

## CICI Support and the Creative Industries<sup>1</sup>

By Antoni Llado director of the CICI, Barcelona 01/11/2008

I have been the director of the *Instituto Catalan de Industrias Culturales* (Catalan Institute of Creative Industries CICI), since February 2007 and I would like to make some remarks that would enable the public, a better understanding of a dossier published by the *Sindicatura de Cuentas de la Generalitat de Catalunya*. (Catalonia Audit's Office), concerning the management of the Institute in 2005.

The CICI was created in 2001; one of its objectives is to promote the development of the Catalanian creative industries. The components of this industry are very similar to those of the regional economy; it is formed by a network of small and medium business (most of them small) which quite often depend on one particular project. As a result, the cultural offer can be described as: narrow in scope, linked to local markets, financially constrained and heavily reliant on the local government.

The support provided by the institute to its stake holders and the audit that it was subject to, in 2005 must be understood under the lens of the free market economy. Market forces are essential to support the growth of a powerful creative industry. Unfortunately, due to afore mentioned constraints this is not the case; the road within the market economy is tough and success is only possible for a selected few.

We will not object the 2005 auditor's dossier. At the time we presented our arguments and we have taken on board the recommendations provided by the auditing team: the introduction of an official audit process to justify the income from all the projects; the introduction of risk analysis committees and the improvement of settlements with private entities that provide cultural consumption data. The new piece of legislation introduced in 2008 concerning refundable contributions [credit/loans] together with the recommendations provided by the auditing process in 2005 enabled the CICC to substantially modify its business model. However, I think it is important to expand on the concept of refundable contributions. Let's get back to 2005.

Refundable contributions [credit-loans] were conceived as a mechanism to finance market-oriented cultural projects and therefore subject to some entrepreneurial risk. It was an attempt to introduce the risk culture to a business structure accustomed to public subsidies. This represented a cultural shift (from subsidies to loans) and at the same time initiated a process to lay the new foundations for the creative industries. This also contributed to avoid its inertial and expensive behaviours; these are costly to public finances and damaging to the entrepreneurial spirit.

Logically, the success of the refundable contributions [credit-loans] was linked to the success of the project. An entrepreneurial failure would impact its profitability and therefore reduce the possibilities of the repayment. At that point it was evident, that the contribution may not be paid back at all. It could also be argued that, even if the failure of the project was forecasted risk analysis in the creative industries is, by no means, a simple task.

On one hand, cultural products/projects are completely different to other mass consumption ones. Sometimes great authors and plays have failed to fulfil their public attendance expectations and vice versa smaller scope productions have achieved unexpected success.

On the other, the cultural products/projects have been affected by multiple changes in society. Specifically the transition to the digital society has been nothing but lethal to projects funded by refundable contributions. The downturn of the music industry, caused by piracy and illegal downloading, ruined all reasonable risk analysis concerning music projects. Could anyone imagine the impact that broadband had

in the music industry in 2005? Not even those who forecasted the financial and real-estate crisis could have figured it out. It is most definitely an uncharted territory.

The creative industry is a source of employment, wealth and innovation however this is not easy to achieve. It requires investment research and development and its positive effects can only be appreciated in the long term.

The CICI grew extremely fast and only had rudimentary tools. It has taken time to develop those tools and we are now able to adapt to an ever changing reality. Perhaps, the dossier of the Auditing Office accurately describes a past situation which has already changed. We took the necessary steps to improve the Institute back then, these places us in good stead to keep evolving.

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# The Catalan Auditing Body finds evidence of misuse of public funds in most grants provided by the CICI<sup>1</sup>

(The CICI is owed € 1.99 million euros out 5.3 lent to companies in 2005)

By J.Garriga. Barcelona 21/10/2008

Today the *Sindicatura the Cuentas* (the Catalan Auditing Office) will present to the local Parliament an exhaustive and robust dossier with the results of the 2005 auditing process that took place at the *Instituto Catalan de Industrias Culturales* (Catalan Institute of Creative Industries CICI). The report reveals the misuse of public funds.

The CICI is linked to the Department for Culture , which at the time, was headed by socialist Caterina Mieras whilst the institute was directed by Xavier Marcé. The mismanagement of the institute was to such extent that the Auditing Office has already announced that the dossier will be referred to the *Tribunal de Cuentas* (Court of Public Accounts<sup>2</sup>) to consider possible sanctions. The auditors found strong evidence of “creative accountancy” however they lack the ability to impose sanctions.

The poor use of public funds can be observed in two different areas. The first one can be described as “refundable contributions” and the second one, as subsidies. The former are loans provided to the creative industries<sup>3</sup> and the latter are direct subsidies also considered as “lost funds”. In addition, the *Sindicatura* reprimanded the CICI due to discretionary personnel hiring practices.

## **Refundable contributions**

From 2002 to 2005, the Institute provided grants to different companies for a total of 5.3 million euros. The companies had to pay back a percentage of the loan according to their success on their projects. For example: success was measured by the amount of sold copies of a music album or ticket sales at the box-office.

From a total of 5.3 million euros the local government is owed 1.99. In some cases the CICI has not started the proceedings to recover the funds. In some others, the institute changed the nature of the instrument into direct subsidies (lost funds). The auditors considered this, evidence of creative accountancy and a powerful reason remit the case the Court of Public Accounts

A key example used by the auditors: a company received 225.000 euros to start a local online school and in 2007 the company went bankrupt. The CICI only recovered 6000 euros the other 219.000 were turned into a subsidy. The auditor’s dossier condemns the fact that the loan was provided directly, without any security and without specifying the repayment percentage.

## **Direct Subsidies**

The auditors considered a significant sample of 129 out 2660 subsidies granted in 2005. They found clear evidence that the subsidies approval process lacked control. For example, subsidies over 300.000 euros were approved by CICI Administration Council when the responsibility belonged to the local government.

In 44% of the files concerning direct subsidies over 100.000 euros the auditors found that beneficiaries were not able to substantiate the project expenditures. In addition, the CICI used its discretion to provide nine subsidies over 100.000 euros and five were granted without documented request. The auditors also pointed out that one of the subsidies was requested by the office of the head of Barcelona's City Council.

The CICI pointed out that it was compliant with the local legislation at all times and sought legal advice to prepare the grants and subsidy policy.

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<sup>2</sup> For more information see <http://www.tvcp.org/index-c.htm>

<sup>3</sup> The grants were provided to whole creative industries apart from the audiovisual sector.

## **The PSC disregards the accusations of grants mismanagement provided to the Creative Industry.<sup>1</sup>**

By J. Foguet. Barcelona 12/11/2008

The Catalanian Socialist Party (PSC) defended Caterina Mieras, ex-cultural advisor to the management of the *Instituto de Industrias Culturales* (Catalonian Institute of Creative Industries<sup>2</sup> CICI) as a result of the audit findings presented by the *Sindicatura de Cuentas* (Catalonian Audit Office). According to the findings, the grants provision was grossly mismanaged.

Mr Jordi Terrades a member of the PSC disregarded the fact that CICI will never recover some of the grants provided as “refundable contributions” [credits/loans]. These grants were targeted to most of the Catalanian creative industries apart from the audiovisual sector; they were conceived as a mechanism to provide financial support and to develop new ventures.

Mr Terrades acknowledged some bureaucratic mismanagement by the CICI; however, he argued that refundable contributions “non-refunded” can be turned into subsidies. He admitted, that it was not a regular practice and sustained that the contributions could not be considered a loss to the public finances. Although, refundable contributions were a risky scheme, they were necessary to promote and enhance the creative process itself.

The audit report corresponds to 2005 when Xavier Marcé was the CICI director and Ms Mieras overlooked its operations. The mismanagement and accountancy anomalies are evident; according to the auditing body the dossier will be remitted to the *Tribunal de Cuentas* (Court of Public accounts<sup>3</sup>). This second body has the power to apply sanctions that the Catalanian Auditing Office has not.

Oriol Pujol a CiU parliamentary, representative sustains that the grant provision was a “scandal”. He linked it to the controversy over the increasing amount of studies and reports [of dubious nature] contracted to private companies outside the local government. Mr Pujol also mentioned that it was clear to the Catalanian Auditing Office that there might be individual liability in at least one hundred out of 2200 subsidies provided. The nationalist leader issued a warning: “the Court of Public Accounts only exert control over accounting issues. Is this enough?”

Finally, Mr Jose Domingo a *Ciutadans* (Citizens Political Party<sup>4</sup>) representative was not entirely satisfied with the situation and reassured the public that he will take the case to the public prosecutor.

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<sup>2</sup> According to the research this is the full name of the institution.

<sup>3</sup> This is an autonomous public body responsible for ensuring sound management of the public finances in Catalonia. For more information see: <http://www.tvcp.org/index-c.htm>

<sup>4</sup> For more information see <http://www.ciudadanos-cs.org/>