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Rosa Perez Monclus*

Public banking for the cultural sector: financial instruments and the new financial intermediaries

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Abstract: The use of financial instruments by the public sector to support the cultural and creative field is a rising trend. At a national and supranational level, public bodies are increasingly employing financial instruments, such as loan guarantees, to facilitate debt financing to creative organisations. This paper attempts to contribute to the understanding of these changes. It explores the logic of public intervention underpinning the emergence of this phenomenon in four distinct polities; France, Spain, the United Kingdom (UK) and the European Union (EU), as well as their mutual influences. It does so from a historical perspective, placing special attention to economic, political and ideational factors. The article concludes by arguing that although financial instruments cannot be considered as novel mechanisms, the intensity under which they are currently being advanced may signal towards a profound change for the governance of the cultural sector.

Keywords: cultural and creative industries, financial intermediaries, cultural policy, access to finance, financial instruments.

Introduction

'Money talks' (Vestheim, 2012a:501), as budget allocations across a policy field reflect the relative weight conferred by public authorities to different ideas, strategies and priorities. In a climate of decreasing public expenditure it might seem as cultural budgets have fallen silent. However, recurrent calls for the arts to carry its own weight (Schuster, 1997:269-270; Mulcahy, 2003:103) have given way to a different conversation, one seeking to expand private sources of revenue. Progressively, these political statements have been translated into a range of tangible policies. At a national level, a report commissioned by the European Commission (EC) has identified as many as 169 separate schemes across Europe designed to facilitate access to finance (Dümcke et al, 2014:84). This trend is also present in multinational and supranational institutions, such as UNESCO and the European Parliament (EP), which are actively researching ways to increase private investment (Tiendrebeogo, 2010:2; Čopič et al, 2011:6; UNESCO, 2015:24).

This article focuses on a specific subset of these policy tools, financial instruments (FIs) seeking to unlock credit for the Cultural and Creative Sector (CCS). In particular, public support schemes articulated through loans, loan guarantees or institutions mediating between the CCS and private lenders. Financial instruments are defined as 'any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity' (IFRS, 2014:n.pag). Consequently, the nature of FIs require creatives to repay the loans granted. In this sense, FIs mark a clear departure from funding frameworks on which the CCS has been traditionally dependent, typically based on public handouts or philanthropy. Additionally, FIs have introduced a new actor into the creative ecosystem, the financial intermediary lending to the creative sector.

Cultural policies have been shown as emerging at the crossroads between two arenas: the cultural and artistic field, on the one hand, and politics, administration, and the economy on the other (Vestheim, 2012b:535). Along this line, FIs are often presented as mechanisms of mediation between two distinct categories of agents: bankers and artists, generally regarded as actors who 'don't speak the same language' (Wilson and Stokes, 2002:47). Moreover, the financial sector has been historically absent from the cultural arena. In this regard, a report prepared for the EC has estimated the financial gap in bank loans for CCS' small and medium enterprises[1] between € 2.8 billion and € 4.8 billion in Europe (De Voldere et al, 2013:21). The reasons behind

***Corresponding author: Rosa Perez Monclus,** E-mail: maria_rosa.perez_monclus@kcl.ac.uk

1 This estimation conflates the CCS, the cultural and creative industries (CCI) and the CI SMEs following recent developments in EU cultural policy.

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this absence are multiple. One the one hand, the financial sector was deemed a politically objectionable partner for the cultural sector. On the other, financial actors were reluctant to engage with cultural organisations due to the economic specificities of the sector; a mistrust often shared by cultural workers (Comunian, 2009:66). In light of these long-held reservations, exploring the current emergence of FIs becomes all the more relevant. In particular, it seems important to understand whether FIs represent merely a new tool to enable adjustment between negotiating domains, or, on the contrary, we are witnessing a defining moment of change in the very logic of state intervention in the CCS.

This article explores FIs by tracing, from a cultural policy perspective, the evolution of the principles informing the inclusion of debt finance in three European countries; the UK, France and Spain. It also considers the supranational level through the examination the last Creative Europe programme. The work places special attention to their interrelations and the variations across time in the justifications mobilised by policy makers. In doing so, the influence of adjacent policies and wider political agendas is also contemplated. The article proceeds as follows. First, it briefly reviews the reasons why private finance has been traditionally absent from the CCS in economic and political terms. Second, the article sheds light on the different cultural policy rationales and political processes informing the emergence of FIs. Lastly, the paper concludes by highlighting the importance of political-historical contextualisation for understanding contemporary changes in the policy structures of arts financing. Additionally, it argues that although FIs cannot be considered as novel mechanisms, the intensity with which they are being promoted seems to point towards a profound change in the governance framework of the CCS.

Theoretical and Methodological considerations

The rationale behind the selection of France, Spain, the UK and the EU as cases of study for this article is threefold. First, it is claimed that the engagement of private finance with the cultural sector is hindered by limited market volumes (De Voldere at al., 2013:8). Thus, it seems adequate to focus on those markets that account for the higher European market share[2], where the theoretical conditions for private finance to flourish are fulfilled.

Second, the incremental trend in the use of FIs as a cultural policy tool becomes apparent when these separate initiatives are approached conjointly. France introduced a FI in 1983, followed by Spain in 2005, while the UK launched two FIs in 2012 and 2015. Lastly, the new Creative Europe Programme 2014-2020 will begin the operation of its FI in 2016. Whereas such an ample scope may limit the analysis of historical, political and cultural specificities, it allows for an identification of the interrelations between particular discourses and policies. As it will be seen, these might take long time periods to expand and consolidate across different geographical areas.

Undoubtedly, a continuous evolving policy field represents a challenge for researchers, in particular when confronting the decision of selecting the temporal framework for their study. In this regard, Sabatier (2005:186) has argued that longitudinal studies of 10 years or more are necessary to capture policy change. Extended timeframes offer advantages in policy research as continuity rather than radical change tends to be the norm in the policy process (Blomquist, 2007:280). Such stability has also been noted in the cultural policies of France, the UK and Spain at a central level (Bonet and Négrier, 2011: 68; Bell and Oakley, 2014:120-122). Therefore, policy change may be better explained by incremental processes of gradual transformation (Streeck and Thelen, 2005:9). In this perspective, changes in the guiding principles of public action are regarded as outcomes of slow and complex interrelations between different factors, ranging from the introduction of new ideas, socio-economic developments to transformations undergone by institutional settings and cultures that frame the range of possibilities imaginable for policy makers (Schmidt, 2010:2). Such an incremental understanding of policy change does not preclude taking into account the impact on policy-making of external shocks, such as wars and economic crisis, which, according to Sabatier and Weible (2007: 199) tend to have as a main consequence the redistribution of resources.

Third, France and the UK are often portrayed as representatives of the classic cultural policy models developed by Hillman-Chartrand and McCaughey (1989:54). In this framework the UK is categorised as a representative of the anglo-saxon model in its patron form, pursuing artistic excellence as a key policy goal. France embodies an ideal-type of the architect state within the continental model that holds increasing social welfare as one of its main policy objectives. From this perspective, it could be expected that the logics of intervention, purpose and design of FIs differ in accordance to distinct principles and state architectures. Researching FIs under this framework might contribute to a more nuance approach to the funding systems associated to each model. In fact,

2 It is estimated that the UK, Germany, France, Italy and Spain account for 75% of the CCI economy in Europe. (KEA, 2006:66)

national models have been challenged by researchers due to its strict categorisation leading to a reductionist portrayal. In turn, this has led to an expanding 'model inflation' - i.e. the tendency to construct an ever-increasing number of models to accommodate national realities that do not fall under already existing categories (Bell and Oakley, 2014:129). For example, a Mediterranean model has been advanced to accommodate the Spanish case: a pluri-national decentralised system in tension (Rius-Ulldemolins and Zamorano: 2015: 7-9) characterised by strong public dependance and low levels of control. However, it has also been argued that the peculiarity of the Spanish quasi-federal case would be better grasped by hybridisations of different existing models: the workings of the Spanish central government being closer to the French system with variations across regions, where, for example, the Catalan case is shown as being more aligned with the Anglo-Saxon model (Bonet and Négrier, 2010:41; Rius-Ulldemolins and Rubio-Arostegui, 2013:251).

Whereas the limitations intrinsic to this analytical approach should not be overlooked, its categorisations have proven to be enduring frameworks for those involved in processes of policy making. This becomes apparent in the report commissioned by the EC with the aim to map and identify 'efficient and effective' access to finance schemes across Member States (MS) with the goal to support the Open Method of Coordination (OMC) expert group[3]:

> In Some EU Member States the schemes for supporting and financing CCSs are (still) more dependent on public cultural policy frameworks whereas private initiative is more broadly present in other policy contexts (e.g. in the Anglo-Saxon cultural policy model). The first conceptual question deriving from this reality entails understanding how existing cultural policy models in Europe [...] might be mainstreamed through a generalised CCSs agenda in the future. The second conceptual question entails the need for these classical cultural policy systems to adapt to the new globalised context of all spheres of live, including culture (Dümcke et al, 2014:83)

The above quotation hints towards the use of national systems as cultural policy frameworks that are compared, evaluated and ultimately, some privileged over others. Academics are cautious of comparative analysis of this type, as natural limits are placed by the social articulation and political history of each country (Schuster, 1987:8-9; Belfiore, 2004:14; Madden, 2005:301). However, comparative research in cultural policy is increasingly popular in policy circles (Wiesand, 2002:371), especially in the European context where the aggregation of national experiences follows naturally from its supranational dimension. These works tend to be regarded as part of European-wide processes of identification of best practices and cost-efficient measures, an exercise promoting dynamics geared towards convergence. This article includes an analysis of the EU dimension because in its complexity, it provides a natural arena where ideas do not only circulate, but are also assessed and filtered to become later mainstreamed or, as argued by Čopič:

> Foreign experiences represent a constant pressure or challenge for the nation-specific research and decision-making priorities. [...] National standards in cultural policy research could not avoid internationalisation due to the influence of the European integration processes (2009:198)

In light of the above, national cultural policy models should be observed from a twofold perspective. First, as a compass, rather than as a blueprint, to explore how FIs have been defined *within* different national systems. Second, following Bell and Oakley (2014:130), in relational terms with a focus on intersections and mutual influences in order to capture, when possible, common processes and trends *across* countries.

Lastly, this work uses policy texts such as reports or publicly commissioned studies, legislative sources, declarations from politicians and officials, public interviews and hearings to trace the factors hat have influenced the policy making process and definition of FIs. It also draws on academic literature to complement the analysis. It critically interrogates these sources in order to identify the constructions of the different justifications articulated to introduce debt finance in the CCS.

Public funding for culture and the market: a history of mistrust

The introduction of debt finance represents a shift in cultural policy rationales from a position where, on the one hand, a social and political consensus regarded private finance in the CCS as undesirable and, on the other, impossible due to the economic specificities of the sector.

The politics of cultural policy

Systematic government action in the cultural arena emerged at the end of World War II, mainly as a

3 The OMC is a modality of European governance in those domains where the EU has weak competences. It rests on soft law and is based on policy learning through sharing of best practices as well as mechanisms such as the setting of targets, indicators, guidelines and benchmarks (for an extensive discussion on the OMC see: Radaelli, 2003 and Regent, 2003)

consequence of the emergence of the welfare state. Across continental Europe, the majority of national frameworks for cultural policy were developed within a social democratic paradigm, one that regarded access to culture as an important requirement for full participation in social life (Zimmer and Toepler, 1999:35). Excellence, quality, access and national prestige constituted the traditional foundations upon which distribution of public funding for the arts was articulated (Bennett, 2005:474; Mulcahy, 2006:322-323; Martin, 2014:445). The social democratic arrangement led state representatives to exert a high degree of influence over the governance of the cultural sector, while providing actors and institutions within it with considerable levels of financial support (Ratiu, 2009:25). At the core, lied the notion that Governments are entrusted by citizens with the power to make judgements of value with respect to which cultural activities are worthy of public support (Bennett, 1997:68). Particular segments of the upper classes, suspicious of the corrupting populism presumed in mass-market culture, played a crucial role in defining the boundaries of the 'socio-cultural agreement'; that is, in determining the range of cultural expressions worthy of state support (McGuigan, 2004:42). Throughout the 1950s, the Frankfurt school contributed from the Left to deepening the mistrust in the market by arguing that an industrial regime of entertainment would relegate the working class to a category of passive consumers subordinated to those owning the means of cultural production (Adorno and Horkheimer, 1997:154). This convergence of beliefs across the ideological spectrum can be traced to the foundations of public cultural institutions. The influential economist and art lover John Maynard Keynes, a key figure in the establishment of the Arts Council England, declared:

> The exploitation and incidental destruction of the divine gift of the public entertainer by prostituting it to the purposes of financial gain is one of the worser [sic] crimes of present-day capitalism. (JMK, 1982:344, cited in Upchurch, 2004:209)

From this perspective, the distortionary effects of markets on artists and their creations, made them a deficient vehicle for organising artistic production. However, a closer look to the programmes introduced after his appointment as Chairman of CEMA (the predecessor of the Arts Council) reveals that his tenure was marked by a rather mixed approach towards the market. Moggridge (2005:547) notes how Keynes devised a system of support for theatre and orchestras in which loans and guarantees played a central role as financing mechanisms, allowing to maximise the limited endowment of the institution in a context of post-war budgetary difficulties. In this framework, CEMA guaranteed the non-for-profit subsidiaries of commercial theatre companies against the losses accrued from touring. Such guarantees were based on pre-agreed forecasts of revenues and losses and complemented by tax credits. This case seem to demonstrate that public loans and guarantees were already present as financing tools in the early days of the UK's cultural policy. However, as the entertainment function of public action waned after the war, popular culture was placed back to the market and attention redirected towards the fine arts (Looseley, 2012:580).

As the welfare state developed across Europe, emphasis was placed on decommodification and the public provision of social rights with independence from the market, albeit in varying degrees across nations (Arts and Gelissen, 2002:141). Within this wider framework, the national cultural models' typologies would depict a liberal model privileging forms of indirect market support, as for example tax incentives, encouraging patronage and investment. In contrast, a social-democratic model would carry the full weight of cultural expenditure derived from cultural provision (Mulcahy, 1998:252). However, by the end of the 1970s the dichotomy between social-democratic and liberal models begins to lose significance. The irruption of the neoliberal doctrine in the USA and the UK introduced a progressive shift in the rationale of public intervention away from principles of egalitarian provision and decommodification towards the pursuit of economic competitiveness and self-sustainability (Vestheim, 2012a:499). Additionally, from the early 1980s throughout the 1990s the public remit that culture had to fulfil was extended to include indirect impacts on the social and economic domain (e.g. urban regeneration, tourism or social cohesion). These instrumental cultural policies encompassed a rhetorical shift from 'funding' to 'investment' in policy discourse (Belfiore, 2002:94; McGuigan, 2004:135; Stevenson et al., 2010: 249). While these transformations emerged perhaps with greater clarity in the UK, similar developments could be discerned across continental Europe, although with distinctly different national formulations (Gray, 2008:212). However, this instrumental use of culture does not necessarily include an explicit expectation of direct economic returns which in contrast, is at the core of FIs as loans need to be paid back.

The economics of cultural politics and policies

The consolidation of the welfare state was paralleled with the emergence of welfare economics as the key theoretical framework to secure public intervention. The concept

of market failure; the undersupply of a good when the market its left to its own devices, represents the normative core of welfare economic theory. Yet, Zimmer and Toepler argue that:

> In most continental European countries, support for the production and consumption of the arts and culture is deeply rooted in the history of the nations. [...] Government support for the arts and culture today is not the result of market failures, but of former policies. (1999:35).

The conceptualisation of market failure through the understanding of culture as a merit good - that is culture as 'good' in itself and positive for society (Baumol, 2011:11) - might be seen as giving continuity to the prior political and social consensus. For this precise reason, it has been regarded as a political value judgment, lacking strong economic and empirical grounding (Cwi, 1980:39-40). From the 1980s onwards, justifying public intervention in economic terms became increasingly necessary in the UK as demanded by the dominant political culture (Hesmondhalgh et al, 2015:108). The UK's Department of Culture, Media and Sports (DCMS), following the Treasury's Green Book (HM Treasury, 2003: 21), is clear on the foundations that ground its capacity for action:

> The fundamental reason for national and local government action is based on the economic principle of market failure. Market failure can occur for several reasons, but when it does occur it means the market will under value the benefits of engagement leading to an under supply of culture and sport. (EPPI Centre, 2010:6)

In contrast, Zimmer and Toepler (1999:35) affirm that market failure has had a minor standing in French cultural policy. Yet, it has been argued that the French notion of cultural exception might be justified from a market failure perspective in terms of securing positive externalities and the public good characteristics associated to culture (Chisholm, et al., 2015:7).

Market failure can be conceptualised from multiple perspectives, thus it is not surprising that a wide range of approximations within the CCS context have been put forward over the years (Cwi, 1980: 39-40; Peacock, 2000: 186-188; Ridge et al., 2007:7; Baumol, 2011:10-11; Frey, 2011:390-393). Yet, despite the patina of neutrality that welfare economics provide, the varying relative weight across conceptions of market failure mobilised across time, can be seen as reflecting the unequal influence exerted on the policy arena by different advocacy coalitions and civil servants (Peacock, 2000:189). Political agendas also play a role in the conceptualisation of market failure. For instance, Wells (2013: 91) reviewed the uses of market failure in the UK by the Conservative coalition in advancing debt finance in the third sector, which shares with the CCS a range of structural features leading to its undercapitalisation. Wells highlighted the rhetorical function of market failure in re-directing and discursively reshaping the mode of state intervention in the field. Moreover, Zerbe and McCurdy (1999: 571) affirmed that the normative theory of market failure does not extend easily to the empirical realm of government intervention. Yet, the instruments chosen by a government to ease a particular type of market failure are not neutral as they have implications at a social, political and economic level. Thus, it is also from this empirical perspective that FIs, as a solution to market failures, should be analysed.

The economics of the CCS

Beyond political reluctance, the reason that has kept the banking sector disengaged from the cultural market is that its inherent dynamics do not conform to the logics of conventional finance. The unpredictability of cultural markets, often dominated by unforeseeable hits, makes investing in the CCS a high-risk activity (Vogel, 2010:50). The high variety of success directly relates to what Caves (2000:6) has termed the 'infinite variety' property - stating that each cultural product should be regarded as unique. From this perspective, tangible properties such as prices should not be seen as fundamental in guiding the choices of consumers. The true value of a cultural product resides in its particular, intangible content - something which cannot be judged *a priori*. This promotes the emergence of 'herd behaviour', where cultural worth is signalled by the endorsement of the crowd (Kretschmer et al, 1999:66). As such, unforeseeable social dynamics play a key role in organising rewards in cultural markets. For the above reasons, estimating the success a cultural product will achieve is often extremely difficult (if not outright impossible). Caves termed this condition the 'Nobody Knows' principle, stating that cultural markets are ruled by a radical uncertainty of demand (2000:86). Unsurprisingly, radical risk regarding the generation of profits, which enables the repayment of debts are not market characteristics that conform well with the traditional workings of the financial sector.

Cultural markets show additional features that hinder the participation of the financial sector even further. Various reports commissioned by public bodies in order to accompany the launch of FIs have gathered the obstacles that financial institutions claim to encounter when addressing lending to cultural enterprises. First, the specificities of cultural and creative sub-sectors

across the cultural field require a high degree of expertise in order to assess the soundness of business plans. As a consequence, units dealing with the financing of the creative sector tend to show a high headcount leading to a level of back-office costs that do not justify returns, especially in a context of economic hardship (Baujard et al., 2009:12). Second, only developed cultural markets with an established capacity to generate large business volumes seem to be able to produce profits large enough to justify lending by financial institutions. In contrast, organisations in the cultural sector tend to be micro, small and medium enterprises (SMEs), often requiring small loans - hence unappealing for the financial sector (Finn, et al., 1994, n.pag; De Voldere at al., 2013:8,148). Thirdly, assets in cultural markets tend to be intangible which poses difficulties in case of default (KEA, 2006:214).

Finance for culture: policy formation and development

Early configurations: France and Spain.

In 1949, the dire state of the film industry after WWII led French authorities to introduce government-subsidised loans. In 1968, such loans evolved into a bank guarantee fund managed by a banking pool with subsidised interest rates (Tiendrebeogo, 2010:14). In 1983, the initiative was consolidated when the Ministry of Culture and the Ministry of Finance of France stablished the 'Institut pour le Financement du Cinéma et des Industries Culturelles' (IFCIC). IFCIC is an independent institution with capital from public and private banks that offers partial guarantees by sharing 50 per cent to 70 per cent of the risk with a bank lending to a cultural organisation (Zajdenweber, 2012, n.pag). Additionally, IFCIC performs risks assessments, facilitating the appraisal phase for lending institutions. The institution focuses on the audiovisual sector, covering almost all stages of the audiovisual value chain, as well as a substantial range of cultural sectors[4].

IFCIC came into being under the presidency of François Mitterrand as part of an overarching audiovisual programme, which included a substantial budget increase - partially supported by a 'television tax' (Jäckel, 2007:23). Despite the initial budget expansion, the programme did not entail a deepening of the old social-democracy logic. As the economic climate deteriorated during the 1980s, Jack Lang famously declared "L'économie et culture, même combat" (Lang, 1982, cited in Urfalino:825). On the one hand, Lang's declaration was built upon a tradition of opposition to the market dominance of American commercial culture (Jäckel. 2007:22). On the other, the sentence enclosed a rapprochement with the market as a valid companion for cultural institutions (Collard et al., 2000:44). In this sense, Hackett et al. (2000:21) noted that IFCIC's founding rationale was to facilitate private finance for French movies deemed sufficiently commercial to succeed in the market. They also suggested that, thirty years after its inception, IFCIC still encountered difficulties in mobilising lending for the wider cultural industries that remain a marginal part of their portfolio. Despite its limitations, the IFCIC model proved to be influential on the development of FIs in at least two other polities: Spain and the EU.

As mentioned above, Spain's cultural policy defies any strict categorisation. The advent of democracy in 1976 initiated the process of construction of a welfare state, accompanied by another, parallel, process of decentralisation. In the Spanish quasi-federal system, autonomous communities (regions) are key agents in the design and implementation of cultural strategies (Bonet and Négrier, 2010:41). Yet, Bouzada (1999:465) noted the sway of Mitterrand's programmes on Spain's first democratic Minister of Culture, the socialist Javier Solana, who developed a cultural strategy that privileged the support and protection of the audiovisual, music and theatre sectors. The subsequent minister, Jorge Semprún, himself a scriptwriter exiled in France during the dictatorship, reinforced the focus on the film industry (Bouzada, 1999:466). In 1996, the Conservative Party took office with a neoliberal rhetoric that directly confronted the French exceptionalism. Yet, their term in office was characterised by a continuation of the socialist policy, especially in the film sector, and was even accompanied by an increase in the cultural budget (Rubio-Arostegui, 2007:137). With the return of the Socialist Party, Spain built on the French example and set up a reciprocal guarantee society in 2005, Audiovisual SGR (now CREA SGR), in collaboration with the main associations of the audiovisual sector. CREA SGR is a mutuality and as such any firm wanting to use its services needs to become a patron. By aggregating the audiovisual sector, it has gained negotiation capacity in front of financial institutions, leading to better financing conditions through negotiated agreements. In contrast with the French case, CREA SGR

4 IFCIC offers medium and long-term leases, bank guarantees or certain short-term loans for different stages of the value chain in the following sectors: book, music, theatre, plastic arts and photography, art-related businesses, heritage, architecture, multimedia, press, audiovisual and the technical industries (IFCIC, n.d)

is directly approached by producers, and their projects are assessed internally by the organisation. In case of obtaining a positive evaluation, they automatically qualify for interim finance from the financial partners that have subscribed an agreement with CREA SGR (Baujard et al, 2009:64). As in the French case, CREA SGR is nominally open to the wider cultural industries, yet in 2013, 89 per cent of the projects financed belonged to the audiovisual sector (CREA SGR, 2014:14).

In light of the above, it can be argued that the initial rationale of FIs was to develop an industrial policy for the cultural industries (Polo, 2003:135), often in a context of budget increases, rather than a free market approach to the sector. Additionally, the crucial role of the audiovisual industry in the emergence of FIs must be noted. The market orientation of the sector and its dual nature, cultural and industrial, steered public intervention towards market instruments (IFCIC, n.d.). From this starting point, FIs were expanded, often without much success, to the rest of the cultural industries.

The second generation of FIs: The European and UK case

The first proposal at a EU level to establish a guarantee fund to promote cinema and television production dates back to 1995 (EC, 1995:3), stemming from a French recommendation (Bizern & Autissier, 1998:81). The proposal was dropped by the Council due to budgetary reasons, despite the EP's support and the endorsement it had received from the major players in the industry (EP, 1999:20, Humphreys, 2009:192). After this seminal attempt, the EC did not succeed in introducing a guarantee facility until 2010. The remarkable time span between these two initiatives makes all the more relevant to explore the changes in the conditions and political priorities that eventually led to the approval of an European FI.

A crucial milestone was reached with the establishment of the Media Production Guarantee Fund (MPGF) within the framework of the MEDIA 2007 programme. Its implementation under IFCIC and CREA SGR points to the strong interconnection of national policies and the supranational dimension. Since then, its institutional relevance has increased. The latest EC Communication 'European film in the digital era - Bridging cultural diversity and competitiveness' re-affirmed that 'financial engineering instruments (in particular guarantee funds) have demonstrated their ability to open up access to private funding' (EC, 2014a:11). However, the EC is aware of the tensions that the instrument encompasses; while recognising that 'success cannot be measured by market share and box office revenues alone' (ibid:3) it acknowledges that only through an increase in competitiveness, loans could be accessed by the sector.

Almost in parallel with the introduction of the MPGF, the EC prepared the revision of the MEDIA and CULTURE programmes, merged now under the Creative Europe 2014-2020. It introduced a traversal FI, the CCS loan guarantee facility, built upon the experience of the MPGF (Mercer et al., 2012:26; EC, 2011b:122). Although this transversal approach does not discriminate among cultural domains, the EC sees some sector as more fit than others to access finance. In turn, these sectors should progressively diminish their dependence on public funding and substitute it by public debt finance:

> Various sub-sectors of the CCS such as film producers, video-game developers, music and book publishers which can all demonstrate productivity and profitability should be encouraged to mitigate their reliance on public handouts and instead adopt a more business-like approach by using public financial instruments (EC, 2012:12).

The emergence of the European FI was facilitated by the creative industries (CIs) discourse. The notional shift from '*cultural*' to '*creative*' provided a conceptual linkage between the creative sector and the popular information society discourse. Such transformation gave a renewed impulse to cultural policies, particularly by enhancing their economic profile (Garnham, 2005:20). The Directorate-General for Education and Culture (DG EAC) chose to build upon the CCI rhetoric in order to reposition itself as a source of competitiveness and economic development (Littoz-Monnet, 2012:510). On this basis, DG EAC published the Green paper 'Unlocking the potential of cultural and creative industries'. It described the perennial lack of funding endured by the CCI sector as one of the key impediments for its growth (EC, 2010:2). Additionally, DG EAC stated that the CCS and the banking sector needed to develop 'a common language' as they inhabited radically different realities. To overcome such situation, DG EAC stated: 'guarantees and other risk sharing instruments that are delivered through market players can play an important role in facilitating access to finance by SMEs' (ibid:12).

The Creative Europe proposal was generally well received by national governments, despite initial reluctancies regarding the budgetary increase it required and its marked economic nature (EC, 2013b). In this regard, political sensibilities deemed the term 'industries' too limited to encompass the broader significance of culture and was thus substituted by 'sector' (De Voldere at al., 2013:27-28). This terminological dilution was

further advanced at the negotiation stage of the Creative Europe programme. Criticism at the inter-ministerial level emerged regarding the limitation of the FI to SMEs, as it was felt it would undermine the diversity of the cultural sector (European Council, 2012:3). As a consequence, the scheme was opened to all 'micro, small and medium-sized *organisations*' (EC, 2013a:223). Thus, the blurring of the for-profit nature of the CCIs in the original proposal has led to a conceptual amalgamation allowing for the expansion of the FI to the wider CCS.

External factors also facilitated the introduction of a FI in the new programme. European institutions and national governments opted for an approach to the economic crisis that gave priority to investment within a 'growth friendly fiscal consolidation' targeted at addressing market failures (European Council, 2014:1). Ultimately, investment and support programmes must be designed to promote growth, employment and competitiveness without creating new public debt (EC, 2014b:5). Along these lines, the EC has reviewed its Financial Regulation (FR) and reinforced the use of financial mechanisms to tackle market failure and support innovation while leveraging European funds (EC, 2014c:7), including the CIs among the relevant innovative sectors. In general, direct aid is seen as hindering competitiveness and economic growth (ibid:26). The result is a new approach to market failure, one that links the presumed capacity of the CIs to promote innovation and the reluctance of credit markets to finance high-risk activities.

The UK's case merits special attention due to its specificities and its crucial role in the emergence and popularisation of CIs' policies (Pratt, 2009:16-17). Dave O'Brien has argued that the development of the CIs is intimately linked to the particular economic structure of the UK. In this view, the historical influence of the financial sector over the UK's economic policy (Davis and Walsh, 2015:4) has privileged a service-based, intangible economy over the industrial sector; hence informing the political shift from the cultural to the creative industries (O'Brien, 2015:458). Additionally, the vast size, diversity and complexity of the UK's financial system has also influenced the design of the UK's FI. In all the cases reviewed above, the state has been forced to guarantee losses in order to attract reluctant financiers towards the risky investment that the CCS represent. In contrast, the UK has been able to set up an organisation, Creative Industry Finance (CIF), that mediates between the CCS and the financial intermediaries without taking financial responsibilities.

In 2014, the Arts Council England (ACE) introduced CIF on a national level after the rolling out of a two years pilot scheme run by ACE's wholly-owned subsidiary Artco. The stated aim of CIF is to provide business support, to facilitate debt financing to creative SMEs, and to build 'a national evidence base for the demand and effectiveness of loan finance as an alternative to grant funding for commercially viable CCI enterprises' (CIFa, n.d.). In this framework, financial capital is provided by CIF's lending partners, ranging from traditional financial institutions and social enterprise banks to social finance charities and not-for-profit community development finance institutions (CIFb, n.d). In contrast with the Spanish and French experience, an evaluation of CIFs' pilot programme shows that it has been capable of diversifying its portfolio to include 12 of the 13 creative industry sectors, as defined by the UK government (Fleming, 2014:6,12).

Beyond the pilot results, the novelty of CIF limits the assessment of its impact on the field. To date, its strongest effect has seemingly been to consolidate debt financing as a viable cultural policy option. In June 2015 the Arts Impact Fund was launched by Bank of America Merrill Lynch, the Esmée Fairbairn Foundation and Nesta in collaboration with the ACE. The chairman of ACE expanded on the origins of the fund:

> The Arts Council's thinking was being influenced by a fund set up some years ago, originally to finance families to buy musical instruments for their children. This was then extended into making loans to allow people to buy art. Out of this came Creative Industry Finance, which now makes loans to small creative and cultural enterprises enabling them to grow into sustainable businesses (Bazalgette, June 2015:n.pag)

Currently in its pilot phase, the Arts Impact Fund offers loans to arts and cultural organisation who can demonstrate financial sustainability and social impact on areas such as youth and educational attainment, health and wellbeing and citizenship and community, among others (AIF,2015:n.pag). Undoubtedly, the use of culture as a mean to alleviate social ills and the economic sustainability required to access the fund recalls tendencies towards instrumentality and commodification, long present in cultural policy (Gray, 2007:206). It must be noted that the promoters of the fund do not seek to maximise economic returns, as other sectors certainly offer better investment returns and lower risk. Instead, they frame their investment within traditional public values associated to the role of culture. The Esmée Fairbairn Foundation grounds its investment strategy in the belief 'that cultural expression is essential in a strong, healthy society' (EFF, 2015:4). The mutation that such classic justification undergoes when articulated through FIs must be highlighted. Deep rooted assumptions

regarding the value of arts in relation to critical expression have been traditionally associated to their position outside the market (O'Brien, 2013:7-9). Under debt finance all values are amalgamated, inferring the absence of conflict among them. It is too early to affirm anything in this regard, however it is clear that the old consensus that has informed direct public funding in order to guarantee freedom from the market has been effectively dismantled.

Wider policy agendas beyond the specific field of cultural policy have also played a role in the establishment of the Arts Impact Fund. The explicit endorsement by Rob Wilson, the Minister of Civil Society in charge of the Big Society programme, suggests that the fund should be seen as a concrete manifestation of a transversal attitude towards the social domain: 'This pioneering new model is just the start and we want to see it scaled up and replicated in other sectors to address a range of social challenges.' (Cabinet Office, 2015: n.pag).

It has been argued that the economic crisis and a lack of solid articulation had relegated David Cameron's Big Society to mere rhetoric, yet the Arts Impact Fund is one of its tangible expressions. A further link can be traced between the Arts Impact Fund and Big Society Capital[5] through the actors involved in the setting and management of both initiatives[6]. Big Society Capital is a key institution in the development of the Big Society strategy. It aims at developing the social investment financial market - one hindered by a set of market failures that disengage financiers from the third sector (Wells, 2013:80; Corbett and Walker, 2013:453). It has been claimed that Big Society Capital is a rebranding and expansion of the Social Investment Bank, the foundations of which were set by New Labour (Alcock, 2010:380; Corbett and Walker, 2013:452). Indeed, New Labour was the first to attempt a redefinition of the welfare state as an investment state (Giddens, 1998, cited in Powell:43), as well as to emphasise the role of proactive citizens in managing responsibly their life course (Newman, 2001:42). Similarly, the Big Society discourse places a clear emphasis on the civic sphere, in which communities should ideally counterbalance and proactively manage the challenges brought forward by state disinvestment and devolution (Corbett and Walker, 2013:452-453). However, in spite of a certain number of continuities, strong differences exist between neo-labourist and conservative stances. The Big Society emphasises a post-bureaucratic architecture and hence fiercely opposes the managerialist approach that New Labour has been often accused of embracing (Pattie and Johnston, 2011:407; Buckler and Dolowitz, 2012:589). More importantly, the collusion between the social, cultural and the economic sphere is deeply entrenched across the British political spectrum, framing the range of possible state actions to those that are perceived as productive. This line of thought is exemplified by New Labour's affiliate Lord Bragg in the debate 'Economy: Creative Industries' in the House of Lords:

> The word "subsidy" should be made redundant. I think it should be *banned* [...]. It is an investment and "investment" has a positive and *decent* ring to it. That investment in Kendal will create more jobs and activity (Bragg, 18 June 2015:c1282; my emphasis)

Even if expressed through the notion of 'investment', grants and subsidies were a central source of funding during the New Labour period in office. Indeed, New Labour's levels of public expenditure, particularly in the cultural sector (Hesmondhalgh et al., 2015:103), contrasts with the Conservative's emphasis on budget consolidation (Smith, 2010:832; Taylor-Gooby and Stoker, 2011:5). Across all initiatives and policy documents supporting the use of FIs, the argument that decreasing public expenditure requires innovative approaches to funding is omnipresent, as for example in the Warwick Report (2015:25). In this regard, David Cameron's speech at the launch of the Big Society Capital illustrated the programmatic link between decrease in public funding and its substitution for debt finance:

> When we were elected, almost 40% of all charity income came from the state. I do not think that is sustainable. Our vision is about reducing charities' dependence on taxpayer handouts and instead to create a funding model that is truly self-sustaining (Cameron, D., 2012:n.pag)

Conclusions

This work has attempted to contribute to the incipient research on FIs as a cultural policy tool. It has done so by investigating the justifications upon which public interventions through FIs have been constructed. The

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5 Big Society Capital is a wholesale institution investing in organisations financing social enterprises on repayment basis. Capital comes from dormant bank accounts (approximately £400 million) (EC, 2011c:10, Big Lottery Fund, 2014:84). Additionally, a maximum of £200 million over five years will be invested on commercial basis by 'the Merlin banks' (Big Society Capital, 2011:n.pag) as a response to the growing social discontent with the financial sector resulting from the crisis.

6 The manager of the Arts Impact Fund at NESTA was an investment director at Big Society Capital. Additionally, the Chief Executive of Esmée Fairbairn Foundation was Chief Operating Officer at Big Society Capital and currently on its advisory board. (NESTA, n.d; Esmee Fairbairn, n.d.)

article has examined the FIs of four distinct polities: France, Spain, the UK and the EU, while looking at their mutual influences and the historic transformations that have led to their emergence.

The origins of FIs can be traced back to the aftermath of World War II in France and the UK; yet, their establishment was based on different rationales. France aimed primarily at rebuilding its severely damaged audiovisual industry and with this purpose introduced government-subsidised loans. In contrast, the UK chose to finance popular cultural activities through loan guarantees due to its limited fiscal capacity after the war, and as a means to alleviate the hardships brought by the conflict. The pursuit of excellence that characterised the UK's early cultural policy led to a progressive relegation of the commercial sector to the market.

France's industrial approach was consolidated during Jack Lang's period in office, who saw public intervention in the market as a way to ensure cultural diversity. The French approach had a remarkable influence on the emergence of FIs in Spain. An expansionary funding environment characterised the period in which these tools were established; highlighting the effort that both countries devoted to the development of a strong national film industry. The acceptance of the market as a valid and necessary companion for the sector involved a major change with respect to earlier interventions, where FIs were mainly thought of as a pragmatic solution to financial constraints. Both instruments have been successful in supporting their national film sectors but their audiovisual focus has hindered their advance when they have attempted to extend their remit to the wider cultural industries. Equally, France's ascendancy on the EU cultural policy promoted a seminal attempt to set in place a EU guarantee fund for audiovisual productions in 1995. More than a decade later, the initiative was finally consolidated and entrusted to the French and Spanish FIs for its implementation. However, the EU schemes emerged in a very different political and economic climate, marked by the economic crisis and favourable to the introduction of FIs as a means for public intervention.

The UK and EU's FIs materialised in political contexts dominated by calls for fiscal consolidation. Hence, it does not seem surprising if both share common objectives: decreasing the overall reliance of the CCS on the public sector, and enhancing the CCS's business capacities to make it more attractive to potential financiers. This convergence of policy goals among UK's and EU's FIs somewhat betrays the radically different pathways that led to their original emergence. The Creative Europe FI should in fact be regarded as a heir of the French approach to the audiovisual sector. It has been extended to the whole of the cultural and creative sector through the discursive innovation of the CCIs in combination with political sensibilities reticent to devote an instrument solely to for-profit cultural firms. Contrarily, in the UK, CIF was from the beginning aimed to serve the CCIs and creative SMEs. Equally, the recent Arts Impact Fund is highly influenced by the Big Society agenda, which does not seem to have a parallel in the European context. Moreover, while in the UK cultural budgets have been receding, the Creative Europe programme has been accompanied by a budgetary increase in order to secure prior programs. However, this does not preclude the employment of debt finance at a EU level to minimise the reliance of the CCS on public funding. In this context, loan guarantees and the pooling of investors through public institutions, are justified and framed by the market failures of financial markets. This new orientation of market failure is shaped by a dominant ideology in the UK and at a EU level that is reluctant to public debt expansion and consequently, direct public expenditure. As such, public investment is conveyed through financial markets with a double objective. First, to leverage the scarce public funds. Second, to foster the progressive substitution of domains previously under the remit of the state by private finance through the development of specialised credit markets.

Taken in aggregate, expansionary dynamics in the use of FIs become clear. Two distinct paths can be identified. At a national level, once FIs have been established in one sector, attempts to expand them to adjacent fields follow. At a transnational level, the influence of France in the establishment of the Spanish FIs is noteworthy. Equally, the French initiative can be traced in the original attempt of the EU to set a media production guarantee fund. However, while retaining echoes of the industrial focus that inspired the French initiative, a greater emphasis is placed in promoting innovation and the encompassing growth that has been associated to the development of the CCI. Additionally, the latest generation of FIs, that of the EU and the UK, also contemplates as a policy goal the progressive transference of the funding function of the state to the financial markets of those sectors deemed commercially viable. It is too early to affirm anything with respect to the impact of these policies in the CCS, but the deepening of this trend undoubtedly points toward a process of rescaling and restructuring the governance of the CCS. On the one hand, all organisations managing the FIs reviewed in this paper are placed outside the traditional architecture of the state, although the public sector often retains a majority shareholding position. On the other, the expected ascendance of financial

intermediaries as the credit markets for the CCS develop, may lead to an increased role of these actors over the allocation of funds. At this moment in time, it should be acknowledged that this is an incipient trend. As, and if, FIs evolve and become consolidated as a policy tool for the CCS, the instruments will certainly make for an important domain of cultural policy research.

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Bionotes

Rosa Perez Monclus is a PhD researcher in the Culture, Media and Creative Industries Department at King's College London. Her on-going PhD explores the intersection between financial intermediation and cultural policy. Rosa's research interests include the political economy of cultural and creative industries, cultural policy and the formation and dissemination of international cultural policies. Her research is informed by previous work experiences in the Ministry of Culture of Spain and the European Commission. She received a MA in cultural and creative industries from King's College London and holds a BA in Humanities by the Universitat Oberta de Catalunya and a BA in Economics and Business Administration by the Universitat Pompeu Fabra.