully illustrate broader issues for consideration as well as enabling evaluation of its own performance.

85. How the Bank will deliver on the commitments set out here, and meet the legal duties to which it will be subject, will be set out in the Bank's Investment Strategy and Ethical Statement, which it will be responsible for developing, and in the Strategic Framework. The development of those documents will be informed by parliamentary and stakeholder engagement to take place over 2019 and until the establishment of the Bank in 2020.

[32] https://sp-bpr-en-prod-cdnep.azureedge.net/published/EJFW/2018/6/21/Scotland-s-Economic-Performance-1/EJFWS052018R05.pdf

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