Banking on Culture

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New financial instruments for expanding the cultural sector in Europe

Final Report
September 2000

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north west arts board

THE ARTS COUNCIL OF ENGLAND

CALOUSTE GULBENKIAN FOUNDATION

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www.bankingonculture.com
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Executive summary

Banking on Culture is an innovative action research project set up to investigate and stimulate new sources of financial investment for the cultural sector in Europe. The project has worked with partners in Italy, the Netherlands, Ireland, Greece, Belgium, Portugal and the UK, testing a range of new financial mechanisms with the aim of embedding these within local and regional economic policies and in future investment strategies.

North West Arts Board (NWAB) leads Banking on Culture. The other core partners are the International Association of Investors in the Social Economy (INAISE); the Arts Council of England; Investors In Society and the Manufacturing Science and Finance Union (MSF), assisted by Kenneth Baird of the European Opera Centre and specialist advisers Keith Hackett and Peter Ramsden. Representatives of these organisations and the two advisers formed the steering group of the project.

Banking on Culture was part financed by the European Commission's Third System and Employment Pilot Action Programme with matching financial contributions from the Arts Council of England, NWAB, the Calouste Gulbenkian Foundation and the partner organisations involved in the regional pilot demonstration projects.

The research methodology of Banking on Culture encompassed three stages: surveys and analysis; demonstration and piloting and dissemination.

The results of the action research demonstrate that:

- New approaches are needed to finance the cultural sector and to stimulate economic and employment growth
- Credit, equity and new money instruments all have potential to develop the cultural sector
- Self-employed and micro-businesses could usefully access forms of micro-credit, but may also benefit from new money systems such as Local Exchange Trading Schemes (LETS) or time money
- Globalisation and new technologies are changing the nature of cultural enterprises and employment, and venture capital often accelerates this change
- The 'solidarity' or social economy is one way of growing employment in the cultural sector
- Young and excluded people can be integrated through cultural employment, and finance through forms of 'social credit' is a way to achieve this.

By focusing for nearly two years on the issue of financial instruments for the cultural sector the project partners have been able to research the field thoroughly, identify potential growth, increase local understanding, develop new financial products and test out ways of implementing these products. In all participating Member States there has been progress at local, regional and national levels.

Evidence from all the demonstration projects indicates that Banking on Culture has stimulated debate and encouraged new approaches to expanding local cultural economies. As the projects move into mainstream funding programmes, this support and commitment from public and private players will become crucial to developing this work further.

The majority of employment in Europe's cultural sector is in micro-enterprises, and it follows that strategies to expand the sector – whether using financial instruments or other tools – must focus on this area. The other significant area of potential is the larger arts organisations.

Banking on Culture concludes that third system financial instruments have a key role to play in delivering financial resources and services to the cultural and creative industries. These instruments can take a number of key forms, depending on the local needs as well as fiscal, legislative and political conditions within each region of Europe. The menu of forms of instrument available includes:

- Equity instruments: including venture capital, various forms of film investment funds and some forms of social venture capital
- Debt instruments: including micro-credit, loan disbursement based on social evaluation schemes, social credit and organisational credit as well as mezzanine funds (part debt, part equity) which include certain forms of social risk capital
- New money instruments: including local exchange trading schemes, card money, time money and web currency.

The findings emphasised the links between sustainable funds, deal flow and population coverage. Small funds covering small localities are unlikely ever to become financially viable. Nor are funds that are highly sector-specific. At the same time we were aware of small scale projects that met their own aims successfully and were also able to preserve an intimacy and contact with their client group that larger organisations may lack.

In an attempt to square this circle we suggest a model that we have termed elsewhere 'front office/back office'. This opens up the possibility of local delivery points, operating on an intimate scale, which can also take advantage of economies of scale in the back office provision.

Cultural businesses need highly specialised business support delivered alongside finance. Only a few areas are getting this at the moment. Many parts of the sector have had to develop their own support services because the mainstream system has not worked for cultural entrepreneurs. This implies that it may be necessary to expand public/private development agencies for the sector.

All these instruments need to be co-ordinated and combined at the point of delivery with relevant business support. Finance is also only part of the solution to developing the sector. Other forms of business support for marketing, management development and innovation are equally important. The sector also needs specific help to access effective and expanded protection for intellectual property rights.

Banking on Culture therefore concludes that any scheme using third system financial instruments to optimise the growth and employment potential of Europe's cultural economy should:

- Be capable of accommodating the needs and requirements of all sizes and forms of cultural enterprise operating within the cultural industries
- Benefit the long-term growth of the cultural industries as a whole, not just parts in the short-term
- Accommodate the employment and enterprise characteristics of the cultural sector – the large number of small organisations and enterprises and the small number of large ones
- Not be just about money, but about achieving accessible models of finance linked to appropriate business support
- Be sustainable in the long-term, establishing sources of investment from private sector financial resources rather than relying exclusively on subsidy and grant assistance from the public sector
- Be scaleable, sustainable, effective and efficient.

Finally, two Member States which participated in Banking on Culture have begun to explore methods for using new forms of financial instrument to finance the cultural sector at national level. In the UK this is within the framework of a proposed 'Culture Bank'. Banking on Culture findings suggest that a Culture Bank approach could be viable and could have a powerful effect on the growth of the sector, providing a more coherent and orchestrated approach for developing a heterogeneous financing environment. However, the findings also suggest that this could not be done in a monolithic way by a single provider. The different products are likely to be designed to fill specific niches, to operate at different scales – local, regional or national – and to involve different mixes of partners and their finances.

Banking on Culture considers that the concept of a Culture Bank could work in a range of European regions if it:

- Is a 'brand': effectively, a gateway into a wide range of financial services for the cultural sector
- Operates, where appropriate, at the regional level through regional partnerships
- Is nimble and lightweight, accessing social investment institutions and mainstream financial services
- Organises service delivery to combine business support and finance in a syndicated package
- Links and connects generic business support to cultural sector-specific support to provide a seamless and relevant service
- Has access points in local areas and also takes advantage of regional or national economies of scale, possibly using a front office/back office approach
- Opens the way to mainstream generic financial instruments and products.

A culture bank should not be:

- A heavy staff-intensive 'fat' intermediary, soaking up resources that should go to the sector
- A government department, but could be a partnership or agency.

Finally, Banking on Culture makes recommendations to parties with an interest in expanding Europe's cultural sector through third system financial instruments.

The most important task is to establish the findings of the Banking on Culture project within the mainstream, so that more regions take up the challenge to grow their cultural sectors. The key recommendation for the European Union and its institutions is to provide support on a practical level. They should:

- Assist key players in scaling-up and embedding the emergent models of good practice across the regions of the Union, via the next round of Structural Funds

- Prioritise actions that identify and strengthen those elements of the new financial instruments associated with developing the solidarity economy
- Monitor and independently undertake activities that ease the way to establishing third system financial instruments across the EU
- Disseminate the opportunities available to introduce new forms of financial instruments in the cultural and creative industries
- Explore the potential for the European Investment Bank to support regional credit instruments for the cultural sector
- Disseminate the opportunities for transfer and cross-over into other employment rich growth sector industries in the European economy (e.g. care, environment, tourism and culture and local digital services).

The Member States are in a key position to advance the development of their cultural and creative industries. They should:

- Act to support the creation of a range of new financial instruments at local, regional and national level
- Create a positive entrepreneurial climate for micro-entrepreneurs in their start-up phase, through the use of income tax holidays, supportive benefit system and benefit tapers, higher levels of VAT thresholds etc
- Consider cultural sector tax credits to enable private investors to benefit from tax breaks on investment in the cultural sector and social enterprise, similar to those developed in the Netherlands for green investment
- Develop vertical and horizontal partnerships linking levels of government with the cultural sector, SME support infrastructure and private finance through regional Culture Bank implementation partnerships.

The cultural sector's own priority is to learn from other places and other sectors about how new forms of finance could contribute to growth. Banking on Culture recommends that the cultural sector and its agencies:

- Construct and contribute to regional Culture Bank partnerships
- Design new models and implement them in partnership with the public and private sectors
- Where possible, 'piggy-back' and adapt existing generic financial instruments rather than create new ones, in order to counter the problems of long lead-times and scale issues
- Link generic business support services to cultural sector-specific development agencies and support
- Work with others to strengthen financial competences and an entrepreneurial approach, both within arts and cultural organisations and as part of the core curriculum in all training and education programmes.

Banking on Culture has researched the possibilities, tested out a range of models and disseminated its findings across Europe. Growing the cultural and creative industries in Europe will require concerted political and technical action. The Banking on Culture project shows that finance, combined with appropriate support for emerging and growing businesses, could be the key to unlocking this growth. The task now is to implement these ideas as part of mainstream programmes. The time is right.

Introduction

Banking on Culture is an innovative action research project set up to investigate and stimulate new sources of financial investment for the cultural sector in Europe. Working with partners in Italy, the Netherlands, Ireland, Greece, Belgium, Portugal and the UK, the project has tested new financial mechanisms with the aim of embedding these within local and regional economic policies and future investment strategies.

Decision-makers in the European Parliament and the European Commission have recognised that the cultural sector remains one of the key growth sectors within the European economy and has great potential to combat social exclusion and to contribute towards employment creation. Despite this potential, evidence indicates that existing financial institutions and business support services are not supporting the sector adequately.

The European Commission's Third System and Employment Pilot Projects 1998 Call for Proposals included developing new forms of financial instruments. Banking on Culture responded to this Call for Proposals, proposing an action research project examining the following issues:

- Do established approaches to financing the cultural sector across Europe meet the existing needs and future opportunities for employment and economic growth?
- Which alternative financing models are best suited to cultural sector development and how can these be applied?
- How can self-employed people and small businesses access the credit they need to grow and trade?
- Are globalisation and the new technologies changing the nature of cultural employment, and how will this affect the economies of the regions of Europe?
- Do mutual help and the development of a 'solidarity economy' and building social partnerships amongst cultural workers offer one way to preserve and grow employment in the cultural sector?
- How will young and socially excluded people gain employment in the creative industries in the future?
- Is traditional venture capital investment simply speeding up the globalisation of Europe's creative industries?

North West Arts Board (NWAB) led Banking on Culture. The other core partners were the International Association of Investors in the Social Economy (INAISE); the Arts Council of England (ACE); Investors In Society (IIS); and the Manufacturing Science and Finance Union (MSF), assisted by Kenneth Baird of the European Opera Centre and specialist advisers Keith Hackett and Peter Ramsden. Representatives of these organisations and the two advisers formed the steering group of the project.

Banking on Culture was part financed by the European Commission's Third System and Employment Pilot Action Programme with matching financial contributions from ACE, NWAB, the Calouste Gulbenkian Foundation and the partner organisations involved in the Regional Pilot Demonstration Projects.

1.1 The policy context

Europe is looking for jobs. With 17 million unemployed in the 15 Member States during 1999, the European Union has had to address the political imperative of finding ways to generate new jobs. The cultural sector has been one of the expanding sectors over the past 15 years.

In Spain, cultural employment increased by 24 per cent between 1987 and 1994; in France, cultural employment increased by 37 per cent between 1982 and 1990, 10 times the increase in the working population over the same period; in the UK employment in the cultural sector increased by 34 per cent between 1981 and 1991; and in Germany employment among producers and artists increased by 23 per cent between 1980 and 1994.

Banking on Culture sought to reinforce the European Commission's aim, expressed in Article 10 ERDF and Article 6 ESF pilot action 'New Sources of Jobs', to build on current activities and structures in order to optimise the employment potential of the cultural sector across Europe.

Three mainstream EU policies are relevant in this context:

- Employment policy and programmes stemming from the four pillars agreed as part of the Treaty of Amsterdam 1998: Employability, Entrepreneurship, Adaptability and Equality of Opportunity (Objective 3 and the National Action Plans for Employment)
- Regional development programmes concerned with regenerating lagging and declining regions of Europe (Objectives 1 and 2) through new sources and forms of employment
- Competition policy: more specifically, optimising support within the framework of the State Aid rules.

Support for the cultural sector features in the Structural Fund programmes of most Member States, usually through heritage restoration projects, and through generic SME measures. The UK introduced measures to support the cultural industries in four regions, including the ground-breaking Merseyside Objective 1 programme during the period 1994 to 1999, which led to considerable innovation and many new types of projects.

However, there was an increasing recognition (expressed in Agenda 2000, the Commission's budget perspective for the Structural Funds and Accession) that non-grant financial instruments may increase funds' efficiency and avoid grant dependency.

> 'The multiplier effect of structural resources should be increased by greater use of other forms of assistance than grants (interest-rate subsidies, guarantees, venture capital holdings, other holdings).'
> *Agenda 2000: For a stronger and wider Union (15 July 1997)*

In addition, a number of Member State governments have been looking with great interest at the US experiences of venture capital, community finance and community development banking. The idea of creating efficient, lean, arms-length and revolving financing mechanisms that will last beyond the next round of Structural Fund programmes has become particularly attractive for those in northern parts of Europe that find themselves in the 'last chance saloon'. The time is right to explore new financial instruments for the cultural sector.

1.2 Methodology, publications and reports

The methodology of Banking on Culture was based on three stages.

Survey and analysis

The steering group set out to understand the sector and its needs and to explore the potential and relevance of new financial instruments. This phase resulted in three reports, on employment in the cultural sector (Hackett and Ramsden 2000); third system financial instruments for the cultural sector (Sattar and Ramsden 2000); and business support and financing needs in Merseyside (Euclid 1999).

Demonstration and piloting

Banking on Culture demonstration partners in Italy, the Netherlands, Greece, the UK and Portugal helped conduct exploratory work and full scale pilots. Demonstration partners and steering group members also completed a number of other reports during this phase, covering topics including micro-credit on Merseyside (Greeney 2000) and financing new media (Pratt et al 2000). A full list of demonstration partners is presented in Annex A.

Dissemination

The dissemination phase consisted of major meetings in London and Brussels linked to the final report, web site and knowledge bank. The full set of reports is listed in Annex B and is available from the knowledge bank at the Banking on Culture website: **www.bankingonculture.com**.

The employment and enterprise characteristics of the sector[1]

2

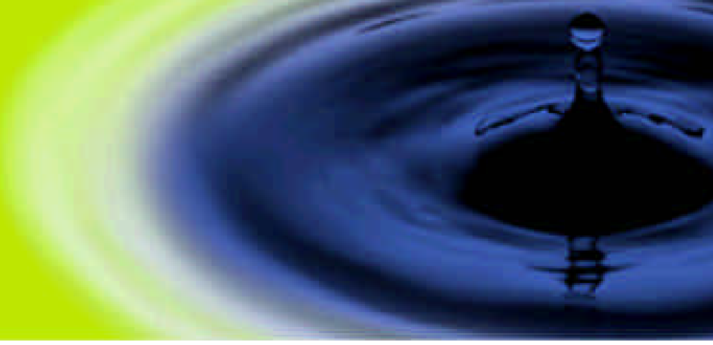
Banking on Culture reviewed the recent literature relating to cultural employment in the European Union's Member States (Hackett and Ramsden 2000). It concluded that a common 'growth profile' is emerging for creative and cultural enterprises within all art-forms across Europe: a few very large institutions and enterprises, and a huge volume of small enterprises and sole traders (in all sectors except museums and heritage). There are few medium-sized companies in the sector. Micro-businesses are the key growth area within the cultural economy of Europe, and consequently have a key role to play in delivering growth and employment to these small enterprises.

There is additional evidence that volunteers and enthusiasts are replacing micro-businesses and sole traders in some art-forms.

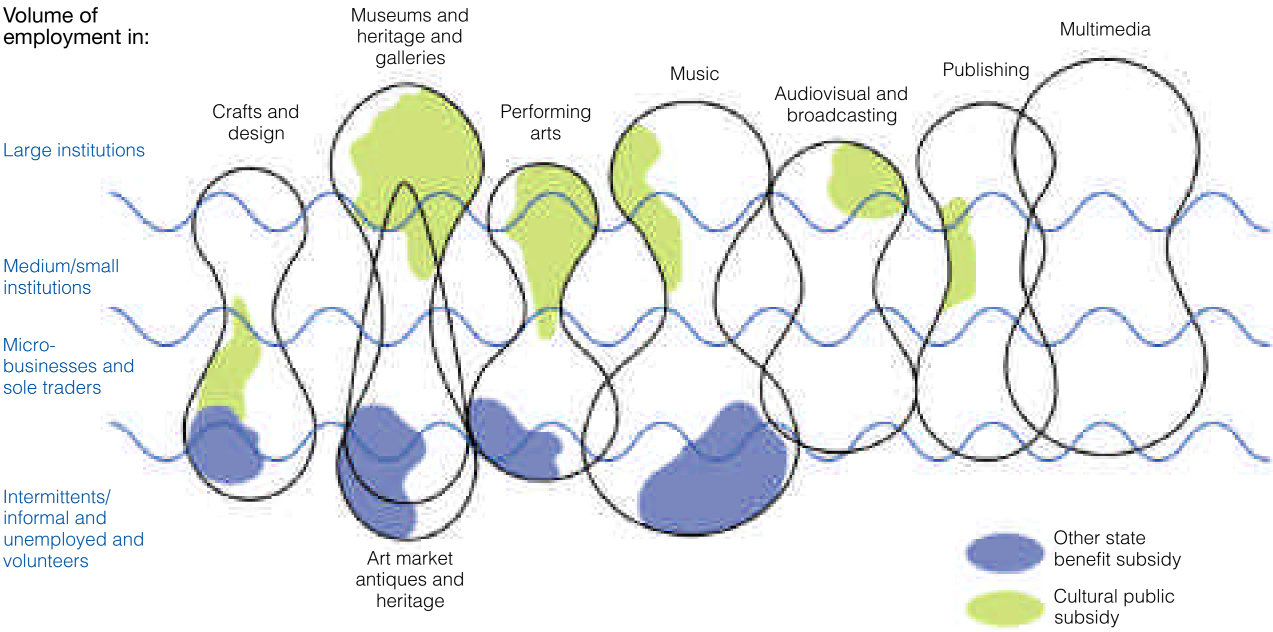
Most workers in the sector – apart from a very few senior executives – will also experience job mobility, seasonal variations, discontinuous career development, short-term contracts, part-time working, extended working hours, a vocational ethos and multiple jobs (leading to an accumulation of work and expertise both inside and outside the cultural sector). As a consequence, permanent employment in the sector can no longer be guaranteed, and most cultural workers will probably trade as micro-businesses at some point in their working lives.

There is a corresponding 'hourglass effect' in the distribution of employment, with concentrations of people working in either the small number of larger companies, or the growing multitude of small and micro-businesses. The hourglass neck is narrowing, suggesting that employment within medium-sized enterprises is declining further across the cultural industries of Europe. These concentrations in employment have particular consequences for policy interventions designed to promote employment creation and business growth within this sector. A more normal industrial size distribution would have fewer large organisations and more middle sized organisations creating a pyramid in place of the hourglass. The difference between the cultural sector and other industries is the result of public financial support inflating the number of larger organisations and the difficulty and lack of propensity of small scale enterprises to grow into medium sized ones.

[1] Footnotes are provided on page 40



The distribution of employment is summarised in the following schematic diagram:



This diagram also demonstrates other distinct characteristics:

- Similar activities receive public financial support across the Member States
- New information and communications technologies are causing applications and skills used by different art-forms to converge, particularly where commercial revenues are the major source of income (e.g. digital media such as music and film)
- In the private sector there is a move towards globalisation and concentration through a small number of large multinational companies
- The sector contains fewer medium-sized enterprises than other sectors
- The number of very small and micro-enterprises is increasing
- People working outside the formal economy – casual workers, volunteers or people registered as unemployed – make a very significant contribution to the volume of artistic activities, principally within those art-forms already receiving public financial support
- The museums and heritage sub sector differs from the others because it is not dependent on contemporary individual creativity and cultural production; museums are larger employers and small scale heritage activity operates at the micro-end.

There are other unique aspects to the sector. First it is rooted in individual creativity and knowledge, which means that most cultural enterprises have fewer tangible assets than traditional businesses. Second the sector is both very diverse while at the same time sub sectors or art-forms are very specialised and yet geographically dispersed. Thirdly they are often driven by non economic motives and their structures straddle the commercial and voluntary sectors. Many of the cultural sectors funding problems stem from its hybrid nature.

Access to finance and financial services

The cultural sector has difficulty getting finance and services from banks. Two Banking on Culture reports, analysing the financial and business support services available to the cultural sector in Merseyside (Euclid 1999) and third system financial instruments in Europe (Sattar and Ramsden 2000), have demonstrated that access to financial services is harder for this sector than for others. The form of investment that they do get actually damages the sector's medium and long-term prospects.

Financing of the sector can be divided into three groups:

1. Profit driven investment by the commercial sector

- Debt finance – but here there is a lack of understanding of the sector by mainstream banks, which is intellectual property and innovation driven, therefore high risk, few tangible assets, expectation of short term profits, insufficient flexibility of terms
- Equity: Most commercial Venture Capitalists have little interest in very small loans and have a tendency to control rights so remuneration and incentives to producers are lower and short term results driven etc.

2. Donor funding from individual and corporate voluntary/charitable gifts

- Support from business community but tends to go to larger organisations and rarely reaches community level. Strong awareness of shared benefits of cultural activities by the public is an incentive to personal and community investment (polls show that 73% of people believe in the importance of investment in arts) – but few regional or local mechanisms and no tax credits to channel individual, community and corporate donations specifically to cultural activity.

3. State/public investment

- Targeted public investment in culture, but insufficient finance, and the grant based models can lead towards unsustainable, subsidy-dependent development
- Generic business support and finance schemes that are inflexible, lack knowledge of the sector, or understanding of social objectives
- 'State benefits' to individual – evidence of use as informal support for creative skills development, and intermittent working, but no business support and advice alongside except in the case of New Deal.

These are some of the key issues affecting the sector's access to finance:

- Commercial banking services are simply not available to some parts of the cultural sector
- The lack of any physical assets that can be used as collateral restricts access to commercial banking services – most assets are intellectual property based and hard to value and secure against
- Public subsidy is often seen as a more achievable alternative to commercial bank finance
- The lack of financial services keeps many sole traders and micro-businesses in the informal economy.

There is still considerable commercial investment, particularly in design and crafts; the art market and antiques; the commercial music business; audio-visual production and broadcasting; publishing and multi-media production. However, this investment is often not in the long-term interests either of the cultural producers as one condition of investment is often the loss of control over intellectual and cultural property rights; or of the cultural industries, since investment vehicles such as venture capital need to sell companies and this accelerates the process of acquisitions, globalisation and asset transfers.

Some of these problems have been solved through specific and highly successful 'Angel Investors' whose knowledge of a particular art-form or product range enables them to work alongside cultural producers, investing finances, time and expertise in new cultural products.

The cultural sector in Europe also receives significant amounts of public subsidy, which takes three distinct forms: cultural subsidies, public broadcast levies and various social benefits to individuals. Cultural subsidies are concentrated on specific art-forms, such as classical music, live theatrical performances and museums and heritage. Public broadcast levies support public service TV and radio broadcasting throughout Europe. Benefit subsidies – including unemployment benefits, pension payments, and low wage supplements – are also a common source of subsidy in art-forms where unemployment levels are high and where intermittent, self-employed and part-time work are the norm.

Focus group interviews with publicly supported artists in Merseyside found few took a commercial approach or considered bank or micro-credit schemes relevant to them, seeing public commission and other small grant schemes and competitions as the 'natural' form of financing (Greeney 2000). Many also lived in a mixed economy of benefits and income with bursts of activity paid for by commissions. This grant dependency does not, however, characterise all micro-enterprises in the sector.

Cultural industries make a broad contribution to society that goes beyond the products themselves. They make an important contribution to economic regeneration to building social capital, developing skills and are a key part of the emerging knowledge economy.

Third system financial instruments for the cultural sector

4.1 Banking on Culture findings

Banking on Culture asked INAISE to review third system financial instruments[2] and their contribution to the development of new employment and enterprise both within and outside the cultural sector (Sattar and Ramsden 2000).

This study indicated that generic[3] third system financial organisations have experienced rapid growth from a capital base of around €250 million in 1995 to over €1 billion in 2000. They now make a significant contribution to employment growth and enterprise development. The UK and France have the largest numbers and Greece and Spain the least, while Germany is under-represented in relation to its population size.

Third system organisations vary widely, including social and ethical banks, membership organisations, mutuals, enterprise networks, local venture capital companies, public/ private partnerships, credit unions, micro-credit organisations, traditional third system organisations and banks. There is also a range of alternative money systems, including local exchange trading schemes (LETS) and time money.

Legal structures also vary widely. Banks are the commonest form of organisation but other forms are well represented, including 'not for profit companies', charities, financial mutuals, finance co-operatives and their equivalents.

Most provide similar services to mainstream banks, although they often operate at the smaller end of the market and include important complementary services such as business support mechanisms, innovative guarantee mechanisms and different ways of assessing risk. Operational decisions on lending are also taken differently and are likely to emphasise local or specialist knowledge.

However, they also have some fundamental differences from mainstream banks. One is the range of methodologies used to measure effectiveness and targeting. These include conventional impact assessments, assessments of transparency or disclosure, social accounting and auditing and monitoring through management information.

Third system investment outside the cultural sector has been shown to create jobs for significantly less investment than conventional regional policy tools. Third system tools are creating jobs from as little as €2 900 per job for micro-investment to €25 000 per job for medium-sized investments. These figures compare favourably with cost per job estimates for other types of regional policy. Support to the Jaguar car factory in the UK created jobs at a cost of more than €160 000. The same evaluation indicates that third system financial institutions have a record for intervening within 'sunrise' industrial sectors such as the environment, where employment characteristics are as atypical as in the cultural sector.

Only a small number of third system organisations have set up funds to lend specifically to the cultural sector. A larger number are lending to the sector through generic financial instruments, and these investments have made a significant impact on projects and enterprises in the cultural sector. Financial support through a third system financial instrument can also create jobs and support the development of financial solutions that involve mixing grant money with loan money to create added value.

Different forms of third system instrument can intervene financially at differing points in an enterprise's development. There are two main types of client: individuals (artists, designers and producers) and larger arts organisations. Each type requires different kinds of institutions and interventions.

Micro-finance offers an excellent model of growth for certain types of cultural sector micro-enterprise. It makes small loans available, can be locally or regionally based, and can also provide business support through mentoring or peer-group[4] lending systems. Alternative currencies, such as LETS or 'time money' schemes, may also be useful (Creative Lets 2000).

However, larger organisations are probably more suited to regional or national social finance organisations. New forms of partnership between arts funding organisations and financial service providers may be necessary to overcome cultural sector organisations' problems with accessing finance.

One key question is whether the cultural sector requires specific forms of micro-credit or whether it can benefit from more generic schemes. In any case, it is important to bear in mind two key issues:

– It can often be better to 'piggyback' on an existing operation than to start from scratch: introducing organisational innovation (such as a new marketing strategy), rather than a new financial instrument
– The third system finance sector is under-developed, and few institutions can easily upscale and become more sustainable. Long-term commitment from funding agencies or financial institutions is therefore required.

The cultural sector has great potential for new employment and investment growth and it should seek a mutually beneficial relationship with third sector finance providers. However, scale and risk are important questions and, as a consequence, the kinds of development and collaboration are likely to be varied.

There are three possible ways to embed new financial instruments in the cultural sector:

– Create new sector-specific financial instruments
– Adapt existing financial instruments
– Improve business support services linked to financial instruments.

Banking on Culture concluded that new third system interventions in the cultural sector are likely to be a mixture of new and adapted instruments, with specialist and generic financial services provided alongside the investment. A genuine Banking on Culture approach should therefore examine the best way to deliver financial services at the most appropriate scale, with the most likely outcome a mixed economy of providers accessed through a common point.

4.2 The financial instruments

The financial instruments have been classified into three main groups: equity, debt and new currencies.

Each group contains a wide range of types, presented schematically in a table below. An overlapping category, termed 'mezzanine', has also been inserted between the better known categories of debt and equity. This has aspects of debt – such as interest payments – but may also have aspects of equity; part of the investment is in the form of convertible share capital (part of the loan can be converted into shares as an option for the lender) and an equity-style approach to close management through non-executive directors is often followed.

Category	Type	Example in report	Page reference	Description
Equity	Venture capital	The Creative Advantage Fund *West Midlands, UK*	22	New fund focusing on creative industries: no significant deal flow yet
	Film funds	Maladie D'Amour *Greece* MIDA* *Merseyside, UK*	26	Film finance in return for local purchasing of goods and services
		IFCIC *France*	20	Equity finance for French films
	Social venture capital	The Investeringsmaatschappij voor Kunst en Cultuur (IVKC)* Triodos Bank *The Netherlands*	26	A form of equity investment but with a high risk low financial return profile
Debt – mezzanine	Social risk capital	New Media Investment Fund* *North West, UK*	27	Proposal to create mixed debt/ equity instrument using equity 'convertible share options' and where IPR is protected or socialised
Debt	Micro-credit	WEETU *Norfolk, UK*	22	Micro-loans targeted at women's micro-enterprises
	Loan guarantees	Clann Credo* *Ireland*	29	Enables ordinary banks to lend on risky projects
		IFCIC *France*	20	
	Social credit	Banca Etica *Italy*	29	Loan disbursement based on social evaluation schemes
	Organisational credit – lending to social enterprises	GLS Philharmonic Savings Bond *Germany*	19	Lending to arts and media organisations
		Merkur Co-operative Bank *Denmark*	19	
		Crédal *Belgium*	20	
New money	LETS	Creative LETS* *Merseyside, UK*	31	Barter scheme for art works and services
	Card moneys	©ARTs* *The Netherlands*	32	Card scheme for art purchase
	Time money	Time dollars	33	Valorising and stimulating volunteer time
	Web currency	Beenz	33	Enabling web transactions

* Banking on Culture demonstration projects

4.3 Case studies of investment vehicles with a cultural sector focus

Banking on Culture commissioned INAISE to collect examples of financial instruments that either focused specifically on the cultural sector or reached the cultural sector through generic instruments.

Eight examples are presented below, six of which are from EU Member States.

- GLS Gemeinschaftsbank (Germany)
- Merkur Bank (Denmark)
- Crédal (Belgium)
- IFCIC (France)
- Sodec (Canada)
- Reimbursable Tax Loan (Canada)
- Full Circle Fund (UK)
- West Midlands Creative Advantage Fund (UK)
- Franz Gratwohl (Switzerland)

The GLS philharmonic savings bond

Using organisational credit to finance risky but worthwhile initiatives

The GLS Gemeinschaftsbank (community bank) in Germany is known as one of the most innovative and pioneering organisations financing non-typical sectors. This reputation encourages project proposals from the cultural sector which would not normally seek finances from a mainstream bank. Consequently, GLS has significant experience in lending to cultural organisations and has developed some innovative and interesting models for financing the sector. These models mix bank loans for production activities (such as events, performances and tours) with subsidy and donations for investment costs (such as rehearsals, costumes and premises). In addition, GLS uses risk loans to cover areas of expenditure that it believes can accommodate loans, but which European Union and international banking directives consider too risky.

GLS has considerable experience and reputation for designing funding schemes for specific clients. One scheme of this type – the philharmonic savings bond – was designed for the German youth philharmonic orchestra, a unique, self-managed orchestra staffed by young musicians graduating from the music academies. The orchestra is 70 per cent self-financed and the bond helps to cover the rest of the expenditure. Savers invest a minimum of €500 in a bond for a fixed term of four years; the money accrued is then loaned to environmental and social projects, earning the savers a yearly three and three quarter per cent interest; and this interest sum is then donated, on a tax-deductible basis, to the orchestra.

MERKUR, Co-operative Bank (Denmark)

Culture as a specific target sector

Merkur is a small Danish bank created in 1982. It is grounded in the approach of Rudolf Steiner, and has always focused exclusively on projects that improve quality of living and which would usually have trouble getting a loan from a mainstream bank. It targets the cultural, environment and social development sectors. Cultural projects are considered not merely a luxury but the basis for future economic development.

With its capital of €4.3 million and deposits amounting to €28 million, (1999 figures) Merkur can at best be considered as a micro-bank at the national level. Yet it is big enough to operate at a significant and visible level in the sectors it has chosen to serve, with almost 1 200 projects in its loan portfolio in 1999.

Though cultural projects are only a part of the loan portfolio, they range from individual needs to larger projects such as public performances or schools. No specific fund is set aside to serve this sector.

Merkur regularly finances musicians' instruments, as, unlike mainstream banks, it is aware of prices and understands the market. Other examples of Merkur finance include professional printing equipment for a graphical artists' centre and the building, and some performances, for a folk music centre with which the bank has now built up a personal relationship.

Merkur has had no losses on financing projects for the cultural and arts sector. It knows and understands the cultural market, income flows, cultural assets and value and it recognises the non-financial returns on investment. It also has the institutional capacity to remain open to the hybrid nature of a cultural project, whereas mainstream banks have trouble deciding between 'business' and 'private' categories.

Crédal (Belgium)

Funding cultural projects that have a social dimension

Crédal is a financial co-operative created in 1984 by Non Governmental Organisations (NGOs) and groups of savers. Only projects with a clear social value, especially in terms of job creation, were to be targeted with the savings.

By 1999 Crédal had become a financial organisation mobilising a capital of €6.3 million. Over the years, 600 social projects and organisations which would be considered unbankable by mainstream banks have been financed, with a loss rate consistently below one per cent.

Crédal will only consider cultural projects that have a social component (social inclusion, job creation, related research, type of public targeted, etc) and have been rejected by the banks. As cultural projects are often led by social enterprise organisations, they often fulfil the latter condition.

The range of cultural projects financed is relatively wide, including street theatres, video centres, cinemas, cultural centres, book shops and literacy centres; they are often located in run-down areas that have both social and cultural deficits. Their financial needs are essentially no different from other social enterprises: investment loans for buildings, bridge loans for expected subsidies or short-term advance loans for sales.

Many also run on a project basis (a book to publish, a performance to prepare, etc), rather than as a continuous activity and this requires a good analysis of potential rather than previous performance and assets. Crédal is used to working without guarantees, using knowledge instead – with physical security if possible. This also enables Crédal to advise on development and strategy.

In recent years Crédal has launched several micro-credit schemes to support individual micro-entrepreneurs, many of whom work in cultural and arts activities.

Crédal's counselling agency, Crédal asbl, aims to professionalise the social enterprise sector, helping it achieve a proper level of numeracy, introducing proper book-keeping and training staff in using their budget and out-turn figures pro-actively.

IFCIC, Institut pour le Financement du Cinéma et des Industries Culturelles (France)

Loan guarantees for the cultural industries

The 'Institute for Financing Film Productions and the Cultural Industries' (IFCIC) was originally set up by a combination of public sector banks and private banks eager to support public sector priorities. French film productions were seen as such a priority and also as sufficiently commercial to be considered by mainstream banks with the support of proper guarantees.

IFCIC's initial guarantee fund combined core funding from a public bank with several smaller contributions from other commercial banks. No government funding was directly involved and the banks managed the fund directly. In the 1980s IFCIC became a separate structure with private commercial company status.

Capital now comes predominantly from the private sector: 20 per cent from co-operative banks and 40 per cent from other commercial banks. This latter capital is guaranteed by a 20 per cent contribution from a public guarantee fund and the state provides the remaining 20 per cent.

During the last decade, IFCIC has broadened its intervention scope and funding tools. It has created guarantee funds for all ‘audio-visual’ productions other than cinema; a guarantee fund targeting publishing, record production, theatre performances, etc and other funds for cinemas and other technical professions around the film industry. It has also set up a direct credit fund offering newspapers and multimedia ‘reimbursable advances’ with partial subsidies. These are effectively interest free loans, of which between 10 and 40 per cent can be deducted as a grant.

IFCIC’s guarantee funds cover at most 50 per cent of its loans; the rest is taken over by the funding bank. This represents an appreciable leverage of one to 10.

The guarantee funds carry a fee of one per cent of the guaranteed amount, paid by the benefitting bank. This fee covers the administrative expenses, including a staff of 15 people, to run the company. No government subsidies are foreseen for these costs.

The bulk of the guarantees still goes on film productions (513 loans directly guaranteed) and on the ‘audio-visual’ sector (€27 million). The other ‘cultural industries’ (publishing, records, theatres, etc) absorb only around €3 million, probably because few banks are aware of the guarantee possibility.

IFCIC has quite a significant impact on its traditional core focus, the film production industry. The fund guarantees about half of the 150 to 200 films produced every year in France by ‘independents’. The effect on the other cultural sectors is less well documented, but is below this level. Losses are said on average to be slightly above the level of losses for other economic sectors, yet not at an unbearable level for the funds.

However, market penetration is limited by the fact that this is a bank based guarantee fund. Projects approach it through the partner banks, which analyse the funding requests and decide on whether to fund the project – acting as a selection filter. Some banks do have departments specialising in cultural projects, but IFCIC is frequently contacted directly by projects complaining that the banks neither understand them nor the economics of culture.

IFCIC sometimes acts as a counselling intermediary between projects and banks. Another option, particularly for a way of reducing such a gap, notably for new multimedia projects, is to offer loan funding directly, setting up a fund of reimbursable advances with a partial subsidy.

However, IFCIC’s commercial orientation puts it out of reach for cultural projects that have a social enterprise focus or expect low returns.

SODEC, Société de Développement des Entreprises Culturelles (Québec, Canada)

A fully integrated development company for the cultural sector

SODEC is a state company under the authority of the Québec ministry of culture and communications. Its mission is to encourage cultural enterprise in Québec and strengthen the competitiveness of the sector, particularly for export. Many well known film and theatre productions have been supported in this way. Sodec is probably the most comprehensive sector-specific development company, supporting individuals and companies and covering forms of cultural production from crafts to film production and cultural heritage.

Sodec offers all financial instruments that can support the sector: subsidies; guarantees; credit and risk capital; specialised tools such as tax loans and reimbursable advances. It combines the functions of a state subsidy authority, a tax authority, a bank and a venture capital fund.

Although it acts like a bank and could get a full licence, Sodec’s loan fund will remain a development company. Licence rules would rule out many of the cultural projects it is there to serve, even though it makes no overall losses in this sector. Sodec’s statutory task is to remain in this ‘risk loan’ business. Its financial target is to conserve the initial capitalisation of €14 million at its initial level, not to target for high profits. However, its guarantee funds allow projects to graduate into the mainstream banking sector.

Reimbursable tax loans (Québec, Canada)

The tax authority as credit provider

Cultural projects in Québec may apply to delay a proportion of their income tax while in the process of building up their project. This is in effect an interest free loan granted by the tax authority to the cultural sector and is used extensively; in 1999 about €70 million was granted to film and TV productions alone, making this much the largest bank-style support measure for the sector. The scheme is easy to access as it is managed through Sodec.

Tax loans are only granted on labour costs, not for equipment expenses; the scheme is specially designed to create jobs, especially jobs with strategic skills that further the long-term competitiveness of the Québec cultural sector. Up to a third of labour costs (or 15 per cent of the total production costs) may be delayed on the tax bill until the project becomes income generating. Certain sectors considered to be culturally or economically strategic (films in French, using production sites in Québec, or using special computer effects provided by a Québec located company) may receive a tax rebate of up to 25 per cent of the tax loan.

The Full Circle Fund (UK)

Stimulating women's micro-enterprise through micro-credit

The Full Circle Loan Fund was established in 1997 by the Norfolk based Women's Employment and Enterprise Training Unit (WEETU) to provide loans to women seeking to establish their own businesses. It is financed through UK lottery funds, European Structural Funds for training, grants from the Norfolk County and Norwich City Councils, and contributions towards the loan funds from NatWest Bank.

Full Circle provides access to micro-credit loans for women, prioritising those who have, for whatever reason, a poor credit rating, on condition that the individuals concerned have a workable business plan and agree to becoming a member of a lending circle. In addition, members making applications have the option to attend an 'into business' training course.

Full Circle bases the micro-credit loans it makes on applicants' participation in a lending circle where the women receiving the loans work together to support each other in developing their businesses and repay their loans. This is a modified Grameen[5] type model of micro-credit. To date, 29 women have established new businesses with support from the Full Circle Loan Fund, and the repayment rate has been 100 per cent. Although the fund is a generic fund supporting women entrepreneurs and does not specifically target the creative industries, significant numbers are from the creative industries sector. Examples include clothes designers, a book publisher, ceramic artists and a web page designer.

The Creative Advantage Fund (UK)

Venture capital for creative industries

The Creative Advantage Fund is a venture capital fund designed to provide access to finance for the creative industries sector in the West Midlands region of the UK. Applicants must be based within the European Regional Development Fund 'Objective 2 Area' of the West Midlands. It was launched in March 2000 with a mix of statutory and private funding.

The fund is dedicated to the commercial exploitation of products and services made by creative businesses. It does not make grants or soft loans but invests on strictly commercial terms in the share capital of creative businesses that are capable of generating substantial profits and growth. Applicants must be prepared to allow the fund to share in their future profits but the fund will not normally seek any security or personal guarantees. Any profits made by the fund are reinvested in other businesses and not distributed to investors.

The fund makes two distinct types of investments; 'seed capital' investments in the region of €8 000 to €32 000 which can be used to develop a business to the point at

which it can attract additional funding and larger investments of €80 000 to €208 000, generally for more established businesses with a track record. Investment will normally form part of a much bigger package of funding, from banks and other sources.

Seed capital applications can only be accepted through supporting specialist 'gateway organisations'. Applications for over €40 000 must have a comprehensive business plan. Investment decisions are made by an independent board. Directors are not paid for their services and do not receive a share of any profits.

Because capital is limited, only a small number of investments are made each year and the fund will be very selective. During the first two years of its operation it plans to invest the whole of its €2.08 million initial capital, which will probably mean about one investment per month. All applications will be judged on their commercial merits. Investments can be a flexible combinations of loans, ordinary shares and preference shares to suit the particular circumstances. If the fund holds ordinary shares it will always be a minority shareholder.

The fund aims to make sufficient profits on its successful investments to make up for the inevitable losses when investments fail and to reinvest those profits in other businesses. It will also aim to achieve a profitable 'exit' from every investment by selling its shares for a capital gain, within three to seven years of investing.

Franz Gratwohl (Switzerland)

The artist as a shareholding company

Franz Gratwohl graphically illustrates the intellectual property dilemma facing artists: 'I am not by any means averse to the selling of my art – however what I do not want is to sell myself'.

Gratwohl has developed a private financing model based on Milton Friedman's idea of a 'negative income tax'. In order to have a subsistence level of €700, he sells 14 'art-time-shares' at a value of €50 each. Shareholders are entitled to a share of any possible surplus the sale of his art may produce and each receives one work of art per year. Gratwohl earns an additional income as a teacher at an art school in Zurich and through artistic performances.

Franz Gratwohl also uses money as an artistic material. His June 1998 VALEUR installation transported 220 million shredded Swiss Francs from the Swiss central bank in Zurich by truck to Fribourg and installed them in a window gallery, demonstrating the physical fact of money.

Banking on Culture:
results of the demonstrator projects

5

5.1 Introduction

Banking on Culture followed its survey and analysis with a demonstration phase, working across Europe to pilot a number of different approaches and conduct further research.

This report classifies three groups of instruments: 'equity', in which a stake in the company is taken; 'debt', in which credit or guarantees are provided and 'new money', made up of card money, local exchange trading systems, time money and web currencies. A summary table showing all the case studies and demonstrator projects by category is shown in section four, page 18.

5.2 Equity instruments

Introduction

Equity is a share of a company. This is an easy concept for listed companies where the market capitalisation and the number of shares are publicly known. Each share is a proportion, usually a small one, of the whole company; shareholders own the company. Equity in unlisted companies is less precise, although owners normally have an agreement setting out what proportion belongs to whom.

Venture capital is normally an investment in early-stage, unlisted companies with growth potential. Venture capitalists look for high returns on their investment and commonly intervene in the company by sitting on the board. They can only achieve their return through a sale, as dividends are normally reinvested in the company; investors in high technology and new media companies often take a proportion of the intellectual capital itself as final payment.

Venture capitalists typically deal in quite large sums. Fund managers for Investors in Industry (3i) rarely look at investment below €750 000. Even public/private venture capital funds such as the equity arm of the Merseyside Special Investment Fund invest around €500 000.

Social venture capital is equity investment with a softer edge. It looks for a balance between financial and social return – regeneration, job creation, local purchasing or shares in intellectual property for common purpose ends (e.g. a development fund for the sub sector). Social venture investors take a lower or longer-term financial return.

'Mezzanine finance' sits midway between credit and equity and overlaps with social venture capital. It is usually closer to debt finance but incorporates some aspects of the equity approach, such as the lack of any real security for the investment; a close relationship between the investor and the investee company and the potential for some upside return beyond interest repayment.

Three equity instruments were developed as Banking on Culture demonstrators. The Investerings-maatschappij voor Kunst en Cultuur is a mezzanine fund aiming to stimulate investment in the arts and cultural sector. The Maladie d'Amour project is a proposal to set up a film office and film fund in Greece, aimed at increasing film production and capturing local benefit. The New Media Production Investment fund emerges from research on financing the new media sector in Merseyside, proposing a social venture capital fund model aimed at developing a sub regional cluster and protecting intellectual property rights.

The Investeringsmaatschappij voor Kunst en Cultuur (IVKC)

A new social venture capital fund for the cultural sector with a potential for tax breaks

A study undertaken by Triodos Bank in the Netherlands, within the framework of Banking on Culture, focused on the possibility of introducing a venture capital fund for cultural projects. Since two other cultural foundations were undertaking a similar initiative at the same time, they joined forces in order to share expertise, know-how and networks.

The fund, the Investerings-maatschappij voor Kunst en Cultuur (IVKC), is likely to start in September 2000. It will be a private limited liability company, incorporated under Dutch law, and is expected to have around €2.3 million. Its target market will be larger scale cultural projects that are, at least to a certain extent, commercially viable. There are seven initial investors, including Triodos Bank, mainstream banks, ministries and foundations. The fund will normally invest through equity or quasi equity finance such as convertible debt investments and subordinated debt investments. Return is expected to be about three to five per cent – much lower than commercial venture capital.

All partners have committed themselves to contribute financially to the fund, mostly by taking shares. Triodos may also provide sectoral and financial expertise. The Dutch Ministry of Culture has in principle agreed to contribute to the overheads of the start-up phase.

The fund will initially only seek support from institutional investors and aims to issue shares to the public within three years. At this point the low rate of return of the fund will probably limit the scale of support, therefore Triodos has lobbied intensively for a specific tax facility similar to the Dutch green tax scheme, which makes investments in green funds tax exempt for private (non-institutional) investors and has produced net returns comparable to conventional investments.

The IVKC is a flexible financial instrument that can offer credit or a mixture of credit and equity from the same fund. It has real potential to grow the sector in Holland.

Film production agency and film investment fund

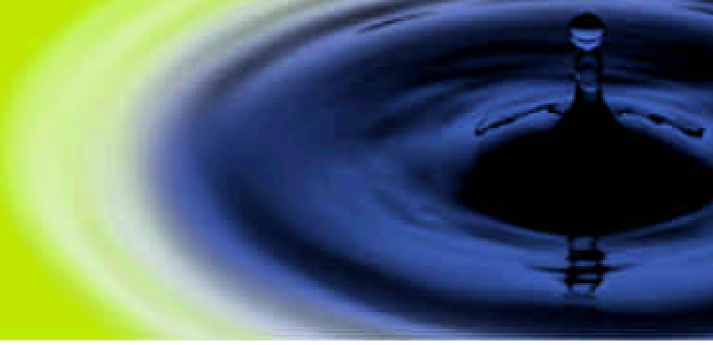
Equity investment in film with economic and social returns

Maladie d’Amour Theatre of Arts is a non-profit organisation that produces multi-media spectacles involving a range of art-forms (e.g. symphonic music, video, contemporary dance). It also carries out research and training in arts and business, and is working with a wide range of partners to explore the establishment of regional film offices in Greece. Projects involve collaborators from both Greece and other countries.

Film offices, screen commissions and film investment funds are becoming accepted as effective mechanisms for promoting and developing a region’s film and media industry. One example is Liverpool’s Moving Image Development Agency (MIDA) which works with the Liverpool Film Office to stimulate employment in the local media industry, through investing in film productions made on Merseyside. Using film production funds established specifically for this purpose, MIDA makes an investment and receives a share in the financial returns from any sales. In return, production companies guarantee to spend larger amounts on purchasing goods, facilities and services from professionals and companies located within Merseyside. Services purchased include actors, writers, musicians, technicians, crews, caterers, accommodation, locations, transport and security.

Typical MIDA investment comes to about a quarter of the total expenditure required, and the final investment requires a local expenditure audit before payment. Since 1997, MIDA’s film production funds have invested a total of approximately €1 million in 12 productions, thereby levering expenditure of around €4 million into the region’s film and media industries. In addition, as the investment is based upon commercial arrangements for its return against sales, €110 000 (11 per cent of investments in films) has been returned for reinvestment in future productions. Independent but linked film offices and screen commissions now operate across many regions of northern Europe, but are only connected to film production investment funds in the UK (in Liverpool, Sheffield, Glasgow, Newcastle and Belfast) and Germany (Hamburg, Dusseldorf and Munich).

Maladie d’Amour has established a partnership between the UK representative of the Association of



Film Commissioners International, the Northern Screen Commission (UK) and the municipalities and regional governments of the Ionian Islands and the province of Thessaly. Its Banking on Culture work has focused on the practical steps needed to establish the first film office in Greece, which would be the first film/screen office in Southern Europe and would enable local communities to benefit from film and television productions made in their areas.

New Media[6] Production Investment Fund

Creating a new fund to protect intellectual property rights and build a new media cluster

Banking on Culture investigated the new media sector because it appeared to have unusual financing methods, unmet needs and to have potential for new models. We concluded (Pratt, Peake and Ramsden 2000) that successful investment in the new media sector requires a combination of knowledge, willingness to take risk and finance; and that this implies a dedicated agency mixing investment and management support.

The agency should be a public private investment partnership operating with a close knowledge of businesses within a specific regional cluster. It should take a guiding role within the local sector, helping to overcome the hyper-fragmentation of micro-enterprises and helping to bridge the gap between small firms and larger corporations. It should carry out intensive investment appraisal of the potential market; this should use the equity model, but finance should take the form of unsecured loans with an equity ‘kicker’ held by the agency.

The research suggested a number of possibilities for capitalising the fund. The most exciting would bring together public and private money. Previous public private equity funds, such as the Merseyside Special Investment Fund, have used local pension funds as a source of capital. The most logical suppliers of capital to the new media sector are either the corporates themselves (such as Sony or Sega) or the new UK Regional Development Agencies (RDAs). The corporates have an interest in stimulating an innovative sector while the RDAs recognise the creative industries’ potential for competitiveness and regeneration. Ideally the end users, the businesses themselves, should also take a stake in the new intermediary body to ensure a level of relevance and control from within the sector.

Surpluses should continue to develop the local cluster, either through capitalising further funds or through stimulating related investment: this investment could be in specialised support services or in new forms of combined living and working space with associated neighbourhood services (clubs, coffee bars etc). The outcome should ideally be a self-sustaining sub regional cluster with the potential to become increasingly independent of state subsidies. In consequence, this more socialised form of venture capital, sited part way between debt and equity, has major advantages over traditional models.

Summary on equity instruments

There is a clear need for long-term investment in cultural sector industries and jobs. These case studies have shown models with potential for delivering these outputs.

But venture capitalists are not like bankers. Bankers make their upside return by doing a lot of lending with a tight margin. Their success is based on excluding bad risks. Venture capitalists are in the opposite game: risk is related to return. They try to use knowledge to limit their downside risk but they are really making an informed gamble. Some people will lose out as a result.

The problem for the cultural sector is that this approach creates a few high net worth individuals but is not good for developing the sector. Surrendering intellectual property is a particular problem in the cultural sector and a major reason why potentially successful entrepreneurs resist equity investment.

Banking on Culture proposed to resolve these conflicts through equity investment with social return. In all three examples the public receives a return for the use of public money. With the film fund that return comes through local purchasing and knock-on employment and development while films supported by the fund are being made. With the Investerings-maatschappij voor Kunst en Cultuur, supported by Triodos, the public gets a richer and more diverse set of arts organisations. With the New Media Investment Fund the public return will be in economic regeneration.

Equity models have been tried in a number of Member States. They are transferable, but local conditions – for example resistance to equity in Germany – may make them more likely to succeed in some places than in others.

However, straightforward equity based instruments remain linked to a private wealth creation agenda. More social forms of venture capital seem better suited to the structure of organisations in the cultural sector, and their need to protect producers' Intellectual Property Rights (IPR).

5.3 Loan instruments

Introduction

For the lender a loan instrument is a form of credit, for the borrower it is a form of debt. A wide range of credit products includes:

- Loan funds (micro-credit, risk loans/unsecured loans)
- Guarantee funds (mutual, third party)
- Mezzanine funds, which are unsecured and combine elements of debt and equity (see above).

The main providers of loan capital are the banks. In the UK they have 80 per cent of the loan market in this sector (Mayo et al 1999). There are no stock markets for small and medium enterprises but significant numbers arrange loans from family members and friends, especially in the start-up phase. Increasing numbers of entrepreneurs also use credit cards as sources of finance despite the high annual percentage rate.

There is widespread anecdotal evidence, supported by research in the UK by the Department of Culture Media and Sport (DCMS 2000), that cultural sector organisations have difficulty obtaining conventional loans. Recent work on Financing and Support for the Cultural Sector on Merseyside, commissioned by Banking on Culture, supports the view that neither the banks nor the mainstream business support agencies are doing well by the sector (Euclid 1999). Other lenders are not having much impact either.

Two Banking on Culture demonstrator projects explored credit based solutions. Both focus on 'organisational credit' which is a form of credit focused on social enterprises rather than traditional commercial demands.

The first, led by Fondazione Choros, focuses on lending to cultural social enterprises or associations working with prisoners and former prisoners. The second focuses on developing a social investment loan or guarantee fund for Ireland. This project is at an earlier phase and illustrates the partnership building and development work.

Art performers and prisons

Building the financial capacity of social organisations to enable them to utilise a loan

'Art performers and prisons' is a third sector initiative in the Italian region of Veneto, developed by third system research and implementation organisation Fondazione Choros, and involving social and ethical bank Banca Etica; the Art Rock Café; the Gershwin Music School; and TAM Teatro Musica.

The project has explored the potential for unincorporated associations to develop into social enterprises and utilise loan capital from Banca Etica or other banks. Activities build upon the work of minority ethnic community bands and theatre companies working with prisoners from Padova gaol. They train prisoners in creative and technical skills which will increase their work and employment opportunities. Italy has a relatively large prison population, meagre after-care for released prisoners and a high level of recidivism.

The associations also wanted to expand into an 'enterprise d'insertion' (equivalent to an intermediate labour market project) for prisoners being released, and sought loan finances from Banca Etica. Banca Etica had a limited record of lending to the cultural sector but was keen to learn about the sector and to explore the possibilities for loans.

The project involved careful analysis of the business plan; new legal frameworks and developing the organisations' capacity to operate in a new financial environment. The results will be a methodology for enabling arts associations working with excluded groups to upscale their work and will also make that part of the sector more accessible to banking. In the long-term this approach could be developed into a real contribution towards reducing recidivism levels in gaols across Italy.

Irish loan guarantee fund

Stimulating new investment in third sector arts and culture organisations

Clann Credo Ltd is a Dublin based social investment fund that has made a number of investments in the arts and culture sector. These include loans or investment which have helped Cultur Boe, a community owned company, to provide cultural, tourism and transport services in disadvantaged areas of Tallaght in Dublin; Feachtas Ealaion to open a community owned theatre in New Ross in Wexford; Magma European Scripting House Company in Galway to support animated and live film productions with a social content and Tallaght Theatre Group to support the creation of a community owned theatre providing employment and training to unemployed Dublin residents.

Within the Banking on Culture framework, Clann Credo worked with partners[7] from across the cultural sector in Ireland to explore and develop the potential for new loan instruments to support third system cultural organisations.

A steering group co-ordinated by Clann Credo was established to pilot setting up and running a loan guarantee system for third sector cultural institutions in Ireland. The partnership is now being enlarged to include other local authorities, ministries and the private sector. Research has identified the opportunities for action and made recommendations. It also identifies models and places the research in the context of the Banking on Culture project and a range of relevant experience and expertise. The next stage of the work therefore proposes to develop the public and private partnerships needed to implement the proposed new financial instruments.

This project has demonstrated the importance of bringing a wide range of partners into the setting up phase of a new financial initiative as well as the need for careful market analysis, model choice and business planning.

Summary on credit instruments

Credit instruments have the greatest potential to make a difference and grow the cultural sector. Whereas equity has limited applications and tends to work with larger companies, credit approaches have been specifically designed for the micro-enterprise sector that forms such a large part of the cultural and creative industries.

Credit instruments can operate at large scale and benefit from substantial deal flow. Indeed they need this to become financially sustainable; for example, it is generally recognised that micro-credit operations need to make more than 2000 loans a year. In the European Union only two of the micro-credit schemes currently operate at this level (Princes Trust, UK and Adie in France).

Although there were no micro-credit demonstrators in Banking on Culture, we carried out some research in Merseyside into demand for micro-credit. The results were inconclusive, but suggested that micro-credit would not work in areas with high levels of grant funding. Micro-credit is also not likely to succeed in art-forms that depend on commissions and grants, such as fine art and sculpture. Despite these findings, evidence from WEETU and other generic micro-credit operations suggests that the cultural sector could benefit from greater access to micro-credit, given that the sector does support a high proportion of micro-enterprises.

Credit instruments more generally are capable of working in difficult environments and of helping to combat social exclusion. This sets them apart from most private sector equity investment, where the main aim of building shareholder value rules out enterprises or individuals emerging from exclusion. Credit instruments are likely to be chosen by those policy makers who are concerned to achieve significant regeneration and inclusion in the medium term.

5.4 New money instruments

New money instruments have been created to work alongside formal money structures. All of them create a new form of exchange with varying amounts of linkage to formal money systems.

Four types are presented below: card money (©ARTs), Local Exchange Trading Systems (Creative LETS), time money and web currencies. The first two of these (©ARTs and Creative LETS) have been developed as demonstrators for Banking on Culture.

Creative LETS

Signalling new forms of demand

Creative LETS is a Local Exchange Trading System initiated in the course of Banking on Culture by North West Arts Board working with Ariel Trust, ACID, Liverpool City Council and individual artists living and working on Merseyside. Local Exchange Trading Systems can take a variety of forms but are established on the principle that members trade skills and expertise not for currency money, but for a form of new currency that can be valued as a complementary currency. Creative LETS was established following a public seminar and training session held in January 2000. It now has all the required administrative systems, and has held a number of events designed to attract members and match members' potential offers and wants. Membership now exceeds 80 and six membership directories have been circulated between members advertising a wide array of goods, services and needs. Trading has started in earnest but is still at a relatively low level.

Creative LETS opens up the potential for emerging artists to experiment with valuing and selling their work; for seed-funding project based work; and for building creative networks and associations which will assist creative endeavours in the medium to long-term. It also enables artists to buy in goods and services from other artists as well as the key services they need to maintain individual art practices. This possibility increases exponentially as membership becomes broader and attracts local businesses and micro-enterprises. Like all LETS, this pilot uses a form of interest free money which discounts the time between purchasing and selling. Exchange systems like these grow social capital as members get to know and trade with each other and build an artistic community.

©ARTs

Triggering demand for works of art

©ARTs are new money vouchers developed in the course of Banking on Culture by the financial consultancy Barataria from the Netherlands. ©ARTs are designed to increase the market for arts products and stimulate the purchasing of art works and artefacts.

©ARTs currency is based on a thick paper card the size of a credit card that is issued in exchange for money with a nominal value of one Euro. They have been described as something like 'pokémon' for adults. They are like money because they are carried around, have a denominated value and can be used to purchase services and products directly. But unlike normal money a ©ART has the image of a work of art displayed on front. By collecting a specified number of ©ARTs with the same image, an individual can save to purchase the particular piece. The back of the card has space for advertisements or information, and specific series can also feature scratch-card areas that allow the purchaser to double (or halve) the value of their ©ARTs.

©ARTs have been designed and tested for use by the general public in purchasing products and services from cultural organisations, municipalities and individual artists in specific localities or events. Barataria has demonstrated that ©ARTs could complement money currencies and be used as a new money voucher payment system. The system has the additional feature of a five per cent exchange charge on redeeming a ©ART for cash, because it effectively loses this value. However, most will be spent on purchases and will not deflate. This five per cent charge, combined with the 'float' made up of ©ARTs that are purchased but never cashed, goes towards creating a fund that can be used to develop local creative industries further.

The developers are looking for partners for a full-scale ©ARTs trial. They will clearly stimulate significant levels of art purchase, when linked to cultural quarters and festivals attended by a lot of people. They are also innovative and fun and lend identity to areas and events.

5.5 Other new money approaches

Two other forms of currencies are relevant to the discussion on new currencies: time money and web currencies. Although these have not been explored as pilots through the Banking on Culture demonstrators, they have interesting potential for the sector in the future.

Time money

Time money or time banks are the first cousins of LETS. Both use a non-money value system for exchanging services and in the case of LETS goods as well. Time money has been developed in the United States by Edgar Cahn where it has been used to great effect in a wide range of communities. The most famous time money scheme is Ithaca Hours.

The essential principle of time money is that the value of any service can be denominated in the time it takes to carry out. One hour of a person's time entitles them to an hour of someone else's. People who volunteer have an opportunity to validate that contribution; to have it credited to their time account in a time bank; and to draw on that time for a service that they themselves need. A classic example is helping someone else by driving them to a clinic. Unlike LETS, the value is fixed by the time not by the provider of the service. As a result there are deep philosophical differences between the two concepts.

> 'At the heart of time money is the recognition that the most valuable work is that which remains invisible and unpaid. In particular the work that is undertaken by carers, women and sometimes children; the work that glues us together as human beings and ultimately determines the health and vitality of our families, neighbourhoods and societies' (Burns 2000).

Banking on Culture did not find any examples of this approach within the cultural sector although many arts centres and performance spaces use volunteers extensively. Time money clearly has potential within the sector.

Web currencies

Trading on the Internet is mostly done through credit cards. This is both insecure and excluding as many people do not possess credit cards; in particular, they cannot be issued to people under 18. This is a major problem both for young people who want to make purchases through the Internet and for businesses selling music, images, on-line computer games, software and other digital arts products.

A number of web currencies have grown up to bridge the gap or for other reasons. Some, like Beenz, are close relations of affinity cards and stamp systems. Beenz are collected simply by spending time on certain web sites, given away with other credit card purchases and so on.

Other systems are nearer to virtual 'record tokens' or pocket money accounts. In these systems a parent, relative or friend can charge up another person's private account from their own credit card or Internet bank account. The account holder can then purchase something from the account – although the range of purchases allowable may be circumscribed either by the system itself or by the donor.

It is likely that the 'record token' type will grow rapidly in Europe, following models in the US, as secure web payment systems grow in popularity. Probably a range of competing systems will emerge linked to specific products, web sites and markets, similar to the Air Miles systems. This is likely to be a rapidly evolving field over the next few years, led by the major portals, software companies like Microsoft, retailers and, of course, the banks themselves.

The problem of all such systems is that all forms of dedicated money are restricted to a certain framework, unless one single standard is developed to cover all web purchasing.

There are clear links between alternative currencies such as LETS and time money and the more virtual forms of web currency such as Beenz. It is still unclear whether their growth can be tied into the growth of the cultural sector is still unclear but this appears worth exploring.

Summary on new money

New money systems have great potential to help to grow arts and cultural communities at local level. They are good for building local social capital by connecting people with similar interest together on the basis of trade and exchange. They can highlight unmet need and signal new demand, and therefore grow the market. LETS, time money and ©ARTs could be useful marketing tools.

So far, they have only had modest impacts, but since they have only been used for a short time, this is not surprising.

Conclusions and recommendations

6.1 Conclusions

Banking on Culture has answered the key issues set out in section 1.1.

- New approaches are needed to finance the cultural sector and to stimulate economic and employment growth
- Credit, equity and new money instruments all have potential to develop the cultural sector
- Self-employed and micro-businesses could usefully access forms of micro-credit, but may also benefit from membership of new money systems such as LETS or time money
- Globalisation and new technologies are changing the nature of cultural enterprises and employment, and venture capital often accelerates this change
- The 'solidarity' or social economy is one way of growing employment in the cultural sector
- Young and excluded people can be integrated through cultural employment, and finance through forms of 'social credit' is a way to achieve this.

By focusing for nearly two years on the issue of financial instruments for the cultural sector the project partners have been able to research the field thoroughly, identify potential growth, develop new financial products and test out ways of implementing these products. Pilot actions can be a powerful way of stimulating policy development; this has been demonstrated in several of the participating Member States, and national authorities in the UK and Holland have been involved in policy discussions and project development.

In all participating Member States there has been progress at the local, regional and national level: the emergence of equity models in the Netherlands; new linkages between the social economy and ethical banks in Italy; plans for film funds linked to film offices in Greece; new guarantee funds in Ireland; support for Creative LETS from Liverpool City Council; support for a Culture Bank among regional agencies in the North West Region of the UK; and the possibility of activity on micro-credit for the cultural sector in Portugal.
Evidence from all the demonstration projects indicates that Banking on Culture has stimulated debate and encouraged new approaches to expanding local cultural economies. As the projects move under mainstream funding programmes this support and commitment from public and private players will become crucial to developing this work further.

The project has served to deepen the partners' understanding of the role the sector can play in local development and employment initiatives and also to highlight the unique contribution that art and culture can make on their own terms. It is easy to allow the dry statistical evidence of indicators of development and job creation to overshadow outcomes which are more elusive or intangible but also more important.

The hourglass diagrams (page 11) illustrating different art-forms demonstrate the key findings on the employment side. The majority of employment in the sector is in micro-enterprises, indicating that strategies to grow the sector – whether using financial instruments or other tools – must focus on this. The other significant area of potential are the larger arts organisations. This begs the question of whether over time the missing 'mittelstand' of medium-sized enterprises can be established, possibly through new forms of enterprise that look more like networks than traditional vertically structured firms. The new media sector is the most promising in this regard.

6.2 Geographic scale

In the Banking on Culture report on financial instruments for the cultural sector (Sattar and Ramsden 2000) we emphasised the link between sustainable funds, deal flow and population coverage. Small funds covering small localities are unlikely ever to become financially viable. Nor are funds that are highly sector-specific. At the same time we were aware of small scale projects that met their own aims successfully and were also able to preserve an intimacy and contact with their client group that larger organisations may lack.

In an attempt to square this circle we suggested a model that we have termed elsewhere ‘front office/back office’ (Sattar and Ramsden 2000). This opens up the possibility of local delivery points, operating on an intimate scale, which can also take advantage of economies of scale in the back office provision. This would work especially well with micro-credit and social investment funds where deal flow is a real issue.

The issue of geographic scale is related to the question of generic or specific funds and business support. The more an instrument focuses on a sectoral segment the less likely it is to achieve adequate deal flow, capable of generating enough income to cover costs, for that specified area. Cultural businesses need highly specialised business support delivered alongside finance. Only a few areas are getting this at the moment. Many parts of the sector have had to develop their own support services because the mainstream system has not worked for cultural entrepreneurs.

This raises major questions regarding the extent to which the sector should rely on mainstream support services or continue to go its own way and develop sector-specific agencies. The most likely way forward is a compromise whereby mainstream provision is linked through partnership and service level agreements to outreach agencies capable of working further into the sector. This may make it necessary to expand public/private development agencies for the sector.

6.3 The menu of financial instruments

Third system financial instruments have a key role to play in delivering financial resources and services to the cultural and creative industries. These instruments can take a number of key forms, depending on the local needs as well as fiscal, legislative and political conditions within each region of Europe.

The menu of forms of instrument available includes:

- Equity instruments: including venture capital, various forms of film investment funds, and some forms of social venture capital
- Debt instruments: including micro-credit, loan disbursement based on social evaluation schemes, social credit and organisational credit as well as mezzanine funds (part debt, part equity) which include certain forms of social risk capital
- New money instruments: including local exchange trading schemes, card money, time money and web currency.

All these instruments need to be co-ordinated and combined at the point of delivery with relevant business support. Finance is also only part of the solution to developing the sector. Other forms of business support for marketing, management development and innovation are equally important. The sector also needs specific help to access effective and expanded protection for intellectual property rights.

The sector must also improve its access to life long learning resources and, with the growth of digital media, improve its access to information communication technology (ICT) skills and resources. In the future broad band access will also become increasingly important.

In summary, any scheme using third system financial instruments to optimise the growth and employment potential of the sector should:

- Be capable of accommodating the needs and requirements of all sizes and forms of cultural enterprise operating within the cultural industries
- Benefit the long-term growth of the cultural industries as a whole, not just parts in the short-term
- Accommodate the employment and enterprise characteristics of the cultural sector – the large number of small organisations and enterprises and the small number of large ones
- Not be just about money, but about achieving accessible models of finance linked to appropriate business support
- Be sustainable in the long-term, establishing sources of investment from private sector financial resources rather than relying exclusively on subsidy and grant assistance from the public sector
- Be scaleable, sustainable, effective and efficient.

6.4 From Banking on Culture to 'Culture Banks'

Two Member States which participated in Banking on Culture, the UK and the Netherlands, have begun to take action on financing the cultural sector at national level. In the Netherlands this resulted in work between a range of ministries and Triodos Bank to develop a social venture capital instrument; in the UK there have been references to a 'Culture Bank'.

The findings of Banking on Culture suggest that a Culture Bank approach could be viable and could have a powerful effect on the growth of the sector by providing a more coherent and orchestrated approach for developing a more heterogeneous financing environment. However, the findings also suggest that this could not be done in a monolithic way by a single provider. The different products are likely to be designed to fill specific niches, to operate at different scales – local, regional or national – and to involve different mixes of partners and their finances.

Banking on Culture considers that the concept of a 'Culture Bank' could work in a range of European regions if it:

– Is a 'brand': effectively, a gateway into a wide range of financial services for the cultural sector
– Operates, where appropriate, at the regional level through a regional partnership
– Is nimble and lightweight, accessing social investment institutions and mainstream financial services
– Organises service delivery to combine business support and finance in a syndicated package
– Links and connects generic business support to cultural sector-specific support to provide a seamless and relevant service
– Has access points in local areas and also takes advantage of regional or national economies of scale, possibly using a front office/back office approach
– Opens the way to mainstream generic financial instruments and products including resources from 'knowledge banks' if these are developed.

A culture bank should not be:

– A heavy staff-intensive 'fat' intermediary soaking up resources that should go to the sector
– A government department but could be a partnership body or agency.

6.5 Specific recommendations

For the European Union

The European Union has advanced the debate over the development of the cultural sector, most practically through the work of the Structural Funds, including pilot actions such as the Article 6 Third System Employment Pilot Action which funded this project. However, there remains a lot to be done.

The most important task is to get the findings of the Banking on Culture project into the mainstream, so that more regions take up the challenge to grow their cultural sectors.

The key recommendation for the European Union and its institutions is to provide support on a practical level. They should:

- Assist key players in scaling up and embedding the emergent models of good practice across the regions of the Union, via the next round of Structural Funds
- Prioritise actions that identify and strengthen those elements of the new financial instruments associated with developing the solidarity economy
- Monitor and independently undertake activities that ease the way to establishing third system financial instruments across the EU
- Disseminate the opportunities available to introduce new forms of financial instruments in the cultural and creative industries
- Explore the potential for the European Investment Bank to support regional credit instruments for the cultural sector
- Disseminate the opportunities for transfer and cross-over into other employment rich growth sector industries in the European economy (e.g. care, environment, tourism and culture and local digital services).

For Member States and Regional Authorities

The Member States are in a key position to advance the development of their cultural and creative industries. At present much of the subsidy activity of the sector is devoted to supporting large-scale cultural organisations and large physical restoration projects rather than the micro-enterprises which contain the mass of employment. Although arrangements for supporting the emergence of cultural and creative business vary across Member States more could be done in all countries. More could also be done for social enterprises, and to help develop supportive tax regimes for micro-enterprise in general and for the cultural sector entrepreneurs in particular.

The key recommendations for the Member States are:

- Act to support the creation of a range of new financial instruments at local, regional and national level
- Create a positive entrepreneurial climate for micro-entrepreneurs in their start-up phase, through the use of income tax holidays, supportive benefit system and benefit tapers, higher levels of VAT thresholds etc
- Consider cultural sector tax credits to enable private investors to benefit from tax breaks on investment in the cultural sector and social enterprise, similar to those developed in the Netherlands for green investment
- Develop vertical and horizontal partnerships linking levels of government with the cultural sector, SME support infrastructure and private finance through regional Culture Bank implementation partnerships.

For the cultural sector and its agencies

The sector's own priority is to learn from other places and other sectors about how new forms of finance could contribute to growth. Performers do not need to become bankers, but they need to understand how banks work and how the world of finance operates. These aspects of business planning and organisation need to be built into the training system so that entrepreneurship is part of any training curriculum.

The key recommendations for the cultural sector and its agencies are:

- Construct and contribute to regional Culture Bank partnerships
- Design new models and implement them in partnership with the public and private sectors
- Where possible, 'piggy-back' and adapt existing generic financial instruments rather than create new ones, in order to counter the problems of long lead-times and scale issues
- Link generic business support services to cultural sector-specific development agencies and support
- Work with others to strengthen financial competences and an entrepreneurial approach, both within arts and cultural organisations and as part of the core curriculum in all training and education programmes.

The future

Banking on Culture has researched the possibilities, tested out a range of models and disseminated its findings across Europe. Growing the cultural and creative industries in Europe will require concerted political and technical action. The Banking on Culture project shows that finance, combined with appropriate support for emerging and growing businesses, could be the key to unlocking this growth. The task now is to implement these ideas as part of mainstream programmes.

Footnotes

[1] For the purposes of this report the cultural sector has been defined to include: crafts and design, museums heritage and galleries, art markets, antiques, performing arts, music, audio-visual and broadcasting, publishing and multi and new media.

[2] Third system financial instruments are run by organisations that are neither public or private rather than by commercial banks or the public sector.

[3] By generic we mean schemes that do not focus solely on the cultural sector.

[4] Peer group schemes normally consist of small groups of around five borrowers who meet regularly together and may provide a collective guarantee to the lender.

[5] The Grameen bank is the best known micro-finance institution in the world. Set up in Bangladesh 25 years ago by Mohammed Yunus, the bank has now loaned over $1billion mostly in small denomination loans averaging $30. The peer group system, using groups of five people, leads to very high repayment rates. Around 95 per cent of borrowers are women.

[6] For the purposes of the study new media covers web design, web logistics and management, communications strategy, web and CD-Rom related software and content creation.

[7] Participants included Creative Arts For Everyone (CAFÉ); Third System Approaches; Common Ground; the ARK; the Arts Council; the Department of Arts; Department of the Taoiseach; Viking Records; the Social Economy Unit of Get Tallaght Working; Scartaglin Community Development Company and John Everett.

Annexes

Annex A

Banking on Culture key contacts

European Commission

For more information about the European Commission's Third System and Employment Pilot Action visit:

europa.eu.int/comm/employment_social/empl&esf/3syst/index_en.htm

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Annex B

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Fondazione Choros 2000
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Annex C

Glossary of terms

Business Angels (Angel Investors)
A term used for an individual or groups of people, who offer financial investment and business knowledge to assist the company develop and grow. Considered as a high risk form of investment, it is usually offered to small unlisted companies and has been particularly favoured within some parts of the cultural sector in some Member States such as in commercial musicals in the West End of London.

Community Finance Initiatives
Usually locally run, not-for-profit organisations that lend to businesses that the banks consider too risky for reasons such as a lack of business experience or poor credit rating. CFIs often operate in defined deprived neighbourhoods. Other CFIs address the needs of disadvantaged groups defined by another characteristic. All CFIs have a social mission, such as to promote successful enterprise amongst deprived groups. The CFI market in the Europe is relatively young and under-developed.

Cultural Development Agencies
Intermediary organisations of various forms and structures, often established within European regions seeking to develop activities in the cultural economy. These organisations can include grant making and investment functions, as well as providing business assistance.

Deal Flow
The volume of transactions undertaken through a financial instrument or organisation. Deal flow is important, as greater deal flow allows costs to be spread across a greater number of transactions.

Enterprise d'Insertion
A term commonly used in the European Union to refer to intermediate labour market enterprises. These are organisations that operate as halfway houses between not-for-profit organisations and full commercial organisations, requiring subsidy to continue to operate. Their rationale is that by introducing people who are excluded from the labour market (through disability, long term unemployment or other factors), people develop valuable work skills and experience, and are then prepared to enter the conventional labour market.

Ethical Banks
A form of bank that undertake ethical investments which reflect the particular ethical values of an individual or organisation. Ethical, environmental and social criteria can all be taken into consideration with these criteria used negatively (avoiding arms manufacture for instance) or positively (choosing companies manufacturing solar energy products). Ethical investments are typically used in the context of the stock markets, unit trusts and ethical investment funds.

Guarantee Funds
A pool of money used to reduce the risk of an investment, by underwriting some or all of the loan or other investment against default or non-payment. Guarantee funds are often financed by state or charitable foundation sources of money, and used to lever in additional finance, typically on ratios of between 1:4 to 1:10. Whilst guarantee funds have a varied reputation in Europe, they do provide the potential for levering in considerable investment. Additionally, they can provide a means of avoiding the route of setting up a dedicated financial institution as a guarantee fund and can be used in conjunction with existing or conventional lenders.

Micro-credit
Small scale enterprise lending, first pioneered by Professor Mohamed Yunus, who founded the Grameen Bank in Bangladesh. Micro-credit provides loan (and sometimes savings) services to entrepreneurs at either start up or growth stages. In the South it is widely used as an anti-poverty tool on the basis that while the poor may not have much money they are perfectly capable of paying back under the right conditions. Very high repayment rates are achieved through innovative techniques such as group lending, social pressure, legal measures and economic sanctions.

Social Investment
The provision of finance where the main reason for the financial transaction (which can be a loan, equity stake or financial service) is for a social purpose (i.e. employment creation, environmental benefit or local regeneration), and where the financial return may be of secondary importance to the social outcomes sought through the investment.

Social Partners
A European term used to define the working relationships between employers, employees and other allied interests, that are often formalised through European Community law and rules.

Social Venture Capital
Equity investment with the goal of social as well as financial return on investments (see Social Investment). Typically longer term than a loan,

with risk being shared more equally between the investor and the investee. Social venture capital rates of return are often not as high as for conventional venture capital. Some social venture capital sits half way between debt and equity using aspects of both and is also referred to in the text as 'mezzanine finance'.

Solidarity Economy
A term used to describe the common bond and mutuality that underpins the operation of some particular forms of third system financial instruments including certain forms of credit unions and micro-lending peer schemes.

State Aid
A term developed as a result of European Community law which restricts individual European Member States offering financial assistance to companies in a manner which the European Commission would consider to be anti-competitive. No definition of State Aid exists – instead there are references in Treaties and Community law which limits the actions of Member States on a case by case basis.

Third System
A generic term used to refer to the not-for-profit, charitable, associational and co-operative sectors across Europe. Also referred to as the social economy.

Third System Financial Instruments
Tools used to invest in the social economy – loan and equity products, offered by social finance organisations, where achievement of social objectives is as important as financial return.

Annex D
List of acronyms

ACE	The Arts Council of England
DCMS	Department of Culture Media and Sport (UK)
ERDF	European Regional Development Fund
ESF	European Social Fund
EU	European Union
ICT	Information and Communication Technology
IFCIC	Institut pour le Financement du Cinema et des Industries Culturelles
IIS	Investors In Society
INAISE	International Association of Investors in the Social Economy
IPR	Intellectual Property Rights
IVKC	Investeringsmaatschappij voor Kunst en Cultuur
LETS	Local Exchange Trading Schemes
MIDA	Moving Image Development Agency
MSF	Manufacturing Science and Finance Union
NGO	Non Governmental Organisation
NWAB	North West Arts Board
RDA	Regional Development Agency
SME	Small to Medium Enterprise
SODEC	Societé du Developpement des Enterprises Culturelles
VAT	Value Added Tax
WEETU	Womens Employment and Enterprise Training Unit

Banking on Culture

Banking on Culture

New financial instruments for expanding the cultural economy in Europe

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