



EUROPEAN COMMISSION
Directorate-General for Education and Culture
Culture and media
MEDIA Programme and media literacy

CREATIVE EUROPE PROGRAMME

THE CULTURAL AND CREATIVE SECTORS LOAN GUARANTEE FACILITY

FREQUENTLY ASKED QUESTIONS

1.	What is a financial instrument?.....	3
2.	What is a guarantee on a bank loan?.....	3
3.	What are the main objectives of the financial instrument?.....	4
4.	To which type of organisations is it addressed? Who will be eligible?.....	4
5.	Will loans replace grants?.....	5
6.	How are loans complementary to grants?.....	5
7.	How will the beneficiaries and operators of the instrument be selected?.....	6
8.	What types of activities are covered by Cultural and Creative Sectors?.....	8
9.	Can a project be supported by a grant and a bank guarantee?.....	8
10.	How such a market-driven financial instrument will deal with the specific nature of the cultural sector?.....	8
11.	Shouldn't that be left to the Member states to deal with?.....	9
12.	What is the EU added-value?.....	11
13.	How will the instrument differ from the existing MPGF?.....	12
14.	What are the benefits of the financial instrument?.....	13
15.	How will the capacity building system work?.....	16
16.	Isn't there an overlap with other EU financial instruments?.....	16
17.	What are the specificities of the CCS that justify the creation of a specific financial instrument?.....	17
18.	How will the 'window-construction' within a larger EU financial instrument work exactly?.....	18
19.	How will the CCS Guarantee Facility work?.....	19
20.	What is the financial gap? What will be the financial leverage? What amount of financial intermediary loans is it expected to cover? To what extent is it going to cover the needs of the cultural and creative industries?.....	20
21.	Is there a financial risk for the EU budget?.....	21
22.	Is there a need for a transnational aim of the organisations applying for a guarantee for their project?.....	21
23.	How will the instrument deal with geographical imbalances and language differences?.....	22
24.	How will the financial instrument contribute to achieving the objectives of the Europe 2020 strategy?.....	22
25.	What will the role of Programme Committees be for the instrument?.....	23
26.	How will the visibility of EU funding be assured? What will be the approach taken to stimulate SME participation?.....	23

1. What is a financial instrument?

To distinguish financial instruments from pure grants, the Commission's proposal for amendment of the FR defines financial instruments as "*Union measures of financial support provided from the budget on a complementary basis in order to address, when necessary and duly justified, one or more specific policy objectives. Such instruments may take the form of loans, including loans with interest rate rebates, guarantees, equity or quasi-equity, equity/debt investments or participations, facilitated where appropriate by the Union through risk-sharing instruments, possibly combined with grants*".

Financial instruments are in particular relevant in fostering the capacity of the private sector to deliver growth, job creation or innovation by supporting start-ups, SMEs, micro-finance, knowledge transfer, investment in intellectual property.

The 2010 EU budget review makes a strong case for increasing the leverage effect of the EU budget and gives particular relevance to financial instruments, as catalyst of public and private resources, to achieve the strategic investment levels needed to implement the EU 2020 strategy. Accordingly, the next Multiannual Financial Framework is expected to foresee a stronger role for financial instruments which have a multiplying effect on EU budget investments and mobilise additional or private co-investments to address market failures in line with Europe 2020 policy priorities.

2. What is a guarantee on a bank loan?

A guarantee in the context of a bank loan is similar to insurance. The guarantee fund commits to cover (part of) the losses of the bank in case the borrower fails to reimburse.

The term can be used to refer to a government to assume a private debt obligation if the borrower defaults. Most loan guarantee programs are established to correct perceived market failures by which small borrowers, regardless of creditworthiness, lack access to the credit resources available to large borrowers.

The advantage of such an instrument is the leverage effect it produces. Indeed, on the basis of market statistics on the average default rate and the resulting potential losses for the lender (the bank), the guarantor can reduce the amount of capital to be reserved in its guarantee fund to the losses expected to be undergone by the lender. For example, if the default rate is 10%, and 10 banks want to lend €10 to 1 company each, the guarantor will only need to reserve €10, while the resulting amount of credit granted by the banks is €100. The leverage in this case is 10-fold. Based on that model, when a public authority decides to contribute €10 to a guarantee fund, it will allow to leverage €100 worth of bank credits.

Another advantage is that the proceeds remaining in the fund will return to the EU budget at the end of the period (2020).

3. What are the main objectives of the financial instrument?

The **general** objective of the cultural and creative financial instrument is in line with those of the Creative Europe Framework Programme which is to: to foster the safeguarding and promotion of European cultural and linguistic diversity, and strengthen the competitiveness of the cultural and creative sector, with a view to promoting smart, sustainable and inclusive growth, in line with the Europe 2020 strategy.

The **specific** objective of the financial instrument strand is **to strengthen the financial capacity of the cultural and creative sector**. It reflects the specific objectives set for other strands of the Creative Europe Framework Programme, particularly (i) support the capacity of the European cultural and creative sectors to operate transnationally; and (ii) strengthen the financial capacity of the cultural and creative sectors.

The issues it will strive to address are

- The difficulties for cultural and creative SMEs and projects in **accessing bank credits**
- The limited spreading and dissemination of **expertise** among financial institutions in the area of financial analysis of cultural and creative SMEs and projects throughout the EU.

To respond to these issues, **operational** objectives will be:

- To provide guarantees to banks dealing with cultural and creative SMEs thereby enabling them easier access to bank credits
- To provide expertise/capacity building to the financial institutions
- To increase the number of financial institution which are willing to work with cultural and creative SMEs
- To maximise the European geographical diversification of financial institutions willing to work with cultural and creative SMEs.

4. To which type of organisations is it addressed? Who will be eligible?

In principle, all companies and organisations responding to the EU definition of SME¹, established in a country member of the Creative Europe Programme, and active in the cultural and creative sector will be eligible (see question 7 for suggested eligibility criteria).

¹ Enterprise with less than 250 employees and having a turnover of less than EUR 50 million or total assets less than EUR 43 million; also not belonging to a group exceeding such thresholds. According to the Commission Recommendation, “an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity”. Economic activity definition is: “any activity consisting in offering goods and services on a given market is an economic activity”. (ECJ, joined classes C- 180/98 to C-184/98 Pavlov). Consequently, for the avoidance of doubts, NGOs, museums, theatres, foundations, and any other organization complying with the SME definition above meets the SME Eligibility Criteria

The definition of and SME being based on turnover and number of employees, irrespective of its legal form, micro-enterprises, self employed persons, non-profit organisations and non-governmental organisations are in principle eligible.

However, financial instruments are generally used in areas where projects have a revenue generating capacity. Indeed, it will be a market-driven instrument, in the sense that companies will not apply directly to the fund, but through a financial intermediary that is considering granting them a financial intermediary loan. As a consequence, only companies with viable business models, ie generating sufficient revenues to be able to reimburse financial intermediary loans, will in practice benefit from the scheme.

5. Will loans replace grants?

Financial instruments **cannot replace grant funding** but complement it by lending principally repayable support to projects through equity/risk capital, or guarantees to intermediaries that provide lending to a large number of final beneficiaries who have difficulties to access financing (e.g. SMEs, infrastructure project companies, people in risk of social exclusion, etc.), or risk sharing with financial intermediaries in order to increase the leverage capacity of the EU funds.

We believe that some categories of operators of the CCS would be able to benefit from such a scheme, gradually switch to a more entrepreneurial model and be less dependent on public money. The scheme will enlarge the possibilities offered to CCS when looking for financing.

6. How are loans complementary to grants?

Despite the obvious advantages of the transition from grants to other forms of financing such as loans or equity for some categories of operators, there will continue to be certain complementarities between public grants and private financing. For instance, pilot projects will need to continue to be funded via grants as risks related to these actions are very high and the economic profit uncertain. The long-term impact of such early stage grants to innovative projects can however be high. For example the MEDIA Plus programme had support available for new online distribution platforms as part of its Pilot programme. Due to the success of this type of pilot scheme, a new action line was created for the Video-On-Demand, as the market had responded favourably to the EU initiative and today there are numerous European operators of VOD platforms. It is expected that some of these operators will be able to utilise the new CCS GF. This is an example of where grants are duly justified and how they can be complementary with a financial instrument.

Similarly, the EU market is heterogeneous in terms of the degree of development of cultural and creative industries. For example, there is a huge difference in the number of films produced and average production budget between different Member states. The MEDIA Programme has always strived to encourage the reduction of the imbalances between the big countries and those of low production capacity and / or

restricted linguistic areas. We believe that well established companies in bigger countries could progressively shift to a more entrepreneurial model while smaller operators and smaller markets would need to continue to rely more on grants.

7. How will the beneficiaries and operators of the instrument be selected?

a. Beneficiaries

The selection criteria will remain flexible as possible, in order to follow the market needs and allow financial intermediaries to build diversified portfolios of loans.

Possible selection criteria for Small and Medium Enterprises and organisations

CCS SMEs shall meet **at least one** of the following criteria:

1. SME intends to use the SME loan to develop a CCS project as evidenced by the business plan, OR
2. SME NACE code corresponds to one of the sectors defined by Eurostat part of the cultural and creative sectors , OR
3. The SME and/or the project promoter/team must have met, in the last 24 months, at least one of the following sub-criteria:
 - The SME has been operating in the field of the CCS;
 - One or more CCS project(s) developed by the SME and/or the project promoter/team has(ve) received grants/loans/funding/guarantees from CCS European or CCS national institution or CCS association including those of the EU’s Creative Europe Programme (MEDIA and Culture).
 - One or more CCS project(s) developed by the SME and/or the project promoter/team has(ve) been awarded a CCS prize;
 - The SME and/or the project promoter/team have filed copyrights, trademarks, distribution rights or any other equivalent rights² in the field of CCS;
 - The SME or the SME’s investor(s) has(ve) benefited from tax credit or tax exemption related to development of IPRs or CCS activities;
 - The SME falls under the eligibility criteria for the EU’s Creative Europe Programme (MEDIA or Culture)

Note: Criteria shall also exclude projects consisting in advertising, pornographic, racist material or advocating violence.

² According to local jurisdiction, IPRs might be held in different legal formats.

b. Financial intermediaries

The fund would be managed by an entrusted entity on behalf of the European Commission. Financial intermediaries will be able to submit an application to under an open call that will remain open during the whole duration of the programme. The applications will be assessed on a “first come, first served” basis, subject to minimum requirements being met by the relevant financial intermediaries under the entrusted entity's pre-selection process, such as authorisation to carry out its business, absence of conflict of interest with CCS parties, experience in loan management, ability to lend to CCS SMEs, ability to build a loan portfolio, existing pricing policy and proposed pricing policy in the context of the CCS Guarantee Facility, risk management policy for lending operations, etc.

The entrusted entity shall then organise a **due diligence** of the pre-selected applicant financial intermediary in order to assess on-site, the content of the application based on, inter alia, the ability to build up the envisaged Individual Portfolio, the transfer of benefit proposal, the quality of origination, risk management, collection recovery/workout processes and systems.

Based on the outcome of the process described above, it shall select the financial intermediaries for which the proposed operations will be presented for approval in accordance with its standard internal decision process.

The agreement with the fund manager will also include conditions on the **loans** and portfolios of loans that the fund can guarantee. For example, no tangible collateral external to the SME assets can be requested on a loan and the interest rate rebates in terms of risk margin that the guarantee will generate will have to be passed on to the borrowing SME. As far as loans **portfolios** are concerned, they will need to comply with some diversification criteria and comply with concentration limits.

Although the objective is to have the largest possible geographical coverage, it is expected – given the relatively limited size of the market – that only 1 or 2 financial intermediaries per country / region will engage into such partnerships.

c. Capacity-building providers

The capacity building providers will be selected by the entrusted entity on behalf of the CCSGF and under the supervision of DG EAC through a **public and open procedure** (Call for Expressions of Interest). The selection process will follow standard public procurement practices, which fully comply with EU requirements. Several Calls for Expressions of Interest (or several lots) may be published to cover the different **geographical markets** and **cultural and creative sub-sectors** covered by CCSGF.

CB providers could typically be agencies, guarantee institutions, financial intermediaries, experts or consultants who demonstrate appropriate expertise and meet certain basic eligibility and selection criteria. Applications received in response to the Call for Expressions will then be evaluated by a selection panel on the basis of award

criteria (such as experience in CCS financing, expertise, geographical reach, capacity of delivery, knowledge of the market, etc).

The selection of CB providers will take place during the roll out phase of CCSGF. However, additional windows for the selection of CB Providers can be opened subsequently as new markets are embraced by CCSGF and/or on a periodic basis. Specific contracts with CB providers may also be signed for delivering CB in the context of a specific market and / or to an individual financial intermediary.

The implementation of the capacity-building scheme will be in line with state aid rules.

8. What types of activities are covered by Cultural and Creative Sectors?

The Commission's proposal for the Creative Europe Programme specifies the cultural and creative sectors as follows (Article 2):

"The 'cultural and creative sectors' means all sectors whose activities are based on cultural values and/or artistic and creative expressions, whether these activities are market or non-market oriented and whatever the type of structure that carries them out. These activities include the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or creative expressions, as well as related functions such as education, management or regulation. The cultural and creative sectors include in particular architecture, archives and libraries, artistic crafts, audiovisual (including film, television, video games and multimedia), cultural heritage, design, festivals, music, performing arts, publishing, radio and visual arts."

9. Can a project be supported by a grant and a bank guarantee?

To avoid double-financing, borrowers should in principle not be allowed to cover with bank credits guaranteed by the CCS GF any cost that has already been supported by EU grants. Discussions with the entrusted entity will be carried out to examine how specific clauses in that sense could be introduced to the Guarantee Agreements to be concluded with participating banks. These questions will be addressed in line with the latest applicable EU regulations.

However, different phases of the same project may be supported by both instruments. For example, a producer having received a MEDIA Development grant for a film project, could cash flow the production phase of the same film thanks to the CCS GF.

10. How such a market-driven financial instrument will deal with the specific nature of the cultural sector?

The dual nature of cultural and creative sectors has always been integrated in EU policy the audiovisual sector. For example, the MEDIA Programme has combined cultural and industrial objectives for 20 years by aiming both at strengthening the competitiveness of the audiovisual industry and defending cultural diversity. The idea

behind that approach being that in order to preserve cultural diversity and providing a wide offer of audiovisual content to European citizens, the EU needs to support the circulation of European works and the competitiveness of the European film industry on a global level. In that perspective, MEDIA has always been primarily an industrial programme, providing support to works with commercial potential and well established operators in terms of track record and financial capacity. Such an approach can to a certain extent be extended to other CCS.

Indeed, beyond the intrinsic value of culture, the cultural sector is important for economic, educational and social reasons and the EU would wish to see all Member States with thriving and vibrant cultural sectors, optimising the transformative economic and social power of culture. This potential is demonstrated by the fact that the cultural and creative sectors (CCS) account for 4.5% of the Union's GDP in 2008 and employ some 3.8% of its workforce. Beyond their direct contribution to GDP, these sectors trigger spill-overs in other economic areas such as tourism, fuelling content for ICT, benefits for education, social inclusion and social innovation. Despite witnessing higher than average growth rates in many countries in recent years, their contribution could be far greater as explained below.

The cultural and creative sectors also suffer from stereotypes when it comes to assessing its economic performance. Culture is often perceived as a non-economic activity. Many believe that culture and the economy are two separate worlds, those who recognise the economic value of culture tend to perceive the cultural sector as poor in relation to its economic importance. The perception is that of individual artists, heavily subsidised public organisations or of a "cottage industry" which is destined to succumb when confronted with market realities. However, the study "*The Economy of Culture*" demonstrated in 2006 that the creative and cultural sectors in Europe are as competitive as other industry sectors – in some cases even more by comparing their productivity and profitability with other sectors, which are important factors when assessing the risk related to lending money to a company.

As a general rule, a profit margin of 5% up to 10% is considered as an indication of a healthy level of **profitability** for service industries similar to those included in the CCS. The average European level of 9% in the cultural & creative sector is therefore quite satisfactory existing across Europe.

These findings are important both in terms of risk assessment for private financiers and public policy making in the CCS. Indeed, the perception of sectors surviving only thanks to heavy subsidies which are incapable of handling the reimbursement of loans has to be mitigated on the basis of their performance in terms of productivity and profitability.

Furthermore, they could strengthen the case for distributing public support through financial instruments such as guarantees instead of offering direct subsidies. Various sub-sectors of the CCS such as film producers, video-game developers, music and book publishers which can all demonstrate productivity and profitability should be encouraged to mitigate their reliance on public handouts and instead adopt a more business-like approach by using public financial instruments.

11. Shouldn't that be left to the Member states to deal with?

a) EU right to act from a legal point of view

The EU intervenes in the CCS sectors on the basis of

- "The European Agenda for Culture" (2007) aimed at promoting cultural diversity and intercultural dialogue, fostering culture as a catalyst for jobs and growth, and promoting the vital role of culture in international relations.
- EU action towards the audiovisual sector is based on articles 167 and 173 of the Treaty on the Functioning of the European Union (TFEU) on respectively culture, vocational training and industrial competitiveness.
- The EU Charter for Fundamental Rights that states that the Union shall respect cultural and linguistic diversity.
- Finally, the Union's mandate is recognised in international law, in the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions, which is part of the *acquis communautaire* and whereby the EU has a moral and legal obligation to take action to promote and safeguard cultural and linguistic diversity.

b) Subsidiarity and complementarities between different levels of intervention

The European instrument is responding to a market failure in terms of access to finance for SMEs of the cultural and creative sector. Indeed, one of the weaknesses of the national schemes with regards to access to financing is, with the exception of France, Germany, Spain and maybe the UK, the lack of institutions specialised in the cultural and creative sectors, both in terms of banks or financial instruments such as risk sharing mechanisms. In practice, the financial instrument will strive to complement those initiatives undertaken at national level, as national funding schemes tend to focus mainly on national (or even regional) production activities or the promotion of purely national interests.

Indeed, the study on European Film Banking carried out in 2009 revealed that there are only a few guarantee funds available in Europe with specific focus on the cultural and creative sectors. Many of them are quite small and limited to particular regions³ but examples of highly specialised funds with a substantial size are IFCIC⁴ and SGR⁵,

³ Culture loans offered by Kunstenaars&Co and Triodos Bank in the Netherlands, KfW Bank in Germany who recently setup a special unit focusing on film financing, Coutts & Company in the UK, has a specialised media unit focusing on film, TV, music, videogames.

⁴ IFCIC was founded in 1983 at the initiative of the French Ministry of Culture to contribute to the development of the culture sector by making it easier for operators to obtain bank financing.

⁵ Audiovisual SGR was founded on 23 December 2005 by the Spanish Ministry of Culture through the Institute of Cinematography and Audiovisual Arts (ICAA) and the Audiovisual Producers' Rights Management Association (EGEDA) with the aim of supporting the audiovisual industry. The Audiovisual SGR is a "mutual guarantee society" (MSG) that underwrites low-interest bank loans for film and TV companies. Based in Madrid, the company has established pre-negotiated loan agreements with a range of Spanish banks

the two operators of the Commission's MEDIA Production Guarantee Fund, who already manage national guarantee funds supporting the CCS.

There are complementarities between these two institutions and the current MPGF as they are operating in different territories, and building on their experience at national level to manage the European MPGF, thereby providing easier access to bank credits to cultural and creative SMEs outside of France or Spain.

Concerning other national guarantee models, some are open to all SMEs, such as the German (Landesbürgschaften⁶) and UK (The Enterprise Finance Guarantee⁷) guarantee funds which offer guarantees to banks willing to lend to SMEs. Within these guarantee funds, there is however only limited expertise with regards to those sectors which banks usually categorize as "high risk". Subsequently these types of guarantee models are more suitable for enabling banks to increase their credit exposure to traditional SME sectors rather than encouraging them to grant credits to atypical sectors such as the CCS. Therefore national SME guarantee schemes demonstrate limited engagement with the CCS, as is also the case with the CIP's SMEG.

Therefore, the overlap between the EU financial instrument and national schemes is rather limited.

12. What is the EU added-value?

Economies of scale

Financial instruments at EU level can achieve economies of scale and/or minimize the risk of failure in areas where it would be difficult for individual Member States, in particular smaller Member States, to achieve the required critical mass. The **cost-benefit ratio** of a financial instrument is likely to be higher for an EU-level instrument than it would be for a series of financial instruments at national, regional or local level, due to higher volumes under management, higher leverage ratios or simply lower management fees charged by the financial intermediaries.

Multiplier effect

The use of financial instruments will allow the Commission to multiply⁸ the effect of each euro spent on the EU budget, achieving a larger impact on the final recipients direct financial support (grants for example). This can already be observed from the

⁶ German Public Guarantee Model: State guarantees (Landesbürgschaften) are provided by State guarantee banks. Each federal State in Germany has a public guarantee bank with the purpose of assuming default guarantees for SMEs, so as to shore up the disadvantages such companies face on the capital market compared to large companies. The guarantees are provided by State guarantee banks that make credits available to healthy companies and freelance professionals, which do not have sufficient - if any - bank acceptable collateral. Any SME based in the federal State can apply for such a guarantee.

⁷ The Enterprise Finance Guarantee (EFG) in the UK facilitates additional bank lending to viable SMEs which lack the security to secure a normal commercial loan. The UK Government provides the lender with a guarantee for which the borrower pays a premium. Accredited lenders administer EFG and make all decisions on lending.

⁸ For the purpose of financial instruments, leverage is the ratio between the Finance provided to final recipients / and the EU initial contribution

current MPGF, where to date the €1 million spent on the EU budget, generated loans to film producers worth €8 million.

Cross border effect

Under the financial instrument for the cultural and creative sectors, it is envisaged that all CCS SMEs will be eligible irrespective of whether they have cross-border operations or aspirations. EU funding may be used to support purely national SMES and projects. Indeed, a EU financial instrument offers greater EU added value and visibility to the cultural and creative sectors by disseminating European-wide sector-specific expertise among financial institutions, which is currently limited number to a small number of EU Member States, financial institutions, consultants or experts..

This trend has in fact begun with the current **MEDIA Production Guarantee Fund** where for example a Dutch producer with a national project can get a loan from a Dutch financial intermediary which he most likely wouldn't have received without the EU guarantee, thanks to the guarantee offered by the EU guarantee fund.

Furthermore, the limited critical mass of the CCS financial needs constitutes one of the obstacles for financial institutions to get involved in the CCS. Limiting the financial instrument only to cross-border operations would possibly decrease the interest of financial institutions to engage in the CCS.

Additionally, EU added value will be ensured through the **pan-European nature** of many cultural and creative projects. Most SMEs in the audiovisual sector for example are engaged in transnational co-operations for example through co-productions. Concerning other subsectors such as music, publishing or video games, the digital shift has created a global market through online platforms, which will accelerate the trend towards transnational collaboration in these sub-sectors as well. This point is also discussed in the MEDIA and Culture Impact Assessments.

Skills development at European level

The financial instrument will build upon the experience of pan-European MEDIA Programme which has supported transnational co-production of audiovisual works and networking activities such as markets and training courses for the past 20 years. MEDIA has actually already started to work towards the development of financial and management skills for companies of the European audiovisual industry in order to respond to the need for such capacity building identified in the latest evaluations. These courses will continue to be financed by the Creative Europe programme after 2014, and extended to other CCS. This will be complementary to the capacity-building pillar of the CCS financial instrument specifically targeting skill development within financial institutions as explained below.

Non-financial leverage on national markets

Additionally, financial instruments implemented at EU level **can have important influence in the targeted markets**. Non-financial leverage is obtained by ensuring that financial instruments are designed to pursue specific policy objectives and that the interests of participating financial institutions are aligned with these objectives. The dissemination of European-wide sector-specific expertise in the context of the capacity-building programme is a clear example of how the non-financial would work. Furthermore, the consistent application and promotion of best practice, accompanying the EU financial instrument may foster a qualitative development of a

market segment and increase intermediary sophistication over time, while contributing to less fragmented EU cultural and creative markets.

13. How will the instrument differ from the existing MPGF?

The current MEDIA Production Guarantee Fund was set up as a pilot action aimed at testing different operational models and financial mechanisms, and to assess the market response. It has been set up in the context of the MEDIA Programme to respond to the objective of facilitating access to finance for audiovisual producers. It has a limited budget and a very narrow scope, in that it is only addressed at one sector (audiovisual), one type of operator (film producers), for one type of work (feature films), using one type of financial product (interim finance).

The experience drawn from the MPGF will be used in the implementation of the new financial instrument, which will be much wider in terms of size and scope, and will have a different operational set up.

	MPGF	New FI
Budget	€8 M	€200 M
Duration	4 years	7 years
Sector	Audiovisual	All CCS (film, video games, publishing, music, design, etc)
Financial product	Interim finance	Interim finance, gap finance, working capital, tax incentive related products
Management model	Indirect centralised management delegated to third party bodies (art. 54 FR)	Fiduciary and Management Agreement with the entrusted entity
Estimated total amount of loans covered	€100 million	€1 billion
Estimated number of participating financial intermediaries	10	1-2 per country (some countries could be covered by the same financial intermediary/group).
EIB involvement	None	Global loans to participating financial intermediaries (optional, and subject to EIB approval).

Guarantee Fees	0.5% to 1.5%	0%
Estimated number of final beneficiaries	50-100	Up to 15.000

14. What are the benefits of the financial instrument?

The scheme has been built in such a way to align interests for all parties:

a. For the European Cultural and Creative sectors

The use of a large Cultural and Creative Sector Guarantee Facility will improve access to finance for companies and organisations of the cultural and creative sector, leading to the strengthening of their financial capacity and reinforcement of its competitiveness.

The high leverage on public funding via a financial instrument will have a stronger structuring effect on the CCS than current grants, thanks to the leverage effect on EU funds and to the expected progressive transition from grants to loans support to the use at least for some types of supports and beneficiaries, such as:

- Micro-loans for all types of individual cultural project development
- Funding for independent game developers
- Funding for publishers of books or sound recordings
- Loans to exhibitors for the digitisation of cinema theatres
- Working capital loans to distributors to cover distribution costs (print, marketing, advertising, dubbing and subtitling)
- Early stage funding for content aggregators and new distribution platforms (etc)

Additionally, it is possible that some Member States or regions will follow the example of the Cultural and Creative Sector Guarantee Facility by contributing their own resources (which most likely would have been used for purely national projects in the form of grants). This would have a positive economic impact on the use of public resources at the national and regional level.

b. For individual operators

The wide scope of the scheme will allow operators of all CCS to have easier **access** to private sources of finance and obtain financial intermediary credits which are simply not available to them currently.

They will have access to different types of financial products and services to respond to specific financing needs: interim finance, gap finance, working capital, tax incentive related products, etc.

The option for the EIB funding (subject to EIB approval) in the context of this facility to grant global loans to the participating financial intermediaries will additionally allow them to lend at **attractive rates** to individual beneficiaries.

Lead times will be reduced in comparison to those involved with the grant applications that are dependent on the publication of calls for proposals.

Innovative business capacity building within financial intermediaries could encourage financial intermediaries to change their standard practice of demanding **personal collateral** and instead accept other forms of assurances such as pre-sales contracts, various forms of grant agreements and catalogues of intellectual property rights.

Additionally, companies will be able to build closer **relationships** with the financial sector, both thanks to the capacity-building arm of the scheme addressed to the financial intermediaries and the training programmes for operators of the sector that will be provided under the Creative Europe Programme.

These training programmes allow developing the appropriate **skills** to elaborate business plans and to prepare accurate information of their projects that would help the financial intermediary evaluate the cultural and creative projects in an efficient way.

c. For the financial intermediaries

The facility would offer the possibility to build diversified and risk-mitigated portfolios of loans to financial intermediaries wishing to engage with the CCS sector.

Financial intermediaries would have the opportunity to brand themselves as "the CCS financial intermediary" in their respective markets.

Possible global loans at attractive rates from the EIB could furthermore increase their lending capacity.

Additionally, in the context of the more restrictive regulations imposed on financial intermediaries by Basel III with respect to capital requirements, financial intermediaries will potentially be able to categorise up to maximum guaranteed amount of the loans as risk free (capital relief)- on a case by case basis, depending on the country-, also improving their lending capacity.

d. For the Commission

The Cultural and Creative Sector Guarantee Facility option would help increase the overall effectiveness and efficiency of EU support policy for cultural and creative sectors and it would address the sectors' specific financial needs with sufficient critical mass and a targeted approach, thus resulting in a real impact.

The instrument will have a wide geographical coverage as the operational objectives through the spreading of expertise/capacity throughout the EU and to maximise the geographical diversification of financial institutions willing to work with the CCS.

The instrument will also improve efficiency of the use of EU budget as it will be managed by a third party, thereby reducing the administrative load for the Commission. Overall it would also lead to improved **internal coherence** of the Creative Europe Programmes since, as explained in the MEDIA impact assessment, the support to certain players of the sector and to certain types of action could be progressively shifted from direct grants to loans. The overall action in favour of CCS would have 2 different instruments at its disposal to provide the most appropriate type of support to each beneficiary and for each type of project. Also, it would contribute to go one step further thanks to a common approach to cultural and creative sectors under the Creative Europe framework and would contribute to its general objective.

As far as **external** coherence is concerned, this option would be coherent to the overall EU approach to cultural and creative industries; it would be consistent with the Treaty on the Functioning of the European Union (TFEU), Europe 2020, and the Digital Agenda.

e. For other stakeholders

The reinforcement of the financial capacity and competitiveness of the CCS is also expected to have social impacts in terms of their contribution to employment. Indeed, CCS are knowledge intensive, requiring specific skills and high-level qualifications of their workforce, and labour intensive, especially those with a high concentration of creative inputs. The contribution of the CCS to employment is usually significant; typically, they account for around 2 to 8 per cent of the workforce in the economy, again depending on the scope of the sector. The job-creation potential of these sectors can be important in policy terms. Furthermore, it is sometimes noted that the quality of jobs generated by the CCS economy may provide greater levels of employee satisfaction than more routine occupations because of the commitment and sense of cultural involvement engendered amongst participants in a creative endeavour.

15. How will the capacity building system work?

Capacity Building will be a basic pillar of the CCS Guarantee Facility. Consultations with CCS stakeholders and financial institutions agreed on the fact that the specific nature of CCS SMEs requires different and specific approaches and skills than in other sectors, where credit risk can be assessed in more standardized ways. Furthermore, with the exception of a few of them, European financial intermediaries do not currently have the in-house necessary expertise to evaluate the risk associated with this sector and its specific characteristics. Expertise needs to be shared among the financial intermediaries on CCS specificities, thereby encouraging them to increase their activities in the sector. The EIF is already offering such programmes in parallel to some of its financial instruments.

It will consist of initial training programmes for financial intermediaries wishing to benefit from the guarantee, follow up support during the launching phase of the portfolio, as well as ad-hoc advice on specific credit applications files (eg. assessment of intangible assets, sector or market specific consulting etc).

The CB scheme will disseminate the existing expertise of a few European financial institutions among European financial intermediaries, spreading know-how in the assessment of the risk profile of companies and organisations in the cultural and creative sectors.

The selection of CB providers will follow the procedure explained in question 7 and will be in line with state aid regulations.

16. Isn't there an overlap with other EU financial instruments?

At EU level, some **existing** actions could be considered complementary, such as:

European structural funds: they are administrated by the Member States and may regionally or nationally support cultural and creative sectors like, for example, modernisation and digitisation of cinemas and film studios or funding of incubation facilities for CCS. They might complement the new financial instrument as it is envisaged that the new Financial Regulation will allow Member states or regions to contribute to EU financial instruments with structural funds. Their contribution would be ring-fenced within the fund to support projects originating from their specific territory.

In the context of EU Enterprise and Research policies, the Commission has adopted two framework programmes, the **COSME** and **Horizon 2020** programmes that will take over from the current CIP and FP7 programmes after 2013. However, the financial instruments to be developed within these frameworks are not designed to cover the specific needs of SMEs in the CCS (see question 17), as demonstrated by previous experiences under the CIP and FP7⁹.

Following the guidelines of the Commission and in order to maximize efficiency, the new cultural and creative sector guarantee facility will have to be incorporated in a larger Commission financial instrument. However, in order to take into account the specific needs of this sector, a specific window exclusively dedicated to the CCS will be created within one a larger instrument such as COSME or Horizon 2020 (see question 18).

17. What are the specificities of the CCS that justify the creation of a specific financial instrument?

Access to finance is more challenging for SMEs in the cultural and creative sectors compared with conventional SMEs for several reasons:

⁹ The SMEG (SME Guarantee Facility) under the European Competiveness and Innovation Framework Programme (CIP), and the Risk Sharing Financial Facility (under FP7) are complementary in terms of the form of intervention (financial instruments and direct grants). However, they have a very limited impact on the CCS since they are not tailored to the specific needs of the SMEs of the CCS.

- Firstly this is due to the **intangible nature** of many of their assets (in particular Intellectual property Rights), which are usually not reflected in financial statements.
- Secondly, unlike other industrial products CCS products are generally not mass-produced. Every film, book, opera, videogame can be seen as a **unique prototype**.
- Thirdly, **the demand for financial services** of cultural and creative SMEs is often not substantial enough for financial intermediaries to find them commercially interesting. Indeed, dealing with these industries require **specific skills** (in the areas of market intelligence, intellectual property rights, risk analysis of cultural and creative projects, financial analysis of cultural and creative SMEs), needing a certain level of investment in terms of training and resources. However, the size of this specific market does not justify the creation of individual departments within financial intermediaries specialised in film banking or the financing of cultural sectors. There is therefore little value for them to engage with the sector.
- Cultural and creative SMEs often lack business and management skills and face specific challenges in achieving **investment readiness** (ie. the ability to understand investors' concerns, to understand the differences between the types of financiers, to fulfil specific financial requirements of financial intermediaries and investors)
- Furthermore, these sectors are perceived as highly risky and not profitable, which, as demonstrated in the impact assessment does not reflect the reality of their performance, in particular in some of the industrial cultural sectors or creative sectors.
- Finally, there is often a **shortage of reliable data** which limits the possibilities of SMEs in the sector to get credit funding as financial institutions often rely on statistical evidence in their due diligence for loan applications.

As a consequence financial institutions do not have the tools to estimate the value of the intangible assets of cultural and creative SMEs, to analyse their business plans and to understand their risk profile. The current practice of the few financial intermediaries that do grant loans to players of the sector is therefore to ask for personal collaterals and guarantee financial intermediary loans on the entrepreneurs' private assets. It is important to note that the abovementioned challenges apply to all cultural and creative sectors, as confirmed throughout the various consultations with stakeholders and studies.

<p>18. How will the 'window-construction' within a larger EU financial instrument work exactly?</p>
--

Following the guidelines of the Commission and in order to maximize efficiency, the new cultural and creative sector guarantee facility will be incorporated in a larger Commission financial instrument such as COSME or Horizon 2020. However, in

order to ensure visibility and adequacy to the needs of the market, four requirements will need to be fulfilled to reach the objectives of the CCS GF.

- Create a specific window with its own earmarked / ring-fenced budget exclusively dedicated to the support of SMEs of the CCS.
- Fit into the overall framework and adapt intervention modalities to the specific CCS needs

While the instrument would need to fulfil the requirements set out at Commission level and fit into the overall framework of a larger financial instrument, it would have to respond to the specificities of the cultural and creative SMEs. Indeed, SMEs have specific problems with regard to access to finance (see question 17) which the instrument would have to take into account both in terms of the mechanism and technical specificities. For example, policies in terms of collateral requirements, pricing, duration of the guarantees would have to be adapted to this specific sector.

- Keep its own branding, visibility and communication strategy

In order to capitalise on the high level of recognition and notoriety of the MEDIA brand in the audiovisual sector, and in view of ensuring high visibility of the instrument in the sector, the CCS financial instrument should keep the MEDIA/Creative Europe brand inside its name (such as the current MEDIA Production Guarantee Fund) and DG EAC should be able to define and implement a specific communication strategy for this particular CCS window.

- Capacity / expertise building

The setting up of a specific capacity and expertise building programme for financial institutions, as described above must be an integral part of the mechanism, as this will be a key success factor of the CCS financial instrument.

Preparatory work with DG RTD, ENTR and ECFIN to define the internal design of new financial instruments has confirmed that these requirements can be accommodated.

19. How will the CCS Guarantee Facility work?

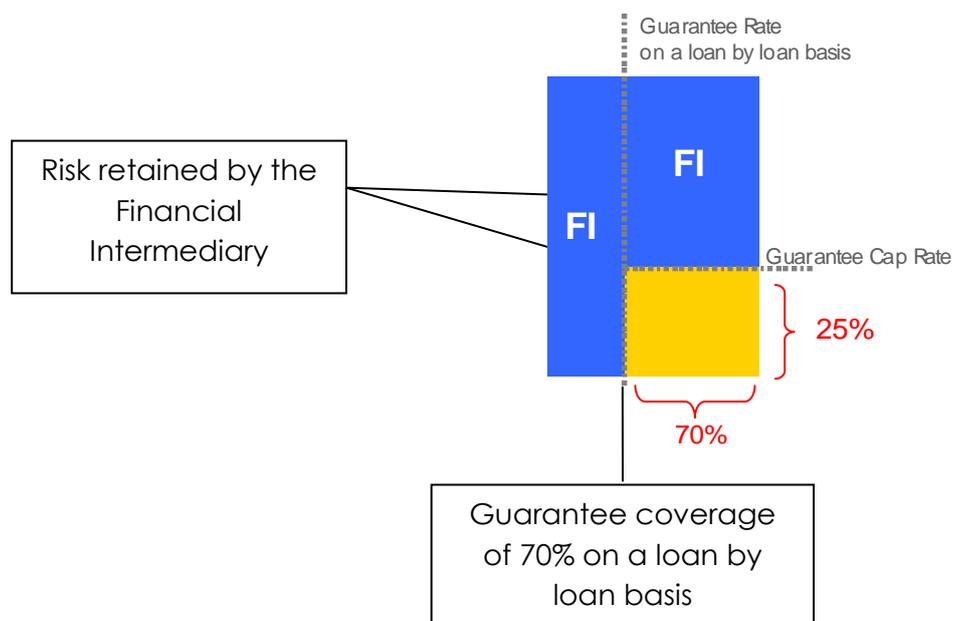
The EU will contribute a total of €200 million over the 2014-2020 period from the Creative Europe Programme budget and mandate the management of the fund to a third party, most probably the European Investment Fund. The EIF will sign Guarantee Agreements with financial intermediaries willing to engage with the CCS, which in turn will grant loans to companies of the CCS. These loans portfolios will be partially covered by the Guarantee Facility. At the end of the period, the proceeds remaining in the fund will be returned to the EU budget.

The model selected for the guarantee facility is a capped guarantee model. Under this set-up, in order to ensure an alignment of interest between the Financial Intermediary and the CCS Guarantee Facility, the fund would offer a first **loss piece portfolio**

guarantee, meaning that the fund would **partially** cover the risk related to the loan portfolios loans. The Guarantee shall constitute a direct financial guarantee and shall cover losses (relating to unpaid principal and interest) incurred by the Financial Intermediary in respect of each defaulted eligible CCS SME Transaction up to the Cap Amount.

Each financial intermediary would receive a partial guarantee to be applied on each underlying loan (i.e. 70% Guarantee Rate) up to a Cap Rate of 25% on each portfolio. This means that a partial guarantee will be applied on each underlying loan, up to a maximum of 25% on the total of each portfolio. The 25% cap limits the maximum loss that the EU would be ready to cover. It represents the sum of the estimated expected loss, as well as a part of the unexpected loss. The expected loss is calculated on the basis of the existing default rate in the sector, and the unexpected loss is the maximum loss that could be incurred under more extreme scenarios.

Example: with the conditions described above, a €10 million portfolio of loans from a bank would be covered by the guarantee up to a total of €1.75 million of losses (10 million* 70%*25%= €1.75 million).



Such a model limiting the risk of the fund allows to offer free guarantees to the financial intermediaries (which consultations confirmed is a key element for banks), while maintaining a sufficient level of responsibility and risk in their remit. An example of an existing capped guarantee facility is the SMEG in the context of the CIP.

The leverage is calculated by combining the 70% Guarantee Rate and the 25% Cap Rate an amounts to 5.7. It means that with €1 million, the facility can guarantee credits for a total amount of up to €5.7 million.

At the end of the period, the proceeds remaining in the fund will be returned to the EU budget. This amount will correspond to the initial contribution plus financial interests,

minus the losses due to payment defaults, EIF fees and costs related to the capacity building scheme.

20. What is the financial gap? What will be the financial leverage? What amount of financial intermediary loans is it expected to cover? To what extent is it going to cover the needs of the cultural and creative industries?

The shortage of data concerning the CCS and the lack of statistics of the actual capital needs does not allow quantifying those needs to this date. Various studies on the lack of access to financing for the CCS have demonstrated that very few financial institutions have granted credits to companies in the CCS and no overall model could be identified.

The gap was therefore assessed with a top down approach, by applying to the 1.4 million SMEs active in the CCS the methodology used by DG ENTR to assess the total needs of all SMEs in the EU.

Applying the same assumptions in terms of proportion of SMEs that did not obtain a financial intermediary loan (10-17%) due to a lack of collateral (20%) to the 1.4 million enterprises in the CCS, we can estimate that between 280,000 and 476,000 SMEs in the CCS did not obtain a financial intermediary loan due to a lack of collateral. Assuming that the average amount of a financial intermediary loan is €100,000¹⁰, the financial gap can then be estimated at between €2.8 and 4.8 billion in terms of financial intermediary loans.

A study on the needs of the various sub-sectors of the CCS will be carried out in 2012 to help refining the quantitative needs in the various sub-sectors.

The total net contribution to the Facility would reach €188.000.000 at the end of the period, allowing to cover a total of over 30,000 individual transactions for a total amount of credits of €1 billion, **covering between 20 and 35% of the estimated financial gap** and serving up to 8% of the number of European SMEs in the CCS. This quantitative impact would be in line with the guidelines on EU Equity and Debt Platforms laid down by the Commission.

To simplify the calculations and reach a conservative estimation, these calculations also ignore the revolving nature of the fund. Indeed, we do not consider the funds being freed up for new guarantees every time a loan is reimbursed without calling for the guarantee. A purely statistical calculation based on the cap rate, the guarantee rate and the expected default ratio would lead to a much higher leverage.

21. Is there a financial risk for the EU budget?

The risk for the EU budget is capped by its total contribution to the CCS Guarantee Facility. The agreement between the Commission and the EIF will clearly limit its

¹⁰ Assuming the same average loan value of €100,000 of SMEs is also applicable to CCS. In some sub-sectors, the average loan value is higher (film production, video games), in others, the average value is lower (film development, cinema theatres), others are more or less in the same range (working capital for distributors, music companies).

liability. Additionally, the proceeds remaining in the fund will be returned to the EU budget at the end of the period. This amount will correspond to the initial contribution plus financial interests, minus the losses due to payment defaults, EIF fees and costs related to the capacity building scheme (estimated amount of €100-130 million).

22. Is there a need for a transnational aim of the organisations applying for a guarantee for their project?

It is envisaged that all CCS SMEs will be eligible irrespective of whether they have cross-border operations or aspirations. EU funding may be used to support purely national SMES and projects. The transnational nature of the EU financial instrument will mainly lie in the network effect and the capacity-building by disseminating European-wide sector-specific expertise among financial institutions, which is currently limited number to a small number of EU Member States, financial institutions, consultants or experts.

This trend has in fact begun with the current **MEDIA Production Guarantee Fund** where for example a Dutch producer with a national project can get a loan from a Dutch financial intermediary which he most likely wouldn't have without the EU guarantee, thanks to the guarantee offered by a pan-European EU guarantee fund.

However, it can be argued that in some of the sub-sectors, the necessity to present a reliable project with a sufficiently solid financial plan will favour transnational / coproduced projects.

Furthermore, the limited critical mass of the CCS financial needs constitutes one of the obstacles for financial institutions to get involved in the CCS. Limiting the financial instrument only to cross-border operations would decrease the interest of financial institutions to engage in the CCS.

23. How will the instrument deal with geographical imbalances and language differences?

Mechanisms designed to reduce these imbalances will continue to be integrated to grant award instruments, in the same way as in the current MEDIA Programme. As a market-driven instrument, the CCS GF will not have any specific feature aimed at reducing imbalances. However, SMEs across all participating countries will be able to apply for a loan from any financial intermediary participating in the scheme, regardless of location.

Moreover, the mandate of the Commission to the fund manager will include objectives in terms of geographical diversity. It is envisaged that part of the variable performance-based remuneration of the fund manager could be related to the completion of these objectives.

24. How will the financial instrument contribute to achieving the objectives of the Europe 2020 strategy?

The EU 2020 strategy sets three priorities for the future of Europe: (1) Smart growth, developing of an economy based on knowledge and innovation, (2) Sustainable growth promoting a more resource efficient, greener and more competitive economy and (3) Inclusive growth fostering a high-employment economy delivering economic, social and territorial cohesion. The cultural and creative sectors contribute to achieving these goals, namely through promoting creativity and diversity which are essential drivers of an innovation and knowledge based economy and through strengthening the competitiveness of the sectors leading to new highly qualified jobs.

Creative Europe Programme contributes to the aims of the flagships on (1) Innovation Union (the role of culture in fostering social innovation), (2) A Digital Agenda for Europe (promotion of attractive online content and services and its free circulation), (3) An Agenda for New Skills and Jobs (contribution to the employment headline target), (4) An Industrial Policy for the Globalisation Era (importance of the cultural and creative sectors as drivers of economic and social innovation, supporting new business models), and the (5) European Platform against Poverty (the potential of culture to reach out to the socially excluded).

Europe 2020 also emphasises the importance of "creativity, innovation, and entrepreneurship" which are central to the cultural and creative sectors. The EU needs to provide more attractive framework conditions for innovation and creativity, including through incentives for the growth of knowledge-based firms. Access to credit is a particular problem, not only in the aftermath of the crisis but because some new sources of growth such as the cultural and creative industries need new types of financing adapted to their business models.

25. What will the role of Programme Committees be for the instrument?

The role of the Committee will depend on the final comitology procedures that will be defined for the management of the Creative Europe Programme. The Committee may be involved to refine the objectives of the instrument and the eligibility criteria, and the adoption of the annual contribution in the context of the adoption of the annual work programmes. However, management and financial decisions will be taken by the fund manager, who will also be responsible for the selection of the financial intermediaries and the capacity building scheme. The selection of the beneficiaries will entirely lie in the remit of the participating financial intermediaries who will remain solely responsible for the due diligence on the credit application.

26. How will the visibility of EU funding be assured? What will be the approach taken to stimulate SME participation?

The scheme will be promoted towards the SMEs of the CCS at different levels.

The Commission will promote it through ad-hoc communication actions in the context of the promotion of the Creative Europe Programme.

Work will be undertaken with other Commission services to ensure visibility within forums and networks supported by other EU programmes (European Creative Industries Alliance, SME forums, business angel networks etc).

The network of national information points (successors of the current MEDIA desks and Cultural Contact Points) with privilege access to the operators of the sector.

Furthermore, the beneficiaries of the Creative Europe programmes such as training organisations, forums and markets dedicated to specific sectors of the CCS will also relay the information to their participants (already ongoing).

The EIF will also disseminate the information through its usual contact networks, while participating financial intermediaries will be able to brand themselves as the preferred CCS bank in their respective markets.

See also answer to question number 18.

Contact person: Isabella Tessaro (EAC/D3)