



# **BANKING & FINANCE**

MARKET COMMENTARY

SCOTTISH NATIONAL INVESTMENT BANK

## Scotland's new financing institution is welcome news



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Just as 'Snowmageddon' hit us, the plan for the new Scottish National Investment Bank (SNIB) was announced and it sends out a positive message.

### What's the issue?

From a debt financing perspective, there has for long been a concern that SMEs can find it difficult to find funding, whether senior, mezzanine or subordinated, in their early stages and also for follow-on scaling up activities.

Once enough assets and revenues are generated to satisfy a credit evaluation, commercial banking products available from both traditional and challenger lenders can deliver the necessary support, but up to that point there does seem to be a current problem.

The debt gap in the SME market is seen as up to £750m per year; though that looks to me as somewhat exaggerated if average loan sizes are around £1m.

Even at half that level though there is an issue to address, and that's before you start to consider how much equity investment is needed alongside the debt.

### What's the solution?

National investment banks are well known around the world. They can work well. Though most are not "banks" and so not regulated as such.

The most recent UK example was the Green Investment Bank (GIB), which ironically ended up more focused on equity investment as the debt markets have had enough liquidity to lend the finance required by the green projects that GIB was targeting.

The SNIB plans have some similarities with the original GIB mandate, which is a good foundation. There have been other UK interventions in the SME area, notably the British Business Bank along with the Scottish Investment Bank and the Renewable Energy Investment Fund (both part of Scottish Enterprise) and the plans for a new Scottish business bank that were developed last year.

If one result of SNIB is to draw together, integrate and work well alongside the various other strands of public sector support for growth businesses then that would be a powerful outcome.

If it also results in a new funding flow to SMEs, then that would be even better. Though some might say that, if existing interventions have not produced a solution, what would SNIB do differently to get a better outcome?



## Where's the innovation?

What is most interesting in the plan are the references to “mission-based finance” and “transformative projects and initiatives” which sit alongside the stated growth capital objectives.

If SNIB products can dovetail effectively with the long-term strategic aims of the Scottish Government to produce new economic growth then that would be a very positive outcome.

One obvious potential area is the delivery of the climate change strategy agenda, whether looking at energy efficiency targets or at upcoming likely new infrastructure requirements such as the provision and maintenance of electric vehicle charging points. Here, the debt and capital markets may be struggling to support the financing of small-scale schemes on a long-term basis, but a SNIB product allied to commercial banks' green finance products may well be the way forward.

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This might achieve the necessary broadening of finance sources which is seen as needed to support energy investment needs.

Another welcome statement in the plan is recognition of the need to bring in private capital to help SNIB advance its objectives, though a future sale of SNIB to the private sector is not likely to be on the cards!

The stated prospect, however, of SNIB being able to raise capital in its own right to reduce its reliance on Scottish Government funding is exactly the originally envisaged intention for the GIB, and raises the prospect of SNIB issuing a green bond in the capital markets, following in the footsteps of Aberdeen City Council's recent successful bond issue for infrastructure capital investment.

The snow may have melted away and almost become a distant memory, but the SNIB implementation plan is clearly here to stay and deserves ongoing support and encouragement.

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