



Creative Europe's guarantee facility for the cultural and creative sectors

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Question and answers

The European Commission and the European Investment Fund (EIF) have launched a new initiative to help SMEs in the cultural and creative sectors access credit. The €121 million which will be invested by the EU in this financial instrument until the end of 2020 is expected to leverage more than €600 million worth of bank loans over the next 6 years.

Why is it needed?

The creative and cultural sectors employ more than 7 million people in the EU and account for 4.2% of the EU's GDP ([source](#)). These sectors also drive other economic areas such as tourism; they create and inspire digital technologies and services; and they bring benefits for education, social inclusion and social innovation. However, there are many misconceptions about the economic performance of the cultural and creative sectors. Culture is often perceived as a non-economic activity.

On the contrary, the cultural and creative sectors are profitable and competitive. As a general rule, a profit margin of 5% up to 10% is considered a healthy level of profitability for service industries similar to those included in the creative and cultural sectors. Their average profit margin in the EU is 9% ([source](#)).

The cultural and creative sectors often find it difficult to get access to finance. [Estimates](#) suggest that, without taking action, the financing gap in these sectors for 2014-2020 could amount to more than €1 billion per year. The European Commission and the European Investment Fund have set up the Culture and Creative Sectors Guarantee Facility (CCS GF) to help address this situation and to enable financial intermediaries to provide debt financing to SMEs operating in these sectors. This also includes a capacity-building scheme to increase the financial intermediaries' understanding of the cultural and creative sectors.

What are the objectives of this financial instrument? How will it work?

The guarantee facility aims to strengthen the financial capacity of the cultural and creative sectors by addressing the difficulties in accessing bank loans, and the limited spread of expertise among financial institutions in the area of financial analysis of cultural and creative SMEs and projects throughout the EU.

The guarantee facility will:

- provide guarantees and counter-guarantees to banks dealing with cultural and creative SMEs thereby enabling them easier access to bank credits
- provide expertise and capacity building to the financial institutions
- increase the number of financial institutions willing to work with cultural and creative SMEs
- maximise the European geographical diversification of financial institutions willing to work with cultural and creative SMEs
- ensure the instrument can benefit the largest number of culture and creative sectors

The guarantee facility will be paid for from the cross-sectoral strand of [Creative Europe](#), the European Union's programme supporting the Culture and Creative Sectors for the 2014-2020 period and be operated by the [European Investment Fund](#) (EIF) on behalf of the European Commission.

Who can access these loans?

SMEs in the cultural and creative sectors, established and operating in EU Member States, Iceland and Norway are eligible. The facility is not accessible to other countries participating in the Creative Europe programme (candidate countries, potential candidate countries, neighbourhood countries).

They must be involved in projects or activities based on cultural values and/or artistic and other creative expressions, either market or non-market-oriented, including the development, the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or other creative expressions, as well as related functions such as education or management.

The cultural and creative sectors include architecture, archives, libraries and museums, artistic crafts, audiovisual (including film, television, video games and multimedia), tangible and intangible cultural heritage, design, festivals, music, literature, performing arts, publishing, radio and visual arts.

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. Overall the guarantee facility will strengthen their financial capacity and reinforce their competitiveness.

Why offer loan guarantees besides grants?

This market-based instrument will encourage cultural and creative SMEs to develop their business skills and build closer relationships with the financial sector, allowing for a decisive shift in their financing model. The use of a financial instrument will have a stronger structuring effect on the cultural and creative sectors than grants, thanks to the leverage effect of EU funds, attracting the private financing for the CCS project. This will open a wealth of financing opportunities for enterprises, 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
- Funding for independent music labels and start-up platforms
- 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.

Does this mean that the European Commission will stop direct grants or funding of the creative and cultural sectors?

No. This guarantee facility is only diversifying the financing options for SMEs.

The European Commission remains committed to direct financing (e.g. through grants). This has been proven to benefit the sectors and contribute to cultural diversity, which is a primary objective of the Creative Europe programme. The existing schemes will remain in place until the end of the programme (2020).

Which financial bodies are eligible to join the scheme?

Eligible applicants include:

- Financial or credit institutions, leasing companies or loan funds duly authorised to carry out lending or leasing activities in accordance with applicable laws and regulations, established and operating in a participating country;
- Guarantee institutions or other financial or credit institutions duly authorised, if applicable, to issue guarantees in accordance with the applicable laws and legislations, established and operating in a participating country.

The guarantee/counter-guarantee system provides a certain degree of stability/assurance for financial intermediaries by partially covering losses (relating to unpaid principal and interest) incurred by the financial intermediary in respect of each defaulted eligible transaction up to a cap amount (up to 70% of individual loans' losses and up to 25% for portfolios).

Financial intermediaries can also increase their knowledge of one of the fastest-growing sectors of the European economy

Financial intermediaries will also be able to increase their knowledge of and expertise in the creative and cultural sectors, which could have an impact on their future activities. Financial intermediaries can request free training on key elements of the sectors which should be provided by capacity building provider(s) selected by the EIF.

In addition, increasing knowledge of innovative business within financial intermediaries could encourage financial intermediaries to diversify their approach. For example in the request of collateral assets: as no personal collateral external to the company can be requested as part of the new guarantee facility, financial intermediaries will have to accept other forms of assurances such as pre-sales contracts or various forms of grant agreements. They will be encouraged to accept Intellectual Property Rights as collaterals.

Overall ten thousand SMEs in the cultural and creative sectors are expected to directly benefit from the

guarantee facility. But many more will indirectly benefit from it, as financial intermediaries will develop their understanding of these sectors and of how to work with them thanks to the new scheme.

What kind of capacity-building will be offered?

Consultations with SMEs and financial institutions in the cultural and creative sectors underlined the fact that the specific nature of SMEs in the sectors requires different and specific approaches and skills than in other sectors where credit risk can be assessed in more standardised ways. Currently only very few European financial intermediaries have the in-house expertise to evaluate the risk associated with this sector and its specific characteristics.

The scheme will consist of initial training programmes for financial intermediaries providing loans under the guarantee facility. It will also provide follow-up support during the launch phase of the portfolio, as well as advice on credit applications, if needed (e.g. assessment of intangible assets, sector or market specific consulting, credit risk assessment).

The capacity-building scheme will spread the existing banking expertise among European financial intermediaries, broadening know-how in the assessment of the risk profile of companies and organisations in the cultural and creative sectors.

A dedicated call for tender will be published by the European Investment Fund to select capacity-building providers.

When will financing be available?

The signature of the agreement between the European Commission and the EIF takes place today, 30 June 2016. The second step is the publication of the call for expression of interest (early July), following which agreements can be signed between the EIF and financial intermediaries. Once the financial intermediaries' portfolios are built and launched, SMEs will be able to apply for loans (by the end of this year).

Is there any link with the European Fund for Strategic Investments (EFSI)?

The Creative Europe Cultural and Creative Sectors Guarantee Facility pursues the same objective as the SME window of the European Fund for Strategic Investments (EFSI), which drives the Investment Plan for Europe: increasing lending to SMEs in order to scale up their activities. At a later stage, it might be considered that the guarantee facility may be frontloaded through EFSI funding: this means money from EFSI may be committed in order to speed up the delivery of the instrument. The guarantee facility may also be topped-up through EFSI, in other words it can be further fuelled (i.e. on top of the €121 million) by EFSI to face any increasing demand.

More information

All relevant information will be published [here](#) as well as on the [EIF webpage](#)

More information on the Creative Europe programme can be found [here](#).

Information on other EU funding opportunities is available on the [European Union's Access2Finance portal](#).

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