



Consultation Response

Scottish National Investment Bank - Bill

Scottish Wildlife Trust Response

31 October 2018

We support the creation of a Scottish National Investment Bank, under public ownership, whose primary objective is to help transition the economy to a sustainable and inclusive footing. The Bank should lead by example through ethical, sustainable investments for the public good.

The Scottish Wildlife Trust welcomes this opportunity to respond to the Scottish National Investment Bank (SNIB) consultation. We see this as an important opportunity to begin reshaping the financial landscape with respect to our mounting ecological debt and towards a more sustainable future.

Key Points

- The overall priority should be to contribute to the rapid decarbonising of the Scottish economy while protecting and enhancing natural capital as the basis of all economic activity.
- Finance has an important role to play in transitioning our economy to a genuinely sustainable footing, whilst bridging social inequalities. The SNIB, as proposed, does not match the ambition required, nor adopt the appropriate indicators.
- The SNIB should be grounded in the wider strategy towards a circular economy given the clear synergies between green finance and the need to move away from a linear model where we source, make, use, and dispose.
- The Bank should be guided by the principles of '[One Planet Prosperity](#)ⁱ'.
- Scottish Ministers should maintain the strategic direction, with a mechanism for parliamentary scrutiny, of the SNIB to give citizens a clear line of accountability for how public money is spent.
- The Advisory Group should represent the diversity and plurality of the Scottish public and include representation from environmental experts.
- GDP should not be the only measure of economic success. A broader set of developmental indicators should be used in addition. The limits of growth to deliver broader social progress and sustainability is well-evidenced.
- Investment opportunities should be held to a strict sustainability, inclusivity, and ethical criteria grounded in existing domestic and global commitments, including the Sustainable Development Goals.
- Projects should be prioritised by the extent to which they can deliver mutual benefits in environmental, economic, and social terms. For example, making access to capital cheaper for sustainable housing, learning from successes of the German [KfW](#)ⁱⁱ government-owned bank.
- The overall governance structure should reflect the principle of a Bank funded by, owned by, and governed by and for the public.

Objective and purpose (Questions 1-2)

In recent weeks, a number of collaborative reports have re-emphasised the urgency of the environmental crises we face, at the same time as revealing how far the window of opportunity has already closed. The Intergovernmental Panel on Climate Change (IPCC) [report](#)ⁱⁱⁱ on achieving the 1.5-degrees Celsius target has given a 12-year window for mitigating runaway climate change. Existing efforts are insufficient for achieving even the 2-degree target. The [2018 Living Planet Index](#)^{iv}, produced by WWF with the London Zoological Society and the contributions of nearly 60 scientists globally, shows the binding Aichi Biodiversity Targets are nearly all unlikely to be met, and that 60% of the world's species have become extinct since 1970, with some areas of the world as high as 89%.

Finance has an important role to play in transitioning our economy to a genuinely sustainable footing, whilst bridging social inequalities. **The SNIB, as proposed, does not match the ambition required, nor adopt the appropriate indicators.** Whilst we should avoid seeing the SNIB as a vessel

for delivering the scale of change necessary, in its ambition to become an 'enduring institution' and a cornerstone of government, it must lead by example.

The SNIB, as proposed, has a different relationship to risk compared with commercial finance to help it meet its priorities. The Trust stresses the need for risk assessments to consider environmental risk. Scotland's [ecological footprint](#) already exceeds 'three-planet living', as recognised recently by SEPA, and reducing our ecological footprint nationally and internationally is essential for any long-term viability of the economy. Projects must be considered in terms of their relationship to ecological debt, which is passed on to future generations and should form a guiding measure for ethical investments.



Figure 1: three-planet living. If everyone in the world lived as we do in Scotland, it would require 3 planets. This was articulated over 10 years ago, and our ecological footprint has only increased since. Source: SEPA, 2015

To that end, the SNIB needs to proactively accommodate existing governmental strategies. In particular, '[one-planet prosperity](#)' requires an urgent, systemic transition in our economy. To realise this, the Trust would strongly encourage the SNIB to avoid pursuing growth as an end in itself. Growth should be *incidental* to delivering wider environmental, social, and economic targets, all with sustainability at their core. Wider economic measures should be prioritised above GDP, especially where economic, social, and environmental goals can be mutually delivered, such as through improvements to housing stock. This correlates with Scotland's existing commitments under [Sustainable Development Goal 12](#)^{vi} to 'ensure sustainable consumption and production patterns' with 'developed countries taking the lead'.

Investment Strategy (Questions 3-7)

The Trust therefore believes the SNIB should be framed by the wider strategy towards a circular economy. There are clear synergies between green finance and the need to identify and scale innovations in production, product design, urban planning, among others. Scotland's existing pledges, including very [recent large-scale commitments](#), in progressing to a circular economy provide a clear rationale for this. For instance, there is clear overlap between projects funded by the Circular Economy Investment Fund and the criteria that the SNIB ought to use to prioritise projects. The economic benefits of this are clear, as the First Minister identifies in relation to local projects: "These reports [from Zero Waste Scotland] show the exciting potential of a circular economy where

reducing waste and investing in keeping materials in circulation for as long as possible can release an estimated £1 billion of economic opportunities for Tayside, Aberdeen and Aberdeenshire. This demonstrates the overall scale of the opportunity for Scotland.”

The use of a national investment bank to deliver multiple environmental, social, and economic benefits has already been shown at a large scale. For example, Germany's KfW, though operating in a far more decentralised financial context and with greater capitalisation, makes access to capital cheaper according to the sustainability criteria of housing. The SNIB should replicate this principle, if not the scale. This could deliver environmental, economic, and social gains by working with local authorities on new housing projects.

Related to this, the consultation paper is limited in discussing how projects will be identified. Speaking more broadly with those involved with the SNIB to date, the Trust understands this is to be on an application basis given the lack of capacity to proactively source projects. The Trust is concerned that this could disadvantage public authorities (especially at local scales), small enterprises, and not-for-profit organisations who may not have the capacity or institutional experience in applying for competitive finance. We therefore believe the SNIB should engage with smaller organisations and local authorities in designing this process and ensuring that clear guidelines exist for applicants.

The Trust supports the identified missions relating to a low-carbon economy and an ageing and healthy population. However, we challenge the wording of the mission related to growth. In place of growth, we would encourage this mission to adopt 'sustainable and inclusive development' in order to bring in a wider set of economic indicators rather than assuming that growth in itself will deliver these.

The UK as a whole already performs in the bottom third of advanced economies in the World Economic Forum's [Inclusive Development Index](#)^{vii}, even as both Scottish Government and the UK Government have pledged for greater sustainability and inclusivity. Any strategy targeting inclusivity should use globally-recognised metrics of inclusivity and include specific equality issues, such as intergenerational equity, gender equality, and diversity.

The WEF's Inclusive Development Index [concludes](#) that 'GDP per capita is rather weakly correlated with performance on IDI indicators [...] This highlights a key finding that relatively strong GDP growth cannot in and of itself be relied on to generate inclusive socioeconomic progress and broad-based improvement in living standards. This finding is even more striking when IDI trends over the past five years are considered. All but three advanced economies have seen GDP expand over this period, but only 10 of 29 have registered clear progress on the IDI's Inclusion pillar.'

A [2009 report](#)^{viii} authored by renowned economists Joseph Stiglitz (who also sits on the Scottish Government's Council of Economic Advisers) and Amartya Sen concluded that 'what is of particular concern is when narrow measures of market performance are confused with broader measures of welfare. What we measure affects what we do; and if our measurements are flawed, decisions may be distorted. Policies should be aimed at increasing societal welfare, not GDP. Choices between promoting GDP and protecting the environment may be false choices, once environmental degradation is appropriately included in our measurement of economic performance.'

The Trust would welcome a wider discussion about how to diversify the econometrics used, especially in determining sustainability and inclusivity, to move away from the current concentration on GVA/GDP only and widen out the metrics. This would help achieve alignment with the National Performance Framework and Sustainable Development Goals.

The Trust supports the SNIB's focus on ethical investments. This should be industry-specific, but a general guideline should be adherence with existing commitments on fair trade, fair employment, living wages, sustainable supply sourcing, etc. Issues of equality should be central to any narrative on 'inclusive growth', including, crucially, intergenerational equality.

The Trust encourages the SNIB to prioritise projects that deliver co-benefits across environmental, social, and economic interests. For instance, in line with other strategies on mental and physical health and biodiversity, the availability of green and recreation space within 500 metres of homes and the tendency for lack of access to correlate with lower socioeconomic status is a clear example where social and environmental needs can be aligned.

A strong adherence to ethical investments should be tied to a commitment to exclude from investment any sector or specific organisation that is clearly against those principles. This should include, but not be limited to, fossil fuel industries.

Governance (Questions 11-13)

Given the urgency of both biodiversity decline and climate change, and the complex interrelationships between economy, trade, finance, environment, society, and so on, a diverse representation of expertise from environmental and social sciences should play a role in advising the SNIB's strategy. The overall governance structure should reflect the principle of a Bank funded by, owned by, and governed by and for the public.

The Articles of Association should lock-in commitments to helping Scotland transition to a circular, inclusive economy. This would help protect the mission of the SNIB should changes in ownership occur in the future, as with the Green Investment Bank/Group. This said, the Trust reiterates our preference that the Bank be owned in perpetuity by the public.

Staffing (Questions 14-16)

The Trust believes that any bonus incentives, if used, should be tied to the delivery of environmental, sustainability, and inclusivity objectives. As well as ensuring the right actions are rewarded proportionally, this could play a substantial role in public trust in the SNIB and reflect wider EU policy on limiting banking bonuses.

ⁱ <https://www.sepa.org.uk/media/219427/one-planet-prosperity-our-regulatory-strategy.pdf>

ⁱⁱ https://www.kfw-entwicklungsbank.de/PDF/Download-Center/PDF-Dokumente-Richtlinien/Nachhaltigkeitsrichtlinie_EN.pdf

ⁱⁱⁱ http://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf

^{iv} https://www.wwf.org.uk/sites/default/files/2018-10/wwfintl_livingplanet_full.pdf

^v <https://www.sepa.org.uk/media/219427/one-planet-prosperity-our-regulatory-strategy.pdf>

^{vi} <https://www.un.org/sustainabledevelopment/sustainable-consumption-production/>

^{vii} <http://reports.weforum.org/the-inclusive-development-index-2018/results-and-key-findings/>

^{viii} [https://s3.amazonaws.com/academia.edu.documents/42241067/WP2009-33.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1539085199&Signature=CPCAHMfQQQIXvSk0j a6KewBORa%3D&response-content-disposition=inline%3B%20filename%3DThe measurement of economic performance.pdf](https://s3.amazonaws.com/academia.edu.documents/42241067/WP2009-33.pdf?AWSAccessKeyId=AKIAIWOWYYGZ2Y53UL3A&Expires=1539085199&Signature=CPCAHMfQQQIXvSk0j a6KewBORa%3D&response-content-disposition=inline%3B%20filename%3DThe+measurement+of+economic+performance.pdf)