European
Commission

Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors

FINAL REPORT

A study prepared for the European Commission
DG Communications Networks, Content & Technology
by:

SQW

Digital
Single
Market

This study was carried out for the European Commission by a consortium comprising of SQW Limited (lead partner), Visionary Analytics, Economisti Associati, Emma Fau (EU Capital), Karen Wilson (GV Partners and OECD) and Neil Watson (Independent Consultant)

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Abstract

The Cultural and Creative Sectors (CCS) span a wide range of activities, including audiovisual and broadcasting, print, music, visual and performing arts, heritage, design and architecture. CCS collectively accounts for 4.5% of EU's GDP, is growing across Europe at above average rates, and is a significant source and user of innovation. New starts, SMEs, mid-caps and not-for-profit organisations play key roles in creating and maintaining cultural identities and diversity. However, the sector faces specific challenges in funding new activities and enabling growth; these constraints are linked to market failures at local, pan-European and global levels. The issues are being addressed through the EU's €1.46bn Creative Europe Programme (CEP), set up in 2014. CEP also facilitates access to debt finance for CCS SMEs through the Guarantee Facility that provides credit risk protection as well as capacity building to financial intermediaries. This study found that funding gaps and barriers persisted across Europe, both for loan and equity finance, and recommends that these are addressed through a mix of financial instruments and technical assistance under InvestEU. Alongside continuation/expansion of the CCS Guarantee Facility, these instruments could include co-investment with business angels through a fund structure (below €2m), and co-investment with venture capitalists (above €2m), complemented by equity crowdfunding.

Résumé

Les secteurs de la culture et de la création (SCC) couvrent un large éventail d'activités, notamment l'audiovisuel et la radiodiffusion, l'édition, la musique, les arts visuels, les arts de la scène, le patrimoine, le design et l'architecture. Les SCC représentent collectivement 4,5% du PIB de l'UE, croissent à un rythme supérieur à la moyenne des autres secteurs dans toute l'Europe et constituent un levier d'innovation important. Les nouvelles entreprises, les PME, les entreprises de taille intermédiaire et les organisations à but non lucratif jouent un rôle clé dans la création de valeur et dans la préservation et le renforcement de la diversité culturelle. Toutefois, le secteur est confronté à des défis spécifiques pour financer de nouvelles activités et favoriser la croissance; ces contraintes sont liées aux défaillances du marché aux niveaux local, paneuropéen et mondial. Ces questions sont abordées dans le cadre du programme Europe créative (PEC) de l'UE, d'un montant de 1,46 milliard d'euros, mis en place en 2014. Le PEC facilite également l'accès au financement par l'emprunt pour les PME des SCC à l'aide du Mécanisme de garantie qui assure la protection contre le risque de défaillance de remboursement en cas de crédit et le renforcement des capacités des intermédiaires financiers. Cette étude a montré que des lacunes et des obstacles en matière de financement persistaient dans toute l'Europe, tant pour les prêts que pour les prises de participation, et recommande que ces problèmes soient résolus par une combinaison d'instruments financiers et d'assistance technique dans le cadre de InvestEU. Outre la poursuite ou l'extension du Mécanisme de garantie des SCC, ces instruments pourraient inclure le co-investissement avec des business angels par le biais d'une structure de fonds (moins de 2 millions d'euros) et le co-investissement avec des investisseurs en capital-risque (plus de 2 millions d'euros), complété par un financement participatif par capitaux propres.

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Executive Summary

Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors: SQW, for the European Commission, 2018

Purpose and scope of the study

1. This report was commissioned by the European Commission (EC), Directorate General for Communications Networks, Content and Technology (DG CONNECT) in January 2018. The study team, led by SQW, also included Visionary Analytics, Economisti Associati, and three expert associates: Emma Fau (EUcapital), Karen Wilson (GV Partners and OECD) and Neil Watson (Independent Consultant).

2. The Cultural and Creative Sectors (CCS) are an important part of the economy, as well as contributing to cultural diversity and social development across Europe. The EC defines CCS as follows:[1]

EC definition of Cultural and Creative Sectors

Cultural and creative sectors means all sectors whose activities are based on cultural values and/or artistic and other creative expressions, whether those activities are market- or non-market-oriented, whatever the type of structure that carries them out, and irrespective of how that structure is financed. Those activities include 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****.*

3. CCS activities tend to cluster in urban centres and city regions but are found in all types and sizes of communities. With 8.5 million jobs, accounting for 4.5% of overall GDP[2], they are the third largest source of employment[3] in the European Union (EU). CCS also enable innovation and technological development in other parts of the economy. The social role CCS plays is important in preserving and transmitting cultural, creative and linguistic diversity, and thus in strengthening European identities and social cohesion.

4. Research has indicated that access to funding is one of the key barriers encountered by entrepreneurs, SMEs and other organisations working in CCS. This relates to the range and fragmentation of CCS activities, the nature of CCS organisations and entrepreneurs, and the market conditions faced by the sector. CCS funding is characterised by a series of barriers

[1] Article 2 §1 of Regulation (EU) N° 1295/2013.
[2] EC (2018) Creative and Cultural Sector Policy Background. PPT.
[3] EC (2017) Report from the Commission to the European Parliament and the Council. Mid-term evaluation of the Creative Europe programme (2014-2020).

which are more pronounced than in other sectors. These include: intangible assets, lack of business track record, limited transferability of assets, information failures between finance providers and companies, difficulties in assessing business models, and lack of relevant expertise in financial intermediaries to assess these specific risks. The 'finance gap' for CCS enterprises was estimated in 2013 at between €8 and €13bn for the period 2014 to 2020.[4]

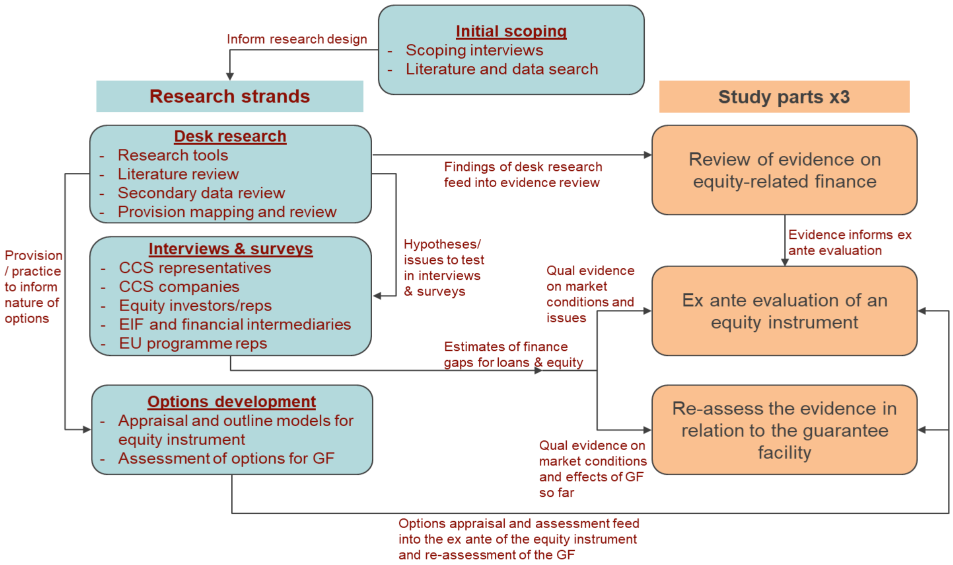
5. The EU has responded to this issue through policy approaches and initiatives to foster CCS and support cultural exchange and dialogue, in particular through the Creative Europe Programme[5] (CEP) launched in 2014. CEP supports the activities of the cultural and audiovisual sectors in participating countries, seeking to address the challenges posed by the shift towards digitalisation, market fragmentation, global competition and the increasing difficulty in accessing financing. A total of €1.46bn was allocated to support the cultural diversity and growth in 2014-2020, under three sub-programmes: Culture, Media, and a cross-sectoral strand through the CCS Guarantee Facility (CCS GF), which had an initial budget of €121m for 2016-2020, now raised by a further €60m. CCS GF is expected to leverage approximately €1bn loan financing for SMEs and other organisations operating in the CCS.

6. The key issues and questions to be addressed by this study were:

- The extent to which the market failures which were identified earlier persist in CCS
- The scale of the finance gap, for equity as well as debt
- The contribution to date made by the roll out of CCS GF, and the validity of the model going forward
- The potential for a new equity instrument, and the form which this might take.

7. The scope of the research undertaken is summarised in Figure 1 below.

Figure 1: Summary of overall approach


Inform research design
Initial scoping
- Scoping interviews
- Literature and data search
Research strands
Study parts x3
Desk research
- Research tools
- Literature review
- Secondary data review
- Provision mapping and review
Findings of desk research feed into evidence review
Review of evidence on equity-related finance
Evidence informs ex ante evaluation
Provision / practice to inform nature of options
Interviews & surveys
- CCS representatives
- CCS companies
- Equity investors/reps
- EIF and financial intermediaries
- EU programme reps
Hypotheses/ issues to test in interviews & surveys
Qual evidence on market conditions and issues
Ex ante evaluation of an equity instrument
Estimates of finance gaps for loans & equity
Options development
- Appraisal and outline models for equity instrument
- Assessment of options for GF
Qual evidence on market conditions and effects of GF so far
Re-assess the evidence in relation to the guarantee facility
Options appraisal and assessment feed into the ex ante of the equity instrument and re-assessment of the GF

[4] IDEA (2013) Survey on access to finance for cultural and creative sectors: Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the Creative Europe programme. Report for the EC.

[5] https://ec.europa.eu/programmes/creative-europe/node_en

Key findings

1. Evidence of continued market failure

8. The desk review undertaken for this study, together with the evidence from the interviews and surveys, pointed to on-going market failure in CCS finance. The evidence from the literature review identified the following: information failures between CCS organisations and finance providers; CCS businesses are characterised by a lack of skills and expertise (e.g. business planning and financial management skills); fragmented CCS markets; uniqueness of CCS products; intangible nature of CCS assets; lack of track record and business models; scalability of CCS businesses; CCS assets not being easily-transferable. Table 1 summarises the market failures and barriers in CCS businesses accessing finance (including equity) as reported by interviewees (demand and supply-side), as well as from interviews with EU representatives.

Table 1: Market failures and barriers in CCS businesses accessing finance (including equity) – consultation evidence

Type of market failures/ barriers	Supply-side perspective (equity investors, financial intermediaries)	Demand-side perspective (CCS representative organisations, survey of CCS businesses)
Information failures	• Lack of knowledge and understanding amongst investors of: CCS (overall and sub-sectors); models of assessing CCS businesses ➢ how do investors assess the final payoff? • Lack of a commercial mindset in CCS businesses, making it difficult to communicate the potential of investment projects • Uniqueness and 'prototype' nature of each project or product (e.g. new film project or book is a 'one off') • Intangible nature of assets (e.g. Intellectual Property Rights)	• Lack of awareness and/or understanding of appropriate finance • Lack of knowledge and understanding of models for assessing CCS businesses • Too complicated and/or too time consuming to identify suitable sources of finance • Insufficient understanding from the investor of the sector in which the CCS business/organisation is working in • Lack of a commercial mindset of CCS businesses - many talented, highly skilled individuals focus only on their creative side – don't want to get involved in business • Intangible nature of assets makes it difficult for financiers to invest in these 'ex-ante' as the risk/reward ratios are high
Risk and uncertainty	• Too much risk associated with investing in CCS… ➢ insufficient business assets to offer as collateral or guarantee ➢ lack of personal collateral among potential investees (relevant in particular for loans) ➢ lack of track record • Lack of clear exit strategy and potential for return • Lack of scalable opportunities for an investor given lack of assets and defensible niche (IP)	• Too much risk to take on equity • Fear of diluted ownership/ reduced control over the organisation

Type of market failures/ barriers	Supply-side perspective (equity investors, financial intermediaries)	Demand-side perspective (CCS representative organisations, survey of CCS businesses)
Incomplete markets	• Perceived limited size of the market/s, or 'niche' nature of the market/s • Cyclical nature of some sub-sectors (e.g. festivals/events) • Lack of scalability of projects/products/services • Unwillingness to invest in the human capital at core of CCS (e.g. author, musician, director - specific and non-transferable) - personality rather than commercially driven enterprises • Not-easily-transferable nature of the assets (e.g. CCS constitute human capital which makes them difficult to transfer)	• Perceived limited size of the market/s, or 'niche' nature of the market/s • Reluctance or inability to develop/put forward fundable propositions • Frequently look for project-based finance, not interested/able to build a business • Not-easily-transferable nature of the assets.

Source: SQW interviews

2. An on-going funding gap

9. There is a broad consensus among national and multinational organisations involved in developing CCS that there is a continued funding gap: these industries have considerable potential to develop further, but face serious constraints in financing innovative and worthwhile activities, including those with potential to operate on a significant scale. This is the case across Europe, in countries and regions with a high concentration of these activities and also in those at an earlier stage of development.

10. We found that this gap has probably been exacerbated as the European economies recovered impetus after the recession. This relates both to the squeeze on public finances, and investor caution at a time of financial retrenchment. Effective actions to close the gap will need to take account of underlying demand-related issues, including the degree of investment hunger and readiness, issues around treatment of assets and IP; constraints on supply include understanding of CCS in the financial sector, and appropriate financial offers and packages, including co-funding, to meet the needs of different types of projects, and complex requirements.

11. The CCS organisations and individuals interviewed focused on the need for additional risk finance on affordable terms for smaller, newer, entities. The starting point for many was the need to ensure high quality, strong and distinctive products in Europe, to reach across language and other cultural barriers and build larger-scale markets and profile. Quality would not be achieved without appropriate financing mechanisms. Generic gaps across CCS include adequate finance for development, marketing/distribution and cataloguing digital material.

12. The on-going nature of the funding gap was also evident in the responses to the business survey across Europe, and in the interviews with European Investment Fund (EIF) and others involved in the financial sector; also, in the interest shown in CCS GF, and the take-up of the Facility to date. CCS organisations noted that the availability of loans on suitable terms, and grants, would continue, in volume terms, to be more important to the industry. They also

believed that any new financial intervention should be linked into the CCS sector, alongside other support actions; also, it should be linked into an existing mechanism, rather than being a wholly new initiative. Similar views on the potential importance of equity, of the limits of its role in CCS, and on avoiding a wholly new instrument, were expressed by interviewees from the financial sector.

13. The implication is that a holistic approach is required, in which different types of funding are made available or facilitated alongside CEP and other initiatives at regional/national and European levels, and with the scope for more integration of financial and non-financial support, where this is likely to produce benefits.

The estimated scale of the current funding gaps for loans and equity

14. The indicative funding gaps in CCS for loans and equity were reassessed, drawing on the evidence from the pan-European business survey, and a series of assumptions on market size and interest and potential take-up informed by other evidence. The calculations were necessarily tentative and highly caveated, but on a fairly conservative basis, they indicated:

- **A shortfall of loans** in the range of €2.51bn - €6.22bn over three years, or €837m - €2.07bn per year
- **An equity gap** of €1.20bn - €1.94bn over three years, or €399m - €648m per year.

15. For context, the ex-ante assessment of the Competitiveness of Small and Medium-Sized Enterprises (COSME) Programme[6] estimated a loan finance gap of €200bn over seven years across the total European SME population of 23m enterprises, representing an annual gap of €28.6bn.

3. Demand for CCS GF, and progress in delivery

16. Given financial instruments take time to build up and that implementation of CCS GF only started in 2016, CCS GF has progressed well, with funding agreements in place with eight financial intermediaries operating in six countries, Italy, Spain, France, Czech Republic, Belgium and Romania, equating to a maximum portfolio volume of €440m. A total of 386 SMEs and organisations had received financial support in 512 deals at 30 June 2018. The CCS GF, including the capacity building component, has been broadly welcomed by the sector.

17. To date, 80% of beneficiaries (73% by value) are in Spain, and around three-quarters of the total amount committed to final recipients is in audiovisual – an important area for CEP, where strong market demand is evident. CCS GF is gaining momentum with guarantee agreements in Italy, Belgium, and Romania concluded in 2018, and further countries and financial intermediaries in the pipeline to be signed-up.

18. The evidence indicates that CCS GF is fulfilling a useful, but to date, limited role in helping to close the overall funding gap. We conclude that this gap will remain, even if CCS GF funding is augmented as the initial allocation is fully used, and the roll-out which is already underway extends its impact to other sub-sectors and countries.

[6] European Commission (2018) Impact assessment for the successor to COSME. Commission Staff Working Document.

19. In practice, the Facility must be expected to be more successful in some countries and activities than others. Differences in markets and the availability of local financial support across Europe mean it cannot be expected to achieve the same level of penetration in all countries and with all sub-sectors. There will, however, be potential benefit from further increasing the scale of CCS GF, providing higher profile and visibility to reach different economies and markets.

4. Scope for a new equity instrument

20. On both the demand and supply sides, a potential role was identified for other types of funding, including equity, and for the involvement of a wider range of financial intermediaries in the future mix. Equity investment is already happening in CCS: EIF-backed investment worth €157m has been made over five years from 2013 to 2017, mainly alongside venture capitalists; €122m of this is in multi-country deals; mostly in music followed by AV and design.

21. Flexible funding packages are needed for CCS, alongside and linked to other supply-side interventions, to meet the wide range of circumstances, needs, aptitudes, and ambitions. The scope for a new equity initiative for CCS is likely to be mainly at the smaller end of the market, where business angels are particularly active: larger businesses are much more likely to already have a track record which would enable them to make credible pitches to venture capital (VC) funds. A new initiative could be directed particularly towards new and innovative products, and recognise that for business angels, personal enthusiasms and opportunities for engagement will also drive interest. There may also be a role for equity in business restructuring, which is anticipated across Europe in some sub-sectors, and where venture capital might be expected to become involved. While there is some existing private sector activity in providing equity to this sector, this is on a small-scale and partial; there would seem to be scope for co-investment rather than a danger of crowding-out.

22. In CCS as in other sectors, other forms of financing, including equity crowdfunding, have also become part of the mix in recent years. Although expected to continue to have a role, crowdfunding investment opportunities in CCS have tended to be pitched towards investors who are looking for the 'buzz' of involvement with a high profile, or potentially high profile, activity, or to play a part in launching something they strongly identify with or want to see happen. They are not necessarily investing for financial return.

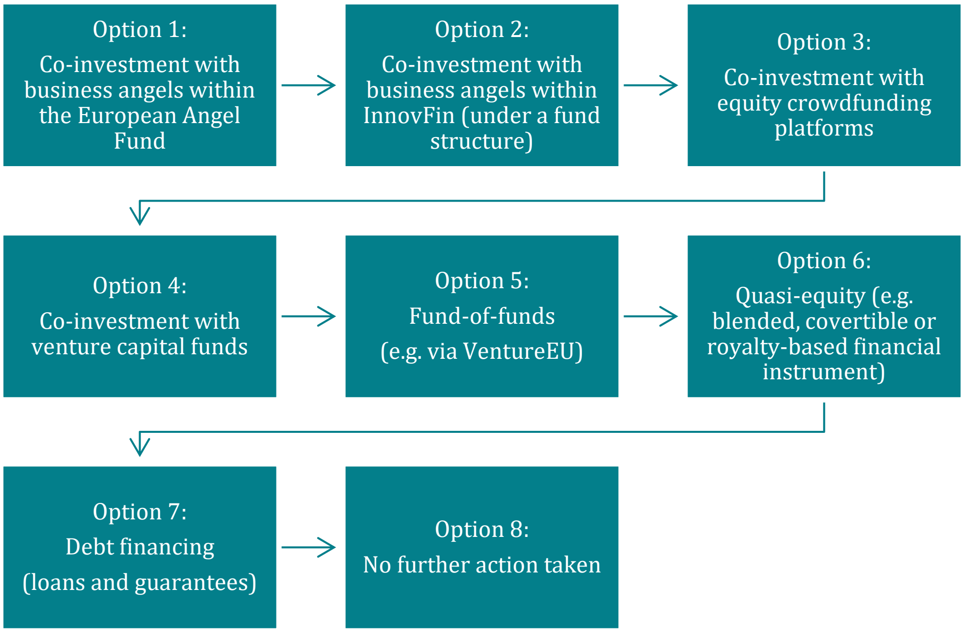
Options and proposed way forward

Appraisal of options

23. The options developed within the study team (Figure 2), were tested and refined in discussion with the EC and EIF. This included consideration of fit with the InvestEU Programme, 2021-2027,[7] which provides an EU budget guarantee to support investment and access to finance and will bring together various EU financial instruments currently available to support investment.

[7] European Commission. The InvestEU Programme: Questions and Answers. 2018. http://europa.eu/rapid/press-release_MEMO-18-4010_en.htm

Figure 2: Longlist of potential options for financial instruments


Option 1:
Co-investment with business angels within the European Angel Fund
Option 2:
Co-investment with business angels within InnovFin (under a fund structure)
Option 3:
Co-investment with equity crowdfunding platforms
Option 4:
Co-investment with venture capital funds
Option 5:
Fund-of-funds
(e.g. via VentureEU)
Option 6:
Quasi-equity (e.g. blended, covertible or royalty-based financial instrument)
Option 7:
Debt financing
(loans and guarantees)
Option 8:
No further action taken

Source: SQW

24. Table 2 and Table 3 identify and link the main market failures and barriers in CCS financing that would be addressed by each of the options involving further action.

Table 2: Summary of main market failures and barriers addressed by each option – Information failures, risk and uncertainty

	INFORMATION FAILURES, RISK AND UNCERTAINTY			
	Knowledge and skills gap amongst CCS organisations	**Knowledge and skills gap amongst financiers**	**High risk and uncertainty amongst CCS organisations***	**High risk and uncertainty amongst financiers relating to future financial returns****
Option 1: **Co-investment with business angels within the European Angel Fund**	✓	✓	✓	✓
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	✓	✓	✓	✓
Option 3: **Co-investment with equity crowdfunding**	Platforms per se do not provide guidance and advice	Platforms per se do not provide guidance and advice	✓	✓
Option 4: **Co-investment with venture capital funds**	✓	✓	✓	✓
Option 5: **Fund-of-funds**	✓	✓	✓	✓
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	Lack of knowledge and understanding of quasi-equity instruments acts as barrier to take-up	Not necessarily focus of quasi-equity financiers	✓	✓
Option 7: **Debt financing (loans and guarantees)**	✓ If accompanied by technical assistance/capacity building for CCS organisations	✓ If accompanied by technical assistance/capacity building for lenders	✓	✓

*Source: SQW; *High risk and uncertainty covers two aspects that are pronounced for CCS organisations: (i) too much risk to take on equity; (ii) fear of diluted ownership/reduced control over the organisation.*
***The main drivers of this risk include: (i) lack of track record in generating revenues; (ii) highly variable returns to investment.*

Table 3: Summary of main market failures and barriers addressed by each option – Incomplete markets

	INCOMPLETE MARKETS		
	Perceived limited size of the market/s or 'niche' nature of the market/s	**Lack of scalable business models**	**Scarce transferability of assets (CCS reliant on human capital which cannot be transferred easily)**
Option 1: **Co-investment with business angels within the European Angel Fund**	✓	✓	✓
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	✓	✓	✓
Option 3: **Co-investment with equity crowdfunding**	✓	✓	✓
Option 4: **Co-investment with venture capital funds**	Tend to invest in products/services with sufficiently large potential markets	✓ Tend to invest in companies with high growth potential	✓
Option 5: **Fund-of-funds**	Tend to invest in products/services with sufficiently large potential markets	✓	✓
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	✓	✓	✓
Option 7: **Debt financing (loans and guarantees)**		✓	

Source: SQW

25. All the longlisted options in Table 4 overleaf are designed to be interventions at the European level, and not at the level of the Member States – they are intended to complement and expand existing provision within Member States.

Principles

26. The longlisted options were considered against three 'guiding principles' for new financial instruments, and also the rapidly changing FinTech and CCS sectors, in which many markets are at an early, disruptive, stage of development, with new product offers and new sources of information. The key principles for new financial instruments were to:

- 'Nudge' investee businesses and financial intermediaries towards engagement and market-widening, where evidence points to market gaps
- Tailor to the specific needs of CCS, while recognising that financial intermediaries do not want sector restrictions, or a plethora of rules
- Design new instruments in the form of tailored, relatively low risk products[8] that can be changed to meet new/emerging market requirements/business needs, and removed if/when they are no longer needed.

27. An overall rating is given: **+++** indicates most preferred option, and **---** indicates least/not preferred option.

[8] Taking into account credit scores, and General Data Protection Regulations (GDPR).

Table 4: Longlist of potential options for financial instruments

	Pros	Cons	EU added value	Overall rating
EQUITY:				
Option 1: **Co-investment with business angels within the European Angel Fund (EAF)**	• Business angel appropriate for sub €2m – most CCS enterprise seek this amount • Approx. €40m has been invested in all sectors through EAF to date, so provides some indication for potential pilot (e.g. €5-€10m pilot) • Targets experienced business angels with track record of successful investments and good financial capacity - increases their investment in seed, early stage enterprises • Individual business angels retain high level of freedom in decision-making • Business angels involved in capacity building, and may get involved for non-financial reasons e.g. interested in film	• Requires individual (long-term) agreements with business angels • Any sectoral focus/restriction may discourage business angels • Need to ascertain level of demand amongst business angels on the EAF • The amount of EIF-backed business angel investment in CCS is relatively small compared to VC investment (see section 6) • Difficult to structure under EU financial rules • Current EAF targets experienced business angels and may not be inclusive for all investors "new comers"	*Effectiveness:* • Business angels benefit from the EIF's strong expertise and extensive network *Efficiency:* • Part of established structure within EAF: all investments are on a pari-pasu basis; no deal-by-deal review by EAF; pre-agreed investment scope; minimal reporting and standardised legal documents • There is equal split of all joint investments and costs between business angels and EAF; admin cost of joint investment structure *Synergy:* • EU level action which complements other finance interventions for CCS (national and EU-wide) helps to alleviate the funding gap and create synergies in CCS	++
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	• More relevant for start-ups/young firms • The investment risk is spread with other investors • Funds are managed or pooled by business	• Need to ascertain level of demand amongst business angels in InnovFin • Variation in the skill ad level of activity among business angels in InnovFin	*Effectiveness:* • Potentially fits well in the new InvestEU programme • The EC can assist in the capacity building for the business angels and VCs to better connect with CCS businesses and develop them further	+++

	Pros	Cons	EU added value	Overall rating
	angels – potential to generate large fund size • Potentially more efficient/ organised fund structure - managed by business angels with some expertise in CCS • Leverages on the expertise and knowhow of angels' networks/groups who pool investors with a common interest in CCS businesses • Facilitates the development and professionalism of investment syndicates • Encourages the creation of new funds and train other angel investors with an interest in CCS • Facilitates the identification and provision of investment readiness to CCS businesses	• Currently, not many business angel funds or networks specialise in CCS, so capacity building for investors and raising awareness of the potential of CCS will be important • Requires the EIF to proactively reach out to potential CCS angel investors to encourage them to set-up CCS focused funds	• A consistent EU-level approach may contribute to potential sharing of best practice between financial intermediaries (which may not happen otherwise) e.g. through referral mechanisms between countries • Potentially less fragmentation of the financing and CCS landscape *Efficiency:* • Improve efficiency through economies of scale - pooling resource and developing critical mass of activity, potentially leading to more co-ordinated approach • The EC, through the EIF, has significant experience with co-investment models and has a track record of focusing on leveraging private financing for investment *Synergy:* • EU level action which complements other finance interventions for CCS (national and EU-wide) helps to alleviate the funding gap and create synergies in CCS, including policy objectives for e.g. growing CCS businesses	🟩
Option 3: **Co-investment with equity crowdfunding platforms**	• Interest from crowdfunding platforms/networks • Complements other financial instruments rather than a solution on its own • More relevant for pre-revenue/ early stages - funding individual projects	• The right operational model needs to be designed • Intervention at EU level through a scheme that co-invests with crowdfunding platforms may take a long time – • Many crowdfunding platforms are still	*Effectiveness:* • The EC proposal as part of its Fintech action plan (March 2018) for a regulation on European crowdfunding will enable the crowdfunding platforms to provide their services across the EU (once implemented)	+

	Pros	Cons	EU added value	Overall rating
	rather than growth of firms • Suited to project focus of CCS enterprise • Intervention can be at national/regional level using ESIF (European Structural Investment Funds)	investing at national level and therefore it might be premature to develop an EU (cross border) scheme that allows co-investments with CF platforms • Amounts raised likely to be insufficient to be of material value to, for example, the AV sector • Crowdfunding platforms do not provide "smart money", i.e. mentoring, access to the networks, etc. • There is a trade-off between attractiveness of crowdfunding platforms and high accountability standards • Public money co-invested with other private investors could be subject to 'bandwagon' effect. As a result, resources would be allocated to popular projects that do not necessarily have the best long-term growth prospects	*Efficiency:* • The EU proposal is designed to make it easier for crowdfunding platforms to offer their services EU-wide and improve access to funding (incl. equity) • Once adopted by the European Parliament and the Council, the proposed Regulation is expected to allow platforms to apply for an EU label based on a single set of rules. This is hoped to enable them to offer their services across the EU *Synergy:* • Under the proposals investors in crowdfunding platforms will be protected by clear rules on information disclosures, rules on governance and risk management and a coherent approach to supervision – overall, reducing risk, and raising standards	
Option 4: **Co-investment with venture capital funds**	• Suited more for scale-up firms who are looking for above €2m - more relevant to mature firms • Potential to generate greater returns	• Need to be clear on exit strategies for VCs • Focus on certain sub-sector - mainly digital/tech related e.g. AV	*Effectiveness:* • Fits well in the new InvestEU programme and therefore would be seen as an integral part of the EC offering	+++

	Pros	Cons	EU added value	Overall rating
	• The increased fund's capital under management may lead to the development of a larger fund • The creation of VC funds for CCS investments • Potential for broadening the scope of existing VC funds, possibly by incentivising the managers of existing funds to allocate new capital towards CCS firms	• Public co-investment has to address both financial and economic development/policy objectives • Requires critical mass of suitable deals and investment readiness, an established VC market and experienced co-investors (very few VC firms specialised in CCS in Europe) • Requires already established VC market (including a network of institutional investors)	• The EC has the added advantage of being able to set up longer term funding structures with durations beyond political mandates, which can often be an issue at the national level *Efficiency:* • Improve efficiency through economies of scale – through portfolio of VC investments and developing critical mass of activity, potentially leading to more co-ordinated approach • The EC, through the EIF, has significant experience with co-investment models and has a track record of focusing on leveraging private financing for investment *Synergy:* • By offering these co-investments on a pan-European scale, the EC would promote CCS across Europe rather than national provision, which would only encourage CCS with certain countries	🟩
Option 5: **Fund-of-funds** **(e.g. via VentureEU[9])**	• Designed for SMEs and mid-caps and has sector focus: ICT, digital, life sciences, medical technologies, and resource and energy efficiency ➢ CCS could be added • Privately led with six fund managers in place	• Not clear if additional sectors can be included to VentureEU • May need to widen pool of fund managers on VentureEU (if not conflicting with existing fund managers) i.e. add fund managers interested in CCS	*Effectiveness:* • Learning from InnovFin Fund of Funds *Efficiency:* • Part of established structure within VentureEU • Possibility of cross-referral of investment opportunities between funds (within Fund of Funds) and from other funds	---

[9] European Commission. VentureEU: €2.1 billion to boost venture capital investment in Europe's innovative start-ups. 2018. http://europa.eu/rapid/press-release_IP-18-2763_en.htm

	Pros	Cons	EU added value	Overall rating
	• Generates scale of impact through fund-of-fund structure • More for scale-up/growth-orientated businesses seeking larger amounts	• In practice, the scale of fund investments may be too small to make tangible difference in the CCS funding ecosystem	*Synergy:* • Development of the wider capital financing ecosystem for CCS	
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	• Royalty based investment instrument - rather than purchasing equity, angel investors purchase a percentage share of future revenue streams, thereby reducing the potential risk for investors as they are involved only when actual revenues are generated • Capital is provided and in return, investors receive a portion of all sales until a specified return is realised • No requirement for personal guarantee • No dilution in shareholdings • Investment sits as a liability rather than a debt • Better suited for CCS businesses which do not have track record of sales, but future revenue streams are expected • Benefit of increased capitalisation with limited debt exposure and collateral risk	• Further evidence required on demand for this type of instrument, and how this would work operationally • Lack of understanding of equity instruments among investee CCS business may be a barrier to take-up • High risk for the provider • Time-consuming and cost-intensive investment • High set-up and operational costs • Potentially challenging to establish the price for the investment • Short-term financing is not possible	*Effectiveness:* • Support with technical assistance/ capacity building – educating CCS businesses and potential investors on the suitability of this form of investment • EU (as independent third party) can potentially help in the assessment of quasi-equity providers' proposals – thereby reducing risk for CCS businesses *Efficiency:* • The EU could help with the administration aspects as quasi-equity investments tend to be more difficult to administer than loans (high set-up and operational costs), and more time-consuming *Synergy:* • Bring synergies through influencing wider changes in the regulatory framework (cross-border) to encourage a private equity market	++

	Pros	Cons	EU added value	Overall rating
DEBT:				
Option 7: **Debt financing** **(loans and guarantees)**	• Loans are a widely-used formal financing mechanism; this offers apparent opportunity to intervene behind proven and generally understood financial products, and to influence and widen the market • Loans can be used for a variety of purposes and tailored accordingly - to support new product and services for businesses and projects; also working capital • EU track record now being built through the CCS Guarantee Facility – supporting intervention utilised through specific agreements with FIs in different countries • FIs are familiar and experienced in working with loan products; mainstream sources may meet effective demand from CCS in some countries	• Complex landscape across Europe: significant differences in the understanding of CCS, and in the responses from FIs and public policy across, and in some cases within, different countries • Scale and diversity of sector activity and also of existing loan finance may make it difficult for a debt financing initiative to have wider effects, influence on the market	*Effectiveness:* • The EU has the track record and experience through the CCS Guarantee Facility (and other EU-wide guarantee facilities) which can be utilised to improve the effectiveness and realise the potential of CCS (including through capacity building of businesses and financial intermediaries) *Efficiency:* • The speed with which the CCS Guarantee Facility has been disbursed where operational was a positive finding in this study – the EU has the potential to quickly co-ordinate and disburse debt funds efficiently *Synergy:* • The purpose of InvestEU is to make EU funding for investment projects "simpler, more efficient and more flexible". There are also potential synergies to be gained from the single InvestEU Fund. This includes the guarantee facilities under InvestEU (e.g. COSME, EaSI and the CCS Guarantee Facility).	+++
NO FURTHER INTERVENTION				
Option 8: **No further action taken**	• No increase in financial resource required – no set-up and operational costs	• This assumes the existing finance provision is sufficient to meet demand. This is contrary to the evidence gathered	• N/A	---

	Pros	**Cons**	**EU added value**	**Overall rating**
	• Focus on CCS Guarantee Facility and other general financial instruments may be simpler – less risk of crowding-out and duplication with existing provision	for this ex-ante evaluation (both demand and supply-side) • The specific conditions and needs of CCS enterprises are unlikely to be quickly or adequately addressed through current provision		🟩

Source: SQW

Recommendations: preferred options, proposed scale and implications for delivery

Preferred options

28. The study concluded co-investing with business angels through a fund structure or with venture capitals funds, alongside the continued operation of the Guarantee Facility, would be the most effective EC approach as this would help further develop the CCS market in Europe, allowing those investors to then invest larger amounts in CCS start-ups and scale ups. The following complementary options are proposed:

- **Option 2 – Co-investment with business angels within InnovFin under a fund structure** to support start-up and young CCS firms (including high-growth), needing funding below €2m, from any CCS sub-sector

- **Option 4 – Co-investment with venture capital funds** to support more mature firms in CCS seeking to grow their businesses and needing funding above €2m; facilitate scale-ups to the global market; probably limited to key sub-sectors such as digital and tech related

- **Option 7 – Continuation/expansion of the CCS Guarantee Facility** to support CCS firms at all stages of development and capped at €2m on individual transactions; these firms could be in any CCS sub-sectors.

29. **Equity Crowdfunding (Option 3)** will complement these three interventions, and expand the reach into different parts of the funding gap. **Technical assistance** will be made available, as it is for CCS GF, alongside, and as an integral part of each intervention, to facilitate dialogue and understanding between CCS and providers of capital. We envisage that the form of this capacity building will be customised to specific countries/locations, through co-design involving CCS representative organisations as well as funders.

30. We propose the following scale of operation for these funding initiatives, with the new equity instruments initially set up to operate in the form of a three-year pilot programme.

Table 5: Proposed size of financial instruments (three-year pilot for equity instruments)

Option	Proposed EU intervention (€m)	Anticipated leverage	Overall scale (€m)
Option 2: Co-investment with business angels (under fund structure)	20	0.5-1.0x	30-40
Option 4: Co-investment with VC	50	0.2-0.5x	60-75
Option 3: Equity crowdfunding	10	0.5-1.0x	15-20
Option 7: Debt finance (guarantees)*	135	6-10x	810-1,350

*Source: SQW; *Debt finance values are for three-year period*

31. We anticipate that these initiatives would add value at European level on six dimensions.

- By offering these co-investments on a **pan-European scale**, the EC would promote CCS across Europe: national mechanisms will inevitably focus within their own boundaries and may miss the potential for wider market perspectives; countries with emerging potential in CCS may not benefit from EU-wide experience.

- The EC, through the EIF, has significant **experience with co-investment models** and has a track record of focusing on leveraging private financing for investment: co-investment models also fit well in the new InvestEU programme and these initiatives would be seen as an integral part of the EC offering.

- The EC is able to set up **longer term funding structures** with durations beyond political mandates, which can often be an issue at the national level.

- Within InvestEU, **enabling the introduction/transfer of seed VC skills to EU countries where these are not yet available**; this will be an important element in capacity building for investment.

- The EC would also support **capacity building** alongside co-investment funding, to facilitate the investment readiness of the CCS firms and the connection with investors. This will need to be tailored to **specific opportunities and needs**.

- These funding and capacity-building programmes would also facilitate **the linking of CCS networks and ecosystems across Europe** while capacity building for CCS in angel networks would also help give a higher profile to CCS activity and businesses, and enable further development of markets at European level.

Programme structures: lead responsibility, engaging the private sector and review of progress

32. The new funding initiatives are expected to be operationalised through InvestEU, and will therefore follow the general criteria and structure of InvestEU programmes.

33. If the proposed co-investment funds are put in place, the EC must be committed for the long term as the results would not come through in full for at least 10 years. The design and implementation of programmes play key roles in how well they meet the intended objectives (EC, 2012).[10] The linkages between these programmes, capacity building and other support schemes are critical; the funds should not be seen as single interventions. We envisage that they will be rolled-out as part of a broader iterative learning process, in which the progress of the first co-investment funds is continually monitored, and the implications for the way forward are reviewed and agreed well before the end of the three-year pilot period.

34. Public policy is likely to be effective only if it is implemented in close cooperation with the private market actors. Engagement of private sector actors should start as early in the process as possible, both informally and later formally (in the form of advisory boards, etc.). This process of engagement between public and private sector players is crucial not only to the planning of the programmes (sharing knowledge and building consensus) but also to the longer-term success.

35. These recommendations will need to be detailed further and tested as part of the EC appraisal of the proposed new financial instruments.

[10] European Commission (2012) Evaluation of Member State Policies to Facilitate Access to Finance for SMEs, Centre for Strategy and Evaluation Services & EIM, United Kingdom, June.

Résumé opérationnel

Évaluation ex ante de nouveaux instruments financiers pour les PME, les entreprises de taille intermédiaire et les organisations des secteurs de la culture et de la création: SQW, pour la Commission européenne, 2018

Objet et portée de l'étude

1. Ce rapport a été commandé par la direction générale des réseaux de communication, du contenu et des technologies (DG CONNECT) de la Commission européenne (CE) en janvier 2018. L'équipe d'étude, dirigée par SQW, comprenait également Visionary Analytics, Economisti Associati et trois associés experts: Emma Fau (EUcapital), Karen Wilson (GV Partners et OCDE) et Neil Watson (consultant indépendant).

2. Les secteurs de la culture et de la création (SCC) constituent une part importante de l'économie et contribuent à la diversité culturelle et à la cohésion sociale en Europe. La CE définit les SCC de la manière suivante:[11]

Définition de la CE des secteurs de la culture et de la création

On entend par « secteurs de la culture et de la création », tous les secteurs dont les activités sont fondées sur la création de valeurs culturelles et/ou sur des expressions artistiques et autres expressions créatrices, qu'elles soient à visée commerciale ou non, quel que soit le type de structure qui les réalise et quelles que soient les modalités de financement de ladite structure. Ces activités incluent le développement, la création, la production, la diffusion et la conservation de biens et services incarnant une expression culturelle, artistique ou toute autre expression créatrice, ainsi que les tâches qui s'y rapportent, comme l'éducation ou la gestion. ***Les secteurs de la culture et de la création comprennent entre autres l'architecture, les archives, les bibliothèques, les musées, l'artisanat d'art, l'audiovisuel (y compris le cinéma, la télévision, les jeux vidéo et le multimédia), le patrimoine culturel matériel et immatériel, le design, les festivals, la musique, la littérature, les arts du spectacle, l'édition, la radio et les arts visuels****.*

3. Les activités des SCC ont tendance à se regrouper dans les centres urbains et les régions urbaines, mais on les retrouve dans tous les types et toutes les tailles de collectivités. Avec 8,5 millions d'emplois, représentant 4,5 % du PIB global,[12] ils constituent la troisième source d'emploi[13] de l'Union européenne (UE). Les SCC favorisent également l'innovation et le développement technologique dans d'autres secteurs de l'économie. Le rôle social que jouent les SCC est important dans la préservation et la transmission de la diversité culturelle, créative

[11] Article 2, paragraphe 1 du Règlement (UE) n° 1295/2013.
[12] EC (2018) Creative and Cultural Sector Policy Background. PPT.
[13] CE (2017) Rapport de la commission au parlement européen et au conseil. Évaluation intermédiaire du programme « Europe créative » (2014-2020).

et linguistique, et donc dans le renforcement des identités européennes et de la cohésion sociale.

4. Les recherches ont montré que l'accès au financement est l'un des principaux obstacles auxquels se heurtent les entrepreneurs, les PME et d'autres organisations œuvrant dans les SCC. Cela tient à la diversité et à la fragmentation des activités des SCC, à la nature des organisations et des entrepreneurs des SCC et aux conditions du marché auxquelles ces secteurs sont confrontés. Le financement des SCC se caractérise par une série d'obstacles qui sont plus prononcés que dans d'autres secteurs. Il s'agit notamment des actifs incorporels, de l'absence d'antécédents commerciaux, de la transférabilité limitée des actifs, des défaillances de l'information entre les fournisseurs de services financiers et les entreprises, des difficultés d'évaluation des modèles économiques et du manque d'expertise pertinente des intermédiaires financiers pour évaluer ces risques spécifiques. Le « déficit de financement » pour les entreprises des SCC a été estimé en 2013 entre 8 et 13 milliards d'euros pour la période 2014-2020.[14]

5. L'UE a répondu à cette question par des approches politiques et des initiatives visant à encourager les SCC à soutenir les échanges et le dialogue culturels, en particulier par l'intermédiaire du programme Europe créative[15] (PEC) lancé en 2014. Le PEC soutient les activités des secteurs de la culture et de l'audiovisuel dans les pays participants, en cherchant à relever les défis posés par le passage à la numérisation, la fragmentation du marché, la concurrence mondiale et la difficulté croissante d'accès au financement. Un montant total de 1,46 milliard d'euros a été alloué pour soutenir la diversité et la croissance culturelles en 2014-2020, au titre de trois sous-programmes: Culture, Média et un volet transsectoriel par l'intermédiaire du Mécanisme de garantie en faveur des SCC (MG SCC), qui disposait d'un budget initial de 121 millions d'euros pour la période 2016-2020, qui a été augmenté de 60 millions d'euros supplémentaires. Le MG SCC devrait permettre de mobiliser environ 1 milliard d'euros de financement sous forme de prêts en faveur des PME et d'autres organisations œuvrant dans les SCC.

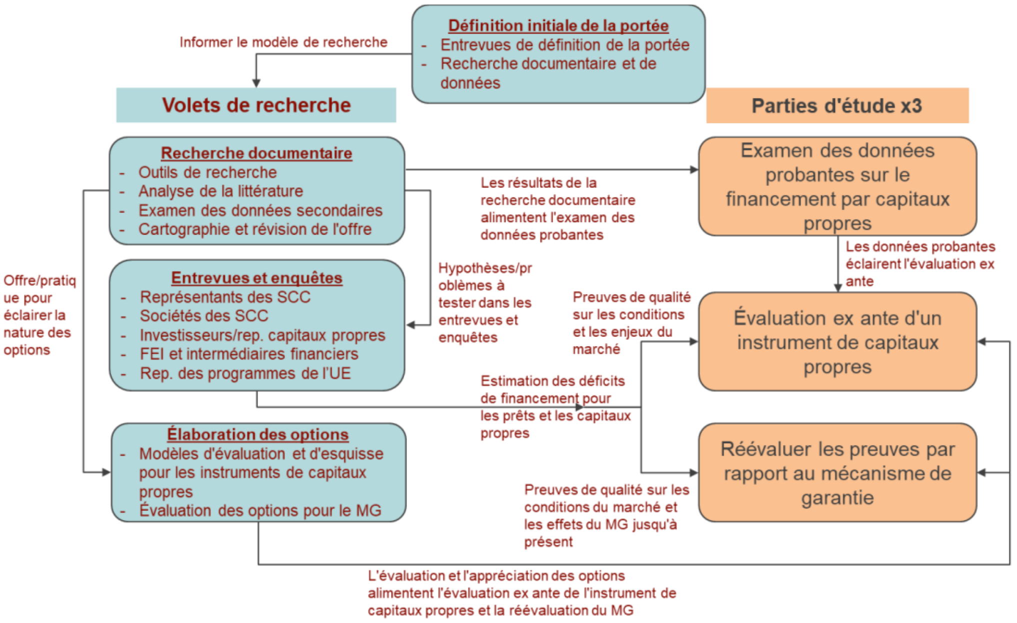
6. Les enjeux et questions clés sur lesquels s'est portée cette étude sont les suivants:

   - La mesure dans laquelle les défaillances du marché identifiées précédemment persistent dans les SCC
   - L'ampleur du déficit de financement, aussi bien pour les capitaux propres que pour la dette
   - La contribution apportée à ce jour par le déploiement du MG SCC et la validité du modèle pour l'avenir
   - Le potentiel d'un nouvel instrument de capitaux propres et la forme qu'il pourrait prendre.

7. Le graphique ci-dessous présente la méthodologie et le périmètre retenus dans le cadre de cette étude.

[14] IDEA (2013) Survey on access to finance for cultural and creative sectors: Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the Creative Europe programme. Rapport pour la CE.
[15] https://ec.europa.eu/programmes/creative-europe/node_fr

Graphique 1: Méthodologie de l'étude


Informer le modèle de recherche
Définition initiale de la portée
- Entrevues de définition de la portée
- Recherche documentaire et de données
Volets de recherche
Parties d'étude x3
Recherche documentaire
- Outils de recherche
- Analyse de la littérature
- Examen des données secondaires
- Cartographie et révision de l'offre
Les résultats de la recherche documentaire alimentent l'examen des données probantes
Examen des données probantes sur le financement par capitaux propres
Les données probantes éclairent l'évaluation ex ante
Offre/pratique pour éclairer la nature des options
Entrevues et enquêtes
- Représentants des SCC
- Sociétés des SCC
- Investisseurs/rep. capitaux propres
- FEI et intermédiaires financiers
- Rep. des programmes de l'UE
Hypothèses/problèmes à tester dans les entrevues et enquêtes
Preuves de qualité sur les conditions et les enjeux du marché
Évaluation ex ante d'un instrument de capitaux propres
Estimation des déficits de financement pour les prêts et les capitaux propres
Élaboration des options
- Modèles d'évaluation et d'esquisse pour les instruments de capitaux propres
- Évaluation des options pour le MG
Preuves de qualité sur les conditions du marché et les effets du MG jusqu'à présent
Réévaluer les preuves par rapport au mécanisme de garantie
L'évaluation et l'appréciation des options alimentent l'évaluation ex ante de l'instrument de capitaux propres et la réévaluation du MG

Principales conclusions

1. Preuve d'une défaillance persistante du marché

8. L'examen documentaire entrepris pour cette étude, ainsi que les résultats des entrevues et des enquêtes, ont révélé une défaillance persistante du marché dans le financement des SCC. L'analyse des différents ouvrages a mis en évidence les déficits suivants: défaillances de l'information entre les organisations des SCC et les fournisseurs de financement; les entreprises des SCC se caractérisent par un manque de compétences et d'expertise (par ex. en planification des activités et en gestion financière); fragmentation des marchés des SCC; caractère unique des produits des SCC; nature intangible des actifs des SCC; absence d'antécédents et de modèles commerciaux; évolutivité des entreprises des SCC; difficulté à transférer facilement les actifs des SCC. Le Tableau 1 résume les défaillances du marché et les obstacles auxquels se heurtent les entreprises des SCC pour accéder au financement (y compris capitaux propres), selon les personnes interrogées (du côté de l'offre et de la demande), ainsi que d'après des entrevues auprès de représentants de l'UE.

Tableau 1: Défaillances du marché et obstacles à l'accès des entreprises de SCC au financement (y compris capitaux propres) – résultats de la consultation

Type de défaillances du marché/obstacles	Perspective du côté de l'offre (investisseurs en actions, intermédiaires financiers)	Perspective du côté de la demande (organisations représentatives des SCC, enquête auprès d'entreprises des SCC)
Défaillances de l'information	• Manque de connaissance et de compréhension parmi les investisseurs des SCC (ensemble et sous-secteurs); modèles d'évaluation des entreprises des SCC ➢ comment les investisseurs évaluent-ils le gain final?	• Manque de connaissance et/ou de compréhension du financement approprié • Manque de connaissance et de compréhension des modèles d'évaluation des entreprises des SCC

Type de défaillances du marché/obstacles	**Perspective du côté de l'offre (investisseurs en actions, intermédiaires financiers)**	**Perspective du côté de la demande (organisations représentatives des SCC, enquête auprès d'entreprises des SCC)**
	• Absence d'esprit commercial dans les entreprises des SCC, ce qui rend difficile la communication du potentiel des projets d'investissement • Caractère unique et nature « prototype » de chaque projet ou produit (par ex. le nouveau projet de film ou de livre est unique) • Nature immatérielle des actifs (par ex. droits de propriété intellectuelle)	• Trop compliqué et/ou trop chronophage d'identifier les sources de financement appropriées • Compréhension insuffisante de la part de l'investisseur du secteur dans lequel l'entreprise ou l'organisation des SCC œuvre • Absence d'esprit commercial des entreprises des SCC – de nombreuses personnes talentueuses et hautement qualifiées se concentrent uniquement sur leur côté créatif – et ne veulent pas s'engager dans les aspects économiques et financiers • La nature immatérielle des actifs rend difficile pour les financiers d'investir dans ces actifs « ex ante », car les ratios risque/rendement sont élevés
Risque et incertitude	• Trop de risques associés à l'investissement dans les SCC... ➢ insuffisance des actifs d'entreprise à offrir en garantie ➢ absence de garanties personnelles parmi les bénéficiaires potentiels (pertinent en particulier pour les prêts) ➢ absence d'antécédents • Absence de stratégie de sortie claire et potentielle de retour sur investissement • Manque d'opportunités évolutives pour un investisseur en raison d'un manque d'actifs et d'un créneau défendable (PI)	• Trop de risques à prendre sur les capitaux propres • Crainte d'une dilution de l'actionnariat et d'un contrôle réduit de l'organisation
Marchés incomplets	• Perception d'une taille limitée du ou des marchés, ou de la nature de « niche » du ou des marchés • Caractère cyclique de certains sous-secteurs (par ex. festivals et événements) • Manque d'évolutivité des projets/produits/services • Manque de volonté d'investir dans le capital humain au cœur des SCC (par ex. auteur, musicien, réalisateur – spécifique et non transférable) – personnalité plutôt qu'entreprises à vocation commerciale	• Perception d'une taille limitée du ou des marchés, ou de la nature de « niche » du ou des marchés • Réticence ou incapacité d'élaborer ou de présenter des propositions finançables • Recherche fréquente de financement par projet, pas intéressé/impossible de créer une entreprise • Nature difficilement transférable des actifs.

Type de défaillances du marché/obstacles	Perspective du côté de l'offre (investisseurs en actions, intermédiaires financiers)	Perspective du côté de la demande (organisations représentatives des SCC, enquête auprès d'entreprises des SCC)
	• Nature difficilement transférable des actifs (par ex. les SCC constituent un capital humain qui les rend difficiles à transférer)	

Source: entrevues SQW

2. Un déficit de financement persistant

9. Il existe un large consensus parmi les organisations nationales et multinationales impliquées dans le développement des SCC quant à la persistance d'un déficit de financement: ces industries ont un potentiel de développement considérable, mais sont confrontées à de sérieuses contraintes pour financer des activités innovantes et utiles, notamment celles qui peuvent fonctionner à une échelle significative. C'est le cas dans toute l'Europe, dans les pays et régions où ces activités sont fortement concentrées et dans ceux qui en sont à un stade de développement antérieur.

10. Nous avons constaté que ce déficit s'est probablement aggravé à mesure que les économies européennes reprenaient de l'élan après la récession. Cela tient à la fois à la pression sur les finances publiques et à la prudence des investisseurs en cette période de réduction des dépenses. Pour être efficaces, les mesures visant à combler le déficit devront tenir compte des questions sous-jacentes liées à la demande, notamment le degré d'appétence et de préparation en matière d'investissement, les questions relatives au traitement des actifs et à la propriété intellectuelle; les contraintes pesant sur l'offre se caractérisent par la compréhension des SCC dans le secteur financier, les offres et programmes financiers appropriés, notamment le cofinancement, pour répondre aux besoins des différents types de projets aux exigences complexes.

11. Les organisations et les personnes des SCC interrogées se sont concentrées sur la nécessité d'un financement supplémentaire des risques à des conditions abordables pour les entités plus petites et plus récentes. Pour beaucoup, le point de départ était la nécessité de garantir des produits de haute qualité, solides et distinctifs en Europe, d'aller au-delà des barrières linguistiques et culturelles et de construire des marchés et un profil à plus grande échelle. La qualité ne serait pas atteinte sans des mécanismes de financement appropriés. Les déficits génériques dans l'ensemble des SCC comprennent un financement adéquat pour le développement, la commercialisation, la distribution et le catalogage du matériel numérique.

12. La nature persistante du déficit de financement était également évidente dans les réponses à l'enquête auprès des entreprises européennes et dans les entrevues avec le Fonds européen d'investissement (FEI) et d'autres acteurs du secteur financier, ainsi que dans l'intérêt manifesté pour le MG SCC et l'adoption du mécanisme à ce jour. Les organisations des SCC ont fait remarquer que la disponibilité de prêts à des conditions convenables et de subventions continuerait d'être plus importante, en termes de volume, pour l'industrie. Elles estiment également que toute nouvelle intervention financière devrait être liée aux SCC, parallèlement à d'autres actions de soutien; elle devrait également être liée à un mécanisme existant, plutôt qu'à une initiative entièrement nouvelle. Les personnes interrogées du secteur financier ont exprimé des points de vue similaires sur l'importance potentielle des capitaux propres, sur les

limites de leur rôle dans les SCC et sur la nécessité d'éviter un instrument entièrement nouveau.

13. Cela implique qu'une approche holistique est nécessaire, dans laquelle différents types de financement sont mis à disposition ou facilités parallèlement au PEC et à d'autres initiatives aux niveaux régional/national et européen, et avec la possibilité d'intégrer davantage le soutien financier et non financier, lorsque cela est susceptible de produire des bénéfices.

L'ampleur estimée des déficits de financement actuels pour les prêts et les capitaux propres

14. Les déficits de financement indicatifs dans les SCC pour les prêts et les capitaux propres ont été réévalués sur la base des résultats de l'enquête paneuropéenne auprès des entreprises et d'une série d'hypothèses sur la taille et l'intérêt du marché ainsi que sur l'adoption potentielle qui reposent sur d'autres données. Les calculs étaient nécessairement provisoires et très nuancés, mais sur une base assez prudente, ils ont indiqué:

- Un **déficit de prêts de l'ordre de** 2,51 milliards d'euros – 6,22 milliards d'euros sur trois ans, soit 837 millions € à 2,07 milliards € par an

- Un **déficit de capitaux propres de** 1,20 à 1,94 milliard d'euros sur trois ans, soit 399 à 648 millions d'euros par an.

15. Dans ce contexte, l'évaluation ex ante du programme COSME (Competitiveness of Small and Medium-Sized Enterprises)[16] a estimé à 200 milliards d'euros sur sept ans le déficit de financement par l'emprunt pour l'ensemble des 23 millions de PME européennes, soit un déficit annuel de 28,6 milliards d'euros.

3. Demande de MG SCC et progrès dans la mise en œuvre

16. Compte tenu du temps nécessaire à la mise en place des instruments financiers et du fait que la mise en œuvre du MG SCC n'a commencé qu'en 2016, le MG SCC a bien progressé, avec des accords de financement en place avec huit intermédiaires financiers opérant dans six pays, l'Italie, l'Espagne, la France, la République tchèque, la Belgique et la Roumanie, représentant un volume maximum de 440 millions d'euros en portefeuille. Au 30 juin 2018, 386 PME et organisations au total avaient reçu un soutien financier dans le cadre de 512 opérations. Le MG SCC, y compris le volet renforcement des capacités, a été largement salué par le secteur.

17. À ce jour, 80% des bénéficiaires (73% en valeur) se trouvent en Espagne, et environ les trois quarts du montant total engagé en faveur des bénéficiaires finaux sont dans l'audiovisuel – un domaine important pour le PEC, où la demande du marché est forte. Le MG SCC prend de l'ampleur avec des accords de garantie conclus en Italie, en Belgique et en Roumanie en 2018, et d'autres pays et intermédiaires financiers sont en cours de signature.

18. Les données probantes indiquent que le MG SCC joue un rôle utile, mais limité à ce jour, pour aider à combler le déficit de financement global. Nous concluons que ce déficit persistera, même si le financement du MG SCC est augmenté à mesure que l'allocation initiale est pleinement utilisée, et que le déploiement déjà en cours étend son impact à d'autres sous-secteurs et pays.

[16] European Commission (2018) Impact assessment for the successor to COSME. Commission Staff Working Document.

19. Dans la pratique, il faut s'attendre à ce que le Mécanisme soit plus efficace dans certains pays et activités que dans d'autres. Les différences entre les marchés et la disponibilité d'un soutien financier local dans toute l'Europe signifient qu'on ne peut s'attendre à ce qu'il atteigne le même niveau de pénétration dans tous les pays et avec tous les sous-secteurs. Toutefois, il pourrait être avantageux d'accroître encore l'échelle du MG SCC, en lui donnant plus de visibilité afin de toucher différentes économies et différents marchés.

4. Impact d'un nouvel instrument de capitaux propres

20. Du côté de l'offre comme de la demande, un rôle potentiel a été identifié pour d'autres types de financement, y compris les capitaux propres, et pour l'implication d'un éventail plus large d'intermédiaires financiers dans la gamme future. Des prises de participation sont déjà en cours dans les SCC: Des investissements soutenus par le FEI d'un montant de 157 millions d'euros ont été réalisés sur cinq ans, de 2013 à 2017, principalement en parallèle de sociétés de capital-risque, dont 122 millions d'euros dans des opérations multi-pays, principalement dans la musique, puis dans l'audiovisuel et le design.

21. Des programmes de financement souples sont nécessaires pour les SCC, parallèlement à d'autres interventions du côté de l'offre et liés à celles-ci, afin de répondre à un large éventail de circonstances, de besoins, d'aptitudes et d'ambitions. La possibilité d'une nouvelle initiative en matière de capitaux propres pour les SCC se situera probablement principalement dans le segment inférieur du marché, où les investisseurs providentiels sont particulièrement actifs: les grandes entreprises sont beaucoup plus susceptibles d'avoir déjà fait leurs preuves, ce qui leur permettrait de faire des présentations crédibles aux fonds de capital-risque (CR). Une nouvelle initiative pourrait être orientée en particulier vers des produits nouveaux et innovants, et reconnaître que pour les investisseurs providentiels, l'enthousiasme personnel et les opportunités d'engagement susciteront également l'intérêt. Les capitaux propres peuvent également jouer un rôle dans la restructuration des entreprises, qui est prévue dans toute l'Europe dans certains sous-secteurs, et dans lesquels le capital-risque pourrait être appelé à intervenir. Bien qu'il existe déjà une certaine activité du secteur privé pour fournir des capitaux propres à ce secteur, il s'agit d'une activité à petite échelle et partielle; il semble y avoir une possibilité de co-investissement plutôt qu'un danger d'éviction.

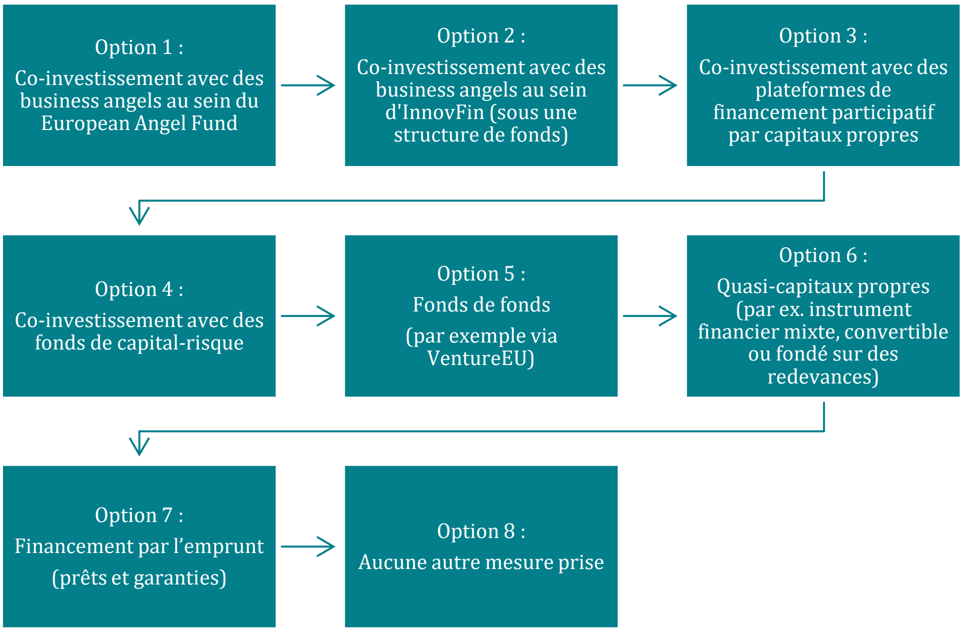
22. Dans les SCC comme dans d'autres secteurs, d'autres formes de financement, y compris le financement participatif par capitaux propres, ont également fait leur apparition ces dernières années. Bien que l'on s'attende à ce qu'elles continuent d'avoir un rôle à jouer, les possibilités d'investissement participatif dans les SCC ont tendance à être présentées aux investisseurs qui recherchent le « buzz » d'une participation à une activité très en vue ou potentiellement très en vue, ou pour jouer un rôle dans le lancement d'un projet auquel ils s'identifient fortement ou qu'ils veulent voir se réaliser. Ils n'investissent pas nécessairement pour obtenir un rendement financier.

Options et proposition de voie à suivre

Évaluation des options

23. Les options élaborées au sein de l'équipe chargée de l'étude (Graphique 2) ont été testées et affinées dans le cadre de discussions avec la CE et le FEI. Il s'agissait notamment d'examiner la compatibilité avec le programme InvestEU (2021-2027),[17] qui fournit une garantie budgétaire de l'UE pour soutenir l'investissement et l'accès au financement et rassemblera divers instruments financiers de l'UE actuellement disponibles pour soutenir l'investissement.

Graphique 2: Première liste d'options potentielles pour les instruments financiers


Option 1 :
Co-investissement avec des business angels au sein du European Angel Fund
Option 2 :
Co-investissement avec des business angels au sein d'InnovFin (sous une structure de fonds)
Option 3 :
Co-investissement avec des plateformes de financement participatif par capitaux propres
Option 4 :
Co-investissement avec des fonds de capital-risque
Option 5 :
Fonds de fonds
(par exemple via VentureEU)
Option 6 :
Quasi-capitaux propres (par ex. instrument financier mixte, convertible ou fondé sur des redevances)
Option 7 :
Financement par l'emprunt
(prêts et garanties)
Option 8 :
Aucune autre mesure prise

Source: SQW

24. Le Tableau 2 et le Tableau 3 identifient et relient les principales défaillances du marché et les principaux obstacles au financement des SCC qui seraient traités par chacune des options impliquant des mesures supplémentaires.

[17] Commission européenne. The InvestEU Programme: Questions and Answers. 2018. http://europa.eu/rapid/press-release_MEMO-18-4010_en.htm

Tableau 2: Résumé des principales défaillances du marché et des obstacles traités par chaque option – Défaillances de l'information, risques et incertitudes

DÉFAILLANCES DE L'INFORMATION, RISQUES ET INCERTITUDES				
	Déficit de connaissances et de compétences au sein des organisations des SCC	**Déficit de connaissances et de compétences chez les financiers**	**Risque élevé et incertitude parmi les organisations des SCC***	**Risque élevé et incertitude chez les financiers quant aux rendements financiers futurs****
Option 1: **Co-investissement avec des investisseurs providentiels au sein du European Angel Fund**	✓	✓	✓	✓
Option 2: **Co-investissement avec des investisseurs providentiels au sein d'InnovFin (sous une structure de fonds)**	✓	✓	✓	✓
Option 3: **Co-investissement avec financement participatif par capitaux propres**	Les plateformes en tant que telles ne fournissent pas d'orientation et de conseils	Les plateformes en tant que telles ne fournissent pas d'orientation et de conseils	✓	✓
Option 4: **Co-investissement avec des fonds de capital-risque**	✓	✓	✓	✓
Option 5: **Fonds de fonds**	✓	✓	✓	✓
Option 6: **Quasi-capitaux propres, par ex. instrument financier mixte, convertible ou fondé sur des redevances**	Le déficit de connaissances et de compréhension des instruments de quasi-capitaux propres constitue un obstacle à leur adoption	Pas nécessairement le point de mire des bailleurs de quasi-capitaux propres	✓	✓
Option 7: **Financement par l'emprunt (prêts et garanties)**	✓ S'il s'accompagne d'une assistance technique/d'un renforcement des capacités pour les organisations des SCC	✓ S'il s'accompagne d'une assistance technique/d'un renforcement des capacités pour les prêteurs	✓	✓

*Source: SQW; *Le risque élevé et l'incertitude couvrent deux aspects qui sont prononcés pour les organisations des SCC: (i) trop de risques à prendre sur les capitaux propres ; (ii) crainte d'une dilution de l'actionnariat et d'un contrôle réduit de l'organisation. **Les principaux facteurs de ce risque sont notamment les suivants: (i) manque d'antécédents en matière de génération de revenus; (ii) des retours sur investissement très variables.*

Tableau 3: Résumé des principales défaillances du marché et des obstacles traités par chaque option – Marchés incomplets

	MARCHÉS INCOMPLETS		
	Perception d'une taille limitée du ou des marchés ou de la nature de « niche » du ou des marchés	**Absence de modèles d'affaires évolutifs**	**Peu de transférabilité des actifs (les SCC dépendent du capital humain qui ne peut être transféré facilement)**
Option 1: **Co-investissement avec des investisseurs providentiels au sein du European Angel Fund**	✓	✓	✓
Option 2: **Co-investissement avec des investisseurs providentiels au sein d'InnovFin (sous une structure de fonds)**	✓	✓	✓
Option 3: **Co-investissement avec financement participatif par capitaux propres**	✓	✓	✓
Option 4: **Co-investissement avec des fonds de capital-risque**	Tendent à investir dans des produits/services dont les marchés potentiels sont suffisamment importants	✓ Tendent à investir dans des sociétés à fort potentiel de croissance	✓
Option 5: **Fonds de fonds**	Tendent à investir dans des produits/services dont les marchés potentiels sont suffisamment importants	✓	✓
Option 6: **Quasi-capitaux propres, par ex. instrument financier mixte, convertible ou fondé sur des redevances**	✓	✓	✓
Option 7: **Financement par l'emprunt (prêts et garanties)**		✓	

Source: SQW

25. Toutes les options figurant au Tableau 4 ci-dessous sont conçues pour être des interventions au niveau européen, et non aux niveaux des États membres – elles visent à compléter et à étendre les dispositions existantes dans les États membres.

Principes

26. Les options listées ont été examinées au regard de trois « principes directeurs » pour les nouveaux instruments financiers, ainsi que de l'évolution rapide des secteurs FinTech et SCC, dans lesquels de nombreux marchés sont à un stade de développement précoce et disruptif, avec de nouvelles offres de produits et de nouvelles sources d'information. Les principes clés des nouveaux instruments financiers étaient les suivants:

- Encourager les intermédiaires financiers et les entreprises bénéficiaires de l'investissement à s'engager et à élargir le marché, lorsque les données indiquent des lacunes du marché
- S'adapter aux besoins spécifiques des SCC, tout en reconnaissant que les intermédiaires financiers ne veulent pas de restrictions sectorielles ou d'une pléthore de règles
- Concevoir de nouveaux instruments sous la forme de produits adaptés et à risque relativement faible[18] qui peuvent être modifiés pour répondre aux exigences nouvelles ou émergentes du marché ou aux besoins des entreprises, et qui peuvent être retirés s'ils ne sont plus nécessaires.

27. Une note globale est donnée: **+++** indique l'option la plus préférée, et **---** indique l'option la moins préférée/non préférée.

[18] En tenant compte des pointages de crédit et du Règlement général sur la protection des données (RGPD).

Tableau 4: Première liste d'options potentielles pour les instruments financiers

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
CAPITAUX PROPRES:				
Option 1: **Co-investissement avec des business angels au sein du European Angel Fund (EAF)**	• Business angel approprié pour moins de 2 millions d'euros – la plupart des entreprises des SCC recherchent ce montant • Environ 40 millions d'euros ont été investis à ce jour dans tous les secteurs par l'intermédiaire de l'EAF, ce qui donne quelques indications pour un projet pilote potentiel (par exemple, un projet pilote de 5 à 10 millions d'euros) • Cible des business angels expérimentés ayant des antécédents d'investissements fructueux et une bonne capacité financière – augmente leur investissement dans des entreprises en démarrage et en phase précoce • Les business angels individuels conservent une grande liberté dans la prise de décision • Les business angels sont impliqués dans le renforcement des capacités, et peuvent s'impliquer pour des raisons non financières,	• Nécessite des ententes individuelles (à long terme) avec des business angels • Toute orientation/restriction sectorielle peut décourager les business angels • Nécessité de déterminer le niveau de la demande chez les business angels au sein de l'EAF • Le montant des investissements des business angels soutenus par le FEI dans les SCC est relativement faible par rapport aux investissements de capital-risque (voir section 6) • Difficile à structurer selon les règles financières de l'UE • L'EAF actuel cible les business angels expérimentés et peut ne pas être inclusif pour tous les investisseurs « nouveaux arrivants »	*Efficacité:* • Les business angels bénéficient de la solide expertise et du vaste réseau du FEI *Efficience:* • Partie de la structure établie au sein de l'EAF: tous les investissements sont effectués sur une base pari-passu; pas d'examen transaction par transaction par l'EAF; portée de l'investissement convenue au préalable; rapports minimaux et documents juridiques normalisés • Il y a une répartition égale de tous les investissements et coûts communs entre les business angels et l'EAF; coût administratif de la structure d'investissement commun *Synergie:* • L'action au niveau de l'UE, qui complète d'autres interventions financières en faveur des SCC (au niveau national et à l'échelle de l'UE), contribue à réduire le déficit de financement et à créer des synergies dans les SCC	++

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
	par exemple, s'intéressent au cinéma			
Option 2: **Co-investissement avec des business angels au sein d'InnovFin (sous une structure de fonds)**	• Plus pertinent pour les startups/jeunes entreprises • Le risque d'investissement est réparti avec d'autres investisseurs • Les fonds sont gérés ou mis en commun par des business angels – possibilité de générer des fonds importants • Structure de fonds potentiellement plus efficiente et mieux organisée – gérée par des business angels ayant une certaine expertise en matière de SCC • Tire parti de l'expertise et du savoir-faire des réseaux/groupes de business angels qui regroupent des investisseurs ayant un intérêt commun dans les entreprises des SCC • Facilite le développement et le professionnalisme des syndicats d'investissement • Encourage la création de nouveaux fonds et d'autres formes de business angels intéressés par les SCC	• Nécessité de déterminer le niveau de la demande parmi les business angels au sein d'InnovFin • Variation du niveau de compétence et d'activité des business angels au sein d'InnovFin • Actuellement, peu de fonds ou de réseaux de business angels se spécialisent dans les SCC, de sorte que le renforcement des capacités des investisseurs et la sensibilisation au potentiel des SCC seront importants • Demande au FEI de s'adresser de manière proactive aux business angels potentiels dans les SCC afin de les encourager à mettre en place des fonds axés sur les SCC	*Efficacité:* • Potentiellement bien adapté au nouveau programme InvestEU • La CE peut contribuer au renforcement des capacités des business angels et des sociétés de capital-risque afin qu'ils puissent mieux se connecter avec les entreprises des SCC et les développer davantage • Une approche cohérente au niveau de l'UE peut contribuer à un partage potentiel des meilleures pratiques entre intermédiaires financiers (ce qui pourrait ne pas se produire autrement), par exemple par le biais de mécanismes de référence entre pays • Potentiellement moins de fragmentation du financement et du paysage des SCC *Efficience:* • Améliorer l'efficacité grâce à des économies d'échelle – mise en commun des ressources et développement d'une masse critique d'activités, ce qui pourrait conduire à une approche plus coordonnée • La CE, par l'intermédiaire du FEI, possède une grande expérience des modèles de co-investissement et a fait ses preuves en se concentrant sur la mobilisation de financements privés pour les investissements	+++

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
	• Facilite l'identification et la préparation à l'investissement des entreprises des SCC		*Synergie:* • L'action au niveau de l'UE, qui complète d'autres interventions financières en faveur des SCC (au niveau national et à l'échelle de l'UE), contribue à réduire le déficit de financement et à créer des synergies dans les SCC, y compris des objectifs politiques pour, par exemple, les entreprises des SCC en pleine expansion	🟩
Option 3: **Co-investissement avec des plateformes de financement participatif par capitaux propres**	• Intérêt des plateformes/réseaux de financement participatif • Complète d'autres instruments financiers plutôt qu'une solution en soi • Plus pertinent pour les phases de pré-revenu/de démarrage – financement de projets individuels plutôt que pour la croissance des entreprises • Adapté à l'orientation projet de l'entreprise de SCC • L'intervention peut se faire au niveau national/régional au moyen du Fonds ESI (Fonds structurels et d'investissement européens)	• Le bon modèle opérationnel doit être conçu • L'intervention au niveau de l'UE par le biais d'un système de co-investissement avec des plateformes de financement participatif peut prendre beaucoup de temps – • De nombreuses plateformes de financement participatif continuent d'investir au niveau national et il pourrait donc être prématuré d'élaborer un système communautaire (transfrontalier) permettant des co-investissements avec ces plateformes • Les montants levés risquent d'être insuffisants pour avoir une valeur matérielle, par exemple, pour le secteur audiovisuel	*Efficacité:* • La proposition de la CE dans le cadre de son plan d'action Fintech (mars 2018) pour un règlement sur le financement participatif européen permettra aux plateformes de financement participatif de fournir leurs services à travers l'UE (une fois mis en œuvre) *Efficience:* • La proposition de l'UE vise à faciliter l'offre de services par les plateformes de financement participatif à l'échelle de l'UE et à améliorer l'accès au financement (y compris les capitaux propres) • Une fois adopté par le Parlement européen et le Conseil, le règlement proposé devrait permettre aux plateformes de demander un label communautaire fondé sur un ensemble unique de règles. L'objectif est de leur permettre d'offrir leurs services dans toute l'UE	+

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
		• Les plateformes de financement participatif ne fournissent pas « d'argent intelligent », c'est-à-dire le mentorat, l'accès aux réseaux, etc. • Il y a un compromis à faire entre l'attrait des plateformes de financement participatif et les normes élevées en matière d'obligation redditionnelle • Les fonds publics co-investis avec d'autres investisseurs privés pourraient être soumis à l'effet de « ralliement ». En conséquence, des ressources seraient allouées à des projets populaires qui n'ont pas nécessairement les meilleures perspectives de croissance à long terme	*Synergie:* • Selon les propositions, les investisseurs des plateformes de financement participatif seront protégés par des règles claires en matière de divulgation d'informations, de gouvernance et de gestion des risques et par une approche cohérente de la surveillance – globalement, réduire les risques et relever les normes	
Option 4: **Co-investissement avec des fonds de capital-risque**	• Convient davantage aux entreprises à plus grande échelle qui recherchent plus de 2 millions d'euros – plus pertinent pour les entreprises matures • Possibilité de générer de meilleurs rendements • L'augmentation du capital du fonds sous gestion	• Nécessité d'être clair sur les stratégies de sortie pour les sociétés de capital-risque • Se concentrer sur certains sous-secteurs – principalement ceux liés au numérique et à la technologie, par exemple l'audiovisuel	*Efficacité:* • S'intègre bien dans le nouveau programme InvestEU et serait donc considéré comme faisant partie intégrante de l'offre de la CE • La CE a l'avantage supplémentaire de pouvoir mettre en place des structures de financement à plus long terme avec des durées dépassant les mandats politiques,	+++

	Aspects positifs	**Aspects négatifs**	**Valeur ajoutée de l'UE**	**Notation globale**
	peut mener à la création d'un fonds plus important • La création de fonds de capital-risque pour les investissements dans les SCC • Possibilité d'élargir le champ d'application des fonds de capital-risque existants, éventuellement en incitant les gestionnaires des fonds existants à allouer de nouveaux capitaux aux entreprises des SCC	• Le co-investissement public doit répondre à la fois à des objectifs de développement financier et économique/politiques • Nécessite une masse critique d'opérations appropriées et une bonne préparation à l'investissement, un marché du capital-risque bien établi et des co-investisseurs expérimentés (très peu de sociétés de capital-risque spécialisées dans les SCC en Europe) • Nécessite un marché du capital-risque déjà établi (y compris un réseau d'investisseurs institutionnels)	ce qui peut souvent être un problème au niveau national *Efficience:* • Améliorer l'efficacité grâce à des économies d'échelle – grâce à un portefeuille d'investissements en capital-risque et au développement d'une masse critique d'activités, ce qui pourrait conduire à une approche plus coordonnée • La CE, par l'intermédiaire du FEI, possède une grande expérience des modèles de co-investissement et a fait ses preuves en se concentrant sur la mobilisation de financements privés pour les investissements *Synergie:* • En proposant ces co-investissements à l'échelle paneuropéenne, la CE encouragerait les SCC dans toute l'Europe plutôt qu'au niveau national, ce qui n'encouragerait les SCC qu'avec certains pays	🟩
Option 5: **Fonds de fonds** **(par exemple via VentureEU[19])**	• Conçue pour les PME et les entreprises de taille intermédiaire, elle est axée sur le secteur : TIC, numérique, sciences de la vie, technologies médicales et efficacité des ressources et de l'énergie ➢ Les SCC pourraient être ajoutés	• Il n'est pas clair si d'autres secteurs peuvent être inclus dans VentureEU • Il faudra peut-être élargir le pool de gestionnaires de fonds sur VentureEU (si cela n'entre pas en conflit avec les gestionnaires de fonds existants), c.-à-d. ajouter	*Efficacité:* • Tirer des leçons du Fonds de fonds InnovFin *Efficience:* • Une partie de la structure établie au sein de VentureEU • Possibilité de références croisées d'opportunités d'investissement entre fonds (au sein d'un fonds de fonds) et d'autres fonds	**---**

[19] Commission européenne. VentureEU: 2,1 milliards d'euros pour stimuler les investissements en capital-risque dans les startups innovantes en Europe. 2018. http://europa.eu/rapid/press-release_IP-18-2763_en.htm

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
	• Dirigée par le secteur privé avec six gestionnaires de fonds en place • Génère un impact d'envergure par le biais d'une structure de fonds de fonds • Plus pour les entreprises à plus grande échelle/axées sur la croissance qui recherchent des montants plus importants	des gestionnaires de fonds intéressés par les SCC • Dans la pratique, l'ampleur des investissements de fonds peut être trop faible pour faire une différence tangible dans l'écosystème de financement des SCC	*Synergie:* • Développement de l'écosystème plus large de financement du capital pour les SCC	
Option 6: **Quasi-capitaux propres, par ex. instrument financier mixte, convertible ou fondé sur des redevances**	• Instrument d'investissement fondé sur les redevances – plutôt que d'acheter des actions, les investisseurs providentiels achètent une part en pourcentage des flux de revenus futurs, réduisant ainsi le risque potentiel pour les investisseurs puisqu'ils ne sont impliqués que lorsque les revenus réels sont générés • Le capital est fourni et, en retour, les investisseurs reçoivent une partie de toutes les ventes jusqu'à ce qu'un rendement déterminé soit réalisé • Aucune garantie personnelle n'est exigée • Pas de dilution dans les participations	• Autres preuves requises sur demande pour ce type d'instrument, et comment cela fonctionnerait sur le plan opérationnel • Le déficit de compréhension des instruments de capitaux propres parmi les sociétés des SCC bénéficiaires peut constituer un obstacle à l'adoption • Risque élevé pour le fournisseur • Investissement long et coûteux en temps et en argent • Coûts d'installation et d'exploitation élevés • Potentiellement difficile d'établir le prix de l'investissement	*Efficacité:* • Soutien avec une assistance technique/renforcement des capacités – éducation des entreprises des SCC et des investisseurs potentiels sur l'opportunité de cette forme d'investissement • L'UE (en tant que tierce partie indépendante) peut potentiellement contribuer à l'évaluation des propositions des fournisseurs de quasi-capitaux propres – réduisant ainsi le risque pour les entreprises des SCC *Efficience:* • L'UE pourrait apporter son aide en ce qui concerne les aspects administratifs, étant donné que les investissements en quasi-capitaux propres sont généralement plus difficiles à gérer que les prêts (coûts d'installation et d'exploitation élevés) et prennent plus de temps	++

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
	• L'investissement est un passif plutôt qu'une dette • Mieux adapté aux entreprises des SCC qui n'ont pas d'antécédents en matière de ventes, mais on s'attend à de futures sources de revenus • Avantage d'une capitalisation accrue avec une exposition limitée à la dette et un risque collatéral limité	• Le financement à court terme n'est pas possible	*Synergie:* • Créer des synergies en influençant des changements plus larges dans le cadre réglementaire (transfrontalier) afin d'encourager un marché du capital-investissement	🟩
DETTE:				
Option 7: **Financement par l'emprunt (prêts et garanties)**	• Les prêts sont un mécanisme de financement formel largement utilisé, ce qui offre une opportunité apparente d'intervenir derrière des produits financiers éprouvés et généralement compris, et d'influencer et d'élargir le marché • Les prêts peuvent être utilisés à diverses fins et adaptés en conséquence – pour soutenir de nouveaux produits et services pour les entreprises et les projets; ainsi que le fonds de roulement. • Résultats de l'UE en cours dans le cadre du Mécanisme de garantie en faveur des SCC -	• Un paysage complexe en Europe : des différences significatives dans la compréhension des SCC et dans les réponses des IF et des politiques publiques d'un pays à l'autre et, dans certains cas, à l'intérieur d'un même pays • L'ampleur et la diversité de l'activité sectorielle ainsi que des financements de prêts existants peuvent empêcher une initiative de financement par l'emprunt d'avoir des effets plus larges, d'influer sur le marché	*Efficacité:* • L'UE dispose d'antécédents et d'une expérience dans le cadre du Mécanisme de garantie en faveur des SCC (et d'autres mécanismes de garantie à l'échelle de l'UE) qui peuvent être utilisés pour améliorer l'efficacité et réaliser le potentiel des SCC (notamment par le renforcement des capacités des entreprises et des intermédiaires financiers) *Efficience:* • La rapidité avec laquelle le Mécanisme de garantie en faveur des SCC a été déboursé dans les cas où il était opérationnel a été un résultat positif de cette étude – l'UE a la possibilité de coordonner et de débourser rapidement et efficacement les fonds de dette.	+++

	Aspects positifs	Aspects négatifs	Valeur ajoutée de l'UE	Notation globale
	soutien des interventions mises en œuvre dans le cadre d'accords spécifiques avec des IF dans différents pays • Les IF connaissent bien les produits de prêt et ont de l'expérience dans ce domaine; les sources traditionnelles peuvent répondre à la demande effective des SCC dans certains pays		*Synergie:* • L'objectif d'InvestEU est de rendre le financement communautaire des projets d'investissement « plus simple, plus efficace et plus flexible ». Il existe également des synergies potentielles à tirer de l'utilisation du fonds unique InvestEU Fund. Il s'agit notamment des mécanismes de garantie dans le cadre d'InvestEU (par exemple, COSME, EaSI et le Mécanisme de garantie en faveur des SCC).	🟩
AUCUNE AUTRE INTERVENTION				
Option 8: **Aucune autre mesure prise**	• Pas d'augmentation des ressources financières nécessaires – pas de coûts d'installation et d'exploitation • Il pourrait être plus simple de mettre l'accent sur le Mécanisme de garantie en faveur des SCC et d'autres instruments financiers généraux – moins de risque d'éviction et de doublon avec l'offre existante	• Cela suppose que l'offre financière existante est suffisante pour répondre à la demande. Cela va à l'encontre des éléments recueillis aux fins de la présente évaluation ex ante (tant du côté de l'offre que de la demande) • Il est peu probable que les conditions et les besoins spécifiques des entreprises des SCC soient rapidement ou adéquatement pris en compte par l'offre actuelle	• S.O.	**---**

Source: SQW

Recommandations: options préférées, échelle proposée et implications pour la mise en œuvre

Options préférées

28. L'étude a conclu que le co-investissement avec des investisseurs providentiels par le biais d'une structure de fonds ou avec des fonds de capital-risque, parallèlement au fonctionnement continu du Mécanisme de garantie, serait l'approche communautaire la plus efficace, car cela contribuerait à développer davantage le marché des SCC en Europe, permettant à ces investisseurs d'investir ensuite des montants plus importants dans le démarrage et le développement des SCC. Les options complémentaires suivantes sont proposées:

- **Option 2 – Co-investissement avec des business angels au sein d'InnovFin sous une structure de fonds** destinée à soutenir les startups et les jeunes entreprises des SCC (y compris à forte croissance) ayant besoin d'un financement inférieur à 2 millions d'euros, de tout sous-secteur des SCC

- **Option 4 – Co-investissement avec des fonds de capital-risque** pour soutenir les entreprises plus matures dans les SCC qui cherchent à développer leurs activités et ont besoin d'un financement supérieur à 2 millions d'euros; faciliter l'adaptation au marché mondial; probablement limité à des sous-secteurs clés comme le numérique et les technologies connexes

- **Option 7 – Poursuite ou extension du Mécanisme de garantie en faveur des SCC pour** soutenir les entreprises des SCC à tous les stades de développement et plafonné à 2 millions d'euros pour les transactions individuelles; ces entreprises pourraient appartenir à tous les sous-secteurs des SCC.

29. Le **financement participatif par capitaux propres (Option 3)** complétera ces trois interventions et élargira la portée dans différentes parties du déficit de financement. Une **assistance technique** sera mise à disposition, comme c'est le cas pour le MG SCC, parallèlement et en tant que partie intégrante de chaque intervention, pour faciliter le dialogue et la compréhension entre les SCC et les bailleurs de fonds. Nous envisageons que la forme de ce renforcement des capacités soit adaptée à des pays/localités spécifiques, par le biais d'une co-conception impliquant des organisations représentatives des SCC ainsi que des bailleurs de fonds.

30. Nous proposons l'échelle d'opération suivante pour ces initiatives de financement, les nouveaux instruments de capitaux propres étant initialement mis en place sous la forme d'un programme pilote de trois ans.

Tableau 5: Taille proposée des instruments financiers (projet pilote de trois ans pour les instruments de capitaux propres)

Option	Intervention communautaire proposée (en millions d'euros)	Effet de levier anticipé	Échelle globale (M€)
Option 2: Co-investissement avec des business angels (sous une structure de fonds)	20	0,5-1,0x	30-40
Option 4: Co-investissement avec capital-risque	50	0,2-0,5x	60-75
Option 3: Financement participatif par capitaux propres	10	0,5-1,0x	15-20
Option 7: Financement par l'emprunt (garanties)*	135	6-10x	810-1 350

*Source: SQW; *Les valeurs de financement par l'emprunt sont pour une période de trois ans*

31. Nous prévoyons que ces initiatives apporteront une valeur ajoutée au niveau européen sur six dimensions.

- En proposant ces co-investissements à **l'échelle paneuropéenne**, la CE encouragerait les SCC dans toute l'Europe: les mécanismes nationaux se concentreront inévitablement à l'intérieur de leurs propres frontières et risquent de manquer le potentiel de perspectives de marché plus larges; les pays ayant un potentiel émergent dans les SCC pourraient ne pas bénéficier d'une expérience à l'échelle européenne.

- La CE, par l'intermédiaire du FEI, possède une grande **expérience des modèles de co-investissement** et a fait ses preuves en se concentrant sur la mobilisation de financements privés pour les investissements: les modèles de co-investissement s'intègrent également bien dans le nouveau programme InvestEU et ces initiatives seraient considérées comme faisant partie intégrante de l'offre communautaire.

- La CE est en mesure de mettre en place **des structures de financement à plus long terme** avec des durées dépassant les mandats politiques, ce qui peut souvent être un problème au niveau national.

- Au sein d'InvestEU, **permettre l'introduction/le transfert de compétences en capital-risque dans les pays de l'UE où elles ne sont pas encore disponibles**; ce sera un élément important du renforcement des capacités d'investissement.

- La CE soutiendrait également **le renforcement des capacités**, parallèlement au financement par co-investissements, afin de faciliter l'état de préparation à l'investissement des entreprises des SCC et la connexion avec les investisseurs. Il faudra l'adapter **aux possibilités et aux besoins spécifiques**.

- Ces programmes de financement et de renforcement des capacités faciliteraient également l'**interconnexion des réseaux et des écosystèmes des SCC dans toute l'Europe, tandis que le renforcement** des capacités des SCC dans les réseaux d'investisseurs providentiels contribuerait également à donner une plus grande visibilité aux activités et aux entreprises des SCC et permettrait de développer davantage les marchés au niveau européen.

Structures de programme: responsabilité principale, participation du secteur privé et examen des progrès

32. Les nouvelles initiatives de financement devraient être mises en œuvre par le biais d'InvestEU et suivront donc les critères généraux et la structure des programmes InvestEU.

33. Si les fonds de co-investissement proposés sont mis en place, la CE doit s'engager sur le long terme, car les résultats ne seront pas entièrement atteints avant au moins 10 ans. La conception et la mise en œuvre des programmes jouent un rôle essentiel dans la mesure où ils permettent d'atteindre les objectifs visés (CE, 2012).[20] Les liens entre ces programmes, le renforcement des capacités et d'autres systèmes de soutien sont essentiels ; les fonds ne doivent pas être considérés comme des interventions uniques. Nous prévoyons qu'ils seront déployés dans le cadre d'un processus d'apprentissage itératif plus large, dans lequel les progrès des premiers fonds de co-investissement seront continuellement suivis, et les implications pour la voie à suivre seront examinées et approuvées bien avant la fin de la période pilote de trois ans.

34. La politique publique ne sera probablement efficace que si elle est mise en œuvre en étroite coopération avec les acteurs du marché privé. La participation des acteurs du secteur privé devrait commencer le plus tôt possible dans le processus, à la fois de manière informelle et formelle (sous la forme de conseils consultatifs, etc.). Ce processus de participation entre les acteurs des secteurs public et privé est crucial non seulement pour la planification des programmes (partage des connaissances et recherche d'un consensus) mais aussi pour le succès à long terme.

35. Ces recommandations devront être détaillées et testées dans le cadre de l'évaluation par la CE des nouveaux instruments financiers proposés.

[20] European Commission (2012) Evaluation of Member State Policies to Facilitate Access to Finance for SMEs, Centre for Strategy and Evaluation Services & EIM, United Kingdom, June.

1. Introduction

1.1 In January 2018, The European Commission (EC), Directorate General for Communications Networks, Content and Technology (DG CONNECT) commissioned SQW to undertake an '*Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the Cultural and Creative Sectors*'. The study led by SQW, is supported by Visionary Analytics, Economisti Associati, and three expert associates: Emma Fau (EUcapital), Karen Wilson (GV Partners and OECD) and Neil Watson (Independent Consultant). This is the Final Report for the project.

Context

1.2 The Cultural and Creative Sectors (CCS)[1] contribute significantly to the economic and social development of Europe. On a broad definition, they are the third largest source of employment[2] in the European Union (EU) with 8.5 million jobs, accounting for 4.5% of EU overall GDP.[3] This is augmented by CCS enabling innovation and technological development in other parts of the economy. The social role CCS play is important for preserving (and transmitting) cultural, creative and linguistic diversity, and thus in strengthening European identities and social cohesion.

1.3 Market research has indicated that access to funding is one of the key barriers encountered by entrepreneurs, SMEs and other organisations working in CCS. The barrier is related to the intrinsic characteristics of CCS activities; the nature of CCS organisations and entrepreneurs, as well as the market conditions specific to the sector. These characteristics include: the intangible nature of many CCS assets (making them difficult to evaluate); lack of track record among companies; limited transferability of assets (which makes for poor collateral and reduces the appetite of venture capital investors); existence of information failures between finance providers and companies; difficulties in assessing business models; European financial intermediaries lacking the in-house expertise to evaluate risk associated with CCS opportunities; also, more widely, the range and fragmentation of activities across CCS, which affects external perceptions and understanding and limits economies of scale. Whilst some of these barriers may be faced by SMEs in other sectors, they tend to be more pronounced in CCS, especially for small companies. The result is a 'finance gap' for CCS enterprises: in 2013, a feasibility study[4] for the EC which involved an online survey of CCS businesses, estimated the total financing gap to be between €8 and €13bn over the seven-year period from 2014 to 2020.

1.4 The EU has developed various important policy approaches and initiatives to foster CCS and support cultural exchange and dialogue both within the Single Market and externally. The most important and broad-reaching of these is the Creative Europe Programme (CEP),

[1] According to the EC, the CCS include inter alia: architecture, archives libraries and museums, artistic crafts, audio visual (including film, television, video games, and multimedia), tangible and intangible cultural heritage, design festivals, music literature, performing arts, publishing, radio and visual arts.

[2] EC (2017) Report from the Commission to the European Parliament and the Council. Mid-term evaluation of the Creative Europe programme (2014-2020).

[3] EC (2018) Creative and Cultural Sector Policy Background. PPT.

[4] IDEA (2013) Survey on access to finance for cultural and creative sectors: Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the Creative Europe programme. Report for the EC.

launched in 2014. In headline terms, CEP is designed to support the activities of the cultural and audiovisual sectors in participating countries, to address the challenges posed by the shift towards digitalisation, market fragmentation, global competition and the increasing difficulty in accessing financing.

1.5 CEP is the EU's central funding mechanism to support enterprises in the CCS, with €1.46bn allocated for the period 2014-2020 to support the cultural diversity and growth. It comprises three sub-programmes: Culture, Media, and a cross-sectoral strand through the CCS Guarantee Facility (CCS GF). The last was introduced in 2016 with an initial budget of €121m, subsequently topped-up with additional €60m from the European Fund for Strategic Investments (EFSI), for the implementation period 2016-2020. It is expected to leverage approximately €1bn loan financing for SMEs and other organisations operating in the CCS.

Study purpose and scope

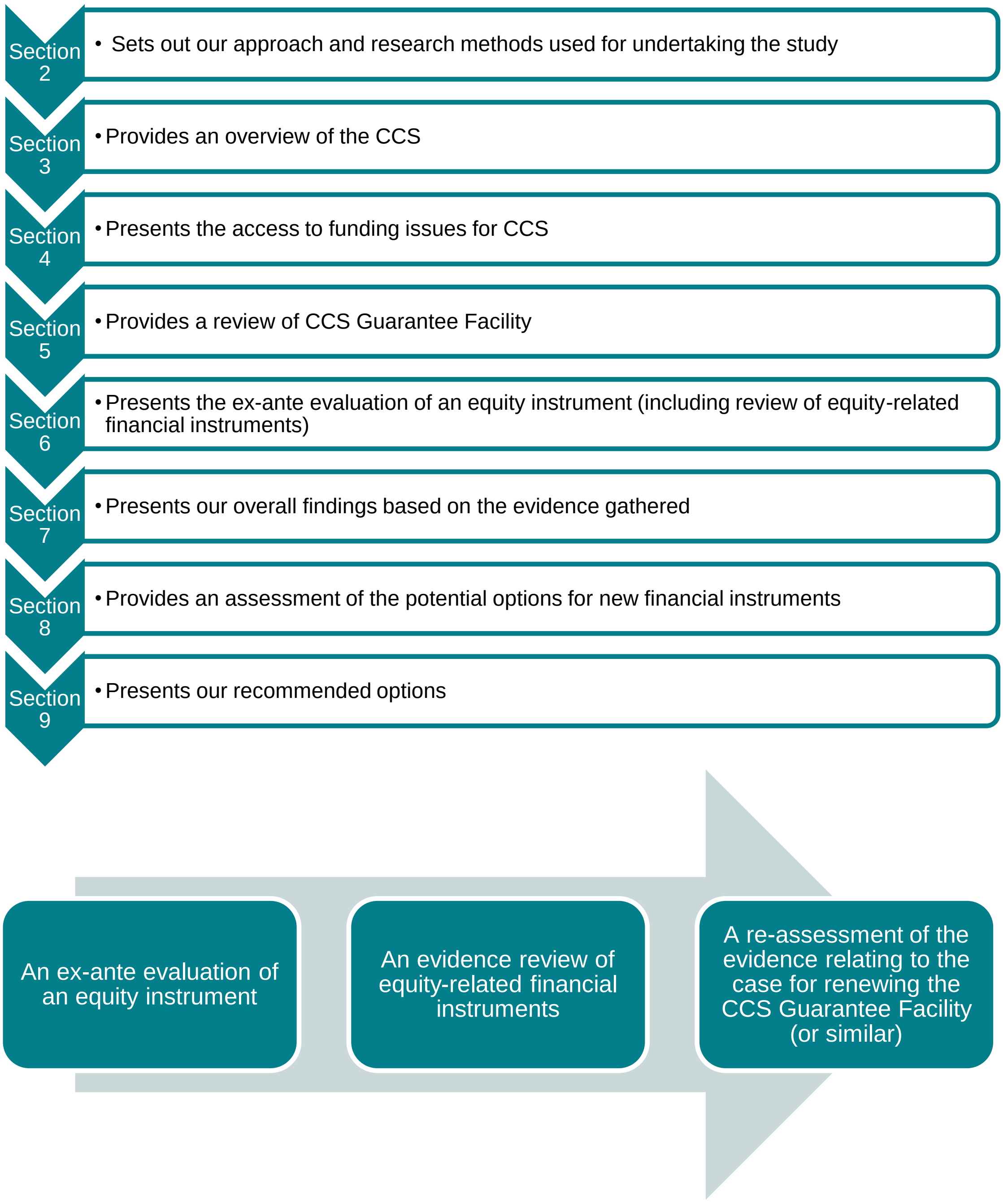
1.6 Having identified the importance of the sector, the EC's aim is to ensure that appropriate mechanisms are in place to further strengthen, as needed, the competitiveness and scale-up of CCS businesses. Updated policy will draw on analysis of sectoral conditions, and assessment of the instruments best suited for this purpose - overall, and where possible for each sub-sector. In exploring and identifying the potential need for further public intervention to support CCS, the approach must be as rigorous as possible, reviewing whether and in what form there is market failure, and the potential role for additional funding which will overcome this without distorting the market, taking into account anticipated leverage effects. This ex-ante assessment of financial instruments for CCS is not based on a presumption of any specific future intervention, nor indeed as to whether any additional action at all is to be taken.

1.7 The study was therefore designed to update and further develop the evidence base on financing issues facing the CCS. The focus is on SMEs, mid-caps, and other organisations (including scale-ups), and the scope is pan-European, and across all sub-sectors. The nature of the study, and time and budget constraints, mean, however, that there is inevitably some focus on areas of strong sectoral concentration, and on those for which data are more readily available. The study findings will be used to inform EC thinking on policy options for support for financing of SMEs and other organisations in these sectors. This includes a potential new equity instrument as well as the possible continuation/expansion of the Guarantee Facility that already exists under the CEP (paragraph 1.5, above).

Structure of this Report

1.8 This report is structured as shown in Figure 1-1 below, based on the three inter-related elements of the study, and the work undertaken.

Figure 1-1: Structure of the study, and this report


Section 2
• Sets out our approach and research methods used for undertaking the study
Section 3
• Provides an overview of the CCS
Section 4
• Presents the access to funding issues for CCS
Section 5
• Provides a review of CCS Guarantee Facility
Section 6
• Presents the ex-ante evaluation of an equity instrument (including review of equity-related financial instruments)
Section 7
• Presents our overall findings based on the evidence gathered
Section 8
• Provides an assessment of the potential options for new financial instruments
Section 9
• Presents our recommended options
An ex-ante evaluation of an equity instrument
An evidence review of equity-related financial instruments
A re-assessment of the evidence relating to the case for renewing the CCS Guarantee Facility (or similar)

1.9 The six annexes to the report contain: list of consultees; CCS business survey results; cross-tabs of selected CCS business survey results; relevant data sources; list of the literature reviewed; list of equity instruments relevant for CCS businesses.

2. Approach and methodology

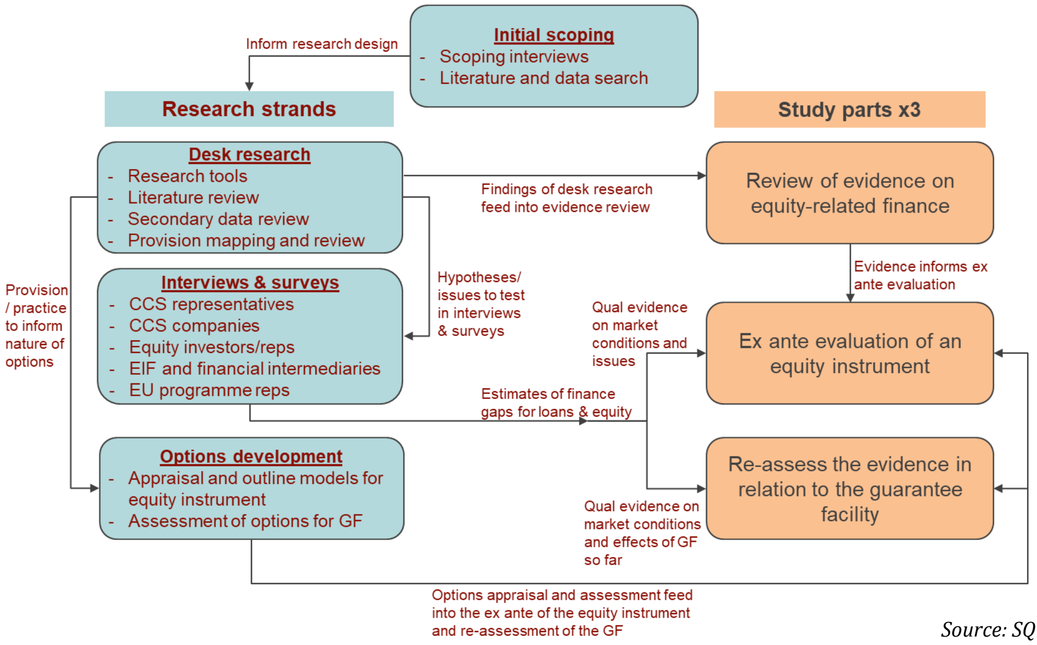
2.1 This section sets out our approach and methodology for the study. This includes progress to date, the key challenges encountered in implementing the study, and our response to these challenges.

Overarching approach

2.2 Figure 2-1 summarises the overall approach to the study. The different coloured shading distinguishes between the sets of tasks that form the approach and the three core study parts. The arrows and accompanying text highlight the key ways in which the different research strands link with one another and how they fed into the three core study parts. In overview:

- The initial scoping, comprising of a search and mapping of literature/data to study questions and familiarisation interviews (including the inception meeting), informed the subsequent research strands (and were written up in the Inception Report).
- A desk research exercise directly informed the core study part on the review of evidence on equity-related finance. The desk research identified issues that were tested in the interviews and surveys, and provided evidence on provision and good practice to inform options development.
- The extensive interview and survey process provided a mix of evidence to inform the ex-ante evaluation of an equity instrument and a re-assessment of the evidence to support the renewal of the CCS Guarantee Facility.
- The options development included an appraisal and outline model development for the equity instrument, informing the ex-ante evaluation. It also included a separate assessment of options for the Guarantee Facility, to inform the re-assessment of this.

Figure 2-1: Summary of overall approach


Initial scoping
- Scoping interviews
- Literature and data search
Inform research design
Research strands
Study parts x3
Desk research
- Research tools
- Literature review
- Secondary data review
- Provision mapping and review
Findings of desk research feed into evidence review
Review of evidence on equity-related finance
Evidence informs ex ante evaluation
Provision / practice to inform nature of options
Interviews & surveys
- CCS representatives
- CCS companies
- Equity investors/reps
- EIF and financial intermediaries
- EU programme reps
Hypotheses/ issues to test in interviews & surveys
Qual evidence on market conditions and issues
Ex ante evaluation of an equity instrument
Estimates of finance gaps for loans & equity
Options development
- Appraisal and outline models for equity instrument
- Assessment of options for GF
Qual evidence on market conditions and effects of GF so far
Re-assess the evidence in relation to the guarantee facility
Options appraisal and assessment feed into the ex ante of the equity instrument and re-assessment of the GF

Source: SQW

2.3 Overall, the initial scoping interviews confirmed the research questions for the study (see Tables 2-1 to 2-3, below). These key research questions were used as a higher-order framework under which specific issues and implications were further explored. We designed research tools and questioning in interviews with the CCS and finance communities to probe and 'dive deeper' in the specific issues and implications found through our scoping research and desk review. For ease of reference, these research questions have been coded by number: ex-ante evaluation of an equity instrument (E1 etc); evidence review of equity-related instruments (ER1 etc); review of guarantee facility (GF1 etc).

Ex-ante evaluation of an equity instrument

2.4 The evaluation to inform development of an equity finance instrument for the CCS was aligned with the standard EU guidance for ex-ante evaluations,[5] covering a market assessment, economic case and options assessment for delivery. This was reflected in the 11 key questions from the Terms of Reference (Table 2-1).

Table 2-1: Research questions: ex-ante evaluation of an equity instrument

Topic	Original research questions
Contextual conditions	E1: What is the quantitative and qualitative evidence on the supply, demand and related issues for equity finance in the cultural and creative sectors? E2: How is it changing in the context of the evolving landscape (including crowdfunding)?
Market failures	E3: Specifically, what market imperfections and failures exist that justify intervention? E4: Why can market needs not be met by private sector activities in a timely way? What issues are there in relation to possible market distortions or crowding out?
Scale of intervention	E5: Spatially, what is the appropriate level of intervention, i.e. should a Union-level option be taken forward rather than national or regional scale? E6: What is an appropriate scale of funding given the evidence on the finance gap?
Modes of delivery	E7: What are the delivery options in terms of the instrument and how it is implemented? E8: What would be the most efficient model?
Wider landscape	E9: Could the instrument be delivered as part of an existing intervention? E10: If a separate instrument is required, how would it align with existing interventions, and so what needs to be done to ensure complementarity and/or avoid duplication?
Performance indicators	E11: What performance indicators should be used to monitor performance of the instrument?

Source: SQW Proposal drawing on the Terms of Reference

Evidence review of equity-related instruments

2.5 Table 2-2 presents the main research questions/topics for the evidence review of equity-related instruments. The evidence review was required, partly to inform the development and

[5] There is a range of guidance on ex-ante evaluation generally, though specific guidance on financial instruments such as fi-compass (https://www.fi-compass.eu/) has particularly informed our approach to evaluating the relevant issues.

appraisal of options as part of the ex-ante evaluation (see above), and partly to provide DG CONNECT with a wider purview of the trends, types of instruments used and issues to consider. The review analysed equity as well as other related instruments (e.g. mezzanine and blended instruments). The evidence review was used to inform the evaluation process.

Table 2-2: Research questions/topics – evidence review of equity-related instruments

Original research questions/topics
ER1: What are key trends, issues and barriers in relation to equity-related finance in the CCS?
ER2: What is the current provision of equity-related finance for the CCS?
ER3: Learning from good practice models of equity-related instruments – schemes funded in the CCS (or elsewhere that have transferability to the CCS).

Source: SQW Proposal drawing on the Terms of Reference

A re-assessment of the evidence relating to the case for renewing the Guarantee Facility (or similar)

2.6 The third set of research questions concerned re-assessment to enable policy decisions to be taken with respect to continuing, halting or considering alternatives for the Guarantee Facility that is currently in place for the cultural and creative sectors under the CEP. This drew on evidence from other parts of the study, as well as revisiting and testing the ongoing validity of the evidence that supported the Guarantee Facility's development. On the basis of these findings from the evidence available to date on CCS GF, proposals were developed on its future implementation. A logic model for CCS GF was developed and used to inform research tools and interviews with key stakeholders. Three sets of issues were pertinent, as set out in Table 2-3.

Table 2-3: Research questions/issues: re-assessment of the evidence relating to the case for renewing the Guarantee Facility (or similar)

Original research questions/issues
GF1: Do the arguments in terms of market imperfections and failures still persist?
GF2: How has the finance gap changed, reflecting on whether it has been (partly) addressed through the provision of the facility itself and also through changed understanding and behaviours of financiers?
GF3: Has the facility proved to be a good model to address the market imperfections, and so contribute to policy objectives? Are there lessons to inform future arrangements?
Additional questions from scoping research:
GF4: Is the limit of €2m for the CCS GF insufficient to meet key gaps (incl. for sectors e.g. AV)?
GF5: Is there scope to disburse more guarantee funds if the amount of CCS GF was increased?
GF6: How can the opportunities arising from digitalisation in the economy for CCS best be addressed and exploited?

Source: SQW Proposal drawing on the Terms of Reference; and SQW scoping research

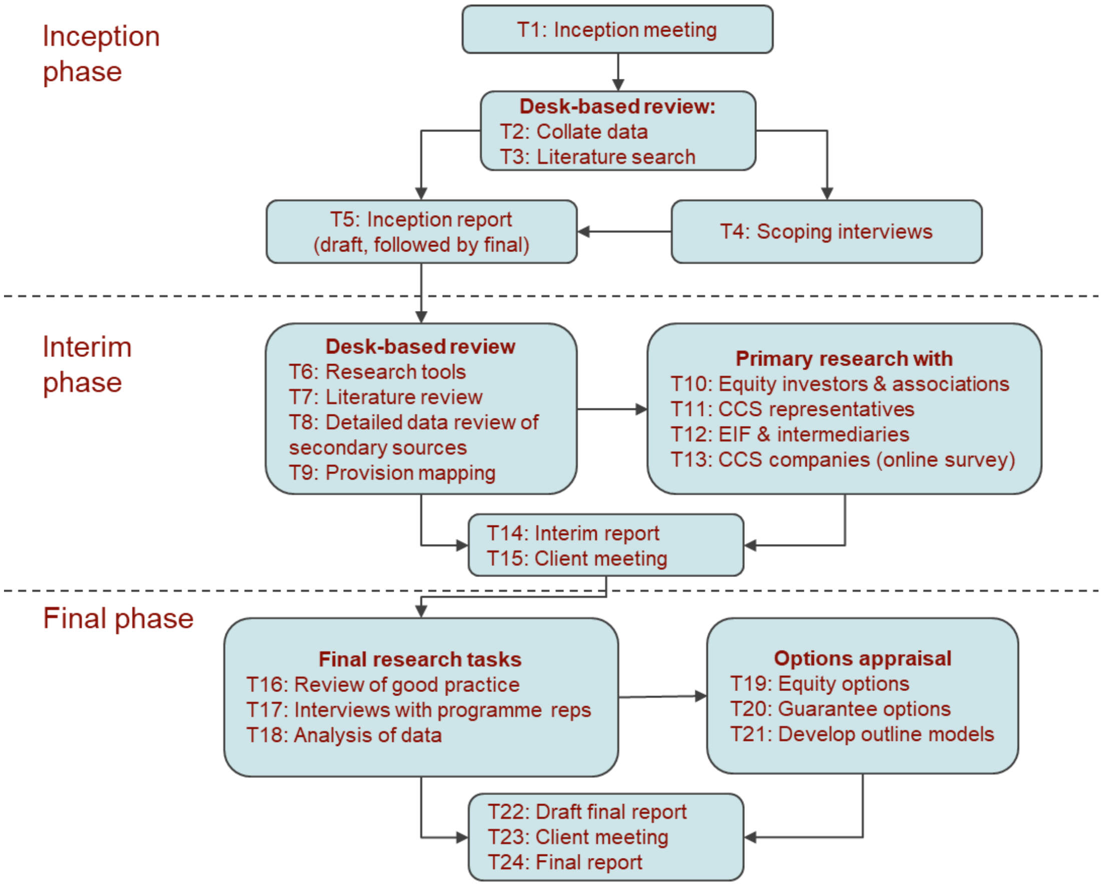
2.7 These sets of study research questions, and the approach taken to these, was designed to ensure that the overarching purpose of this study was addressed; namely, to explore and evaluate the evidence, and then outline potential 'operational solutions' to address the problems facing CCS in accessing finance. These recommendations are put forward for consideration by the EC.

Work plan and progress to date

2.8 The work plan covered the study tasks identified in Figure 2-2, below, divided into three phases: Inception, Interim and Final. The initial work plan, set out in the SQW proposal response to the study Terms of Reference, was reviewed, revised and further detailed in discussion with the EC client during Q1 2018. The updated approach and work plan was set out in the Inception Report, dated 4 April 2018. As anticipated at the outset, the Inception Report drew on initial data collection and literature review, and a series of scoping consultations. The foundation stage included 16 stakeholder interviews, rather than the four envisaged at the outset: this reflected the multiple dimensions of the study, across sub-sectors, countries/regions, and financial intermediaries specialising in both equity and loan finance.

2.9 The Inception Report included a logic model for the CCS Guarantee Facility, which was tested in the next stage of the project with relevant stakeholders; it also included our initial thinking on gathering the information to answer the key questions posed for the study. The work plan additionally included: (i) identification of other guarantee facilities (ii) an overarching framework to link the key market failures to the needs of the CCS and then to the possible options for a financial instrument (see below for details).

Figure 2-2: Work plan


Inception phase
T1: Inception meeting
Desk-based review:
T2: Collate data
T3: Literature search
T5: Inception report (draft, followed by final)
T4: Scoping interviews
Interim phase
Desk-based review
T6: Research tools
T7: Literature review
T8: Detailed data review of secondary sources
T9: Provision mapping
Primary research with
T10: Equity investors & associations
T11: CCS representatives
T12: EIF & intermediaries
T13: CCS companies (online survey)
T14: Interim report
T15: Client meeting
Final phase
Final research tasks
T16: Review of good practice
T17: Interviews with programme reps
T18: Analysis of data
Options appraisal
T19: Equity options
T20: Guarantee options
T21: Develop outline models
T22: Draft final report
T23: Client meeting
T24: Final report

Source: SQW

Inception Phase

2.10 The Inception Phase involved the following tasks:

Inception meeting

- Held between the EC (comprising representatives from DGs: CONNECT, GROW, EAC, and ECFIN) and the SQW study team in Brussels in January 2018
- An inception note was provided to DG CONNECT

Data search

- Search for existing sources of market data covering: equity-related instruments relevant for the CCS; trends in access to finance (debt and equity) at European level and within Member States

Literature search

- In parallel to the data search, we undertook a literature search focusing on financing for the CCS (including relevant evaluations, market research, good practice etc.)

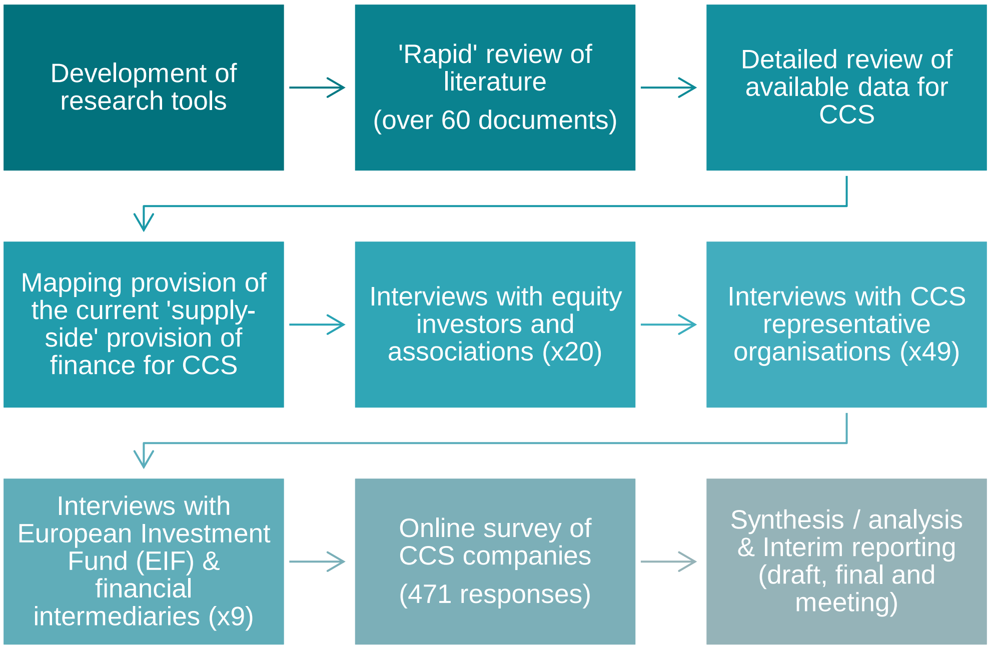
Scoping interviews

- Interviews were completed with 16 representatives from the EC, EIF, and CCS (see Annex A).

2.11 The scoping interviews covered: (i) the key issues and priorities regarding access to finance for CCS, including the potential need for new financial instruments that the study would test/probe, based on the research questions identified in the Terms of Reference; (ii) the appropriateness of the approach and research methods for the study, focusing on: the initial scoping and familiarisation; desk research of data and literature; the extensive interview and survey process; identifying other stakeholders to interview later in the study; (iii) specific risks and sensitivities.

Interim Phase

2.12 The Interim Phase of the study was the main period for evidence gathering. This included:


Development of research tools
'Rapid' review of literature (over 60 documents)
Detailed review of available data for CCS
Mapping provision of the current 'supply-side' provision of finance for CCS
Interviews with equity investors and associations (x20)
Interviews with CCS representative organisations (x49)
Interviews with European Investment Fund (EIF) & financial intermediaries (x9)
Online survey of CCS companies (471 responses)
Synthesis / analysis & Interim reporting (draft, final and meeting)

Scope and range of interviewees

2.13 The SQW team conducted interviews with 49 individuals from 39 CCS representative organisations in the first half of 2018. The interviews were with membership organisations representing specific interests and areas of CCS. They were conducted, mainly by telephone, with chief operating officers, senior executives and senior advisers to these organisations; also included were a small number of others with policy or operational responsibilities relating to CCS or sub-sectors, at European or national level. The organisations and interviewees were selected for their knowledge and engagement within the EU, and to ensure that key sub-sectors, activities and representative geographies were included. In some cases, the interests of these organisations and individuals spanned wider international geographies; others were focused particularly on one country, but all brought trans-national perspectives.

2.14 The spread of these interviewees across sub-sectors, and a summary of their geographical perspectives, are shown in Table 2-4, below.

Table 2-4: Classification of CCS representative organisations and key advisers interviewed

	CCS - generic	Audio-Visual: Film, TV, Games	Music/ Performance Arts	Books/ Publishing	Total
Global, with European perspective	1	3	4	-	8
Europe (EU, some beyond)	3	6	2	2	13
(primarily) National	5	8	4	1	18
Total	**9**	**17**	**10**	**3**	**39**

Source: SQW

2.15 The interviews with a primarily national perspective spanned 10 countries: Belgium, Italy, France, Netherlands, Germany, Czech Republic, Romania, Luxembourg, Lithuania, and the UK.

Final phase

2.16 The Final Phase of the study involved further interviews with representatives from the EC and EIF to check the findings of the study and test the longlist of options for financial instruments going forward. Following the Interim Meeting with the EC and EIF, we further reviewed good practice models; undertook further analysis of interview data; appraised the options (equity and debt); and further outlined the operational models. We prepared a Draft Final Report and held a Final Meeting with the EC and EIF. We finalised this Report after receiving feedback from the EC.

Challenges and our response

2.17 The study was conducted within clear parameters on timing and content. The challenges associated with these, and how these were responded to, are summarised below.

Timing

2.18 The study purpose, was to explore and evaluate the evidence, and then outline possible 'operational solutions' to the problems facing CCS businesses and organisations in accessing finance. The need for rigorous evidence-based findings, based on engaged and responsive stakeholders, had to be balanced against the tight timescale required to inform EC's policy planning and budget cycle for 2019 and beyond, as well as the resources available to the study. We liaised closely with the client throughout, to ensure that expectations and timing were fully aligned.

Content

2.19 A central issue facing the study was the challenge CCS companies, sub-sectors and organisations in articulating and communicating their specific needs, and the lack of knowledge, understanding and expertise of CCS within parts of the financing community. The extent of these barriers and the options for addressing them, was addressed through coverage of EU countries and main CCS sub-sectors recognising that CCS activities are locally concentrated, and that data is more readily available for some countries and sub-sectors than others. An initial assessment of this was used to inform programme design.

2.20 The likelihood of there being multiple and shifting funding gaps rather than a single gap was also important in shaping the approach taken and the content of the study. Even if it were possible to obtain a fully representative sample of businesses and their stated needs, estimates for the scale and nature of finance gaps cannot be definitive. The funding offers change with market conditions, while the business response contains some subjective aspects. SME and mid-cap businesses may at times lack realistic understanding of the extent to which they are investor-ready; CCS businesses may have specific needs and face particular barriers, but in common with those in other sectors, they may consider debt, equity and quasi-equity options as credible alternatives for the same project. This understanding was reinforced by consultations with well-informed parties experienced in funding analysis and delivery.

2.21 A further factor, linked with these issues, is the timely engagement of interested parties. As noted above (paragraph 2.2), the study is multi-method, and has drawn on desk analysis and mapping, as well as structured interviews with a wide range of stakeholders currently involved in SME and CCS funding, both in member countries and transnational; also, representative organisations for the sector at national level, and CCS businesses themselves.

Response to these challenges

2.22 These challenges to forming a well-informed, rounded, view of the scale and nature of the need for new financial instruments within a tight timescale were addressed in the main research phase through a series of iterative parallel processes. We worked closely with DG CONNECT, to ensure that both the stakeholder interviewees and companies surveyed were selected for relevance to the topic and their ability to contribute. Key stakeholders and potentially interested businesses, were identified first through the pooling of knowledge between DG CONNECT and the specialists in the consultants' team. Other intermediaries, including for example the Creative Europe Desks, were then asked to identify and introduce organisations, individuals and businesses known or expected to have an interest in the topic.

2.23 This approach provided a clear structure to the research, with templates for interviews with specific interest groups, and the understanding of the key characteristics and needs of CCS for funding built through a process of exchange – identifying and responding to emerging opportunities to obtain information and insight. The iterative approach, in which some tasks were carried out in parallel, was recognised and agreed early in the study; as noted earlier, a substantial number of additional interviews were conducted in the Inception Phase to ensure clear understanding of the key issues. However, the reliance on third parties – who often required some chasing – and the need to focus on relevant content, and not mistime or duplicate approaches to busy people, meant that the target numbers envisaged for engagement at the outset were not reached, even with an extension to the time period for analysis and reporting findings.

2.24 A substantial body of work was nevertheless undertaken: c. 100 interviews were conducted, with CCS representative organisations, equity investors and their associations, and EIF and other financial intermediaries, and the EC. Close to 500 CCS businesses responded to the survey. While these numbers were below the targets set at the outset, they represented a wide range of interested parties, in terms of function, scale and geography. The findings from them point to a series of clear headline conclusions, as well as to some further questions.

2.25 Specifically, we found a clear need for something other than debt finance in funding CCS business growth. The findings also reinforced the on-going relevance of the CCS Guarantee Facility, and the need for building capacity and understanding on the supply side, as well as among those seeking funding.

2.26 These findings and conclusions, were set out in the Interim Report. In line with the iterative approach adopted throughout, the findings, implications and options were then tested further. This Final report contains the more detailed assessment of a preferred option for a new funding instrument and recommendations for the next stage of the Loan Guarantee facility.

3. Overview of the Cultural and Creative Sectors

3.1 This section provides an overview of the CCS, including: definition of CCS which captures the breadth of activities it encompasses; economic (and other) contributions of CCS; key trends relating to specific sub-sectors; geographic clustering of CCS; and introduces the Creative Europe Programme. This is informed by evidence from our desk review and consultations, to help build the evidence to inform the ex-ante evaluation for on-going and new financial instruments to support CCS.

Scope, scale and distribution of the cultural and creative sectors in Europe

Defining CCS

3.2 The standard international definition of the CCS is that authored by UNESCO:[6] ***"sectors of organised activity whose principal purpose is the production or reproduction, promotion, distribution and/or commercialisation of goods, services and activities of a cultural, artistic or heritage-related nature."*** This definition captures the fact that the CCS is a diverse and relatively fragmented collection of sub-sectors, bound by shared traits – chiefly the exploitation of creative and intellectual capital to produce **goods and services** (often manifested as intangibles) **designed to engage, inspire and inform consumers.** It is worth noting that definitions can – and do – shift. As UNESCO points out in its 2013 Creative Economy report:[7] "Communities often challenge and seek to reshape prevailing models to suit the reality of their local context, culture and markets."

3.3 The EC's own definition of the CCS, states:[8]

EC definition of Cultural and Creative Sectors

Cultural and creative sectors means all sectors whose activities are based on cultural values and/or artistic and other creative expressions, whether those activities are market- or non-market-oriented, whatever the type of structure that carries them out, and irrespective of how that structure is financed. Those activities include 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 inter alia 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.***

[6] UNESCO (2017) http://www.unesco.org/new/en/santiago/culture/creative-industries/
[7] UNESCO (2013) Creative Economy Report.
[8] Article 2 §1 of Regulation (EU) N° 1295/2013.

3.5 This definition, and others, accepts that the CCS covers a breadth of skills and knowledge, from architectural practice, through to creative writing and film making and distribution. It covers businesses of all sizes and forms, from the internationally recognisable brands engaged in TV, publishing and music, through to sole practitioners and non-profit enterprises driven by passion and personal interest, rather than market-led motives. Despite the challenges in finding a common definition of CCS against a backdrop of different classification systems, it was important for the study to adopt an accepted definition, especially for data gathering and analysis. We therefore used the EC's definition in the box above which also covers the 11 sub-sectors identified in the Ernst & Young (EY) study (2014):[9] Advertising, Architecture, Books, Films, Music, Newspapers and Magazine, Performing Arts, Radio, TV, Video Games, Visual Arts.

3.6 In our view, this offered a 'clean' definition of the CCS, capturing activities which are clearly founded upon cultural and creative enterprise and based around the exploitation of knowledge capital in the production of cultural and creative goods and services. These 11 sub-sectors are also covered in the EC definition and correspond to economic indicators based on NACE codes (e.g. on turnover, employment, number of businesses).

3.7 CEP covers most but not all the sectors in the EC and EY definitions.[10] These sectors may receive broader support (albeit indirectly) through other EU funds, notably European Structural Funds (ESF) and European Regional Development Fund (ERDF). The Creative Europe CCS Guarantee Facility can support several sub-sectors – notably architecture and radio – which are not covered by Creative Europe's core funds. In practice, however, the national institutions responsible for the delivery of the Guarantee Facility may choose to limit its application to only some CCS sub-sectors.[11]

Economic contribution of CCS

3.8 Capturing economic value in CCS is difficult. Many CCS 'activities' are short-lived and project-driven and some of the companies set up to deliver these activities may have few, or no, fixed employees, instead retaining workers on a freelance or contractual basis and expanding or contracting in line with the needs of the enterprise. A film project, for example, may expand from a micro-business at its outset – possibly employing only a producer and a writer – to having several hundred casual workers acting as 'extras' on the set for a limited time period.

3.9 The EC (2017)[12] report that the value of CCS in Europe was €560bn in 2014, representing 4.5% of EU GDP, employing 8.5m workers, equivalent to 3.8% of Europe's workforce.

3.10 Table 3-1 sets out the number of enterprises, employment, turnover and value added for 11 sub-sectors within CCS based on Eurostat estimates (2018).[13]

[9] Ernst & Young (2014) Creating growth – Measuring cultural and creative markets in the EU.

[10] For example, the EY definition does not include: 'architecture', 'cultural heritage' and 'museums and libraries'.

[11] Crea SGR, the delivery body in Spain, currently limits guarantees to the AV sectors (film, TV and video games) but plans to extend to other CCS including music and visual arts in the near future.

[12] European Commission (2017) Mid-term Evaluation of the Creative Europe Programme (2014-2020).

[13] Eurostat (2018) Cultural statistics: https://ec.europa.eu/eurostat/statistics-explained/index.php/Culture_statistics_-_cultural_enterprises#Cultural_sectors_covered_by_EU_business_statistics

Table 3-1: Economic Indicators of EU CCS, 2015

CCS Sector	NACE Code	Enterprises (thousands)	Employment (thousands)	Turnover (€m)	Value added (€m)
Printing and reproduction of recorded media	C18	119.6	726.0	83,226	31,000
Manufacture of jewellery and related articles	C32.1.2	27.8	81.9	11,341	2,939
Manufacture of musical instruments	C32.2	6.1	19.8	:	700
Retail sale of books in specialised stores	G47.6.1	26.8	116.3	14,090	2,807
Retail sale of newspapers and stationery in specialised stores	G47.6.2	76.8	209.7	19,879	3,887
Retail sale of music and video recordings in specialised stores	G47.6.3	3.5	11.1	1,522	310
Book publishing	J58.1.1	27.2	146.5	28,954	11,342
Publishing of newspapers	J58.1.3	8.1	249.8	37,755	14,497
Publishing of journals and periodicals	J58.1.4	20.9	192.0	32,596	13,369
Publishing of computer games[14]	J58.2.1	2.0	-	4,945	1,927
Motion picture, video and television programme production, sound recording and music publishing activities	J59	141.7	-	80,000	30,000
Programming and broadcasting activities	J60	11.7	244.6	69,375	37,050
News agency activities	J63.9.1	-	45.1	6,000	3,801
Architectural activities	M71.1.1	302.5	589.3	:	25,000
Specialised design activities	M74.1	179.8	269.5	26,582	13,159
Photographic activities	M74.2	122.0	158.5	8,586	4,186
Translation and interpretation activities	M74.3	95.2	117.6	:	3,000
Renting of video tapes and disks	N77.2.2	4.4	-	:	:
Visual Arts[15]	-	12,760	-	123.5	-

Source: Eurostat 2015

3.11 According to Eurostat (2018), 1.2m cultural enterprises employed 3.2m people and generated €200bn of value added in 2015. CCS, therefore, accounts for 5% of all enterprises in the non-financial business economy.

3.12 Italy (176k) and France (160k) account for the most enterprises within CCS, while CCS enterprises account for the highest proportion of all enterprises in Sweden (7.6%) and the Netherlands (7.3%). For the EU overall, the number of CCS enterprises grew by a compound annual growth rate of 1.5% between 2010-2015. The countries that experienced the highest levels of growth were Lithuania (14.1%) and the Netherlands (10.9%). The UK (€59bn) and Germany (€49bn) account for the highest value added through CCS. The sub-sectors

[14] Video games only covers 'publishing' activities – video games companies and trade associations maintain that this does not fully or adequately represent the full value of their supply chain, including design and programming and that 'publishing' of a game (albeit open to all as 'self publishers') is a specific sub-category within their industry.

[15] The International Art Market in 2011 - Observations on the art trade over 25 years, The European Fine Art Foundation, 2012/ Exhibition & Museum attendance survey, visitor figures 2012. The Art Newspaper, 2013 / Voices from the Museum, survey research in Europe's National Museums, EuNaMus report, 2012 / National statistics offices.

accounting for the largest proportion of enterprises within CCS are ‘Architectural activities’ (26%) and ‘Specialised design activities’ (15%). In terms of value added, the largest sub-sectors are ‘Programming and broadcasting activities’ (19%), ‘Printing and reproduction of recorded media’ (16%) and ‘Motion picture, video and television programme production, sound recording and music publishing activities’ (15%).

3.13 The sub-sector with the highest value added per enterprises is ‘Programming and broadcasting activities’ (€3.2m) followed by: ‘Publishing of newspapers’ (€1.8m), ‘Publishing of computer games’ (€1.0m) and ‘Publishing of journals and periodicals’ (€0.6m). The sub-sectors with the highest value added per person employed, ‘Programming and broadcasting activities’ is again the highest (€151k) followed by ‘News agency activities’ (€84k), ‘Book publishing’ (€77k) and ‘Publishing of journals and periodicals’ (€70k).

3.14 Interestingly, this data suggests a degree of disconnect between the scale of economic activity and employment across the sectors. For example, advertising, newspapers and architecture, have a higher proportion of turnover to employment and business size, probably indicating higher productivity (although activities with a high turnover to employment ratio could also be buying in a high proportion of their sales volume, and adding little value).

3.15 Several other sectors - notably music and film - are more labour intensive and defined by large numbers of small businesses. It is worth noting that these industries are more diffuse in their nature with a large number of small companies facing challenges of scale and sustainability.[16] More broadly, CCS as a whole is characterised by what is sometimes referred to as the ‘missing middle’ phenomenon: it is dominated by smaller enterprises (95% of businesses employ up to nine people) that are apparently unable to grow into medium-sized enterprises, or do not wish to do so.[17]

3.16 The limited data available means that not all CCS sub-sectors appear in the table above, for example archives, libraries and museums are missing. Whilst the broader contributions of these sub-sectors to cultural offers and well-being are important (see below) they also make significant economic contributions. For instance, Finnish museums were found to *“provide an additional demand between €340 and €500m in their local regions”* (in 2014), which was five times larger than the municipal subvention to finance the museums.[18]

Wider contributions of CCS

3.17 In addition to their direct economic contribution, the EC has also recognised the importance of the CCS in creating spillover effects. This includes sparking innovation in other sectors through knowledge spillovers. As CCS business models are often characterised by new forms of innovation processes such as open design or open innovation, these knowledge spillovers can occur along the entire value chain.[19]

[16] Another perspective is that there are very big studios and music production companies alongside many smaller enterprises - in these industries, and perhaps other CCS, it is difficult to build a niche medium sized firm?

[17] AFME (2017) The Shortage of Risk Capital for Europe’s High Growth Businesses, and European Commission (2016) Boosting the competitiveness of cultural and creative industries for growth and jobs.

[18] University of Vaasa (2014) Economic Impact of Museums.

[19] European Commission (2016) Boosting the competitiveness of cultural and creative industries for growth and jobs.

3.18 The tendency of CCS organisations to cluster in specific locations (see below) also leads to social impacts. This includes regenerating industrial areas and urban spaces, and promoting tourism in specific areas. Bilbao's urban redevelopment, for example, is closely associated with CCS, and with the Guggenheim Museum in particular.

3.19 Evidence has also been found on the impact of culture on improving social and community cohesion, health and life satisfaction.[20] For example, "the EU's 65,000 public libraries have about 100 million visitors" and act as important gateways to knowledge,[21] whilst museums are also an important part of lifelong learning.[22]

Trends in CCS – digitalisation, value chains, and workforce

3.20 The digital industries both contribute to, and facilitate the development of, CCS. Sub-sectors such as the production of video games are becoming an increasingly important contributor to growth in CCS – artistically and economically – whilst some economic definitions of CCS include broader IT based services. Digital platforms and tech-enabled delivery of goods and services provide increasingly important means of consuming CCS output. When using tablets EU consumers spend 70% of their time consuming creative works, while 50% of their smartphone time is spent playing games, watching videos, listening to music or browsing the internet.[23]

3.21 Digital technologies create other benefits and challenges for the CCS. They facilitate co-creation business models as well as lowering production costs. However, using new digital distribution channels can also lead to piracy and revenue losses, a particular issue for the audiovisual and music sub-sectors and others which rely on intellectual property rights.

3.22 Value chains within CCS have become increasingly complex. This is, in part, driven by the onset and pace of digital dissemination, but also by an increasing cross-pollination of CCS activity – for example a book may be adapted into a film or a video game, or a musical may take the form of a film, performance or recording. Advertising spans all other sectors, and becomes a source of revenue for many of them.[24] The expansion of digital technologies has served to further emphasise these collaborations.

3.23 Similarly, contributions to the success of a CCS 'product' can be diffuse – from its creation, through to publishing and distribution, many CCS firms help bring the product to market. Whilst these activities will be captured by traditional economic indicators (e.g. GVA, jobs etc) they accrue at firm, rather than project, level and therefore present complexities for policy makers, not least in addressing the size, and structure, of financing gaps which may exist within 'projects', rather than for participant firms.

3.24 Another feature of CCS organisations is that they attract a distinctive workforce which is characterised by high levels of education, flexibility and mobility. The CCS workforce has a

[20] Tom Fleming Creative Consultancy (2015) Cultural and creative spillovers in Europe.

[21] European Parliament (2016) Research for Cult Committee: Public Libraries – Their New Role.

[22] Network of European Museum Organisations (2014) Money matters: The Economic Value of Museums.

[23] Ernst and Young (2014) Creating growth – Measuring cultural and creative markets in the EU.

[24] Some argue that advertising provides 'infrastructure support' service to other sectors, analogous to software, which is not in software.

younger age profile compared to other sectors: 15-29-year-olds account for almost 20% of CCS employment.[25]

Sub-sectoral trends

3.25 As noted above, CCS is a diverse collection of sub-sectors and each is subject to different trends and drivers of change. A headline overview of these is presented below. It is worth noting that many of these relate to the development/application of digital technologies in CCS.

Table 3-2: Sub-sectoral trends

Books	• The European publishing sector is the world's biggest, and reading books is the second most common cultural activity among EU citizens • The E-book market constitutes around 6% of the total, but has showed recent signs of stagnation • European national book markets are being disrupted by global distribution companies that now dominate digital distribution and benefit from tax optimisation opportunities • Language barriers tend to make books a domestic product
Newspapers and magazines	• Newspapers accounted for 60% of sub-sector sales, magazines, 40% • European markets have been experiencing major economic difficulties and total sales have fallen, on average by 5.7% a year since 2008 • The industry has shifted from a paper-only business model to a mix of print and digital: issues around pricing and consumer willingness to pay are not fully resolved • Digital technologies have also allowed consumers to become news providers and makers
Music	• The global recording industry lost nearly 40% in revenues from 1999 to 2014, before returning to growth in 2015 • 50% of revenue in the global industry is from digital music. Revenue from online streaming continues to grow and accounts for the majority of digital revenue as digital downloads have fallen • Consumer behaviour varies between countries - Sweden, France and Italy tend to use streaming subscriptions; in Germany, consumers prefer downloads from platforms such as iTunes • Revenue from performance rights is growing, whilst physical revenue is falling • The global independent record label sector is worth 37.6% of the global market value • Markets show preference for their national music - In Denmark, France and the Netherlands, 80% of the top ten albums in 2013 were by locally signed artists • The UK and Sweden are net exporters of music while France is the third biggest music exporter in the world, after the US and the UK
Performing arts	• Attendance in theatres and concert halls fell between 2007 and 2013 - most likely explained by the pressure on household budgets • 5 of the 10 best-attended international festivals in 2012/13 took place in Europe • The performing arts play an important role in attracting tourists; Europe is home to major music festivals and a prime destination for opera, theatre and ballet
TV	• The European TV market grew on average by 1.8% a year over the past five years, primarily driven by increasing flows from pay-TV • Subscription-based video on demand services such as Amazon Video, Hulu, and Netflix, are increasingly important

[25] Ernst and Young (2014) Creating growth – Measuring cultural and creative markets in the EU.

	• The European TV industry is a successful exporter, however 90% of Europe's international revenues come from the thriving British TV industry • Adaptations of programmes in one country to fit local audiences in another are common
Film	• The biggest single source of revenues is the sale of cinema tickets which in 2012 was 36.5% of the total • Box office revenues have grown modestly but not enough to compensate for the substantial decline in receipts from DVDs, which is undermining the economic viability of much of the European film industry • European producers very often use co-production to share costs and draw upon pre-distribution sales in addition to external support by public authorities • Ownership of European cinemas has consolidated in the past few years • With €2bn revenue a year from EU member states (in soft loans, grants and tax incentives), public funding remains vital to the health of the European film sector
Radio	• Radio is a relatively small force in the EU economy but has succeeded in retaining audiences, while attracting new listeners • Revenue slipped 4.4% between 2008 and 2012 but employment rose 2.2% • Advertising was the leading source of revenue for both private and public radiobroadcasters
Video games	• 25% of EU consumers play video games at least once a week. Consumers in Sweden, Finland and France are the most devoted gamers, with 6 out of 10 citizens playing regularly • Annual exports beyond Europe of almost €3bn make video games the most traded of Europe's cultural goods • Mobile gaming is the fastest-growing segment of the market • 'Loot boxes' (in game microtransactions) are an increasingly important source of revenue for developers but are subject to government regulations in a growing number of countries • Increased integration of blockchain innovations and augmented reality (AR) into video games is expected • The sector faces fierce international competition, so development and retaining highly skilled talent is crucial
Visual arts	• Seven of the world's most visited art museums are in Europe • The sub-sector contains many smaller businesses and not-or-profit organisation e.g. art galleries, that serve a local community • Museums are experimenting with technology. For example, digital technologies facilitate wider access to visual art objects, but also raise concerns about how best to protect IP
Architecture	• Architecture is reliant on the level of construction activity – in 2025 this is expected to fall 5% below that in 2007 • Most architects work in small firms or are self-employed, and work within national markets • With slower growth in Europe, larger architectural firms are seeking growth in Africa, the Middle East, Asia and Latin America
Advertising	• Europe is home to two of the world's big three advertising groups • Advertiser spending on online publicity surged by 12% a year between 2008-12 • By using GPS and other tracking techniques to work out a consumer's location, advertisers can now serve up advertisements about nearby shops and services or products (geotagging) • The rise of online advertising on websites, social media platforms, and via targeted communication is rapidly changing the nature of the market.

Source: SQW analysis of Ernst & Young (2014) Creating growth – Measuring cultural and creative markets in the EU, Federation of European Publishers. (2016) Annual Statistics, IFPI (2017) IFPI Global Music Report

Geographic clustering of European CCS

3.26 CCS tend to cluster in urban centres and city regions – especially capitals and major regional cities. Table 3-3 shows the top 25 CCS clusters in Europe by employment (as of 2011). The table shows the location quotient of employment in the creative and cultural sectors for each area, which indicates how concentrated CCS employment is in the area relative to Europe. For example, a location quotient of 1 indicates that the proportion of total employment in CCS within the area is equal to the proportion for Europe overall, while a location quotient of 2 would indicate that the proportion of total employment in CCS is double that of Europe overall. The figures show that the area with the highest concentration of CCS employment is Stockholm (2.87), closely followed by Inner London (2.77) – where the proportion of the workforce employed in CCS is nearly three times higher than for Europe overall. As would be expected, most regions have high concentrations of CCS employment relative to the European average: the exceptions are Andalucía, Veneto, Niedersachsen and Emilia-Romagna.

Table 3-3: Europe's Top 25 regions for creative and cultural industries employment clusters

Region name	CCS Rank	CCS Employment (Thousands)	CCS Location Quotient
Ile De France (Paris), FR	1	279	1.72
Inner London, UK	2	240	2.77
Lombardia (Milan), IT	3	176	1.31
Madrid, ES	4	164	1.65
Catalunya (Barcelona), ES	5	139	1.26
Lazio (Rome), IT	6	113	1.97
Danmark	7	98	1.17
Oberbayern (Munchen), DE	8	94	1.57
Attiki (Athens), GR	9	88	1.47
Outer London, UK	10	87	1.43
Kozep-Magyarorszag (Budapest), HU	11	79	1.76
Zuid-Holland, NL	12	78	1.44
Berks, Bucks and Oxon (Oxford), UK	13	76	1.90
Noord-Holland (Amsterdam), NL	14	75	1.80
Andalucia (Sevilla), ES	15	70	0.68
Koln, DE	16	69	1.37
Stockholm, SE	17	68	2.87
Lisboa, PT	18	68	1.35
Berlin, DE	19	66	1.70
Veneto (Venezia), IT	20	61	0.94
Niedersachsen, DE	21	59	0.68
Darmstadt (Hanover), DE	22	59	1.15
Piemonte (Torino), IT	23	58	1.09
Emilia-Romagna (Bologna), IT	24	58	0.95
Surrey, E and W Sussex, UK	25	58	1.40

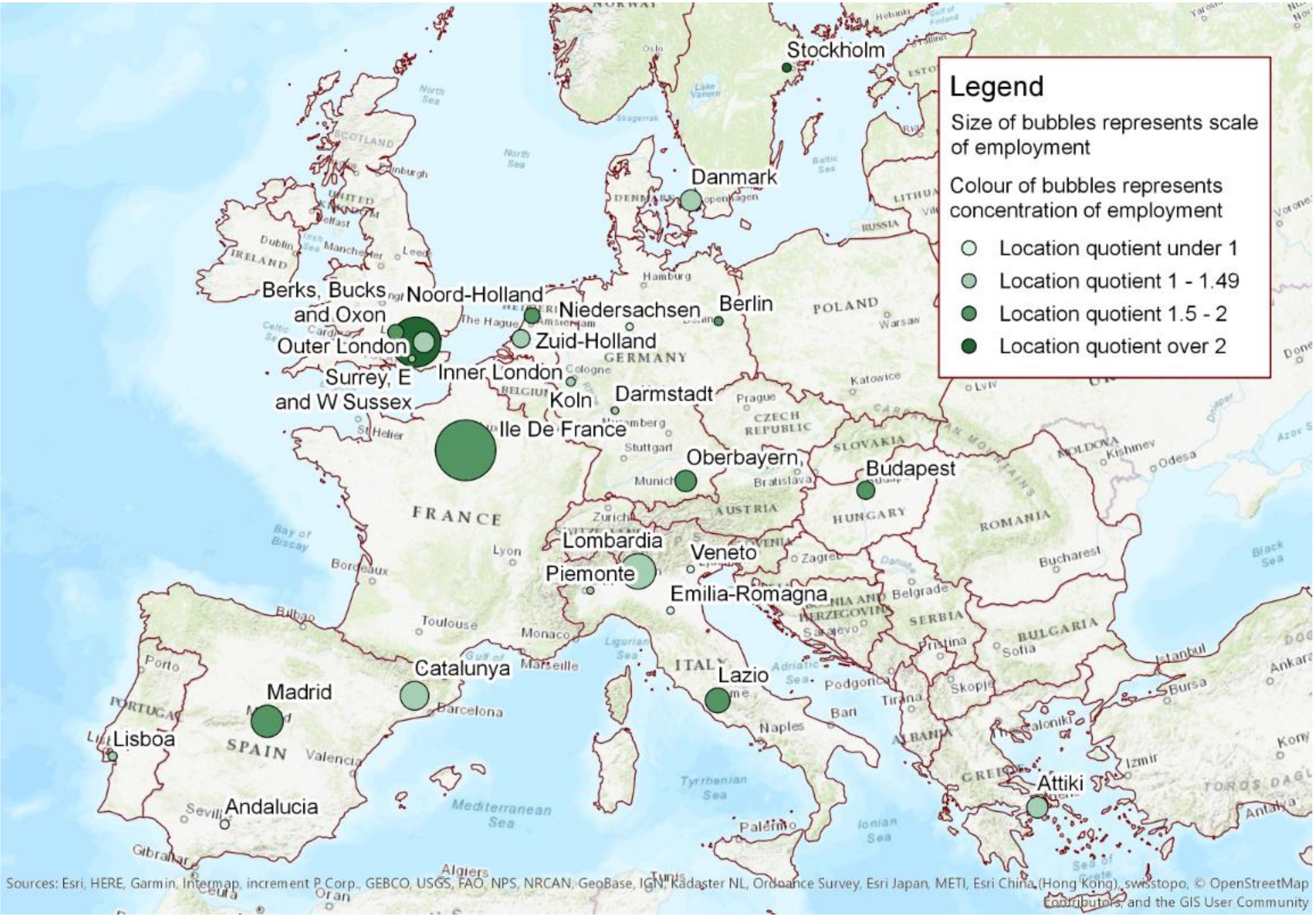
Source: The European Cluster Observatory Priority Sector Report: Creative and Cultural Industries, 2011

3.27 The map overleaf shows the locations of the CCS clusters identified in Table 3-3. In interpreting the map, note that:

- The size of the bubble represents the scale of employment, ranging from 279k in Ile De France (Paris) to 58k in Piemonte, Italy.
- The colour of the bubble represents the concentration of CCS employment - defined using a location quotient[26] - the darker the bubble, the more concentrated the CCS employment.
- The most concentrated employment in the CCS is in Inner London and Stockholm, both have location quotients of over 2.7. However, the scale of employment in Inner London is much higher than that in Stockholm.
- Only two of the 25 clusters are in central/eastern Europe (Budapest and Attiki).
- There are multiple clusters of CCS employment in relatively close proximity in three areas: South East England (four clusters), northern Italy (four clusters), and the Netherlands (two clusters).
- There are more clusters in Germany than in any other country (five), however, these are distributed across the country.

[26] A location quotient over 1 indicates that employment in the CCS in a given location is proportionately higher (more concentrated) than the average employment in the CCS across Europe

Figure 3-1: Map of Europe's Top 25 regions for creative and cultural industries employment clusters


Stockholm
Danmark
Berlin
Niedersachsen
Noord-Holland
Zuid-Holland
Berks, Bucks and Oxon
Outer London
Inner London
Surrey, E and W Sussex
Koln
Darmstadt
Ile De France
Oberbayern
Budapest
Lombardia
Veneto
Piemonte
Emilia-Romagna
Catalunya
Madrid
Lisboa
Andalucia
Lazio
Attiki
Legend
Size of bubbles represents scale of employment
Colour of bubbles represents concentration of employment
○ Location quotient under 1
● Location quotient 1 - 1.49
● Location quotient 1.5 - 2
● Location quotient over 2

Sources: Esri, HERE, Garmin, Intermap, increment P Corp., GEBCO, USGS, FAO, NPS, NRCAN, GeoBase, IGN, Kadaster NL, Ordnance Survey, Esri Japan, METI, Esri China (Hong Kong), swisstopo, © OpenStreetMap contributors, and the GIS User Community

Source: Produced by SQW 2018. Licence 100030994. Includes data from The European Cluster Observatory Priority Sector Report: Creative and Cultural Industries, 2011

3.28 Michael Porter, in *The Competitive Advantage of Nations* (1990)[47], re-popularised the concept of clusters in the context of business strategy and economic development. Porter (1998)[48] referred to clusters as *"geographic concentrations of interconnected companies and institutions in a particular field."* He postulated that clusters affect competition in three ways: (i) increasing the productivity of companies based in a cluster area; (ii) driving the direction and pace of innovation, which underpins future productivity growth; (iii) expanding and strengthening the cluster itself by stimulating the formation of new businesses.

3.29 Porter found that *"a cluster allows each member to benefit as if it had greater scale or as if it had joined with others formally – without requiring it to sacrifice its flexibility. Being part of a cluster allows companies to operate more productively in sourcing inputs; accessing information, technology, and needed institutions; coordinating with related companies; and measuring and motivating improvement."*

3.30 Clusters can result in positive externalities - increased knowledge spillovers and skills amongst their actors and pooled labour market capabilities (often regionally) - potentially contributing to higher productivity, innovation and competitiveness. Three defining characteristics of clusters are highlighted in the literature: technology specialisation; networking platforms; and an international profile or links (helping to attract foreign direct investment).

3.31 In some instances, the clusters are driven by the nature of the work – high-skilled, but short-term, freelance and project oriented. In others, the key factors are traditions and longer-term development of a labour market within a particular geographic region, and meeting the ancillary needs of other local industries.

3.32 These drivers are often underwritten by more intangible characteristics, such as the existence of like-minded individuals, experiences and 'atmosphere'; all these contribute to what UNESCO dubs a strong "creative field" – an agglomeration of the network of firms and their interactions, as well as the facilities and social overhead, such as schools, universities, research establishments, design centres, that complement or feed the innovative capacities of these networks.[49]

3.33 The UK-based innovation foundation Nesta[50] has argued that the existence of tech-enabled creative platforms such as 'Meetup'[51] and 'Skiddle'[52] add to the networking and knowledge transfer architecture of certain clusters in the UK, and that data provided by these platforms (event attendees, group memberships) can help estimate both the size of the labour market, and its flexibility (through memberships of cross-disciplinary groups and groups in several geographic locations). Although, several academics and economists – notably Richard Florida[53] in his influential book 'The Rise of the Creative Class' (2002)[54] – have attempted to offer policy platforms for the creation of CCS clusters, these have proved difficult to operationalise.

[47] Porter, M. E. (1990 The Competitive Advantage of Nations. New York: Free Press.
[48] Porter, M. E. (1998) Clusters and the New Economics of Competition. Harvard Business Review. November-December 1998 issue. Available here.
[49] UNESCO (2013) Creative Economy Report.
[50] Nesta (2016) The Geography of Creativity in the UK.
[51] https://www.meetup.com/find/
[52] https://www.skiddle.com/
[53] University Professor & Director of Cities at University of Texas, Co-founder & Editor at Large at CityLab.
[54] Richard Florida (2002) The Rise of the Creative Class. Basic Books.

Creative Europe Programme

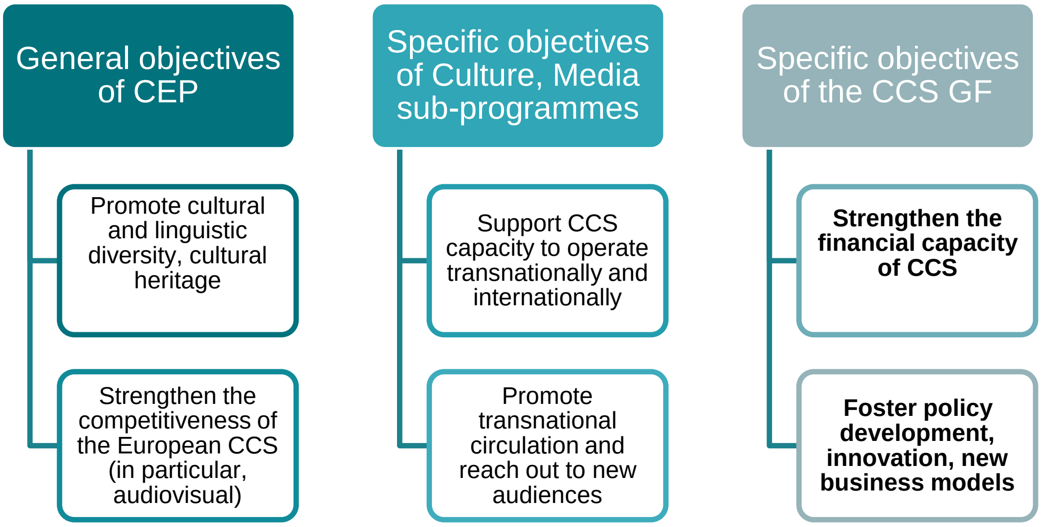
3.34 At EU level, CCS has been identified for more than two decades as a distinctive set of economic activities and a focus for policy interventions. The Creative Europe Programme (CEP), introduced for the 2014-2020 period is the successor to the EU's Culture and MEDIA programmes; these continue to form part of CEP's delivery apparatus.

3.35 The CEP objectives are (a) to safeguard, develop and promote European cultural and linguistic diversity and to promote Europe's cultural heritage; (b) to strengthen the competitiveness of the European cultural and creative sectors, in particular of the audiovisual sector, with a view to promoting smart, sustainable and inclusive growth.[55]

3.36 Historically, CEP has focussed on support for co-production of cultural works by EU based artists and creative professionals and promoting intra-community trade and distribution of native cultural works across Member State boundaries – for example, supporting the release of a German language film production in French cinemas. The focus for this implementation period (2014-2020) has included a broader approach to financing and support for sustainability and enterprise growth, chiefly through the CCS Guarantee Facility (CCS GF) but also through specific strands of activity within both the Culture and MEDIA programmes focussing on capacity building, networks and business skills.

3.37 CEP[56] provides €1.46 billion for the implementation period 2014-2020 to support the growth of European CCS. It comprises of three sub-programmes: Culture, MEDIA and a cross-sectoral strand with the CCS GF. Figure 3-2 shows the CEP's objectives, with a focus on access to finance for CCS. CEP covers 33 participating countries: EU Member States and some non-EU Member States (such as Israel and Turkey). A network of 'Creative Europe Desks,'[57] covering all participating countries, reaches out to potential beneficiaries and raise the visibility of the Programme in CCS and beyond.

Figure 3-2: Creative Europe Programme objectives


General objectives of CEP
Promote cultural and linguistic diversity, cultural heritage
Strengthen the competitiveness of the European CCS (in particular, audiovisual)
Specific objectives of Culture, Media sub-programmes
Support CCS capacity to operate transnationally and internationally
Promote transnational circulation and reach out to new audiences
Specific objectives of the CCS GF
Strengthen the financial capacity of CCS
Foster policy development, innovation, new business models

Source: EC

[55] Regulation (EU) No 1295/2013 of the European Parliament and of the Council.
[56] European Commission. Creative Europe. https://ec.europa.eu/programmes/creative-europe/
[57] European Commission. Creative Europe. https://ec.europa.eu/programmes/creative-europe/contact_en

4. Access to funding for CCS

4.1 This section sets out the access to funding issues for CCS, covering: the specific market failures and barriers facing the sector which inform the case for intervention, and the current CCS Guarantee Facility; also, more broadly, the current EU funding provision for SMEs; and future delivery in the form of the new InvestEU Programme. This last aspect is important as it provides the wider context/policy framework within which potential finance options for CCS going forward will be identified, developed and appraised.

Market failures and barriers to CCS access to finance, indicating the case for intervention

4.2 The scope, spread and key characteristics of CCS, detailed in section 3, together with information from the literature review and consultations with key individuals with in-depth knowledge of the sector, point to the following market failures and barriers.

Information failures

- *Knowledge and skills gap within CCS* – many CCS 'companies' are not aware of the benefits of financing, even as a means of financial management. They also lack entrepreneurial skills and time to make strong applications (e.g. an orchestra director applying for funding whilst 'on the road'). Added to this is the issue of high expectations within CCS – many CCS practitioners lack objectivity regarding their enterprise and expect higher levels of funding success.

- *Uniqueness of 'products'* – every 'project' is essentially a prototype; the investment is not in R&D and refinement of the offer, but in driving the 'first iteration' to completion. Similarly, economies of scale are not large – new products/services may sell in other markets but the extent to which they will prove to be 'repeatable' or scalable is frequently difficult to substantiate. Funders are therefore acting rationally in being risk averse when assessing likely returns. While this is understood and acknowledged by financiers (hence why they 'back away'), CCS practitioners are often much less aware of the implications for financing new activity.

- *Intangibility of assets* (incomplete markets) – it is difficult for financiers to invest in intangible assets 'ex-ante' as the risk/reward ratios are high; the lack of tangible outputs makes it difficult for financiers to secure collateral.

Risk and uncertainty

- *Lack of track record and models* – financiers can come to terms with most markets and model them relatively quickly, but CCS is difficult to grasp. It is frequently project, not product, driven; dominated by SMEs (mostly microenterprises); also, it has low profitability (in most cases - video games are one exception). In consequence, CCS businesses are notoriously difficult to scale; these 'red flags' need to be addressed in order to reassure and engage financiers.

- *Risky investments* – there is a generic perception that investment in CCS is risky (no collaterals, often solo entrepreneur, lack of guarantees, volatile demand etc.). For 22% of the enterprises' the loan application was completely rejected. This result is based on unpublished internal analysis by EIF that draws on information from two matched datasets: Orbis Bureau Van Dijk and ECB SAFE. Added to this is the issue of mainstream banks and VCs not being familiar with the CCS.

Incomplete markets

- *Scarce transferability of assets* – many assets in the CCS constitute human capital which makes them difficult to transfer. For example, if a famous singer or a movie star passes away, their skills die with them. This scarce transferability has at least two consequences: it deters equity investors (typically interested in a final asset sale), and it makes for poor collateral.

4.3 We also reviewed literature on market failures and barriers in accessing finance for CCS. Table 4-1 summarises the findings. The review found broadly the following main market failures and barriers: imperfect information; risk and uncertainty, incomplete markets; and positive externalities. The nature, scale and potential solutions for these varied by sub-sectors within CCS (and geography). For example, imperfect information could be addressed through demand-side support e.g. investment readiness training to SMEs and entrepreneurs, wider support through clusters; flawed markets because SMEs in CCS cannot offer tangible collateral – credit guarantee schemes might help address this.

Table 4-1: Market failures and barriers in CCS businesses accessing finance – literature review evidence

Market failure/ barrier	Summary of findings
Information failures	• **Knowledge gaps**: CCS organisations 'lack good market intelligence'.[58] There is information asymmetry between CCS organisations and finance providers (which is more pronounced than compared to other sectors). CCS organisations do not have sufficient information about the financial instruments that are available to them, especially the opportunities afforded by investors (e.g. VCs). This issue is reflected by SMEs across the whole economy in the EU 28, with 32% of SMEs reporting that they do not feel confident speaking with different types of financiers.[59] Added to this is the shortage of reliable data which limits the possibilities of obtaining financing. • **Skills and expertise**: CCS businesses are characterised by a lack (or perceived lack) of business planning and financial management skills including: robust business strategies, an idea of their business growth potential and how their organisation fits within the broader value chain. On the other side, European financial intermediaries lack in-house expertise to assess credit risk in CCS (e.g. a common practice is to request private collateral from entrepreneurs; and evaluating credit risk in the CCS requires sector specific underwriting capabilities). • **Fragmented CCS markets**: Fragmented markets within and across state boundaries across the EU28 are commonly cited as obstacles for all SME business growth e.g. taxation across borders, inconsistent cultural approaches to entrepreneurship and risk, are key factors in preventing growth. These issues

[58] European Commission. 2016. Survey on Access to Finance of Enterprises: Analytical Report. Panteia. Brussels.
[59] Ibid 58.

Market failure/ barrier	Summary of findings
	may be partially overcome with the introduction of the Capital Markets Union across the EU in 2019.[60] • **Uniqueness of products**: The tendency to undervalue products due to a lack of knowledge from financers and high costs of production significantly impact investment and value generation for CCS companies. As each 'project' is essentially a prototype, financiers are being asked to invest in the first of its kind, which may not be repeatable or scalable. In this case, there is a high probability of low returns and so financiers are reluctant to undertake this risk. The effect is greater amongst micro and small enterprises due to their lower levels (usually) of profitability.[61] • **Intangible nature of CCS assets**: The dependence on intangible assets (e.g. IPR) makes it more difficult for investors to value business by investors.
Risk and uncertainty	• **Lack of track record and business models**: CCS business models are commonly cited as a key barrier to accessing finance. Due to this, products offered by financial providers are usually incompatible with CCS business models which are project rather than product focused, rely on limited or intangible assets, and have low initial profitability. As engaging with an unknown business model can increase the costs of due diligence for a financial provider, investors are more likely to invest at a later stage when it is more cost effective as more information is then available.[62]
Incomplete markets	• **Scalability of businesses**: There is a 'missing middle' phenomenon within Europe's CCS - smaller companies are unable to grow into medium-sized enterprises, which consequently limits the possibilities for fostering disruptive paradigm change in Europe, and developing 'global champions'. The nature of CCS businesses means they tend to rely on specific cash flow schemes and vehicles for individual projects. • **Non-easily-transferable nature of CCS assets**: CCS is reliant on people as assets which cannot be transferred easily.

Source: SQW literature review

CCS Guarantee Facility

4.4 The CCS Guarantee Facility was introduced in July 2016 as part of the Creative Europe Programme (section 3), in order to address some supply side issues identified above, and to improve access to debt financing for CCS SMEs. It is managed by the European Investment Fund on behalf of the EC (DG Connect and DG Education and Culture). The budget for CCS GF is €121m, plus an European Fund for Strategic Investments (EFSI) top-up of €60m; this is expected to result in more than €1bn worth of financing being deployed by the end of 2022. Table 4-2 outlines its key features and mechanisms.

[60] European Investment Fund Research and Market Analysis. 2016. The European venture capital landscape: an EIF perspective. Volume I: The impact of EIF on the VC ecosystem. European Investment Fund. Luxemburg.
[61] Ernest and Young. 2014. Creating Growth - Measuring cultural and creative markets in the EU. London.
[62] European Investment Fund Research and Market Analysis. 2016. The European venture capital landscape: an EIF perspective. Volume I: The impact of EIF on the VC ecosystem. European Investment Fund. Luxemburg.

Table 4-2: CCS Guarantee Facility features and mechanisms

Topic	Details
Purpose of finance	Investments, working capital financing and business transfers
Max. loan principal amount	€2m
Min. loan maturity	12 months
Eligibility	• Micro, small or medium-sized enterprises (SMEs) established and operating in a Participating Country. 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 (at the latest on the date of signature of the loan transaction with the Financial Intermediary):[63] ➢ The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million ➢ A small enterprise employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million ➢ A microenterprise employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million • An enterprise cannot be considered an SME if 25% or more of the capital or voting rights are directly or indirectly controlled, jointly or individually, by one or more public bodies • Final Recipients should meet at least one of the following criteria: (1) Intend to use the loan to develop a CCS project as evidenced by the business plan, or (2) Have an SME NACE code that corresponds to one of the sectors defined by the Eurostat as part of the cultural and creative sectors, or (3) Should meet, in the last 24 months, at least one of the following sub-criteria: ➢ The Final Recipient has been operating in the field of the CCS; ➢ One or more CCS project(s) developed by the Final Recipient has(ve) received Debt Financing 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 Final Recipient has(ve) been awarded a CCS prize; ➢ The Final Recipient has filed copyrights, trademarks, distribution rights or any other equivalent rights in the field of CCS; ➢ The Final Recipient has benefited from tax credit or tax exemption related to development of intellectual property rights (IPRs) or CCS activities
Structure	• Financial Intermediary shall retain a material interest in the Portfolio which shall not be less than 20% of the outstanding principal amount of the CCS Guarantee Facility Transactions included in the Portfolio • Credit risk protection through financial guarantees/counter-guarantees to Financial Intermediaries (banks, alternative lenders, guarantee institutions): ➢ Guarantee Rate: up to 70% (on a loan per loan basis) ➢ Guarantee Cap Rate on the portfolio: up to 25% (on a portfolio basis) ➢ Min. leverage effect for operations: x5.7

[63] Official Journal of the European Union. Commission Recommendation 2003/361/EC (OJL124,20.05.2003, p.36). See Commission Recommendation here.

Topic	Details
	➢ Through the EC Contribution - €121m (+EFSI) - around €1.0bn worth of loans are expected to be made available to CCS
Non-financial	• Capacity building element to provide expertise on CCS financial specificities to Financial Intermediaries through a dedicated scheme similar to technical assistance.

Source: EC

4.5 Since 2016, nine guarantee agreements, with a maximum portfolio volume of €440m, have been signed with the EIF by financial intermediaries (FIs) in six countries: France (2 – one with two separate agreements), Belgium (2), Spain, Romania, Czech Republic, and Italy.

Table 4-3: Creative Europe Programme CCS Guarantee Facility – signed agreements

Country	Financial institution	Maximum portfolio volume (€m)	Initial signature date of Operation
	Counter Guarantees		
Italy	Cassa Deposit e Prestiti (CDP)	160	12/12/2017
Spain	Compañía Española de Reafianzamiento (CERSA)	100	12/12/2016
France	Institut pour le Financement du Cinéma et des Industries Culturelles (IFCIC) – Counter Guarantee	50	21/07/2017
	Direct Guarantees		
France	IFCIC – Direct Guarantee	40	21/12/2016
France	Bpifrance	30	21/07/2017
Czech Republic	Komerční banka (KB)	25.5	19/12/2017
Belgium	PMV	15	13/12/2016
Belgium	ST'ART SA	10	19/12/2017
Romania	Libra Internet Bank	9.9	19/12/2017
Total		**440.4**	

Source: CCS GF – Cultural and Creative Sectors Guarantee Facility – Quarterly Operational Report, 31/03/2018 – European Investment Fund: submitted to DG CONNECT 29 June 2018

A logic model for the CCS Guarantee Facility

4.6 Figure 4-1 presents a draft logic model for CCS GF, based on our understanding of the intervention logic for this component: this does not cover CEP as a whole. It is informed by SQW's review of relevant material (primarily the CEP Mid Term Evaluation[64]) and our scoping consultations. The logic model summarises the links (anticipated causes and effects) between the inputs, activities, outputs and outcomes of CCS GF. It is not possible to show all the possible linkages, but the logic model can provide a framework for testing whether the expected results are being realised. In doing so, it is important to note that the logic model was developed to inform this study: it does not set out how CCS GF should be implemented.

[64] European Commission, 2017. Mid-term evaluation of the Creative Europe programme (2014-2020), Brussels: Unpublished.

Figure 4-1: Logic model for the CCS Guarantee Facility

Strategy		Activities		Impacts	
Context & rationale	Objectives	Inputs	Activities	Outputs	Outcomes
Market failures limiting CCS firms' access to finance: • Information gaps: firms lack knowledge and awareness of benefits of finance and its sources • Asymmetric information (and risk aversion) between lenders/investors and firms – finance providers lack understanding of CCS firms and their growth potential • Lack of investment readiness - firms lack skills to develop quality proposals etc. • Potential to generate positive spillover effects – these externalities are not factored into lending decisions Co-ordination failures also prevent effective relationships between the demand- and supply-side, with a fragmented landscape of finance provision for CCS	Overarching: • Promote cultural and linguistic diversity and cultural heritage • Strengthen the competitiveness of the European CCS' (in particular, audiovisual) Cross sectoral: • Strengthen the financial capacity of CCS • Improve technical capacity of CCS organisations and intermediaries • Foster policy development, innovation, new business models	• Initial budget of €121m, topped-up with additional €60m (2016 to 2020) – part of €1.46 billion for the implementation period 2014-2020 • CEP staff, Creative Europe Desks • EC, EIF inputs • Financial intermediaries with signed guarantee agreements	• Review expressions of interests from financial intermediaries located in Member States • Awareness raising activities of CCS GF including info days on access to finance, presentation at film festivals where financial institutions are present (e.g. Cannes and Venice film festivals) • Creative Europe Desk activities • Collection and dissemination of market data, studies, analysis, • Organisation and participation in conferences, seminars and policy dialogue	• Signed guarantee agreements with financial intermediaries (e.g. in ES, FR, RO) • € lending from finance providers to CCS firms for growth projects • No. of CCS firms supported through loan guarantees • Achieved project milestones by CCS firms	• Increased firm investment (€) • Enhanced capacity to access private finance by firms • New CCS business models developed • New/improved products and services launched • Increased employment, turnover, GVA • Enhanced productivity • Increased profit • More connected finance landscape • Positive spillover effects • Interim and final repayments (or take-up of guarantee) • Increased knowledge and understanding of riskier CCS projects by finance providers • Improved capacity of providers to supply loans

Source: SQW

Generic EU provision for enabling SME access to finance

4.7 A key question explored through this study is the extent to which the specific characteristics of the CCS sector justify specific actions to ease access to finance for the set of businesses and organisations providing these goods and services. The Inception Report highlighted the importance of recognising and exploring the wider finance provision available to all SMEs which could also be accessed by CCS businesses. In the paragraphs which follow, we provide the context against which this question needs to be considered, first, setting out the current provision for SMEs in relevant initiatives, then the implications for future delivery under the recently agreed InvestEU programme.

4.8 The EC (and also Member State governments) has sought to increase the supply of finance through publicly-backed schemes that aim to fill gaps at different stages of the 'funding escalator' and enable SMEs to progress through successive stages of growth. The EC aims to address market gaps and issues which act as barriers for the private sector to intervene in the access to finance market (e.g. information asymmetry, high level of risk).

Purpose and scale of instruments currently available

4.9 Some 15 EU-level instruments (including the EFSI SME Window) and many ESIF instruments are now available to address SME access-to-finance difficulties. Co-investment between the public and private sector is embedded in some of these instruments, and enhance the offer –

the European Investment Fund (EIF) is active in this role. Some examples of the work of the EC include the following 2014-2020 programmes:

- Programme for the *Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME*) is delivered from 2014 to 2020.[65] It has a budget of €2.3bn and aims to facilitate access to finance for SMEs, promote entrepreneurship and improve access to markets and overall framework conditions for SMEs. In total, 60% of the budget is dedicated to financial instruments (debt and equity) which are implemented by the EIF. COSME provides guarantees to SMEs for loans mainly up to €150k, as well as equity funding - growth and expansion stage (see below for further details on the loan guarantee facility).

- Horizon 2020[66] - The Framework Programme for Research and Innovation includes a budget of €3.5bn for financial instruments for the period 2014-2020 (the InnovFin Programme), which provides loans, guarantees, counter-guarantees and hybrid, mezzanine and equity finance to innovative businesses and R&I projects. The SME instruments offer financing and coaching support to innovative SMEs (Phase 1: Concept & Feasibility, Phase 2: Demonstration, Market Replication and R&D, Phase 3: Commercialisation). The InnovFin financial instruments for SMEs are managed by the EIF and other financial institutions. The facilities are implemented in conjunction with the European Fund for Strategic Investments (EFSI) and with the financial instrument facilities of COSME.

- The European Structural and Investment (ESI) Funds[67] also provide financing for SMEs, including through the European Regional Development Fund (ERDF). This funding is mainly in the form of grants. ESIF thematic objectives include competitiveness of SMEs and research and innovation. The support is provided mainly in the form of grants but also through other financial instruments (loans, guarantees and equity investments).

- The Employment and Social Innovation (EaSI) programme[68] promotes high quality and sustainable employment, guaranteeing adequate and decent social protection, addressing social exclusion and poverty and improving working conditions. There are three components of the programme, one of which is micro-finance and social entrepreneurship. This comprises 21% of the total EaSI budget of c. €919.5m (2014-2020). It provides loans below €25,000 to start or develop a small business. This is through selected microcredit providers in the EU, by issuing guarantees. The microcredit providers may be private or public banks, non-bank microfinance institutions and not-for-profit microcredit providers. In addition, the EC provides technical assistance to improve the capacity of selected microcredit providers.[69]

[65] European Commission. COSME Factsheet. http://ec.europa.eu/cip/files/cosme/cosme_factsheet_en.pdf

[66] European Commission. Horizon 2020. http://ec.europa.eu/research/horizon2020/index_en.cfm

[67] The European Structural and Investment (ESI) Funds, include five separate EU funds: European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund, European Agricultural Fund for Rural Development (EAFRD), and European Maritime and Fisheries Fund (EMFF). See: http://ec.europa.eu/research/infrastructures/index.cfm?pg=esi

[68] http://ec.europa.eu/social/main.jsp?catId=1081

[69] The EaSI Technical Assistance project is implemented through a Consortium comprising of the Frankfurt School of Finance & Management, Microfinance Centre (MFC) and the European Microfinance Network (EMN).

4.10 Through the COSME loan guarantee facility (LGF), the EIF offers guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies, etc.) to help them to provide more loans and leases to riskier SMEs. By sharing the risk, COSME guarantees allow the financial intermediaries to expand the range of SMEs they can finance, facilitating access to debt finance for many SMEs who might be having difficulties in accessing the traditional banking system (e.g. start-ups or SMEs that do not have sufficient collateral).

4.11 There are many policies and programmes which cover the whole 'ecosystem' relating to access to finance, innovation, business start-up and growth, and competitiveness. We recognise that access to finance contributes to innovation and regional policy, and that knowledge transfer from risk capital is an important rationale for the EC operating in SME finance markets. More importantly for this study, it is important to understand the environment in which CCS businesses and providers of finance operate. This is essential if the need for additional financing whether this could be met through existing provision rather than developing a new instrument (see below for discussion on this).

Future delivery - InvestEU Programme

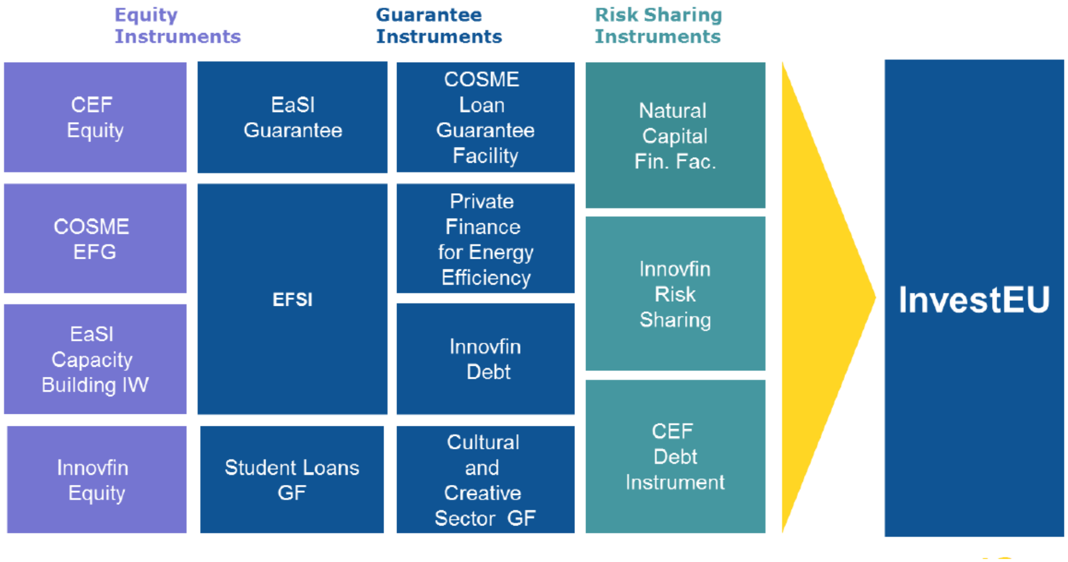
4.12 The InvestEU Programme announced on 6 June 2018[70] has direct relevance to this study as it will bring together various EU financial instruments currently available to support investment in the EU. The purpose is to make EU funding for investment projects *"simpler, more efficient and more flexible"* (and to support innovation). It will be operational between 2021 and 2027, and builds on the Juncker Plan's EFSI by providing an EU budget guarantee to support investment and access to finance. The €38bn InvestEU Programme aims to trigger €650bn in additional investment.

4.13 The rationale for the Programme is to address persistent market gaps (e.g. address finance needs in specific sectors; equity markets not being fully developed) to help sustain investment as a percentage of GDP for the EU28. The lessons from the current multiannual financial framework (MMF)[71] suggest that the increased number of different financial instruments has led to significant risks of fragmentation, policy/financial overlaps, multiplication of agreements and different fees. The Programme is expected to lead to, inter alia: efficiency gains as it can assume a contingent liability; cost-efficiency, with scope for remuneration for the risk taken, through (limited) management fees. The Programme is expected to replace the instruments identified in Figure 4-2, below.

[70] European Commission. The InvestEU Programme: Questions and Answers. 2018. http://europa.eu/rapid/press-release_MEMO-18-4010_en.htm

[71] The multiannual financial framework sets the limits for the annual general budgets of the EU. It determines how much in total and how much for different areas of activity the EU could use each year when it enters into legally binding obligations over a period of not less than 5 years.

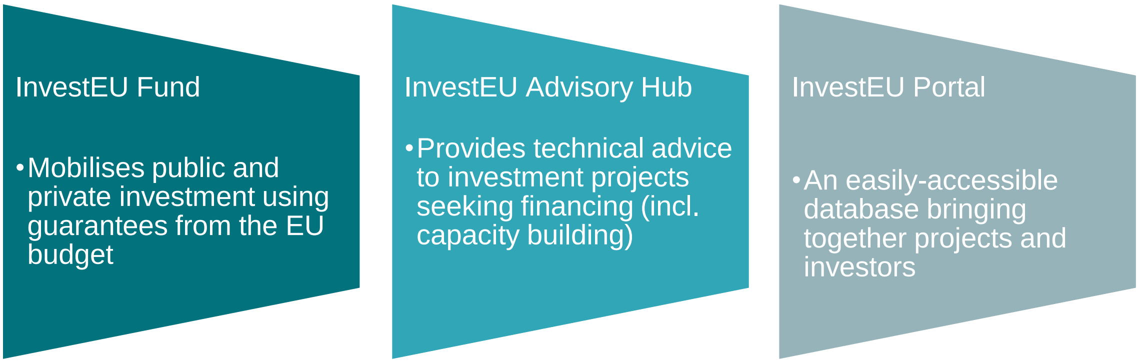
Figure 4-2: Financial instruments and programmes to be replaced by InvestEU


Equity Instruments
Guarantee Instruments
Risk Sharing Instruments
CEF Equity
COSME EFG
EaSI Capacity Building IW
Innovfin Equity
EaSI Guarantee
EFSI
Student Loans GF
COSME Loan Guarantee Facility
Private Finance for Energy Efficiency
Innovfin Debt
Cultural and Creative Sector GF
Natural Capital Fin. Fac.
Innovfin Risk Sharing
CEF Debt Instrument
InvestEU

Source: EC (2018), EU Budget for the Future MFF 2021-2027 – Investment support under next MFF - InvestEU

4.14 The Programme consists of the following three components:

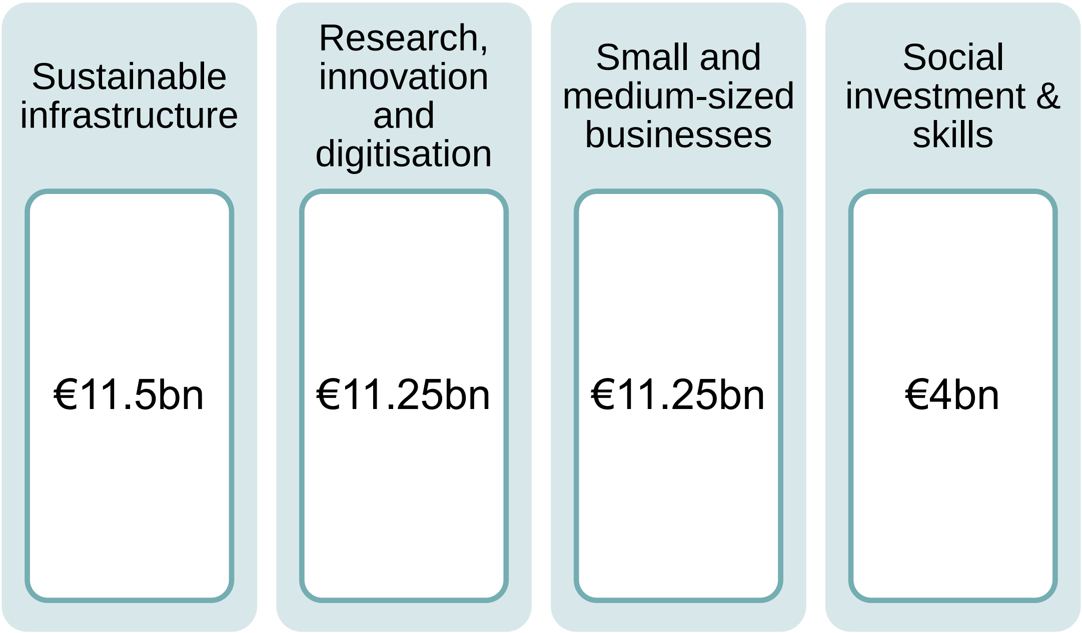
Figure 4-3: The three components of InvestEU


InvestEU Fund
•Mobilises public and private investment using guarantees from the EU budget
InvestEU Advisory Hub
•Provides technical advice to investment projects seeking financing (incl. capacity building)
InvestEU Portal
•An easily-accessible database bringing together projects and investors

Source: EC

4.15 InvestEU Fund is designed as a *"market-based"* and *"demand-driven"* instrument (crowding-in private investors), that will support the four policy areas identified in Figure 4-4, below. This also shows the overall budget, €38bn, and the allocation to each policy area. The amounts in each policy window can be adjusted by the EC by up to 15%, in response to evolving policy priorities and market demand. Through the four windows together, more than €650bn of additional investment is expected to be mobilised across Europe.

Figure 4-4: InvestEU divided between four policy areas (2021-2027)


Sustainable infrastructure
€11.5bn
Research, innovation and digitisation
€11.25bn
Small and medium-sized businesses
€11.25bn
Social investment & skills
€4bn

Source: EC

4.16 The key principles for the InvestEU Fund are for: a single fund with simpler (single) regulation and agreement with implementing partners; a policy-driven approach implemented through thematic policy windows; budgetary guarantee; blending – harmonised combination rules for financial instruments and grant from different sources; complementarity between EU level and Member States; greater flexibility.

4.17 The general objective of the Invest Fund is 'to support the policy objectives of the Union by means of financing and investment operations contributing to: the competitiveness of the Union, including innovation and digitisation; the sustainability of the Union economy and its growth; the social resilience and inclusiveness of the Union; the integration of the Union capital markets and the strengthening of the Single Market, including solutions addressing the fragmentation of the Union capital markets, diversifying sources of financing for enterprise and promoting sustainable enterprises'.

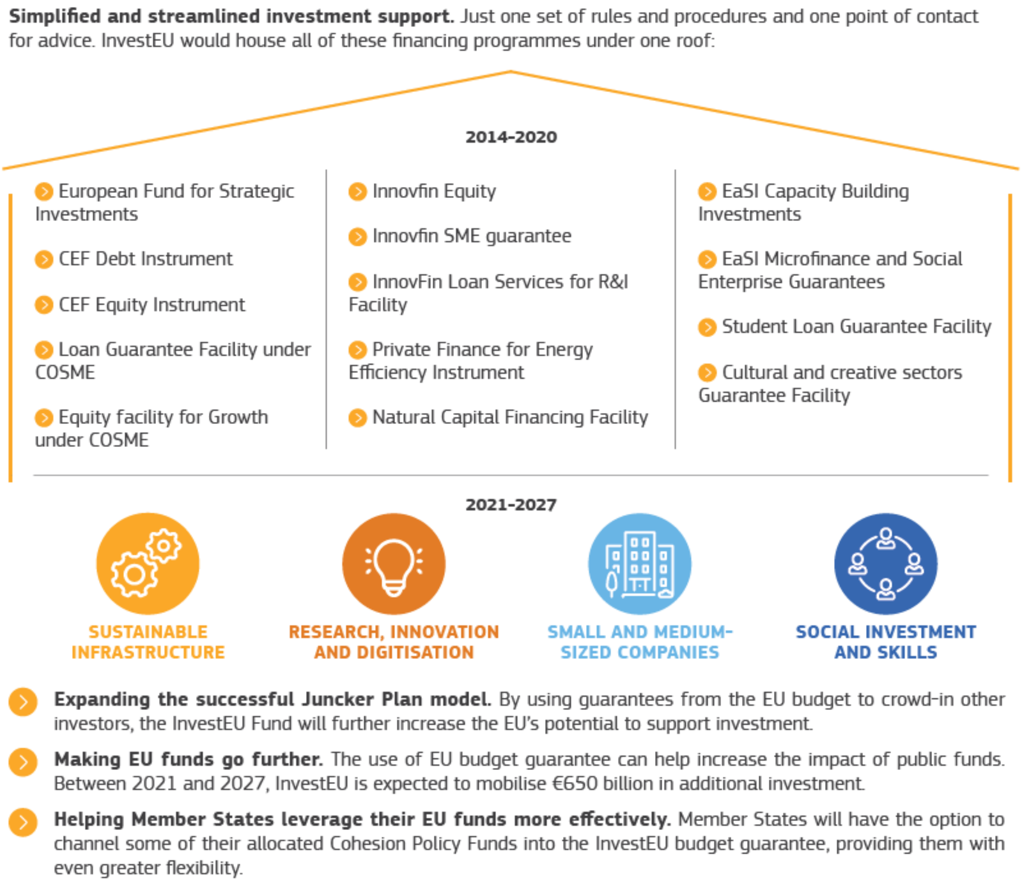
4.18 The more specific objectives of the InvestEU Fund relate to the four windows. They are to:

- 'support financing and investment operations in sustainable infrastructure
- support financing and investment operations in research, innovation and digitisation
- increase the access to and the availability of finance for SMEs and, in duly justified cases, for small mid-cap companies
- increase the access to and the availability of microfinance and finance to social enterprises, support financing and investment operations related to social investment and skills'.

4.19 The SME window will address access to finance issues for start-ups, younger/smaller companies, SMEs lacking sufficient collateral, and innovative SMEs. It is also designed to promote the implementation of specific EU policy priorities, e.g. in the areas of internationalisation, uptake of innovation, and CCS.

4.20 In the context of potentially developing a future financial instrument for CCS, the three policy areas which are most relevant are 'research, innovation and digitisation' and 'small and medium-sized businesses', and 'social window'. An important aspect of InvestEU is that it is designed to be flexible, and react to market changes and policy priorities that change over time. The financial instruments/programmes that come under the 'umbrella' of InvestEU are identified in Figure 4-5 (including CCS GF).

Figure 4-5: Investment support under InvestEU



Simplified and streamlined investment support. Just one set of rules and procedures and one point of contact for advice. InvestEU would house all of these financing programmes under one roof:

2014-2020

- European Fund for Strategic Investments
- CEF Debt Instrument
- CEF Equity Instrument
- Loan Guarantee Facility under COSME
- Equity facility for Growth under COSME

- Innovfin Equity
- Innovfin SME guarantee
- InnovFin Loan Services for R&I Facility
- Private Finance for Energy Efficiency Instrument
- Natural Capital Financing Facility

- EaSI Capacity Building Investments
- EaSI Microfinance and Social Enterprise Guarantees
- Student Loan Guarantee Facility
- Cultural and creative sectors Guarantee Facility

2021-2027

SUSTAINABLE INFRASTRUCTURE

RESEARCH, INNOVATION AND DIGITISATION

SMALL AND MEDIUM-SIZED COMPANIES

SOCIAL INVESTMENT AND SKILLS

- **Expanding the successful Juncker Plan model.** By using guarantees from the EU budget to crowd-in other investors, the InvestEU Fund will further increase the EU's potential to support investment.
- **Making EU funds go further.** The use of EU budget guarantee can help increase the impact of public funds. Between 2021 and 2027, InvestEU is expected to mobilise €650 billion in additional investment.
- **Helping Member States leverage their EU funds more effectively.** Member States will have the option to channel some of their allocated Cohesion Policy Funds into the InvestEU budget guarantee, providing them with even greater flexibility.

Source: EC

4.21 Table 4-4, below, provides further detail on the main financial instruments (2014-2020) that have been organised under InvestEU. This includes both debt and equity (e.g. under COSME, InnovFIN EaSI microfinance). The InvestEU Fund is expected to capture the objectives of existing instruments such as COSME and InnovFin, but 'boost' investments even further due to the larger scale and efficiencies of the single InvestEU Fund.

Table 4-4: Financial instruments and budgetary guarantees incorporated into InvestEU, 2014-2020

Financial instruments	Description
European Fund for Strategic Investments	• Launched jointly by the European Investment Bank (EIB) and EIF to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. • €26bn guarantee from the EU budget and €7.5bn from EIB • EFSI has two components to support projects with wide sector eligibility: Infrastructure and Innovation Window; and the SME Window
CEF Debt Instrument	• Offers an alternative to traditional grant funding by offering competitive financial products for priority investments in transport, energy and telecommunications
CEF Equity Instrument	• Aims to provide equity or quasi-equity financing to smaller and riskier projects in the field of broadband, transport, and energy. • EC will invest €100m from mid-2017
Loan Guarantee Facility under COSME	• Offers guarantees and counter-guarantees, including securitisation of SME debt finance portfolios, to selected financial intermediaries (e.g. guarantee institutions, banks, leasing companies, etc.) • SMEs, established and operating in one or more EU Member States and COSME Associated Countries • €18bn of SME debt financing supported as of June 2018 • Provides guarantees to SMEs for loans mainly up to €150,000
Equity Facility for Growth under COSME	• Supports EU SMEs in all sectors during expansion and growth stage • Invests in selected funds that provide venture capital and mezzanine finance to expansion and growth stage SMEs, in particular those operating across borders
Innovfin Equity	• EIF provides equity investments and co-investments focusing on companies in their pre-seed, seed, and start-up phases • Covers life sciences, clean energy and high-tech sectors • EIF targets investments in approx. 45 funds, a total amount of €4-5bn
Innovfin SME Guarantee Facility	• Research-based and innovative SMEs and Small Mid-caps established and operating in one or several EU Member States and Horizon 2020 Associated Countries • Covers a portion of the losses incurred by the financial intermediaries on loans, leases and guarantees between €25,000 and €7.5m • A demand-driven, uncapped instrument that builds on the success of the Risk Sharing Instrument (RSI)
Innovfin Loan Services for R&I Facility	• Aims to facilitate and accelerate access to finance for innovative businesses • Provides financing starting at €25,000 for investments in R&I to companies of all sizes and age
EaSI Capacity Building Investment	• Aims to build capacity of selected financial intermediaries that have not yet reached sustainability or are in need of risk capital to sustain their growth and development • Financial intermediaries are entities such as banks, non-bank financial institutions/organisations operating in the microfinance and social entrepreneurship space • €16m available for the initiative
EaSI Microfinance and Social	• Aims to increase availability of and access to finance for vulnerable groups wishing to launch their own enterprises, micro-enterprises and social enterprises, both in their start-up and development phases

Financial instruments	Description
Enterprise Guarantees	• EIF offers guarantees and counter-guarantees to financial intermediaries, providing them with a partial credit risk protection for new loans to beneficiaries • Offers portfolios of debt financing products (including loans and mezzanine loans) up to €500,000 • Offers portfolios of Micro-loans up to €25,000
Cultural and Creative Sectors Guarantee Facility	• Introduced in 2016 to improve access to debt financing and strengthen the financial capacity of SMEs active in CCS • Aggregate budget for the CCS GF is €121m (€600m-€1.0bn to be deployed by the end of 2022)
Student Loans Guarantee Facility	• Aims to increase access to finance in order to enable students, regardless of their social background, to take a Master's Degree in another Erasmus+ programme country, as a contribution to tackling skills gaps in Europe • Erasmus+ Master loans will not exceed €12,000 for a one-year Master's Degree course, or €18,000 for Master's Degree above one year
Private Finance for Energy Efficiency	• Aims to address the limited access to adequate and affordable commercial financing for energy efficiency investments • The LIFE Programme committed €80m to fund the credit risk protection and expert support services. The EIB will leverage this amount, making a minimum of €480m available in long term financing • The PF4EE instrument will provide: ➢ a portfolio-based credit risk protection provided by means of cash-collateral (Risk Sharing Facility), together with ➢ long-term financing from the EIB (EIB Loan for Energy Efficiency) and ➢ expert support services for the Financial Intermediaries (Expert Support Facility)
Natural Capital Financing Facility	• Supports projects delivering on biodiversity and climate adaptation through tailored loans and investments, backed by an EU guarantee • The NCFF consists of the following two components: ➢ the finance facility can provide financing of a minimum amount of €2m and a maximum amount of €15m ➢ the technical assistance facility can provide each project with a grant of up to a maximum of €1m for project preparation, implementation and the monitoring of the outcomes.

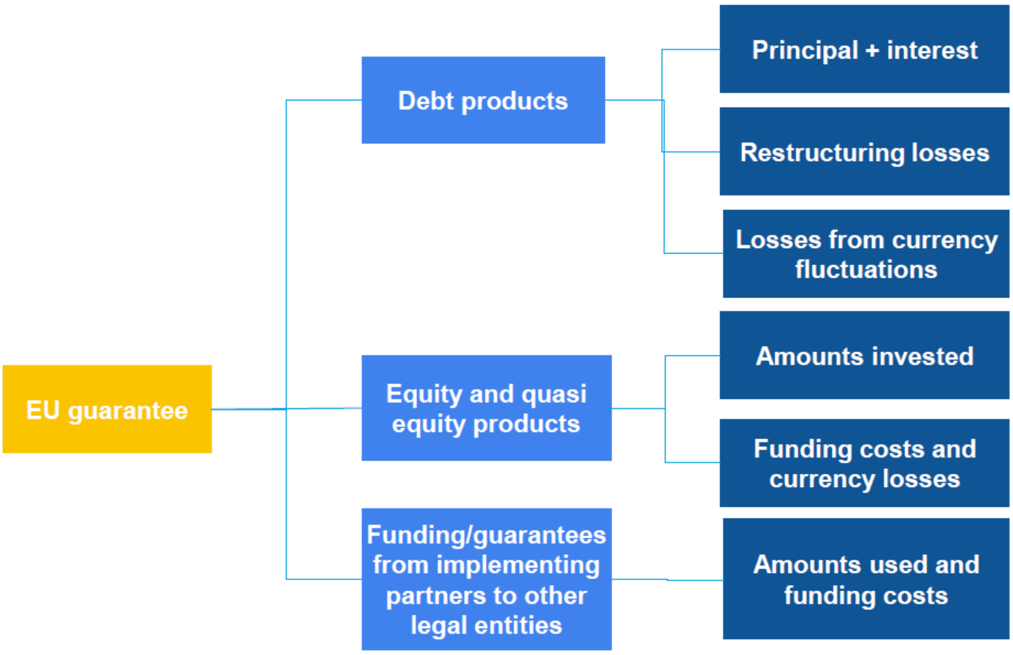
Source: See references in table

4.22 According to the EC (2018): *"The InvestEU Fund will mobilise public and private investment through an EU budget guarantee of €38 billion that will back the investment projects of financial partners such as the European Investment Bank (EIB) Group and others, and increase their risk-bearing capacity. The financial partners are expected to contribute at least €9.5 billion in risk-bearing capacity. The guarantee will be provisioned at 40%, meaning that €15.2 billion of the EU budget is set aside in case calls are made on the guarantee".*[72]

[72] European Commission. The InvestEU Programme: Questions and Answers. 2018. http://europa.eu/rapid/press-release_MEMO-18-4010_en.htm

4.23 Finance provided through the InvestEU fund can be blended with EU grants. This is important in that it may be necessary to underpin investments to address specific market failures or investment gaps. The InvestEU Fund can be combined with grants or financial instruments, or both, funded by the centrally managed Union budget or by the EU Emissions Trading System (ETS) Innovation Fund. The EU Guarantee will cover debt, equity, quasi equity products, as well as funding/guarantees from implementing partners to other legal entities (Figure 4-6)

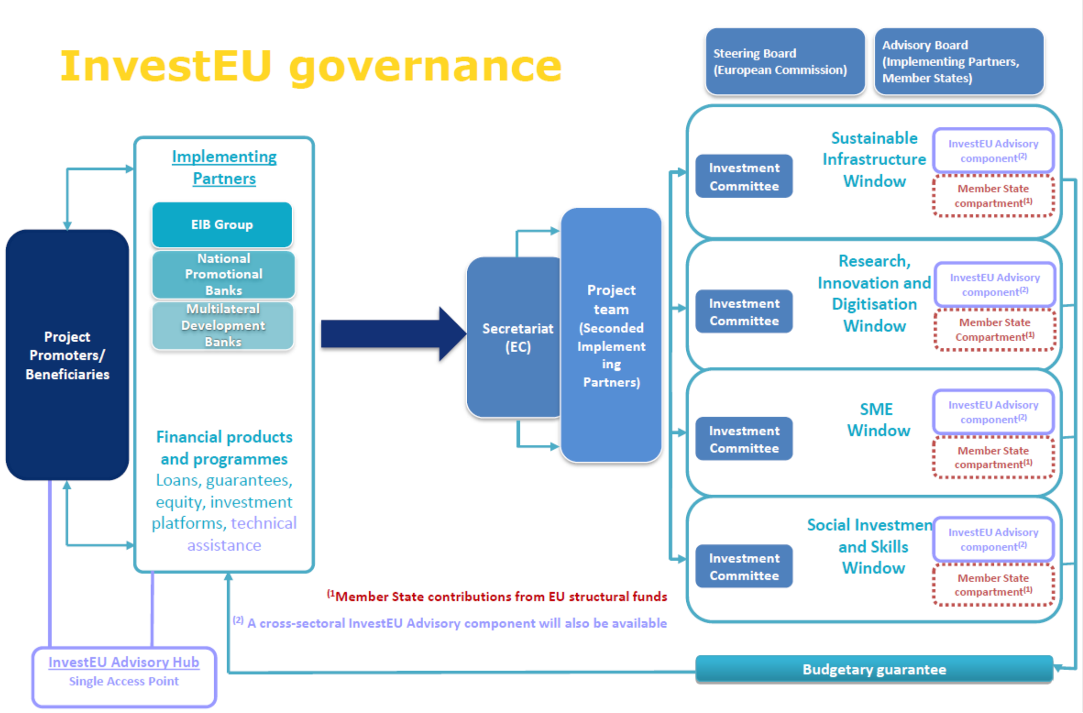
Figure 4-6: Coverage of EU Guarantee


EU guarantee
Debt products
Equity and quasi equity products
Funding/guarantees from implementing partners to other legal entities
Principal + interest
Restructuring losses
Losses from currency fluctuations
Amounts invested
Funding costs and currency losses
Amounts used and funding costs

Source: EC (2018), EU Budget for the Future MFF 2021-2027 – Investment support under next MFF – InvestEU

4.24 The InvestEU Fund will be invested through financial partners. The main partner will be the EIB Group, but other international financial institutions active in Europe will also have direct access to the EU guarantee. For example, the European Bank for Reconstruction and Developments (EBRD), the World Bank and the Council of Europe Bank - and national promotional banks, working together in groups so that they can cover at least three Member States. We also note that the InvestEU Fund will also have a Member State compartment for each of the policy areas. This allows Member States to add to the EU guarantee provision by voluntarily channelling up to 5% of their Cohesion Policy Funds to these compartments. The proposed governance structure for InvestEU is set out in Figure 4-7.

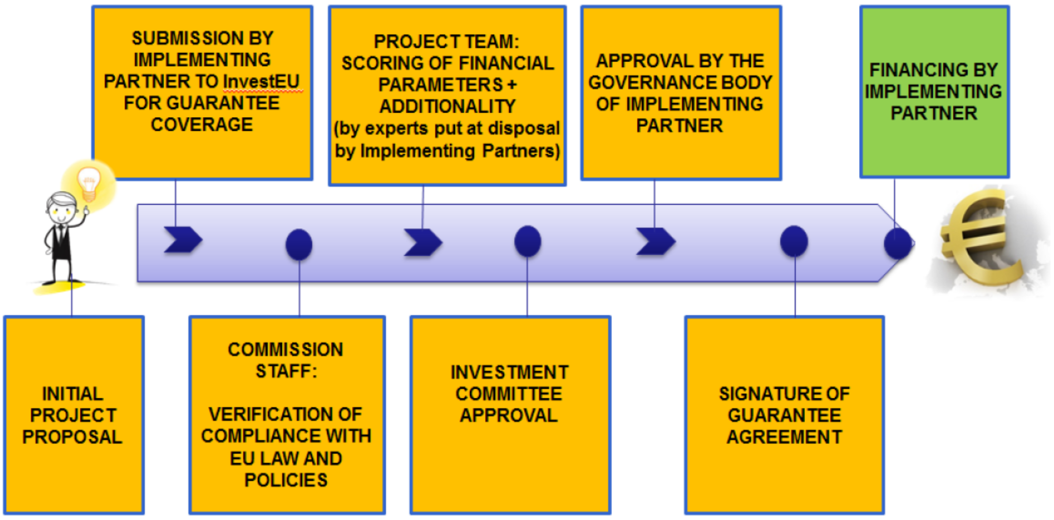
Figure 4-7: InvestEU governance structure


InvestEU governance
Steering Board (European Commission)
Advisory Board (Implementing Partners, Member States)
Project Promoters/ Beneficiaries
Implementing Partners
EIB Group
National Promotional Banks
Multilateral Development Banks
Financial products and programmes
Loans, guarantees, equity, investment platforms, technical assistance
Secretariat (EC)
Project team (Seconded Implementing Partners)
Investment Committee
Sustainable Infrastructure Window
Research, Innovation and Digitisation Window
SME Window
Social Investment and Skills Window
InvestEU Advisory component(2)
Member State compartment(1)
(1)Member State contributions from EU structural funds
(2) A cross-sectoral InvestEU Advisory component will also be available
InvestEU Advisory Hub
Single Access Point
Budgetary guarantee

Source: EC (2018), EU Budget for the Future MFF 2021-2027 – Investment support under next MFF – InvestEU

4.25 InvestEU will work through direct financing by implementing partners and involves the stages set out in Figure 4-8.

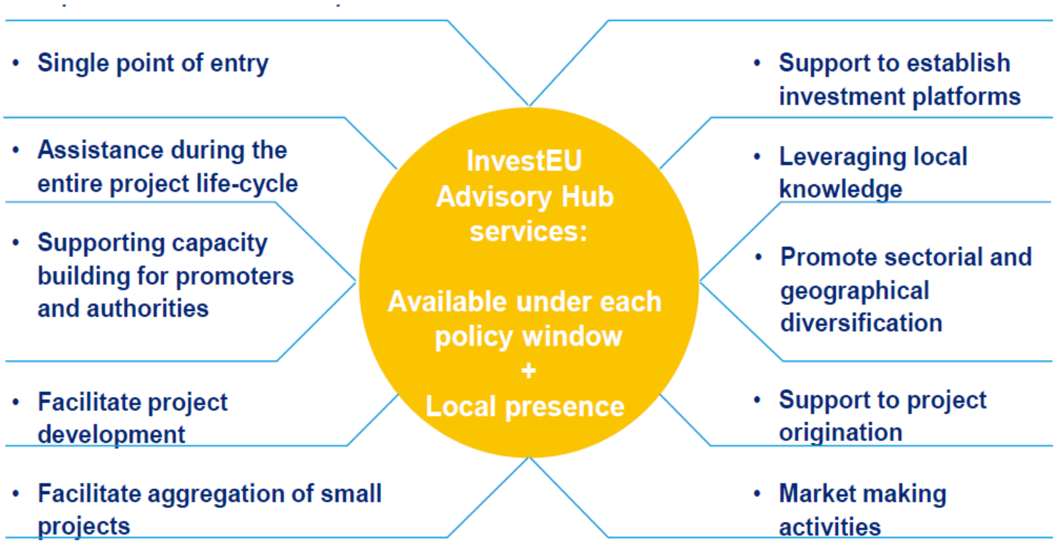
Figure 4-8: InvestEU – direct finance through implementing partners


SUBMISSION BY IMPLEMENTING PARTNER TO InvestEU FOR GUARANTEE COVERAGE
PROJECT TEAM: SCORING OF FINANCIAL PARAMETERS + ADDITIONALITY (by experts put at disposal by Implementing Partners)
APPROVAL BY THE GOVERNANCE BODY OF IMPLEMENTING PARTNER
FINANCING BY IMPLEMENTING PARTNER
INITIAL PROJECT PROPOSAL
COMMISSION STAFF: VERIFICATION OF COMPLIANCE WITH EU LAW AND POLICIES
INVESTMENT COMMITTEE APPROVAL
SIGNATURE OF GUARANTEE AGREEMENT

Source: EC (2018), EU Budget for the Future MFF 2021-2027 – Investment support under next MFF – InvestEU

4.26 As outlined above, the InvestEU Fund is complemented by an Advisory Hub and a Portal. The former is expected to provide advisory support for the *"identification, preparation, development, structuring, procuring and implementation of investment projects, or enhance the capacity of promoters and financial intermediaries to implement financing and investment* *operations'*[73] (Figure 4-9). The InvestEU Portal will provide continued access to the current investment portal, presented under the InvestEU 'umbrella'– the database will be online and publicly available. It will enhance visibility, including to investors and potential investors on pipeline opportunities.

Figure 4-9: InvestEU Advisory Hub


InvestEU Advisory Hub services:
Available under each policy window
+
Local presence
• Single point of entry
• Assistance during the entire project life-cycle
• Supporting capacity building for promoters and authorities
• Facilitate project development
• Facilitate aggregation of small projects
• Support to establish investment platforms
• Leveraging local knowledge
• Promote sectorial and geographical diversification
• Support to project origination
• Market making activities

Source: EC (2018), EU Budget for the Future MFF 2021-2027 – Investment support under next MFF – InvestEU

[73] The Hub replaces 12 advisory bodies plus the European Investment Advisory Hub (EIAH).

5. Review of CCS Guarantee Facility

CCS GF to date

5.1 In the Introduction to this report, and then in paragraph 4.4, the CCS Guarantee Facility, and its key dimensions, were cited as one of the three strands of the Creative Europe Programme. CCS GF was

> *...introduced in 2016 with an initial budget of €121m, subsequently topped-up with additional €60m from the European Fund for Strategic Investment, for the implementation period 2016-2020. It is expected to leverage approximately €1bn loan financing for SMEs and other organisations operating in the CCS.*

5.2 The initial delivery and roll-out of CCS GF was summarised in section 4. In summary:

- CCS GF, a sub-programme of the Creative Europe Programme, aims to enable the growth of SMEs in the sector, by guaranteeing 70% of the losses of each underlying loan provided by a financial intermediary
- The funding allocation of €121m is managed by the European Investment Fund. Together with a further €60m from the European Fund for Strategic Investments, it is expected to enable additional loans to CCS businesses across Europe of c. €1bn
- Agreements with a maximum portfolio volume of €440m have been signed in six countries (as at 30 June 2018).

5.3 In the section which follows, we review the roll-out and performance to date of the Guarantee Facility. As the CCS GF has been in place for only two years, and is being offered to financial intermediaries in 31 countries, which have very different cultural and creative industries as well as different financial structures, the assessment is provisional only.

The policy rationale for CCS GF

5.4 According to the EC's Mid-Term Evaluation of CEP Report (2017),[74] there was strong market response for the CCS GF, which is expected to meet 15%-20% of the estimated financing gap for the sector across Europe. The evaluation also suggested more needs to be done to *"fully reap the opportunities that the digital shift presents, taking into account new audience and consumption patterns and how cultural and creative works are made, produced, accessed and monetised in the digital economy"*.

5.5 The three key questions the study was to consider in re-assessing CCS GF to date, were:

- Do the arguments in terms of market imperfections and failures still persist?

[74] EC (2017) Report from the Commission to the European Parliament and the Council. Mid-term evaluation of the Creative Europe programme (2014-2020).

- How has the finance gap changed, reflecting on whether it has been (partly) addressed through the provision of the facility itself and also through changed understanding and behaviours of financiers?
- Has the facility proved to be a good model to address the market imperfections, and so contribute to policy objectives?

Implementation of CCS Guarantee Facility

5.6 At the point of the Mid-Term Evaluation in 2017, it was deemed too early to assess how the CCS GF was performing. The speed at which the CCS GF had been disbursed was thought to be encouraging, and there was possible scope to utilise more guarantee funds if the scale were increased. It was also suggested that the limit of €2m for individual guarantees under CCS GF could be insufficient to meet key gaps in specific sectors – notably the audiovisual sector, where both projects and more regular business capitalisation have high labour and plant costs.

Summary of progress to date

5.7 The most recent Quarterly Operational Report for CCS GF (2018)[75] sets out the headline position as follows.

- Signed funding agreements are in place with nine financial intermediaries, maximum portfolio volume of €440m. These intermediaries operate from six countries (see Table 4-3): Italy (€160m), Spain (€100m), France (€120m in three FIs), Czech Republic, (€25.5m) Belgium (€25m in two FIs), and Romania (€9.9m).
- It is anticipated that these funding agreements will enable €630m loan financing to SMEs and other organisations in CCS across Europe.
- At 30 June 2018, 386 SMEs and organisations had received financial support in 512 transactions guaranteed through this Facility: a notable increase from the 230 beneficiaries six months earlier, indicating that demand from the market is being met.
- The total committed amount (net amount) across all the countries with signed agreements is c. €50m out of the €180m total (majority committed, in order, is in France, Spain and Italy) - this represents solid progress.

Location of SME beneficiaries

5.8 The analysis in the Quarterly Operational Report (2018) shows that loans have been made through CCS GF to SMEs in ten countries to date (see Table 5-1, below). This should be considered a positive start given the relatively short time of implementation and that these were the first funding agreements signed under the CCS GF. Of the 386 final recipients at the end of June 2018, 308 (80%) were in Spain; these accounted for nearly three-quarters of the funding disbursed. At June 2018, France, with 45 beneficiaries accounted for 14% of all funding; three of the other eight countries had one beneficiary each, none had more than nine.

[75] CCS GF – Cultural and Creative Sectors Guarantee Facility – Quarterly Operational Report – Q2 (Reporting date: 30/06/2018). European Investment Fund: submitted to DG CONNECT 28 September 2018.

It is worth noting that the concentration of funding disbursed is expected to reduce substantially going forward, given the scale of the Italian agreement, signed only in March 2018, which is larger than the Spanish and French agreements taken together.

Table 5-1: CCS GF portfolio of beneficiaries by country

Country*	Transactions to final recipients		Amount committed to final recipients	
	Number	%	€m	%
Belgium	9	2.3%	1.8	1.7%
Czech Republic	6	1.6%	1.8	1.7%
Finland	1	0.3%	0.3	0.3%
France	45	11.7%	14.5	14.0%
Germany	1	0.3%	1.1	1.1%
Italy	4	1.0%	3.7	3.6%
Luxembourg	3	0.8%	3.6	3.5%
Romania	8	2.1%	1.0	1.0%
Spain	308	79.8%	74.7	72.3%
United Kingdom	1	0.3%	0.8	0.8%
Total	**386**	**100%**	**103.0**	**100%**

Source: EIF (2018) CCS Guarantee Facility – Quarterly Operational Report – Q2 (Reporting date: 30/06/2018)

5.9 The guarantee agreements in Italy, Belgium and the Czech Republic were concluded only in 2018, and the Romanian guarantee, administered by Libra Internet Bank, is in its infancy. The number of Belgian beneficiaries increased from one to eight in Q1 2018.

5.10 Both CERSA (Spain) and Bpifrance have been operating similar schemes in the market for several years; an initial concentration of beneficiaries in these countries would be expected, given their existing networks and knowledge of their offer. CERSA has a guarantee fund of €250m supported by the Spanish Government, has a team specialised in CCS and offers a guarantee up to 100% of the loan/financing. The geographical spread of loan agreements with beneficiaries widened in Q2 2018 – the majority of new transactions (42 out of 66) were in Spain, and 86% were in Spain and France, taken together.

Beneficiary firms by sub-sector

5.11 The final recipients include businesses from a wide range of sub-sectors. There is, however, a heavy concentration in the AV sector, which accounts for just under half of all beneficiaries, and around three-quarters of total funding value. The average funding per project in the AV sector was almost four times that for projects in the other main sub-sectors: €420k compared to €131k. It is important to point out that the CCS GF is demand driven and concentration in the AV sector reflects the relative size of this CCS sub-sector compared to other CCS sub-sectors.

Table 5-2: Summary of debt financing supported by CCS GF, by sector

Sector	Number of beneficiaries	% of beneficiaries	Total value (€m)	Average value (€000)	% of total value
Audiovisual	182	47%	76.5	420	74%
Performing Arts	31	8%	2.8	90	3%
Books and Press	62	16%	4.5	73	4%
Visual Arts	63	16%	8.5	135	8%
Other Domains	48	12%	10.9	227	11%
Total	**386**	**100%**	**103.0**	**267**	**100%**

Source: EIF (2018) CCS Guarantee Facility – Quarterly Operational Report – Q2 (Reporting date 30/06/2018); SQW

Purpose of funding

5.12 The purpose for which beneficiaries received support was mainly linked to investment, and in particular investment in intangibles, often also including working capital. This was the case for almost one-third of the total beneficiaries, and accounted for over half the total value of guarantees (see Table 5-3, below). Although more beneficiaries received guaranteed loans for working capital alone, these accounted for a much lower proportion of the total value. The 386 beneficiaries have together accounted for 512 funding deals: some of those with more than one transaction received loans for different purposes; this is reflected in the table rows, while the total refers to the number of unique beneficiaries.

Table 5-3: CCS GF portfolio, purpose of financing

Purpose	Number*	%	Value (€m)	%
Business Transfer	3	0.7%	0.4	0.4%
Intangible investment	110	27.0%	51.2	49.7%
Intangible investment, incl. working capital	17	4.2%	5.4	5.3%
Tangible and Intangible investment	24	5.9%	14.9	14.5%
Tangible and Intangible investment, incl. working capital	7	1.7%	0.7	0.6%
Tangible investment	64	15.7%	8.0	7.8%
Tangible investment, incl. working capital	35	8.6%	3.2	3.1%
Working capital	148	36.3%	19.2	18.6%
Total	**386**	**100%**	**103.0**	**100%**

*Source: EIF (2018) CCS Guarantee Facility – Quarterly Operational Report – Q2 (Reporting date 30/06/2018); *Final recipients that have several loans can have more than one purpose of financing, so the rows do not sum to the total; the total is the number of unique final recipients.*

Size of loans

5.13 Half of the €76m funds committed were in deals with a value between €250k and €1,000k; these accounted for one-fifth of all transactions, while those between €25k and €150k accounted for almost half the total number of deals. Eighty-seven transactions were below €25k; and 14 exceeded €1m.

Size and age of beneficiary firms

5.14 Of the 386 beneficiaries, 324 had fewer than 10 employees, and only 13 employed 50 or more. As would be expected from the overall figures, the 62 beneficiary firms with 10 or more employees were mainly in Spain (38) and France (19).

5.15 Information on the age of beneficiaries was available only to end of December 2017. At that time, one-fifth of the funding guaranteed had been provided to SMEs with a track record of less than a year, and over one-third to firms which have been established less than five years - see Table 5-4, below.[76] This points to the likelihood of some success in widening the funding market. Longitudinal analysis, and monitoring of the outcomes for the businesses supported by CCS GF, will be important in future, to test whether the intended impacts on the sustainability and growth trajectory of CCS SMEs are being met.

Table 5-4: CCS GF portfolio by SME age

SME age*	Final recipients		Amount committed to final recipients	
	Number	%	€m	%
Under 1 year	29	12.6%	10.1	20.1%
From 1 to 3 years	27	11.7%	5.1	10%
From 3 to 5 years	22	9.6%	3.4	6.8%
5+ years	152	66.1%	31.8	63.1%
Total	**230**	**100%**	**50.4**	**100%**

Source: Cultural and Creative Sectors Guarantee Facility, Implementation Update (Reporting date: 31/12/2017)
**Spilt of SMEs by age class based on the first transaction (in case of more than one transaction per SME)*

Feedback on CCS GF from research undertaken for this study

Scoping consultations

5.16 During the scoping phase, consultees suggested that it was too early to assess how the CCS GF is being or will be used, how and whether it was meeting its aims to address the CCS finance gap, and whether it was addressing some specific parts of the gap and not others. At that time, it was thought unlikely that GF was already having a substantial impact across CCS as a whole, given the wide range of sub-sectors and types of businesses, and the relatively narrow coverage achieved through the funds drawn down thus far. It was suggested that the CCS GF would need to be rolled out in more countries if it is to be seen to have real impact across the

[76] Data on the age of SME beneficiaries from CCS GF – Cultural and Creative Sectors Guarantee Facility – Quarterly Operational Report, 31/12/2017 – European Investment Fund.

wide range of CCS activities, and the different conditions faced by these business and organisations across Europe.

5.17 On the other hand, the speed at which the CCS GF had been disbursed where operational was seen as encouraging. Consultees felt there was scope to increase this further if the scale of funding were increased – particularly in those Member States where take-up had been strong, and/or in those where policy goals and structures were in place to support CCS growth.

Supply side stakeholders: EIF and financial intermediaries

5.18 Those consulted from the EIF and financial intermediaries (in four countries/ regions)[77] during the main period of the research were unanimous that there was a persistent market failure, and a funding gap for CCS SMEs – for loan finance as well as equity – which provides a strong basis for intervention. For example, a consultee from Ireland viewed the gap as long-term and inevitable, given the characteristics of the sector: their perception was that in the last five years, the debt gap may have slightly reduced, while the equity gap had grown.

5.19 Real barriers were identified on the supply side, relating to financiers' understanding of the sector: these partly arise from the specific characteristics of CCS, which is seen as a niche market, in which it is difficult to assess risk. One consultee noted that a perceived lack of scalable opportunity had limited investor interest; financiers are much more likely to become involved if they have some direct experience of CCS, or a strong interest in the sector.

5.20 National consultees were also clear that real and persistent barriers needed to be addressed on the demand side, if an effective and efficient funding system was to be provided for CCS businesses. One consultee referred to the high level of creative skills in the sector, which does not readily translate into business acumen: indeed, it often seemed to militate against this. Others emphasised intangible assets and IP issues, the lack of business planning and the fear of rejection. It was also suggested that interest rates were seen as high, especially by firms which had earlier benefitted from low cost public support or grants.

Demand-side: Sector organisations

5.21 The consultation feedback from CCS organisations highlighted the importance of CCS across a range of national markets. It was suggested that financial intermediaries within countries have different approaches and attitudes to financing CCS. For example, consultees pointed out that in France, the IFCIC credit institution (focused on the cultural and creative sector) for AV, had proved effective in supporting smaller co-productions, but had limited impact on the core film industry. Nevertheless, one consultee saw it as a potential model for application at EU level. This is encouraging as the IFCIC is one of the financial intermediaries under CCS GF. Other consultees pointed out that Italy and the UK operate national loan guarantee schemes – for example, in Italy the national government has announced action to build a more attractive offer for small creative businesses – and that in some countries banks still do not understand the role and potential of CCS, for example, in the case of film in Romania.

5.22 In this wider context, CCS organisations broadly welcomed CCS GF. There was a persistent market gap, and CCS GF was seen as active in this space, and 'a move in the right direction'.

[77] Flanders, Italy, England and Ireland.

Some consultees called for a larger, more ambitious, scheme, in which the initial reduction in funding would at least be restored. CCS GF has been received with a high level of interest in some areas, including parts of the AV, music and books sub-sectors. Some industry organisations have actively promoted the scheme to their members, encouraging them to contact their banks. This, alongside the interest shown by FIs, suggests confidence and appetite for the CCS GF.

5.23 The perceived relevance of CCS GF, as a Europe-wide facility, differed across the EU, depending on the varying national models for funding different types of business, and the rules on tax. For example, in the AV sub-sector: (i) Governments in the Nordic countries operate a system of grants, which are provided alongside 'soft' loans made widely available through the banks; (ii) tax credits for R&D under a broad definition are widely available (e.g. Poland).

5.24 Consultees viewed the provision for capacity building (for financial intermediaries and businesses) as an important feature of CCS GF – this was welcomed as it helps to address the market failures and barriers prevalent in CCS (e.g. relating to information, risk and investment readiness) and to improve the overall quality of demand for finance (equity and debt). While capacity building is an important part of the EU positioning on funding going forward, we note that it is not a common feature of the design and delivery of financial instruments at national level. In this respect the approach of delivering capacity building under the CCS GF can be considered quite novel.

5.25 The consultee feedback emphasised that the CCS GF should not be a stand-alone scheme: new initiatives to promote capacity-building and co-funding are required alongside the Facility, if it is to be effective for CCS. (Measures to promote this, working with financial intermediaries, are already in place under CCS GF). Parallel measures might also include actions to promote more favourable and more consistent treatment of IP for accounting purposes, alongside actions to customise GF to meet local and sub-sector needs.

5.26 Consultees pointed out that with regard to film/AV, there had been substantial activity in Spain and France, and for video games in Romania where CCS GF has had significant impact. Knowledge of the workings of the GF was highest amongst representatives of the AV sector, probably reflecting the relative maturity of the European AV industry in terms of raising finance and approaches to business growth, as well as the focus of CCS GF to date. However, knowledge of the Guarantee mechanism was found to be patchy across the sub-sectors and organisations, and the scale of take-up to date was thought to be limited. The relatively early stage in GF implementation was reflected in consultees' limited awareness of the scheme: of those that had heard of CCS GF, some had been aware of its inception, but had limited knowledge of its progress on delivery (and would like to be kept abreast of delivery) - they desired more information on the types of businesses being supported, and on the geographic spread of the Facility. This reflects the experience of some industry consultees given the actual roll-out to firms/organisations. However, it would also be fair to say that the scale of agreements in place and in the pipeline can be expected to change this view.

5.27 There were mixed messages on utilisation of CCS GF, with several consultees concerned that it was challenging to target those sub-regions and sectors with real need for structural support, such as Central and Eastern Europe and in the video games industry. Also, while the model appears to be highly relevant to the concentration of CCS businesses in Scandinavia, the nature of the banking industry offer in those countries (including with govt support) may limit interest and take-up. The cultural conventions of the banking industry in those countries (with government support for 'soft' loans in favoured sectors, and performance bonuses linked to low default percentages on loans made) mean that loan guarantees are seen as less relevant. Several CCS consultees also commented on the prevalence of project-based financing and 'prototype products' within CCS, and the implications for funding: they believed that the CCS GF could do more to encourage banks or businesses to move into innovative and potentially more sustainable 'slate-based'[78] approaches to financing and risk spreading.

Demand-side: CCS businesses

5.28 The business survey drew responses from approaching 500 CCS businesses and organisations in 29 countries; almost three-quarters were micro-businesses (fewer than ten employees and with annual turnover below €2m); 40% (214) of respondents were in the audiovisual sector, with the remainder widely spread, including more than 25 respondents from each subsector in music, education, design/arts craft, visual arts and performing arts.[79] The highest number of responses were from the Netherlands and Poland (75 and 63 respectively), with more than 15 responses from eight other countries, and more than ten from 14 countries in all. (See Annexes B and C for detailed results from the survey).

5.29 Headline findings, provided here for context on ***the extent to which SMEs had recently sought, or considered seeking, external finance*** were as follows:

- In the last three years, 78% of survey respondents had considered seeking, and 59% had actively sought external finance: the proportions were higher for businesses in the AV sector, 83% and 68%, respectively
- Interest in external finance – both considering and actively seeking this – was widely spread geographically; although this finding is qualified by low responses in some countries, the results do not indicate major differences in attitude/aspiration between northern and southern Europe, or between east, centre and west
- Nor was size of business a major differentiating element in considering and seeking external finance: perhaps surprisingly, micro businesses were more likely than average to consider seeking external finance (81%, compared with 59% across the larger SME groups). For those interested, micro-businesses and larger SMEs were equally likely to pursue this to application (59%). Micro-businesses were also as likely to consider looking for external equity investment as larger SMEs (28%), and were almost as likely actively to seek this (18% compared with 19% for all sizes of SMEs).

5.30 With regard to ***types of funding considered and sought,*** of the 369 responses to these questions:

- 63% had sought grants from governments; 37% had pursued other sources of grants
- 18% had actively sought bank loans; 8% identified guaranteed loans

[78] Slate financing involves investors putting money into a "slate" of several films that a studio will produce over the next few years - investment in a portfolio of films, rather than a single production. This helps to mitigate risk.
[79] See Annexes B and C for detailed analysis of the survey results.

- 16% had sought crowdfunding; over one-third had considered this
- 15% had actively sought equity funding
- 15% had looked to family and friends for loans.

5.31 ***Factors which had discouraged firms from pursuing bank loans as a source of external funding*** in the last three years *(n=209),* included sufficient self-generated capital (20%), but also:

- 42% were discouraged by perceived risk (compared with 11% of the 72 firms giving this reason for not seeking any form of external finance)
- 34% believed they lacked the business assets which would provide the necessary collateral or guarantee
- 26% that they could not generate the funding to repay the loan
- 21% that it would be too complicated and time-consuming (11% also said that they had insufficient awareness or understanding of what was involved).

5.32 With regard to the ***scale of loan applications and their intended purpose***, 35 of the 84 respondents were in the €10k-50k band, 23 between €50k and €250k, and 19 over €250k:

- 42% were required in order to finance new products or services
- 32% for property, plant or equipment
- 31% to support specific artists or creative content of projects
- 30% for inventory or working capital.

5.33 Repayment periods ranged widely: 17 of 56 respondents expected to repay within a year, 17 in between one and three years; 16 between three and ten years; 3 in over 10 years.

Summary: findings from the business survey

5.34 These survey findings indicate the wide interest in external finance from CCS SMEs, and also specifically in bank loans. This is spread across all European countries and sub-sectors, and notably from new enterprises. Perceptions of limited potential for revenue generation and payback means that many firms and organisations also pursue grants, but respondents also stated that their lack of understanding of finance, perceived risk and lack of collateral were also factors which discouraged applications for bank loans.

CCS GF operation and delivery

5.35 Three more specific questions were also addressed through the consultations; given the early stage of delivery to final beneficiaries, feedback on these came, for the most part, from stakeholders on the supply side.

- Is the limit of €2m for the CCS GF insufficient to meet key gaps (incl. for sectors e.g. AV)?

- Is there scope to disburse more guarantee funds if the amount of CCS GF was increased?
- How can the opportunities arising from digitalisation in the economy for CCS best be addressed and exploited?

Findings and implications

5.36 As CCS GF is rolled-out and becomes more established, the agreements signed to date show the potential to improve both the geographic coverage of the CCS GF and deepen its impact in the final two years of the implementation period. There have been positive steps towards improving investment in CCS, and to unlocking private investment, especially in those Member States where competent and knowledgeable administrative organisations already exist – notably Spain and France. Consultees believed there was scope to extend the Guarantee Facility, but that this would require parallel measures to enhance demand-side understanding and readiness.

5.37 In other respects, the feedback was mixed: a small number of consultees perceived that there was some deadweight, as CCS GF was supporting (and underwriting) funding which was already being provided by the market. This comment was made with particular reference to BNP's 'Sofica' products in France and the CERSA offer in Spain. This said, CCS GF is not intended to replace what financial intermediaries can do on their own with instruments targeted for CCS – CCS GF is designed to add to existing provision.

5.38 CCS financing gaps persist at the EU periphery, especially in Scandinavia and the Eastern fringes, which need to be further addressed by the CCS GF. The reasons for this differ. Scandinavian banking convention equates bonus payments with low default numbers, encouraging cautious lending profiles. This issue is not addressed by default guarantees such as the CCS GF, and this may go some way to explain lower take-up within these countries; support for the CCS in Northern Europe is driven by grants and soft loans to circumvent this issue. The key point to note is that all the situations are very different, illustrating the range of demand and supply conditions across Europe - no single facility is likely to meet all needs.

5.39 The issue in Central and Eastern Europe is one of capacity and scalability. Whilst many CCS sub-sectors have seen strong growth in these regions, this has come from a low base; consultees noted that the audiovisual sectors in central/eastern Europe remain in the early stages of the growth cycle. Tax incentives and grants at national level (notably in Hungary and Latvia) are aiming to improve the indigenous skills base, as well as incentivising international co-production. With the exception of the growing video games base in Romania (supported by Libra) there is a lack of CCS businesses which may require the types of support offered by the CCS GF, and CCS consultees noted a general lack of understanding amongst financiers on the scale and idiosyncrasies of these businesses.

5.40 Response on the other questions was mixed: those involved at policy level are well aware of the radical challenges facing the sector, particularly those arising from digitisation and public funding constraints, and the need to experiment with new delivery models. Some consultees, particularly from the AV sector, saw the €2m deal limit as a real constraint. Another perspective was that up to double this amount would be needed to enable restoration of historic sites, but there were differing views on whether that type of project is, or should be, eligible under CCS GF.

5.41 CCS GF in responding to the financing barriers experienced by CCS organisations has raised the profile of sector issues on the European political agenda. The support for the scheme is evident from the two funding extensions from the EFSI, doubling its original budget, as well as the positive response from the financial intermediaries that have signed agreements. It takes time for financial instruments to be established and be taken-up by their intended business beneficiaries (in turn, the business benefits are likely to be realised and evidence even later), and this is the case with CCS GF. It is not within the remit of this ex-ante evaluation to evidence the full impacts of the CCS GF on sustainability and growth in the sector, nor on support for new business models - a longitudinal study will be needed to test robustly the impacts of the CCS GF. It is, however, evident from consultee feedback that the CCS GF is already a welcome addition to the financing landscape, and is recognised as progressing in the right direction. The associated capacity building is expected to be important to its success: feedback indicated that further work needs to be done to reach and educate financiers sufficiently on the requirements and specific characteristics of CCS businesses. The implementation of the capacity building is at an early stage and it is expected to positively contribute to bridging the knowledge gap between CCS and financiers.

5.42 Several consultees considered a renewed focus on 'enterprise finance', rather than 'project finance', was vital for a CCS GF 'Phase 2' – this would open out the sub-sectors which may be supported, better target scalable businesses and incentivise investment in risk spreading approaches such as slate building, amongst both CCS firms and financiers.

5.43 The limited uptake of guarantees in CCS other than the audiovisual sector is also evident from the research undertaken to date. There are clearly cultural reasons for this amongst both the business base, and the financiers using the CCS GF, but this suggests that any 'Phase 2' of the CCS GF should focus on supporting other sub-sectors, many of whom might benefit better from a product designed to facilitate access to the types of funding they use most readily – representatives of the publishing and visual arts sectors noted that businesses here often rely on personal credit, guaranteed loans and friends and family for financing.

5.44 Overall, CCS needs to further develop its market profile and share within generic funding mechanisms, and the distinctive needs of the sector will only be met if they are recognised and better understood in the marketplace. In the short-term at least, this would seem to point towards a ring-fenced sector initiative within the wider InvestEU.

Summary

5.45 The following points summarise the position of CCS GF to date.

- CCS GF, a sub-programme of the Creative Europe Programme, which has been operational for a relatively short period of time (since mid-2016), aims to enable the growth of SMEs in the sector, by guaranteeing 70% of the loans made by financial intermediaries.
- The funding allocation of €121m is managed by the European Investment Fund. Together with a further €60m from the European Fund for Strategic Investments, it

is expected to enable additional loans to CCS businesses across Europe of more than €1bn.

- To date, agreements have been signed with nine financial intermediaries in six countries. Their combined maximum portfolio volume is €440m.
- 386 CCS firms have benefitted to date from CCS GF, through 512 transactions. To date, the beneficiaries have been concentrated in Spain (308 of the 386), and in the audiovisual sub-sector (182 beneficiaries). The average deal size in AV is also much larger than in other CCS sub-sectors.
- The loans guaranteed are with SMEs of varying ages, but (at December 2017) one-fifth of the funds had supported SMEs with a business track record of less than a year, and over one-third into firms which had been established less than five years. This points to the likelihood of some success in widening the funding market, although as noted above, this is limited to date in terms of type of CCS activity, and also geographically.
- The current concentration reflects experience within financial intermediaries of funding CCS, particularly in Spain, and also in France. The business survey showed an appetite for external finance across most European countries and sub-sectors. Although CCS GF will not be equally relevant in all markets, the scope is expected to widen as recent funding agreements become fully operational, and the financial products are more widely marketed and better understood within the sector and among its clients.
- The consultation evidence supported by our review of relevant reports and data has highlighted consistently the distinctive financial needs of CCS which point towards continued focus in the form of a visible sector initiative going forward under InvestEU.

6. Ex-ante evaluation of an equity instrument

6.1 This section presents the ex-ante evaluation of an equity instrument for CCS. It sets out the evidence on the supply and demand for equity finance in CCS, and how it is changing in the context of the evolving business and funding landscape. It identifies the key market failures, barriers (and funding gaps) that justify intervention, and assesses the evidence on the demand and scope for a new equity instrument for CCS. We also cite relevant information on equity-related finance (quasi-equity) where this was available. The section is informed by the evidence collated and analysed from: the data and literature reviews; interviews with CCS representative organisations, equity investors/associations, EIF and other financial intermediaries, and other EU representatives; also the online survey of CCS businesses.

Contextual conditions

Evidence on supply, demand and related issues for equity finance in the CCS

The context for CCS and sub-sectors

6.2 As emphasised throughout this report, CCS includes SMEs, multinationals (MNCs) and individual entrepreneurs. It ranges across creative arts and educational activities which are usually public-funded, to other activities including films, music, books and games which are for the most part commercial. Some sub-sectors operate typically through public institutions, some through businesses, others through not-for-profit organisations and individuals. People and individual creativity are central to the sector: growth, or increased reach, is less important to many of those involved than being able to pursue and develop their own interests.

6.3 A common response from interviewees in all sub-sectors was that their activities now face disruptive change. This is being caused by both structural and cyclical factors: the most important, technological change, is leading to new ways of delivery and new patterns of user/buyer behaviour across CCS. The effects have not yet been felt in full, but the impacts to date have been exacerbated by the impact of the recession, with public spending cuts, reductions in real incomes, and reduced business turnover and margins.

6.4 An important part of this shift has been to 'winner takes all' at global level, as represented for example by Netflix and Amazon Prime Video. This 'market power' threatens the ability of some traditional platforms to deliver CCS products and services, which have tended to be organised at national level. In most sub-sectors, the 'middle ground' has been eroded, arguably making conditions harder for SMEs with aspirations to grow. In parallel with the shift to global operators, individuals and small firms continue to pursue their own creative and cultural objectives, some with an entrepreneurial mindset looking for growth as well as profile, others with little regard for operating as a business.

6.5 The current dominance of the US, and the rapid emergence of China, also raises the question as to whether up-scaling to a European-level response can be on a sufficient scale, even if cultural and language barriers can be overcome. The recognition that new business models were required was shared across all sub-sectors, but acceptance of the need for radical solutions was more evident in some, for example, AV, than in others, such as books and publishing.

Demand-side perspectives

6.6 Against this backdrop, there was a wide recognition that ***access to appropriate funding would be critical to the future of CCS across Europe***: this was regarded, in many cases, as the major issue facing the sector. Other factors were also seen as important, notably talent, as CCS depends particularly on individual expertise and how this is projected. Access to markets is particularly important for emerging digital-based activities; also, protection of IP and tax, which is also critical in the case of books and publishing. Many CCS activities operate in the form of projects based on short-term collaboration, rather than as businesses seeking to manage a portfolio of projects which becomes, over time, the platform for a sustainable company, and can then offer returns to its investors. In the words of one interviewee *'co-productions are like shareholders in a temporary company called film'.*

6.7 A particular issue for most CCS sub-sectors and activities is that, even where the concept is essentially commercial, rather than being undertaken for reasons of wider cultural development, ***the challenge is to realise new ideas and opportunities in a context of tight resources***. A major complicating issue in applications to external funders is ***the intangible nature of the assets, and the extent to which these are embedded in individuals***. This causes real difficulties in valuation; accounting practice in the treatment of this differs between countries.

6.8 ***Funding research, design and development (RD&D) is a major issue*** – as in other sectors, timescale to delivery can be highly uncertain, and the route for this is difficult to plan, and even harder to sell. These issues point to the need to build a much better understanding of specific CCS characteristics, needs and opportunities, both among potentially interested investors and the wider financial community.

6.9 Most CCS businesses and activities face ***funding gaps***. Evidence gathered for this study from the stakeholder consultations and the business survey indicates that the overall scale of these gaps may have increased in recent years. They are not always immediately evident, businesses and individuals in some countries (Italy was cited) theoretically enjoy access to finance which may not be realisable in practice. The reasons for the gaps vary by sub-sector, for example the financial crash led to a sharp fall in Chinese investment in new digital games. For smaller businesses and projects, these gaps are often met through ad hoc solutions, including appeals to families and friends. Other non-financial sector mechanisms, such as crowdfunding, have been used successfully for some types of project, especially where potential funders were more interested in association with a creative individual or cultural product than in financial return. Indicative estimates for the finance gaps (equity and loan) are presented at the end of this Section.

6.10 More widely, the range of activities, scale, interests and current business models, the complexities involved in their operations, and the risks and uncertainties in the wider environment, strongly suggest that ***adaption and experimentation will be needed for any new intervention.*** No single solution will solve the funding problems, which include a lack of working capital as well as finance for developing and growing the business. Any new mechanism, and also existing interventions, should be adopted to specific circumstances, and expected to change over time.

6.11 Across the sub-sectors and diversity of experience, and with regard to all funding, three themes stand out.

- There is ***substantial interest in making equity more available***, ***while recognising that this will be relevant only in some cases*** **-** it will probably be most applicable to SMEs with innovative projects, and creative entrepreneurs looking to finance next stage growth. More readily available loans may be more suitable for others with low ambitions, and also for those beyond this point; major well-established companies will solve their own funding issues.
- The EU Guarantee Facility is widely welcomed, but respondents had limited experience – and in some cases, limited awareness – of GF operations to date.
- More generally, there is a potential role for EU support in funding the development of CCS, provided that interventions can be adapted to local economic and institutional conditions in different parts of Europe, and shaped to provide distinctive additional funding which complements and reinforces what is already available.

The context for equity investment

6.12 Having summarised the evidence from the demand side on access to finance (including equity) in the context of the conditions specific to CCS, we now turn to the environment for equity investment across all businesses, taking into account some relevant recent developments. Understanding the wider trends and developments in the equity landscape is pertinent as this informs the analysis of evidence on CCS gathered in this study, including the outline of potential options for a sector-specific financial instrument (see section 8); it also provides the basis for a better understanding of the market size for equity investments – helping to understand the indicative estimates of funding gaps in CCS (i.e. the size of the total 'pot' of equity investment in Europe provides necessary and useful context). Here we draw on the data and literature review, supported by evidence from our interviews with equity investors/associations where relevant.

6.13 Equity data published by InvestEurope[80] is available for 2017. The total amount of equity invested in European firms last year was:

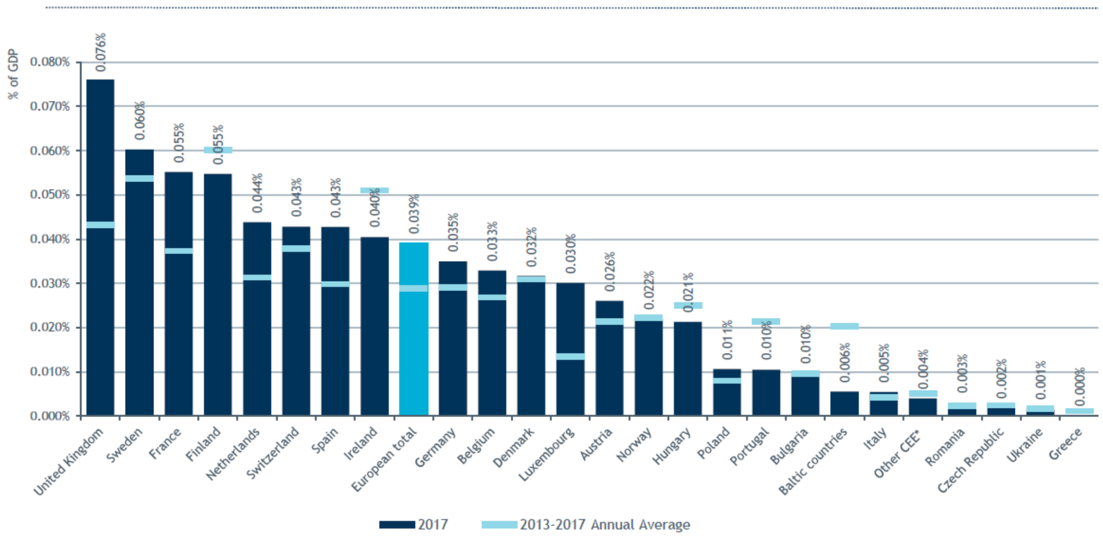
- €71.7bn private equity including VC (the second highest total on record); of this
  - ➢ €6.4bn VC investment in nearly 3,800 companies, across c. 1,360 funds (10 year high, and increase of 34% on 2016 value)
- €11.5bn Growth capital[81] investment in just over 2,100 companies.

[80] Invest Europe, 2017. 2016 European Private Equity Activity. https://www.investeurope.eu/media/651727/invest-europe-2016-european-private-equity-activity-final.pdf

[81] Growth capital is defined by Invest Europe as "type of private equity investment (often a minority investment) in relatively mature companies that are looking for primary capital to expand and improve operations or enter new markets to accelerate the growth of the business". Funds in this category include "vehicles scaling up venture capital-backed companies, to those making minority equity investments in mature SMEs, and regional development policies backed by banks or public institutions".

6.14 Figure 6-1 depicts VC investment as a percentage of GDP for European countries. This shows the relation between the scale of VC investment and other economic output by country (i.e. as opposed to absolute values). The top five countries (in order) are: UK, Sweden, France, Finland, Netherlands.

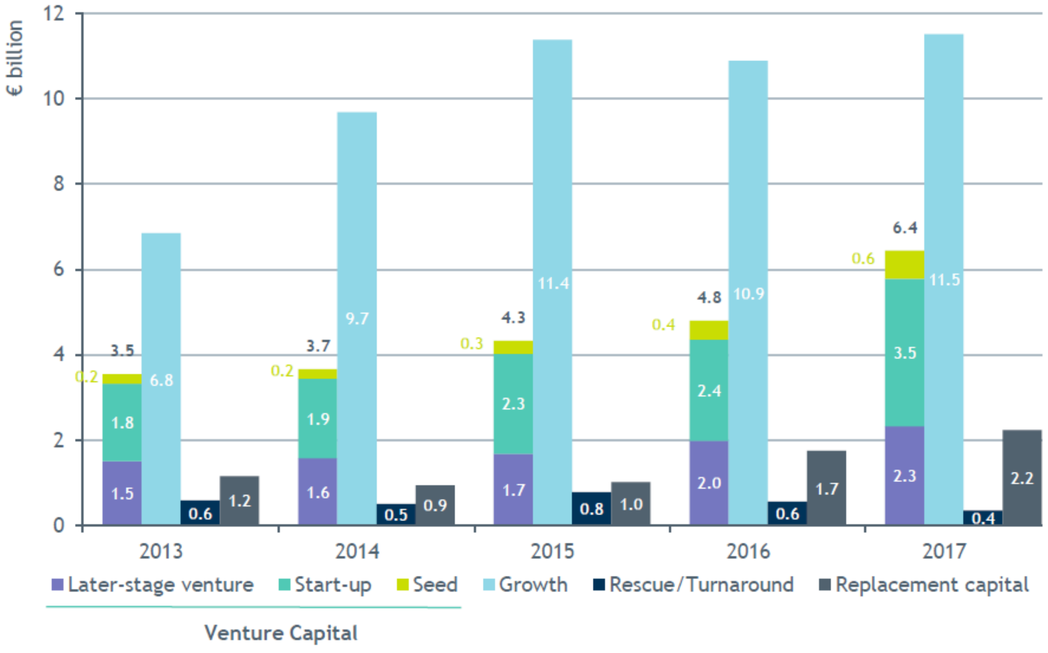
Figure 6-1: Venture capital – investment as percentage of GDP (2017)



Source: InvestEurope (2017). Note (1) Data relates to 'market statistics' – location of portfolio company; (2) other CEE consists of Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Montenegro, Serbia, Slovakia, Slovenia

6.15 Figure 6-2 shows investment by stage over five years from 2013 to 2017. Focusing on the figures for VC (later-stage venture, start-up, and seed) suggests that investments in this stage have generally risen over time (and volumes are relatively stable). Growth stage investments have experienced the greatest increase.

Figure 6-2: Investment by stage (2013-2017)



Source: Invest Europe

6.16 Despite these VC investment data/trends, it is widely recognised that there are attitudinal barriers to equity compared to most other forms of finance (e.g. loans), both for SMEs in general and those in the CCS. According to the EC/ECB (2017) Survey on the Access to Finance of Enterprises (SAFE):[82] 2% of SMEs in the EU28 used equity finance in the last six months (April-September 2017) and a further 12% viewed it as relevant (i.e. had used it in the past or considered it) but had not used it in the last six months. **Equity was the preferred source of external finance for 6% of SMEs** (compared to 69% that would prefer loans of some form).

6.17 The SAFE results also show the proportion of SMEs reporting an increased need for equity finance has consistently been higher than those reporting decreased need over the past few years – with a steady 'net difference'[83] of 8% each year since 2014. This differs by country, with increased need in 2017 most pronounced in Lithuania (26% net difference), Sweden (16%) and Poland (14%). The confidence of SMEs to talk with equity investors and venture capital firms and achieve their desired results has improved in recent years but this still remains an issue: 23% reported that they were confident, 32% that they were not. The lowest levels of confidence were in Slovenia (8%) and Italy (9%), and the highest were in the Netherlands (37%) and Austria (35%) – smaller businesses were found to be less confident than larger.

6.18 The equity funding landscape has been changing in terms of VC and business angel activity. An important development is that equity has become relevant to a higher proportion of EU28 SMEs since 2008. According to SAFE, 'gazelle' firms (which have already been growing rapidly for four years or more) tend to report a net improvement in the availability of equity capital relative to other non-gazelle SMEs which are nevertheless high growth firms. This may reflect the tendency for young but established high-growth enterprises to be of greater interest to venture capitalists and business angels. It was also found that exporters were more positive than non-exporters, and innovative SMEs were more positive regarding the availability of equity capital than non-innovative SMEs.

6.19 More widely, according to EIF (2016)[84] the venture capital ecosystem in Europe is 'fragmented' with regard to and in some cases across national borders: currently there is no real European VC market, but an 'aggregation' of markets. There are differences in development stage and size of the venture capital industries across countries within the EU, as well as heterogeneity in the types of VC investors in Europe (independent, bank-controlled, corporate and public-sector related). There are structural measures underway to address these issues such as the EU's plan launched in 2015, to develop a Capital Markets Union by the end of 2019. EIF with its pan-European approach also plays an important role through for example *"standard setting and spreading of best market practice, advice and consultation"*. EIF acts in the market as a co-investor alongside VC firms, crowding-in private investment as well as pursuing wider economic development objectives alongside financial goals and targets.

[82] European Commission (2017). Survey on the Access to Finance of Enterprises (SAFE) 2017.

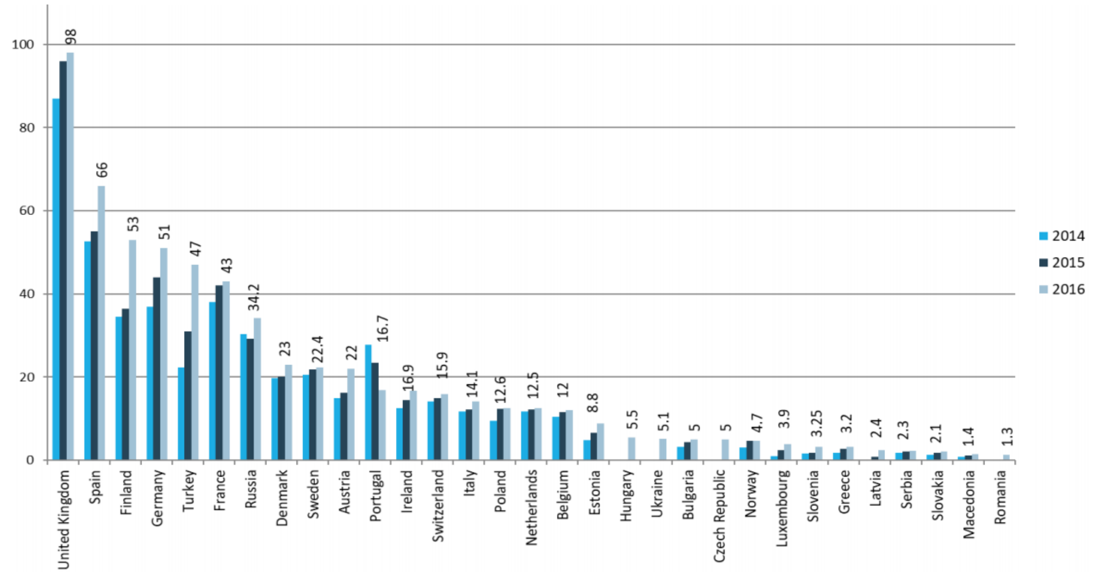
[83] A positive net difference indicates a higher proportion of businesses reported an increased need for equity finance than the proportion that reported decreased need e.g. a net difference of +4% would result from 52% reporting increased need and 48% reporting decreased need.

[84] European Investment Fund (2016) The European venture capital landscape: an EIF perspective – Volume 1, The impact of EIF on the VC ecosystem. EIF Research & Market Analysis Working Paper 2016/34.

6.20 In 2016, the EC conducted a consultation exercise with relevant stakeholders, including entrepreneurs and start-up communities, with the aim of improving the environment for start-ups in Europe.[85] This led to the EC's Start-up and Scale-up initiative[86] which aims to help start-ups to take full advantage of the single market. The initiative brings together a range of existing and new programmes including the launch of a pan-European VC fund of funds, the introduction of a new directive on insolvency law and simplification in taxation, including the creation of a Single VAT Area.

6.21 Equity investment is also available through business angels. According to EBAN (2017), the **European business angel finance market was estimated at €6.7bn in 2016** (up 8% from 2015) through 38,230 deals (up 16% from 2015), generated from a business angel community of 312,500 investors and 474 business angel networks.[87] These figures are based EBAN's investment data which covers only the 'visible' market – which is estimated at 10% of the total market – the estimates do not account for the whole market. Of the visible market, some European countries have far higher overall levels of investment (Figure 6-3) and among existing leaders there has been strong growth over the past couple of years, as well as a few countries newly entering the market.

Figure 6-3: Visible angel investment by country and year (€m)



Source: EBAN (2017)

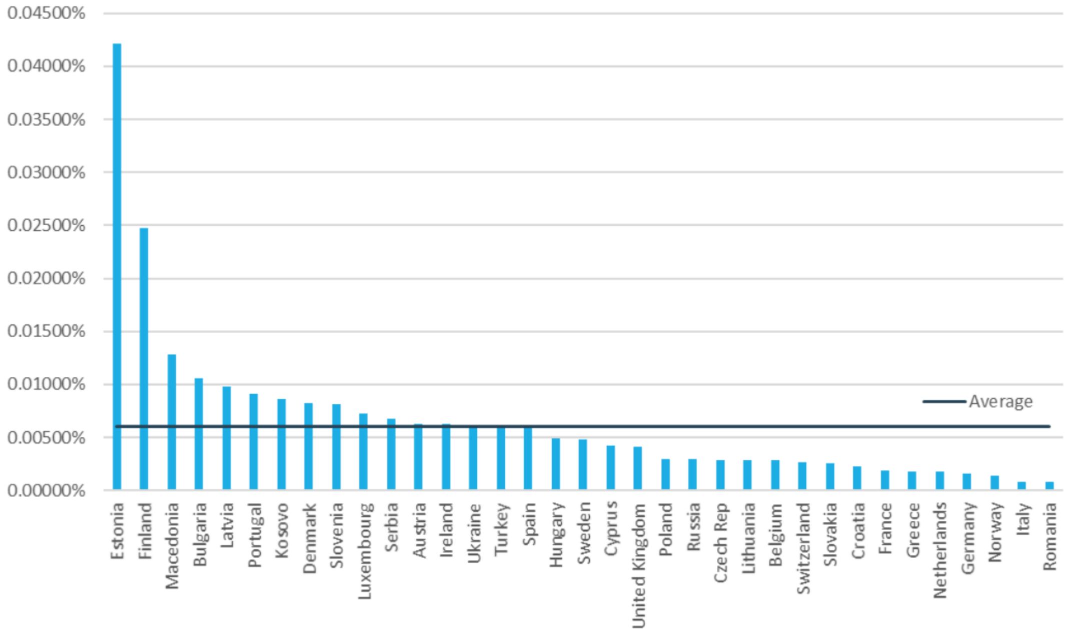
6.22 The level of business angel investment as a proportion of GDP in European countries is presented in Figure 6-4; this relative scale shows the greater investment of many central and eastern European countries.

[85] European Commission. Public consultation under the Start-up Initiative. http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8723

[86] European Commission. Europe's next leaders: the Start-up and Scale-up Initiative. http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016DC0733

[87] EBAN (2017). EBAN Statistics Compendium: European Early Stage Market Statistics 2016.

Figure 6-4: Angel investment as a % of GDP by country (2016)



Source: EBAN (2017)

6.23 Business angels tend to make relatively small-scale investments (typically in the EU of €50,000 - €1m) and into a fairly small number of companies. As with the VC market, there is fragmentation of local business angel ecosystems and national or European networks. This is manifest in; lack of business angel capacity in smaller EU Member States; lack of exit opportunities; lack of business information and data consistency and reliance; limitations to cross-border investments within the EU from business angels.[88] There are also, however, increasingly organised angel groups and formal syndicate structures operating in the EU Member States.

6.24 The EC (2017)[89] report on business angels, drawn from EBAN data and a survey of business angels, found that most of the investments in each country were retained within the country of the investor – only 8% of deals in 2016 were made with businesses in other countries. As is normally the case with business angels, there was a strong local preference: 58% of surveyed business angels reported that their most recent investment was within one hour's travel from their residence. Business angels can often co-invest as a group: this tendency was shown to be stronger in some areas than others. For example, it is strong in France (82%) and less so in Germany and Austria (35%). Of those that invested as part of a group, roughly two-thirds did so with business angel networks.

6.25 The median investment per angel in 2016 was €30,000 although this sits within a wide range; investments are typically for a period between five and ten years. The most common phase invested in was the seed stage (63% of surveyed business angels); 44% had invested at pre-seed stage and 30% in start-ups. The number of business angel networks has grown at a slow pace over the past few years: this is attributed to a consolidation within the market with networks becoming formalised. It is also important to note that business angel investment is often not merely financial: 53% of consulted business angels stated that they provide informal

[88] Ibid 17.
[89] European Commission. (2017). Understanding the Nature and Impact of Business Angels Funding.

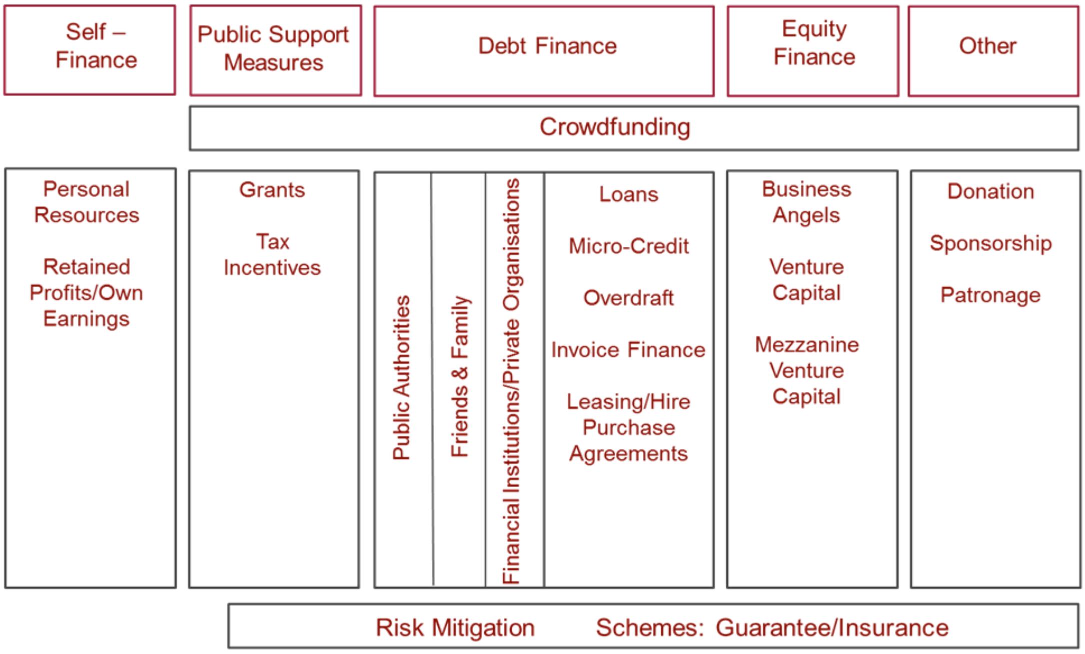
advice to investees. This is noted for later consideration, under the review of potential new financial instruments (section 8).

6.26 There are also demand-side factors at play which limit the take-up of equity finance as a viable option for European SMEs. These include: aversion to risk finance (fear of ownership dilution; cultural differences regarding entrepreneurship and risk taking); lack of awareness of the benefits of risk capital, specifically at the seed investment stage; quality of demand and investment readiness, giving rise for European SMEs to develop more finance management and investment readiness.

6.27 More widely, the recent creation of European accelerators is helping to raise the quality of demand. These provide funding from a range of sources including venture capital funds and business angels to a small number of start-ups which follow a specific mentoring programme. In 2015, over 2,500 start-ups received €37.5m in the EU.[90] However, exits of start-ups in accelerators in Europe (as trade sale or rarely IPO) are still uncommon.

6.28 Against the wider equity scene set out above, Figure 6-5 shows the breadth of financing options, facilities and instruments available to and drawn on by European CCS businesses, and the inter-relationship between these options. In most cases, CCS businesses will be exposed to a number of these mechanisms and instruments, with a significant minority drawing on more than one option at any given time. In several CCS sub-sectors – notably film and TV – the financing of a project might include a combination of national and European level public support, and both debt and equity. For many CCS businesses, project financing requires completing a financial jigsaw before they can proceed to create any IP or assets.

Figure 6-5: Financing options for CCS businesses


Self – Finance
Public Support Measures
Debt Finance
Equity Finance
Other
Crowdfunding
Personal Resources
Retained Profits/Own Earnings
Grants
Tax Incentives
Public Authorities
Friends & Family
Financial Institutions/Private Organisations
Loans
Micro-Credit
Overdraft
Invoice Finance
Leasing/Hire Purchase Agreements
Business Angels
Venture Capital
Mezzanine Venture Capital
Donation
Sponsorship
Patronage
Risk Mitigation Schemes: Guarantee/Insurance

Source: European Union, 2015, 'Good practice report, towards more efficient financial ecosystems: innovative instruments to facilitate. Access to Finance for the cultural and creative sectors (CCS)

[90] Ibid 17.

Supply-side perspectives

6.29 Given the wider investment provision and developments described above, we set out in the following paragraphs the consultation evidence from equity investors/associations on the current provision of equity-related finance for CCS.

6.30 There was consensus amongst all the equity investors/associations interviewed that the provision of equity (venture capital and business angel) for this sector was very low within their respective countries and across Europe. Not surprisingly, consultees found it very difficult to quantify the level of provision at any level (regional, country and European level). The main reasons cited for the low level relate to the market failures and barriers reported in section 2 (and discussed further later in this section). These include: limited size and niche nature of the CCS market; CCS being project-based; issues of scalability; the dependency on human capital or 'personality' in CCS enterprises; and the risk-return not being sufficiently attractive for investors. Another major hindrance in understanding the level of equity investment in CCS was the lack of available data on equity investments in CCS. This was mentioned by most consultees, as well as being an important theme in our data and literature review (see also below sub-section on equity investments in CCS).

Equity investment in the CCS

6.31 A major difficulty for the study lay in finding appropriate (and meaningful) data on equity investment in CCS. An extensive search for publicly available sources – both finance and CCS related – revealed no single data source that gave a comprehensive, or even an adequate working picture, of equity investment focused on CCS. We directly contacted finance sources, also without success, including the trade association representing private equity community in Europe – InvestEurope.[91] No suitable data were available or could be collated on a bespoke basis.

6.32 The lack of equity data was confirmed by our interviewees – both investors and CCS representative organisations. This may be due to the confidential nature of venture capital and business angel deals and the difficulties in gathering such data at sector, country and pan-European level. There are no specific pan-European equity instruments just for CCS (as a whole), something that was also confirmed by several stakeholders at the Cannes Film Festival (May 2018).[92] Where data were available on equity investments, these were on selected deals rather than in any comprehensive or aggregate form (in particular, AV, music, videogames and design). Some private databases[93] hold limited data on investments in specific sub-sectors within CCS but these are on a deal-by-deal basis, and can only be purchased at fairly high cost.

6.33 Given these data challenges, we asked EIF if it could provide data on EIF backed investments in CCS. EIF collated data on venture capital and business angels in CCS for this study (for the period 2013-2017)[94] – these data were split by sub-sectors and countries. The data proved useful in shedding some light on the supply of equity (venture capital and business angels.

[91] https://www.investeurope.eu/

[92] SQW study member attended the Cannes Film Festival and had discussions with CCS representatives – the feedback was the lack of equity instruments and data specifically for CCS. This was also confirmed by DG CONNECT.

[93] For example, we contacted Dun & Bradstreet.

[94] EIF (2018) Cultural and Creative Sector Equity Portfolio Analysis – 'Strictly Confidential'.

The total EIF-backed investments with private investors in CCS, almost all venture capital (and some business angels), equates to €157m over five years from 2013 to 2017.

6.34 Reviewing the breakdown of the EIF-backed investment by sub-sector for the period 2013-2017 indicates that music, AV and design accounted for 84% of the total investment. Games and multimedia were the next most invested sub-sectors. Radio, publishing and visual arts received similar amounts, whilst libraries and museums attracted the least investment. There is a considerable difference between the amounts invested in music, and to a much lesser extent AV and design, and the much smaller amounts in other sub-sectors. The EIF results also show that most of the deals were in AV, music, games and design.

6.35 The annual data on the EIF backed investment in CCS since 2013 suggests that in certain sub-sectors, investments have been relatively concentrated in specific years. For example, investment in music in 2016 was almost ten times the (historically low) level in the previous year; investment in design in 2015 was almost five times that in 2014, although the 2014 figure was much higher than in 2016 and 2017.

6.36 The total of EIF investments (venture capital and business angel) from 2013-2017 across all sub-sectors was 61, ranging from four in 2017 to 20 in 2016. The highest number of investments in AV, music and games sub-sectors of the total equity investments (2013-2017), just over one-quarter involved co-investment with business angels.

6.37 Most EIF-backed investments in CCS were multi-country (78% by value). Where there was a single country focus, France, Spain and Italy had the highest value of investments.

Crowdfunding

6.38 The data review found some relevant quantitative information on crowdfunding, including equity. Equity crowdfunding is an increasingly popular source for CCS businesses and organisations (especially at pre-revenue and early stages), perhaps because it aligns well with the project-based nature of their activities. However, equity crowdfunding still constitutes a small proportion of investments in CCS. Relevant information on crowdfunding in CCS from the data and literature review (including quantification) is set out below. Equity crowdfunding was also of interest to CCS representative organisations and investors (including crowdfunding platforms) interviewed.

6.39 According to research conducted by the University of Cambridge Judge Business School (2018)[95] a total of €1,126m was raised for SMEs in Europe through crowdfunding in 2016. Of this, €304m (27%) was through equity-based crowdfunding. This grew at over 90% per annum between 2012 and 2016 from an initial value of €18m. Equity crowdfunding was most prevalent in Germany, where 54% of all crowdfunding is an equity-based model; Germany accounts for 22% of the total value of equity crowdfunding in Europe. The average deal size (excluding the UK) was €303k in 2016.

6.40 The EC's (2017) report on equity crowdfunding for culture[96] provides data (Crowdsurfer) on EU countries (covering 793 platforms for all crowd-based models). The report found that out of 74,471 CCS crowdfunding campaigns between January 2013 and October 2016, just 772

[95] Ziegler, T. et al. (2018) Expanding Horizons: The 3rd European Alternative Finance Industry Report. University of Cambridge Judge Business School.

[96] European Commission (2017) Crowdfunding: Reshaping the crowd's engagement in culture.

(1%) were equity models, although the number had increased from 60 in 2013 to 253 in 2016. The UK dominated the CCS equity crowdfunding landscape, with 542 campaigns (70%), followed by France with 123 (15%) whereas Czech Republic, Greece, Romania, Hungary, Croatia, Slovakia, Slovenia, Cyprus, Luxemburg and Malta had no equity projects over the period. Table 6-1 shows the proportion of campaigns that used an equity model by sub-sector. Film/AV followed by Music dominated all crowdfunding campaigns, but the **video games sector was most likely to have used an equity model rather than other finance models.** This sector accounted, however, for only 2% of all CCS crowdfunding campaigns.

Table 6-1: Proportion of campaigns by type of crowdfunding model and sub-sector (Jan 2013 - Oct 2016)

Sub-sector	Campaigns	% of CCS campaigns	Donation	Equity	Loan (P2P)	Rewards
Architecture	1,131	2%	12%	**2%**	3%	82%
Design	7,504	11%	9%	**2%**	2%	88%
Performing Arts	9,908	13%	14%	**0%**	0%	85%
Visual Arts	7,465	10%	10%	**1%**	2%	86%
Film and Audiovisual	24,169	32%	6%	**1%**	0%	92%
Cultural Heritage	240	1%	15%	**1%**	1%	83%
Literature, Books & Press	5,768	8%	4%	**1%**	0%	94%
Music	16,136	22%	8%	**1%**	7%	84%
Video Games	1,486	2%	3%	**4%**	0%	92%

Source: SQW based on European Commission (2017). Note that 0% means the figure was less than 0.5% so was rounded down.

6.41 Table 6-2 provides data on equity campaigns launched, successful campaigns and success rates by sub-sector. The results indicate that the **cultural heritage launched the most campaigns, accounting for over a third of equity campaigns**. However, visual arts was the most successful in terms of proportion of successful campaigns.

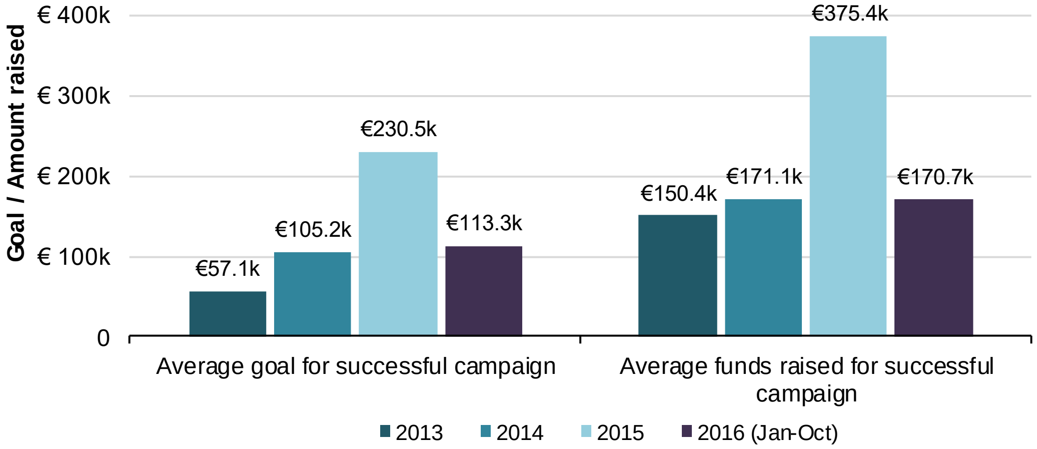
Table 6-2: Equity campaigns launched/successful and success rates by sub-sector (Jan 2013 - Oct 2016)

Sub-sector	Launched campaigns		Successful campaigns		
	Count	%	Count	%	Success rate
Architecture	28	3%	6	3%	21%
Design	3	0%	1	0%	33%
Performing Arts	128	16%	41	18%	32%
Visual Arts	**99**	**12%**	**53**	**24%**	**54%**
Film and Audiovisual	51	6%	12	5%	24%
Cultural Heritage	**282**	**35%**	**45**	**20%**	**16%**
Literature, Books & Press	57	7%	23	10%	40%
Music	109	13%	27	12%	25%
Video Games	53	7%	15	7%	28%
Total	810	100%	223	100%	28%

Source: SQW based on European Commission (2017)

6.42 The average goal for successful equity campaigns was just over €113k in 2016, the average raised was considerably higher, just under €170.7k (Figure 6-6). These figures were both lower than those for 2015, but higher than in the two previous years.

Figure 6-6: Average goal and amount raised for successful equity campaigns in CCS (Jan 2013 - Oct 2016)



Source: SQW based on European Commission (2017)

6.43 The average funds raised in successful equity crowdfunding campaigns by sub-sector are shown in Figure 6-7. Interestingly, the lowest average amount raised was in music – this contrasts with the data presented above on VC and business angel investments backed by the EIF where music received the most investment. The highest average funds raised were in (in order): literature, books & press; architecture; and video games. Film and AV, heritage, design and performing arts all received similar average sizes of crowdfunding. Visual arts, and as already mentioned music, were the lowest.

Figure 6-7: Average funds raised in successful equity crowdfunding campaigns by sub-sector in Europe (Jan 2013 - Oct 2016)

Literature, books & press c.€630k	Architecture c.€400k	Video games c.€280k
Film and audiovisual c.€210k	Heritage c.€200k	Design c.€200k
Performing arts c.€150k	Visual arts c.€20k	Music c.€5k

Source: European Commission (2017)

6.44 Finally, the EC (2017) report identified the main benefits of crowdfunding (including equity-based) reported as: leveraging other finance, audience development, market research, and strategy and skills development. We see the leveraging of other finance as important in the context of a possible new financial instrument for CCS – where crowdfunding could potentially complement other sources of finance (see also section 8).

Equity instruments relevant to the CCS

6.45 The literature review found a limited number of equity funds specifically targeting CCS, and general equity funds which have made investments in CCS businesses. These are identified in Table 6-3 with further details set out in Annex F.

6.46 Of the CCS-specific instruments: five are regional, and none are pan-European; five are publicly funded; four of the funds for which data were available were in the €30m-€40m range. Investment size data was only available for three funds, ranging from €100k-€3m; four funds focus on early stage firms. Where generic funds made investments in CCS, these tended to be in publishing, AV (including games) and other digital companies. The size of these generic funds varied from €12m-€30m, and three of them involved public finance.

Table 6-3: Equity instruments relevant to the CCS

Fund	Region/ country
Equity fund specific for CCS:	
NRW.Kreativwirtschaftsfonds	North Rhine-Westphalia, Germany
VC Fonds Kreativwirtschaft Berlin	Berlin, Germany
VC Fonds Kreativwirtschaft Berlin II	Berlin, Germany
St'Art Investment Fund	Wallonia, Belgium
The Creative Industries Fund	Portugal
Royal Majestics	Finland
Advantage Creative Fund	UK
General equity fund with investments in the CCS:	
Vertis Venture	Italy (southern)
Vækstfonden	Denmark
Eleven Founders Fund	Bulgaria
Practica Capital	Baltic countries
IPR.VC	Finland

Source: SQW search of online sources (see table)

Market failures, imperfections and barriers that justify intervention

6.47 The key barriers to more widespread and effective roles for VC generically have been the lack of fund capacity, including later-stage investments, and the small average size of VC funds, which deters large institutional investors from investing.[97] Venture capitalists play an important role in removing information asymmetries as intermediaries, through the screening, contracting and monitoring of small businesses. However, the costs of due diligence and transacting are disproportionately high for small investments, and this results in larger deal sizes and a focus on larger and less risky firms[98] - it is simply more cost effective for investors to invest in later-stage companies where better information is available, larger investments can be made and costs are proportionately lower. The transaction costs are higher in 'thin' markets, where small numbers of investors and firms can have difficulty in finding each other and contracting at reasonable cost (especially cross-border investments). As a result of these factors, VC firms have tended to become more risk averse, moving to later stage investments,[99] and creating a gap in the seed and early stage market. This has resulted in a shortage of equity finance for businesses raising less than €2m.

6.48 Recognising these issues in the investor community, we set out below the evidence on market failures and barriers. This covers perspectives both from the demand-side (CCS representative organisations and businesses) and supply-side (equity investors and financial intermediaries). This covers funding in general unless otherwise stated for specific types of finance (e.g. equity).

[97] Ibid 17.
[98] SQW Viewpoint (2016) The Role of Policy in SME Finance: Demand Side Perspectives.
[99] Wilson, K. (2015), "Policy Lessons from Financing Young Innovative Firms", OECD Science Technology and Innovation Directorate Policy Paper, Paris, June 2015.

Demand-side perspectives

6.49 The main barriers to funding identified by CCS representative organisation interviewees related to the nature of demand and supply, and how these factors, and their constituent elements, inter-relate.

- ***Generic CCS characteristics - business and project,*** including the intangibility of IP, reliance on individuals rather than a corporate business form or partnership and lack of collateral (or in many cases, a relevant track record). The sector is characterised by entrepreneurial behaviours; many of those involved manage on little and achieve results with minimal resources. However, consultees were consistent in pointing to lack of awareness in CCS organisations of possible routes to funding, and of funders and their requirements. This was part of a wider impatience in the sector with what was seen as over-complication and time-wasting – one consultee noted that this impatience extended to the accountants used by CCS businesses. Perceptions of excessive bureaucracy in applying for EU-supported funding act as a deterrent to some parties that might benefit from such support. Another consultee suggested that the difficulty encountered in mapping the project and a credible route to repayment was the cause of this impatience. Fear of loss of ownership was cited by several consultees as a significant factor in not looking for equity investment.

- ***Supply side: issues faced in obtaining finance from banks, investors, financial intermediaries.*** In the view of those working in and on behalf of CCS, the wariness of potential funders is unsurprising, given the characteristic features of the sector, as outlined above, the recent sharp falls both in grant funding from public sources and in income generated, and an economic context for many parts of CCS which is currently undergoing disruptive change. Larger organisations with a proven track record can obtain equity and loan funding; it is much more difficult for smaller and newer independents, particularly those working in film/TV, but also in other sub-sectors. New business models based on perceived opportunities related to major technological changes and market uncertainty are inevitably seen as high risk.

6.50 Most consultees believed that the demand and supply factors are inter-related, that the funding gap is substantial and growing, and that without intervention it will continue to increase. The nature and scale of the gap, and the rationale for and scope of possible interventions are documented further in the next section, together with thoughts on the capacity-building that is also needed, if these inter-related and difficult-to-resolve issues are to be effectively addressed.

6.51 Further demand-side evidence on the barriers to accessing funding in CCS is contained in the online survey of CCS businesses conducted as part of this study (see full results in Annexes B and C). In Table 6-4, below, the top five reasons why businesses did not consider and/or seek external finance over the last three years were: first, that the process was too complicated and/or too time consuming; then sufficient self-generated capital, lack of awareness and/or understanding of appropriate finance, insufficient business assets to offer as collateral or guarantee; and fear of possible rejection.

Table 6-4: Why didn't your organisation consider and/or seek external finance over the last three years (all types of external funding)?

Response	No. respondents	% of respondents
Too complicated and/or too time consuming	30	42%
Sufficient self-generated capital	23	32%
Lack of awareness and/or understanding of appropriate finance	17	24%
Insufficient business assets to offer as collateral or guarantee	14	19%
Fear of possible rejection	12	17%
Fear of reduced control over the organisation	11	15%
Insufficient repayment capacity	9	13%
Too much risk	8	11%
Other	7	10%
Poor credit history	4	6%
Don't know	3	4%
n=	**72**	**100%**

Source: SQW survey of CCS businesses
Question type: multiple response

6.52 Focusing only on equity finance, the results in Table 6-5 indicate that the main reasons for not considering and/or seeking equity finance over the last three years were: fear of diluted ownership/reduced control over the organisation; too complicated and/or too time consuming; perception of waste of time - the investor doesn't consider my organisation to be part of its target group; insufficient understanding from the investor of the sector in which the organisation is working; lack of awareness and/or understanding of appropriate finance. It is perhaps not too surprising that fear of diluted ownership/reduced control over the organisation is more prominent when considering or seeking equity finance compared to all forms of external funding; perhaps more importantly, lack of awareness and/or understanding of appropriate finance is also cited as a common reason. This potentially has implications for greater education and capacity building (see section 8). The two main reasons for why businesses were not able to obtain the full or any amount of equity sought were: too high risk and lack of trading history (see Annex B).

Table 6-5: Why didn't your organisation consider and/or seek equity finance over the last three years?

Response	Did not consider	%	Did not seek	%	Total
Fear of diluted ownership/reduced control over the organisation	49	28%	12	39%	61
Too complicated and/or too time consuming	47	27%	10	32%	57
Perception of waste of time: the investor doesn't consider my organisation to be part of its target group	48	27%	4	13%	52
Insufficient understanding from the investor of the sector my organisation is working in	40	23%	9	29%	49
Lack of awareness and/or understanding of appropriate finance	37	21%	7	23%	44
Too much risk	39	22%	2	6%	41
Sufficient self-generated capital	37	21%	-	-	37
Other	33	19%	2	6%	35
Don't know	23	13%	1	3%	24
Fear of possible rejection	15	9%	1	3%	16
Sufficient other external financiers	-	-	7	23%	7
n=	**175**	**100%**	**31**	**100%**	**206**

Source: SQW survey of CCS businesses
Question type: multiple response

Supply-side perspectives

6.53 Overall, the feedback from equity investors/associations and other financial intermediaries suggests that the main market failures and barriers to accessing finance, in particular equity finance were: too much risk associated with investing in CCS – notably a lack of clarity on returns/exits, compared to other attractive investment opportunities; also, lack of scalable opportunities, perceived limited size of the market/s, or 'niche' nature of the market, lack of knowledge and understanding of CCS including models for assessing CCS businesses.

6.54 In the view of one investor association:

> *'Equity financing view for CCS companies is that investors are looking to escalate the business quickly. They are looking for huge and fast profits. Returns are not always monetary in CCS. For example, if you get an Oscar you cannot sell it with a huge profit. Hence, the investors are not usually interested in such returns'.*

6.55 Investors also commented that there is an increasing tendency by the investment community to split sectors into 'tech and non-tech'. This guides their investment approach – the implication is that those CCS sub-sectors involving digital and tech were more likely to get equity.

6.56 There was also some consensus that demand-side issues were constraining access to finance for CCS, and in particular equity. This was thought to be mainly owing to: fear of diluted ownership/reduced control by businesses; lack of awareness and/or understanding of appropriate finance. There are also wider issues such as lack of fiscal incentives (tax credits) available for VC, private equity and start-up angels in some countries (e.g. Luxembourg) – these further reduce private investors willingness to invest in low profitable and risky ventures.

Combining supply and demand perspectives

6.57 Table 6-6, below, summarises the market failures and barriers in CCS businesses accessing finance (including equity) as reported by interviewees (demand and supply-side) and wider interviews with EU representatives. These broadly relate to: information failures, risk and uncertainty, incomplete markets, and barriers relating to human capital. The main market failures and barriers cited by the supply and demand-side broadly mirror each other. The potential implication is that both sides of the 'coin' need to be addressed – it is not just a one-sided issue.

Table 6-6: Market failures and barriers in CCS businesses accessing finance (including equity) – consultation evidence

Type of market failures/ barriers	Supply-side perspective (equity investors, financial intermediaries)	Demand-side perspective (CCS representative organisations; survey of CCS businesses)
Information failures	• Lack of knowledge and understanding amongst investors of: CCS (overall and sub-sectors); models of assessing CCS businesses ➢ how do investors assess the final payoff? • Lack of a commercial mindset in CCS businesses, making it difficult to communicate the potential of investment projects • Uniqueness and 'prototype' nature of each project or product (e.g. new film project or book is a 'one off') • Intangible nature of assets (e.g. Intellectual Property Rights)	• Lack of awareness and/or understanding of appropriate finance • Lack of knowledge and understanding of models for assessing CCS businesses • Too complicated and/or too time consuming to identify suitable sources of finance • Insufficient understanding from the investor of the sector in which the CCS business/ organisation is working in • Lack of a commercial mindset of CCS businesses - many talented, highly skilled individuals focus only on their creative side – don't want to get involved in business • Intangible nature of assets makes it difficult for financiers to invest in these 'ex-ante' as the risk/reward ratios are high
Risk and uncertainty	• Too much risk associated with investing in CCS… ➢ insufficient business assets to offer as collateral or guarantee ➢ lack of personal collateral among potential investees (relevant in particular for loans) ➢ lack of track record • Lack of clear exit strategy and potential for return	• Too much risk to take on equity • Fear of diluted ownership/ reduced control over the organisation

Type of market failures/ barriers	Supply-side perspective (equity investors, financial intermediaries)	Demand-side perspective (CCS representative organisations; survey of CCS businesses)
	• Lack of scalable opportunities for an investor given lack of assets and defensible niche (IP)	
Incomplete markets	• Perceived limited size of the market/s, or 'niche' nature of the market/s • Cyclical nature of some sub-sectors (e.g. festivals/events) • Lack of scalability of projects/products/services • Unwillingness to invest in the human capital at core of CCS (e.g. author, musician, director- specific and non-transferable) - personality rather than commercially driven enterprises • Not-easily-transferable nature of the assets (e.g. CCS constitute human capital which makes them difficult to transfer)	• Perceived limited size of the market/s, or 'niche' nature of the market/s • Reluctance or inability to develop/put forward fundable propositions • Frequently look for project-based finance, not interested/able to build a business • Not-easily-transferable nature of the assets.

Source: SQW interviews

The funding gap in CCS – the evidence

6.58 In this sub-section we present the evidence on the funding gap for all types of finance for CCS. We first set out demand and supply-side perspectives on the funding gap based on our consultations. We then present some of the key results from the online CCS business survey that are relevant to understanding and estimating funding gaps (the full results of the survey can be found in Annex B). In the sub-sections which follow, we provide *indicative* estimates for the funding gap in CCS specifically for equity, outlining the steps in the calculations and assumptions made in arriving at a quantified gap.

Stakeholder perspectives

6.59 Twenty of the 39 CCS representative organisations answered ***yes*** to the question on whether, overall, ***there is currently a funding gap for CCS*** (see Table 6-7, below). The responses were approximately evenly distributed across the sub-sectors and the geographic responsibilities represented.

Table 6-7: CCS organisations and key advisers identifying a funding gap for CCS

	CCS - generic	Audio-Visual: Film, TV, Games	Music/ Performance Arts	Books/ Publishing	Total
Global, with European perspective	1/1	1/3	1/4	-	3/8
Europe (EU, some beyond)	2/3	5/6	2/2	1/2	10/13
(primarily) National	2/5	3/8	1/4	1/1	7/18
Total	**5/9**	**9/17**	**4/10**	**2/3**	**20/39**

Source: SQW; n =39 (unique organisations)

What are the characteristics of this gap?

6.60 The CCS organisations and individuals interviewed focused on the need for additional risk finance on affordable terms for smaller, newer, entities. The starting point for many was the need to ensure high quality, strong and distinctive products in Europe, to reach across language and other cultural barriers and build larger-scale markets and profile. Quality would not be achieved without appropriate financing mechanisms. Generic gaps across CCS include adequate finance for development, marketing/distribution and cataloguing digital material.

6.61 Against this backdrop, and the large-scale structural changes still underway, the need for equity is part of a wider gap, which includes 'patient capital' in the form of long-term 'soft' loans. For most sub-sectors, loan finance is more important overall. Several consultees noted that larger loans for new projects could also be difficult to obtain, even for well-established commercial businesses and cultural organisations.

6.62 Peer-to-peer and crowdfunding were seen as relevant for some new initiatives, notably in performing arts and other areas where the investor payback might be seen partly as being part of the 'buzz' around a new project. But this would be mostly on a relatively small-scale.

6.63 Consultees across CCS also emphasised the variety of conditions facing different sub-sectors, and the different (and changing) nature of the gaps.

- The need for films from Europe that can build market profile across the continent and beyond is now more widely recognised, but real and growing funding gaps face ***independent film-makers***. This is particularly the case for new entrants, but although funding with a significant grant element is sometimes available for first and second productions, it is often more difficult to then move on to a more ambitious, larger, project – the pressure is to go down one of two routes, with different implications for funding: public-subsidised art-house, or purely commercial. Film-makers with distinctive innovative approaches which could create or widen markets, may look to achieve both, but this hybrid, with the potential to be transformational, is very difficult to finance. The generic need is for gap funding which would facilitate the sharing of risk by a mix of partners, which may include institutions as well as businesses and individuals.

- This gap has to be seen in the context of challenging market conditions. For example, it is estimated that the international market value of independent films produced in the UK has fallen by 50% in the last decade; the cluster has nevertheless remained attractive globally, through strengths including a proven ability to develop new talent and working in English. The shortfall in funding varies across countries, in part because demand is uneven: prices paid by broadcasters have fallen, and intermediaries including sales companies and agents are being forced to change their model. Countries selling themselves as lower-cost production locations have not in general needed external capital, but some East European countries, for example Romania, are now actively seeking to attract private finance.

- Some countries offer more in tax breaks, including concessions for R&D which can be applied to this sub-sector.

  - ➢ The BNP Paribas 'Sofica' loans to film-makers meet a substantial part of the need in France

  - ➢ Tax credits available in Italy have proved successful in attracting private finance.

- For some other parts of the sub-sector, notably cinema and some not-for-profit activities, equity may be much less relevant. There was also a perspective across CCS that AV content and media received disproportionate attention, as there was more 'noise' from this sub-sector.

- In ***music and performing arts***, there is more evident need/demand in north and west Europe – creative responses on funding have been developed in France and Spain; fewer opportunities are evident in South East Europe. There are also important differences within the sub-sector; in broad terms, there is a financing gap for innovative firms, with little or no track record but with the ambition and capacity to respond to changing technologies and market conditions.

- For the ***books*** sub-sector, loans are generally available, but there is an unmet need for equity; this is particularly associated with restructuring (including across national boundaries) to meet changed market conditions.

- In ***games***, funding demands are currently greater in eastern Europe, less marked in the south; unmet demand in countries in the north and west is currently for exit finance. The overall gap was difficult to assess, but 'somewhere between €10m and €100m'.

6.64 In view of all demand-side perspective described above, the consultations with investors/associations and financial intermediaries suggest there is a perceived funding gap for equity in CCS. Most consultees were not able to quantify the current annual funding gap for CCS, but they thought that there was low provision, and in general a role for equity.

Evidence from online survey of CCS businesses

6.65 To further understand the nature of the funding gap in equity for CCS, we present some of the relevant findings from the survey of CCS businesses (full details can be found in Annex B).

External finance sought

6.66 The majority of survey respondents (78%) had either considered applying for (27%) or sought (51%) external finance in the last three years (see Table 6-8). Only 15% had not considered applying for or sought external finance over the last three years.

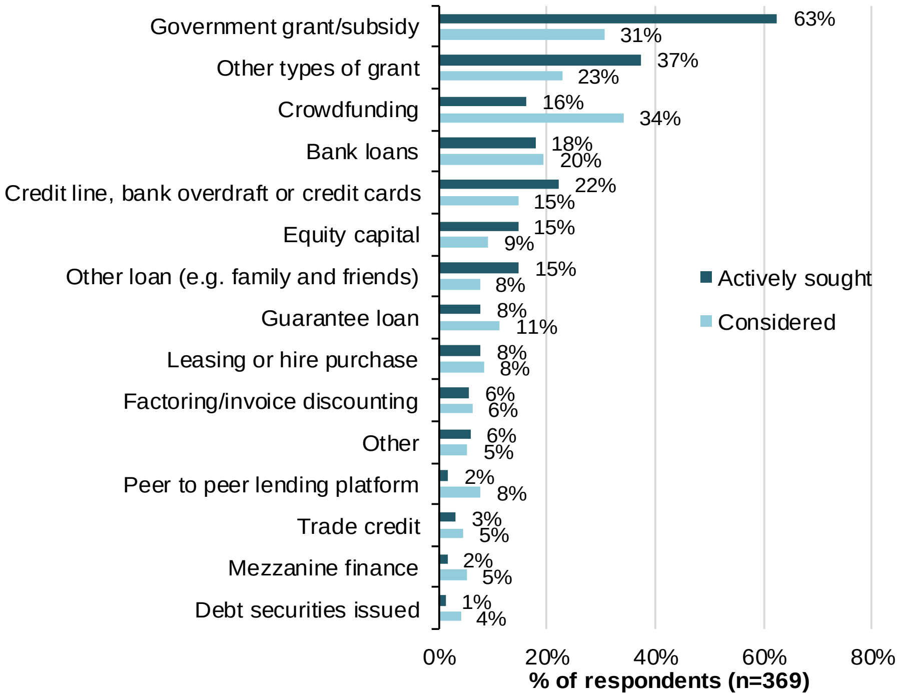
Table 6-8: In the last three years, has your organisation…?

Response	No. respondents	% of respondents
Considered applying for external finance	90	19%
Considered and sought external finance	279	59%
Not considered applying or sought external finance	72	15%
Don't know	32	7%
n=	**473**	**100%**

Source: SQW survey of CCS businesses
Question type: single response

6.67 Figure 6-8 shows that for the 78% that reported considering or seeking external finance, the most common types of finance that had been actively sought was government grant/subsidy (63%), followed by other types of grant (37%). The most common type of finance that had been considered was crowdfunding (34%), followed by government grant/subsidy (31%).

Figure 6-8: Which types of external finance has your organisation considered or sought in the past three years?



Source: SQW survey of CCS businesses
Question type: multiple response

6.68 Of the survey respondents that indicated they had considered or sought external finance, most (62%) had not considered seeking equity finance in the last three years; 28% had, whilst 10% did not know. The reasons that the 62% had not considered equity finance are shown below (Table 6-9).

Table 6-9: Why didn't your organisation consider equity finance?

Response	No. respondents	% of respondents
Fear of diluted ownership/reduced control over the organisation	49	28%
Perception of waste of time: the investor doesn't consider my organisation to be part of its target group	48	27%
Too complicated and/or too time consuming	47	27%
Insufficient understanding from the investor of the sector my organisation is working in	40	23%
Too much risk	39	22%
Sufficient self-generated capital	37	21%
Lack of awareness and/or understanding of appropriate finance	37	21%
Other	33	19%
Don't know	23	13%
Fear of possible rejection	15	9%
n=	**175**	**100%**

Source: SQW survey of CCS businesses
Question type: multiple response

6.69 Micro-businesses were more likely to have considered seeking external finance compared to larger businesses, but less likely to have actually sought it. (see Table 6-10). Micro-businesses were also less likely to have considered equity finance, and less likely to have sought it, compared to larger businesses.

Table 6-10: Considered and sought external finance and equity finance by business size

Business size	Considered seeking external finance		Sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Micro business (<10 employees, ≤ €2m turnover)	81%	353	59%	353	28%	271	18%	271
Small business (<50 employees, ≤ €10m turnover)	69%	54	61%	54	35%	34	24%	34
Medium-sized business (<250 employees, ≤ €50m turnover)	73%	15	60%	15	33%	9	33%	9
Large business (250+ employees, €50m+ turnover)	75%	12	75%	12	33%	9	22%	9
Other	70%	30	53%	30	11%	19	11%	19
Don't know	56%	9	44%	9	20%	5	20%	5
Total	**78%**	**473**	**59%**	**473**	**28%**	**347**	**19%**	**347**

Source: SQW analysis of CCS business survey
Question types: single response

6.70 Businesses that were younger than two years old were the least likely to have sought external finance, with businesses between two and ten years old the most likely. Businesses aged ten years or older were the least likely both to consider and to seek equity finance. Businesses aged between two and five years were the most likely age-group to have considered equity finance, but the proportion that subsequently sought equity finance was lower compared with those businesses that were younger than two years, or between five and ten years old.

Table 6-11: Considered and sought external finance and equity finance by business age

Business age	Considered applying for external finance		Considered and sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Less than 2 years	79%	81	54%	81	28%	64	23%	64
2 years or more, but less than 5 years	85%	93	61%	93	38%	77	22%	77
5 years or more, but less than 10 years	79%	96	61%	96	28%	69	23%	69
10 years or more	74%	201	59%	201	24%	136	13%	136
Total	**78%**	**471**	**59%**	**471**	**28%**	**346**	**19%**	**346**

Source: SQW survey of CCS businesses
Question types: single response

6.71 Further breakdowns by country and sub-sector are presented in Annex C, Table C-2 and Table C-3 respectively. Given the small number of respondents from some countries, the results should not be interpreted on a country-by-country basis. However, there appears to have been both greater consideration, and active seeking, of external finance from businesses in northern and eastern Europe. Regarding demand for equity, there does not appear to be any particular geographic pattern. By sub-sector, a relatively high proportion of businesses in the audiovisual & multimedia sector sought external finance including equity.

6.72 Of those that had considered equity finance, 66% reported that they had actively sought this type of finance in the last three years. The remainder had not (32%) or did not know (2%). The reasons for not seeking equity finance included fear of diluted ownership/reduced control over the organisation – the most prominent reason (39%). This was also the case for respondents that had not considered equity finance (see Table 6-12, below).

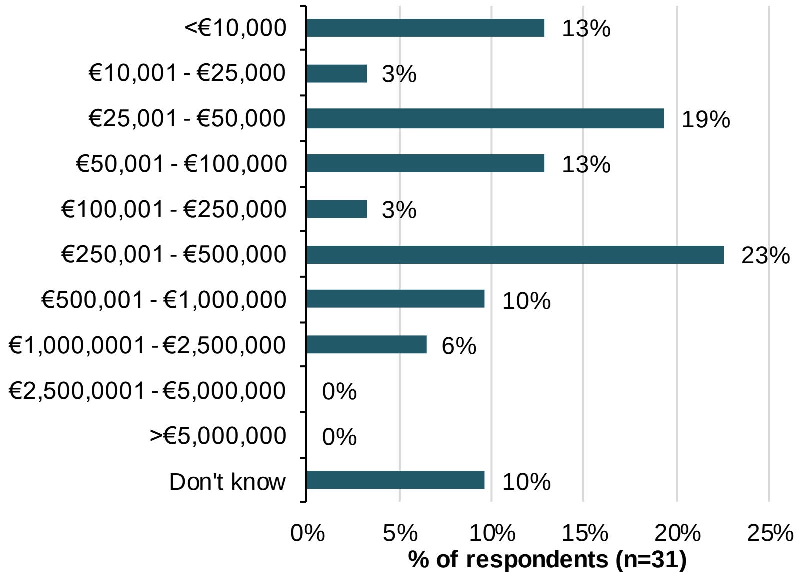
Table 6-12: Why hasn't your organisation actively sought any form of equity finance in the past three years?

Response	No. respondents	% of respondents
Fear of diluted ownership/reduced control over the organisation	12	39%
Too complicated and/or too time consuming	10	32%
Insufficient understanding from the investor of the sector my organisation is working in	9	29%
Sufficient other external financiers	7	23%
Lack of awareness and/or understanding of appropriate finance	7	23%
Perception of waste of time: the investor doesn't consider my organisation to be part of its target group	4	13%
Too much risk	2	6%
Other	2	6%
Fear of possible rejection	1	3%
Don't know	1	3%
n=	**31**	**100%**

Source: SQW survey of CCS businesses
Question type: multiple response

6.73 Of the respondents that did not apply for equity, the majority reported that the approximate amount that they would have required was up to €0.5m (see Figure 6-9).

Figure 6-9: What was the approximate amount of equity finance your organisation would have required?



Source: SQW survey of CCS businesses
Question type: single response

Sources of equity finance

6.74 The most common source in seeking equity finance was from business angels, followed by venture capitalists and corporate investors (Table 6-13). In 79% of cases, the investor was from the same country as the applicant's business headquarters or main office. Respondents seeking equity through venture capitalists were the most likely to have sought equity from outside their country.

Table 6-13: Where did your organisation seek its most recent form of equity finance? Please select the most important

Response	No. respondents	% of respondents
Business angel	17	26%
Venture capitalist	14	22%
Corporate investor	11	17%
Public equity (e.g. issue of shares on public market)	6	9%
Crowdfunding platform	5	8%
Other	5	8%
Internal funds from your organisation	3	5%
Government agency equity co-investment	3	5%
Institutional investor (e.g. insurance company, pension/mutual fund)	1	2%
n=	**65**	**100%**

Source: SQW survey of CCS businesses
Question type: single response

6.75 The reasons for those respondents applying for equity finance cited were to: support the development and launch of new products or services; (co-) finance a specific artist or creative project (Table 6-14).

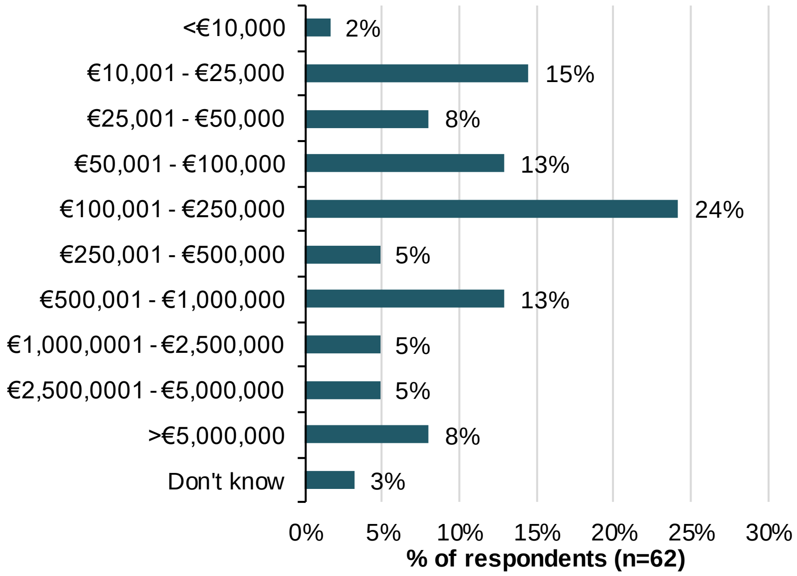
Table 6-14: Why did your organisation seek its most recent form of equity finance?

Response	No. respondents	% of respondents
Developing and launching of new products or services	37	60%
To (co-)finance a specific artist or creative project	25	40%
Hiring and training of employees	17	27%
To (co-)finance marketing activities	15	24%
Inventory and other working capital	13	21%
To (co-)finance the purchase of intellectual property rights	11	18%
Investments in property, plant or equipment	8	13%
Refinancing or paying off obligations	4	6%
To access knowledge or technical support from the investor	3	5%
Don't know	3	5%
Other	3	5%
n=	**62**	**100%**

Source: SQW survey of CCS businesses
Question type: multiple response

6.76 Figure 6-10 shows the approximate value of the equity finance that was sought by respondents. Most sought up to €0.5m, but a minority were looking for much larger amounts.

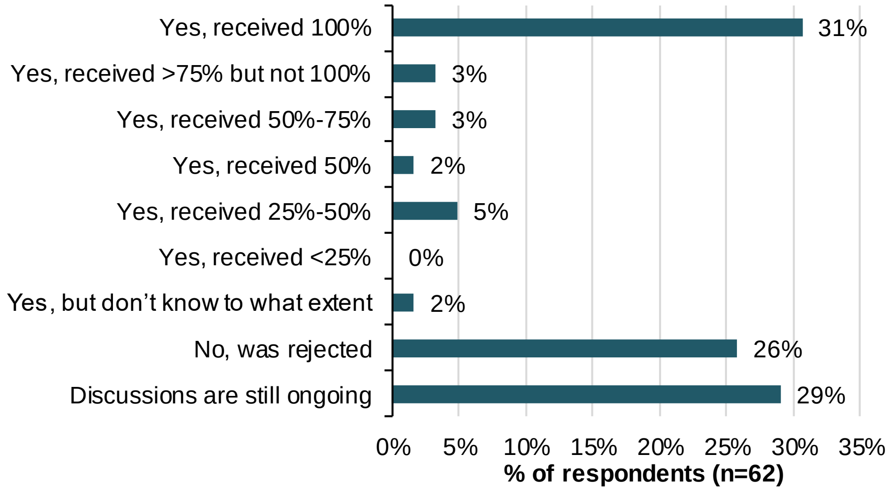
Figure 6-10: What was the approximate amount of equity finance which your organisation sought?



Source: SQW survey of CCS businesses
Question type: single response

6.77 Approximately 45% of those seeking equity finance were successful to some degree. Just under one-third secured the full amount sought, while a similar (slightly smaller) proportion of applicants were rejected (Figure 6-11).

Figure 6-11: Was the organisation able to obtain the full level of equity finance sought?



Source: SQW survey of CCS businesses
Question type: single response

6.78 Some of the businesses that received at least part of the equity finance that was sought reported on the requirements they had to meet. The most common requirement was providing additional information relating to the business and future investment projects (85%), followed by providing a business plan and/or financial plan (73%) and attending and delivering a pitch to potential equity investors (69%).

Future demand for equity finance

6.79 Of 448 respondents, 10% stated that their organisation planned to seek equity finance in the next 12 months, and a further 20% said 'possibly'. The remaining respondents said no (50%) or did not know (20%).

6.80 The smaller businesses in the survey were more likely than the larger firms to indicate that they would, or possibly would, seek equity finance in the next 12 months – 32% of 332 respondents from micro businesses indicated an interest compared to just 16% of respondents from larger businesses.

Table 6-15: Will your organisation be seeking equity finance in the next 12 months? By business size

Business size	Yes	Possibly	n
Micro business (<10 employees, ≤ €2m turnover)	10%	22%	332
Small business (<50 employees, ≤ €10m turnover)	12%	14%	50
Medium-sized business (<250 employees, ≤ €50m turnover)	9%	18%	11
Large business (250+ employees, €50m+ turnover)	8%	8%	12
Other (please specify)	11%	11%	28
Don't know	11%	11%	9
All businesses	10%	20%	442

Source: SQW survey of CCS businesses
Question types: single response

6.81 Similarly, younger businesses had a stronger interest in equity finance than older businesses.

Table 6-16: Will your organisation be seeking equity finance in the next 12 months? By business size

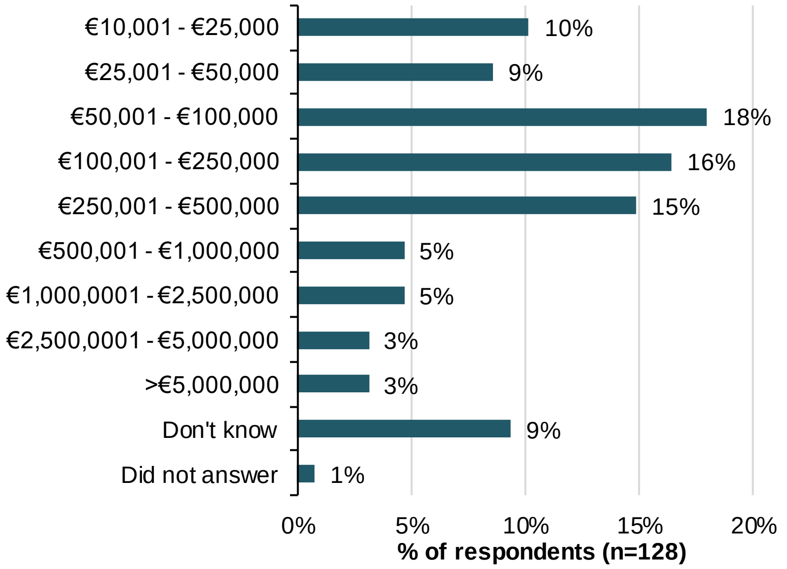
Business age	Yes	Possibly	n
Less than 2 years	14%	22%	78
2 years or more, but less than 5 years	11%	28%	88
5 years or more, but less than 10 years	9%	18%	88
10 years or more	8%	16%	186
All businesses	10%	20%	440

Source: SQW survey of CCS businesses
Question types: single response

6.82 The breakdown by sub-sector and country are shown in Annex C, Table C-10 and Table C-11 respectively. The sub-sector breakdown shows a strong interest in equity from the audiovisual and multimedia sector; other sectors either show a weaker interest or do not include sufficient respondents to draw conclusions on the strength of interest. By country, the interest in equity also appears to be strongest in northern and central Europe.

6.83 Figure 6-12 shows the approximate value of the equity finance that 128 respondents indicated they would or possibly would seek. Most respondents sought up to €0.5m over the next 12 months.

Figure 6-12: What would be the approximate amount of equity finance your organisation would seek?



Source: SQW survey of CCS businesses
Question type: single response

Demand and scope for new equity instrument for CCS

What form might a new equity initiative take? CCS views on focus, scope, scale

6.84 Many CCS consultees emphasised that any new initiative should take a rounded industry-wide approach, rather than delivering a free-standing new mechanism. This would be needed to embrace the diverse funding needs and opportunities across, and within, the various sub-sectors, and in different parts of Europe. Action by the EU should focus on selective initiatives to promote rapid scale-up and internationalisation; equity might have a part to play in this, for some projects and at some stages of development.

6.85 In the wider context, loans were much more important: equity was likely to be effective as one part of a co-funded mixed package, tailored to meet businesses' needs alongside different types of loans, and in some cases, grants. Incubation, with a mix of funding, advice, training and other 'soft support' was suggested as a relevant means of realising this in some situations.

6.86 Within this wider approach, a key priority was action to improve the demand side, and specifically the poor pitching capabilities within CCS. A telling comparison was made by one interviewee with the broader technology sector, which had proved much more successful in raising money. Preparation was critical: the cultural and creative sector across Europe *'lacked an effective narrative for raising finance'*. Such a narrative would improve the chances of business cases receiving the support they needed, and play an important wider role in helping to inform the financial sector about CCS conditions and opportunities. The EU could potentially play an important role in bridging the information gap.

The scope for equity

6.87 Twenty-three of the 39 CCS representative organisations interviewed, believed that there was a role, or a probable role, for the increased use of equity in addressing the funding gap (see Table 6-17). The response from 16 of the 23 positives was a definite 'yes'. This gap was particularly for smaller firms and projects. As noted above, many saw this as part of a wider approach, while for some, the gap relating to equity pointed to enabling actions working with current providers, rather than a new instrument.

6.88 Only five of the 39 did not see any role for equity: for 11 organisations, the response was 'not known' or 'not relevant'. In some cases, this was because their involvement in the sector focused on those creative and cultural organisations which have a high proportion of public grants in their funding, and/or are organised on a not-for-profit basis.

6.89 The positive responses to the need for equity were spread across the types of organisation and interviewee interests. Those with a global or Europe-wide perspective were slightly more likely to see an increased role for equity, but the positive responses were distributed across all types and the main sub-sectors.

Table 6-17: Quantitative response to need to address an equity gap - CCS organisations

	Yes	Possibly	No/probably not	Not known/ not relevant
No. of responses…	16	7	5	11
Of which global/European	11	5	3	6
All responses by sub-sector:				
- AV/Film	8	3	3	3
- Music/PA	3	2	-	4
- Books/Pub	1	-	1	1
- Generic	4	2	1	2

Source: SQW; n=39 (unique organisations)

The form and scale of a possible new equity mechanism

6.90 Fewer CCS consultees felt able to comment on the form a new equity intervention might take, and the scale which would be needed for this to be effective. Respondents saw this question as more technical and detailed; some membership organisations commented that they would need to consult their members before responding. Others felt that national trade associations would be better placed to respond.

6.91 Nevertheless, 12 substantive responses were made, which included the following comments on the form and scale of a new equity initiative. As already noted, several linked the potential for a new equity-based instrument with the need for a wider approach.

- From the AV sector:

> *'For smaller and earlier stage firms, interventions might be best made at national or regional level, or through an existing EU instrument such as COSME; there might be more need for new, tailored, EU engagement with*

> *bigger projects representing significant scale-up – this might require a fund of €100m-€250m"*
>
> *'The wider gap includes high end investment and action to promote trans-national partnership-building and transnational investment portfolios: scale is needed to play an effective role, while enabling fair access across the EU: perhaps a fund of €250m-€500m'*
>
> *'To have the right level of impact, a €500m fund will be needed'.*

- From Music/Performing Arts:

> *'Any new initiative should be positioned as part of a framework for all financial instruments'*
>
> *'An investor-matching service could play a useful role – this is not necessarily about new funding'*
>
> *'Demand is from small firms, so a new funding mechanism should start small, perhaps €50m-€100m'.*

- From a CCS-wide perspective:

> *'A new equity intervention should be relatively small, and provided alongside lots of other support'*
>
> *'The particular conditions in CCS could justify building a case for sector-specific funding, as in agriculture'.*

Supply-side perspectives

6.92 **Most equity investors and associations recognised that there was a need for equity among CCS businesses** that needs to be addressed to help close the 'divide between creative talents and equity investors.' In the view of one equity investor:

> *"Equity for CCS businesses is a need that should be addressed. At the moment, there seems to be a divide between creative talents and equity investors".*

6.93 Several investors commented that the need for equity in CCS should be supported by education, training and capacity building. This was seen as equally as important as raising the quality of demand, and would improve understanding and capacity on the supply-side. One investor commented that there was potential for high financial returns from CCS investments, yet these were hard for investors to identify and understand at an early stage when trying to engage with CCS businesses – support in understanding CCS business models would be welcome.

6.94 The few investors that believed there was only a 'minor' need for equity for CCS businesses, tended to see equity finance as irrelevant for non-tech sectors or to feel that the current provision was sufficient, and demand-side issues were causing the barriers. However, **most investors were clear that, in addition to demand-side intervention, action was needed from the EU, or state and regional governance to remove or mitigate supply side barriers to equity finance in CCS.** This action could take a variety of forms such as: awareness raising campaigns to promote the sector as 'cool' to invest in; challenging the perceptions of equity investors regarding CCS; an EU contribution through concessional or match funding.

> *"There is an opportunity to grow equity involvement in the CCS but this will require changing the perceptions of equity investors. At the moment, CCS businesses are viewed as inherently risky and it can be difficult for investors to pinpoint a clear pathway to success and return. Finding a way to educate investors that CCS projects can be worth the risk is key." Equity investor*

6.95 **Most of the equity investors/associations who thought action was needed to improve the supply of funding did not advocate the creation of a separate new, dedicated financial instrument. Several investors thought that specific provision for equity investment in CCS within existing EU instruments (e.g. COSME, InnovFin, European Angel Fund) was the way forward**. Investors found it difficult to quantify the scale needed to finance any intervention. However, three investors did make an estimate:

- €250m-€500m at EU level over six years
- €50m in Italy (average deal size €2m-€3m)
- €25k-€250k per business (focus on initial funding tranche, local/community creatives or equivalent to proof of concept stage).

6.96 Just over half the investors favoured a co-investment model between private investors and the EU/other public funds.

> *"At this point a co-investment from the European funding sector would be very well received and make sense." Equity investor*

6.97 There was some interest from business angel associations/networks for co-investment with EIF. It was pointed out that business angels not motivated only by the financial returns have made investments on CCS. Business angels are investing their own money: compared with venture capitalists who typically invest through a fund, they take their own risk on their investments and may choose to invest in areas that particularly interest them, and with which they want to be associated.

6.98 One investor suggested a form of royalty-based investment instrument should be considered for CCS, pointing out that this was becoming increasingly common in the United States. Rather than purchasing equity, angel investors purchase a percentage share of future revenue streams. Capital is provided and in return, investors receive a portion of all sales until a specified return is realised (typically 1.5-3 times the investment). Although high risk for the provider, it can be appealing for businesses given that there is no requirement for personal guarantee, no dilution in shareholdings and the fact that the investment sits as a liability rather than a debt.

6.99 There was also evidence of the need for wider community support to enable CCS businesses to grow. This support could come from business angels, incubators or accelerators, and CCS-specific VC. Business angel investors are already interested in early stage businesses in video games, media and design, but this is less evident in other sub-sectors – they could be encouraged to expand their interests. Co-investment instruments could offer the opportunity for wider collaboration between creative and traditional sectors.

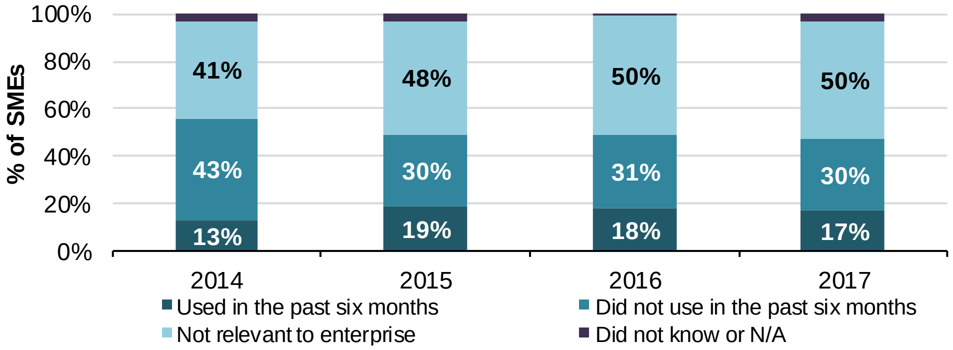
6.100 The possibility of extending the CCS GF in terms of expanding the NACE codes defining the CCS and the types of investors eligible to access the facility was suggested for consideration. CCS GF currently recognises crowdfunding platforms as eligible 'financial intermediaries' and this excludes them from any benefit accrued from amending existing instruments to support CCS businesses.

Loans and guarantees

6.101 Turning attention to bank loans for CCS, we searched for relevant data on loans for CCS including contacting the ECB, but no meaningful data were found/available that would provide an aggregate picture for CCS. However, loan (and guarantee) data for all SMEs are available. The key statistics are set out below as context to better understand the scale and geographic distribution of loans in Europe.

6.102 The EC (2017) Survey on the Access to Finance of Enterprises (SAFE)[100] provides data on the usage of bank loans. Figure 6-13 shows that the proportion of businesses that have used a bank loan has been largely unchanged since 2014. Bank loans were, by a considerable margin, the most frequently used source of external finance for businesses in 2017.

Figure 6-13: Proportion of SMEs that used bank loans in the past six months or viewed it as relevant

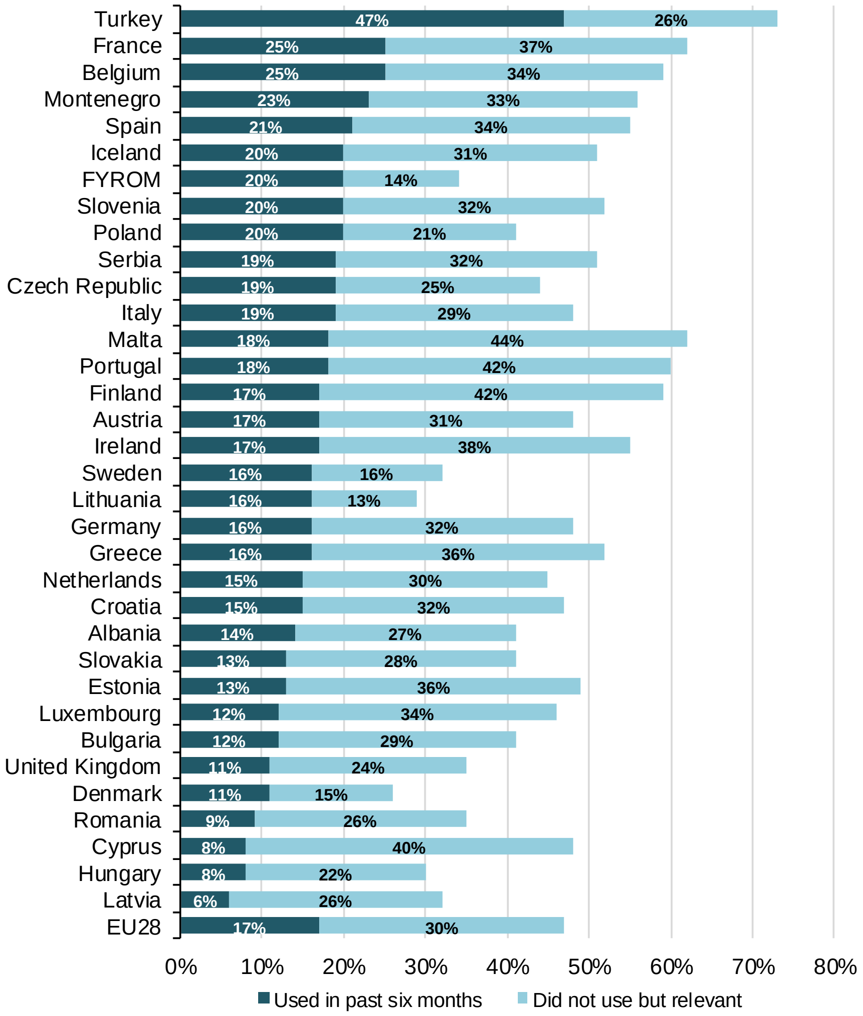


Source: SQW based on Survey on the Access to Finance of Enterprises (SAFE) 2017, European Commission.

6.103 Despite the popularity of bank loans, there is considerable variation in the use and perceived relevance of this type of finance between countries (Figure 6-14).

[100] European Commission (2017). Survey on the Access to Finance of Enterprises (SAFE) 2017.

Figure 6-14: Proportion of SMEs that used bank loans in the past six months, or viewed as relevant although not using in this recent period



Source: SQW based on Survey on the Access to Finance of Enterprises (SAFE) 2017, European Commission.

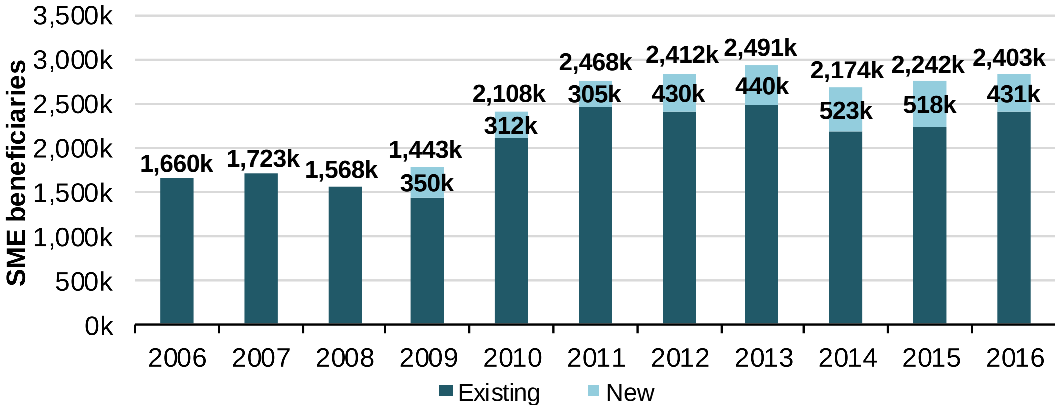
The context for guarantees

6.104 The European Association of Guarantee Institutions (AECM) publishes data on the number of SMEs supported with guarantees by their members.[101] In 2016, there were 2.4m SMEs in Europe with outstanding guarantees from AECM members, of which 431k were new in that year (Figure 6-15).[102]

[101] AECM (2017). AECM Facts and Figures 2016.

[102] Note it is not possible to confidently identify any trends over recent years because AECM has increased its membership from 28 countries in 2006 to 41 in 2016.

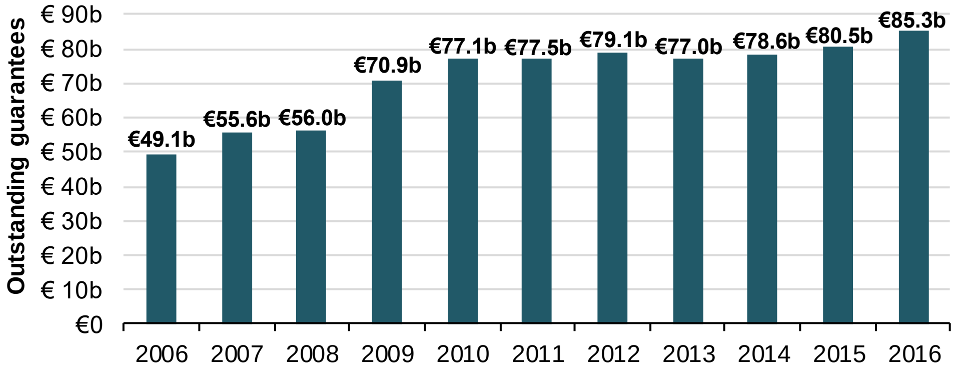
Figure 6-15: New and existing SME beneficiaries with outstanding guarantees with AECM's members



Source: SQW based on AECM (2017). Note: data on new SMEs was not available prior to 2009.

6.105 In 2016, the total value of guarantees reached €85.3b (Figure 6-16). The breakdown by country indicates that Italy accounts for by far the largest proportion (40%), followed by France (22%), Turkey (10%) and Germany (7%); no other country exceeds 5%.

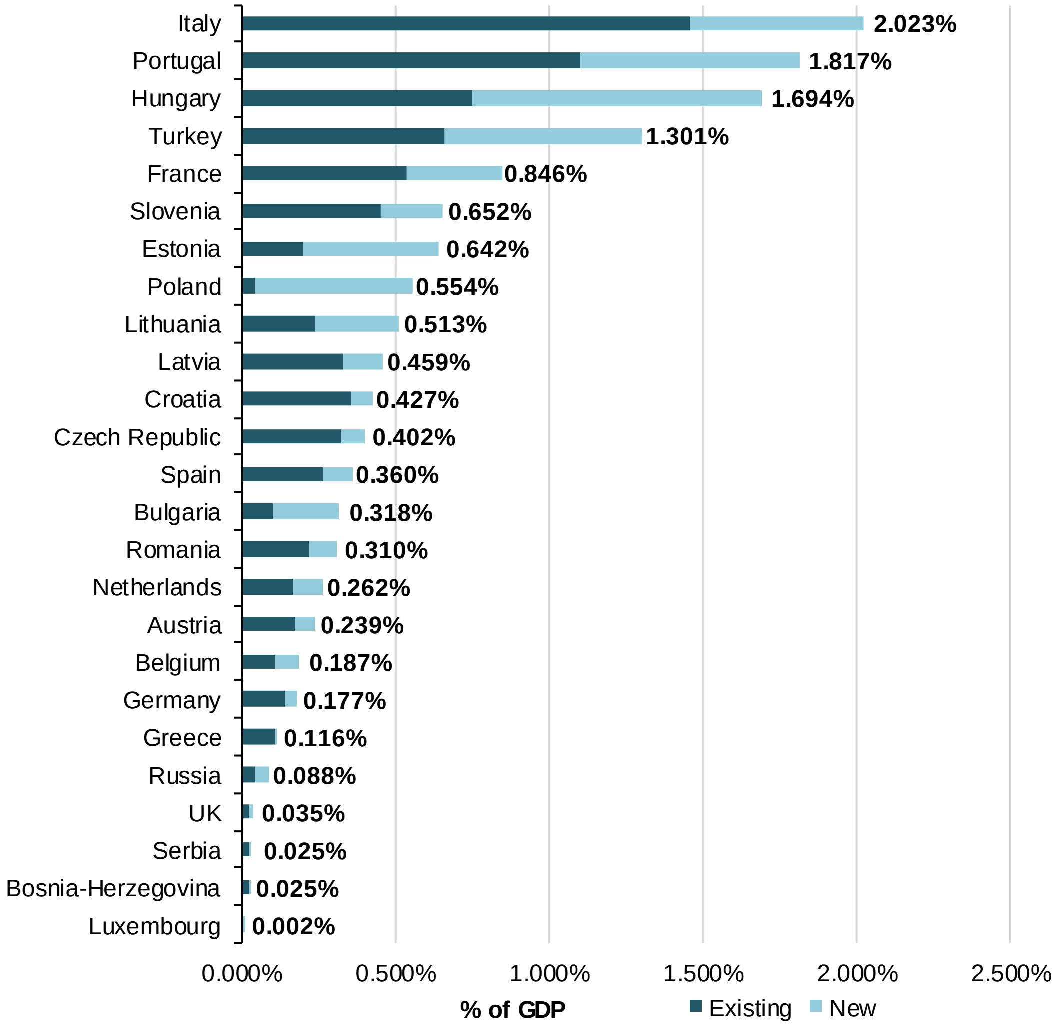
Figure 6-16: Value of outstanding guarantees for AECM members



Source: SQW based on AECM (2017)

6.106 Figure 6-17 shows the outstanding guarantees as a proportion of GDP for each country. Italy, Portugal, Hungary, Turkey have the highest proportions – above 1%. In Belgium, Germany, Greece, Russia, UK Serbia, Bosnia-Herzegovina, and Luxembourg the proportion was less than 0.2 of 1%.

Figure 6-17: Existing and new guarantees as a proportion of GDP by country



Indicative estimates for the finance gap in CCS – equity and loan

6.107 The study was charged to explore the potential existence of a funding gap amongst CCS business, and if possible to try to quantify this based on the responses from the CCS business survey (we received total 473 valid responses - see survey results in Annex B). The gap has been challenging to calculate in any statistically robust sense, given the lack of quantified data. We have, however, made a set of estimates, based on the available data, underpinned by a series of assumptions (informed by wider finance evidence, including on financial viability for all SMEs and our own view of what seems reasonable).

6.108 The principal steps in the process for estimating the equity finance gap are as follows, to:

- identify the number of companies that considered and/or sought external finance in the last three years, and then drill down into those looking for equity finance

- quantify the amounts of equity/loan sought, and how much was obtained (if any) – calculate the deficit between what was sought and what was obtained (*viable demand* for equity finance)[103]
- in addition to unmet demand where equity/loan finance was sought, take into account data on number of companies requiring but not applying for finance, and the amounts sought (*unmet demand* for equity/loan finance)
- draw the evidence together, to estimate the finance gap for equity finance based on the previous three years' unmet demand – using assumptions for viable demand, including those discouraged from seeking finance.

6.109 As noted above, the estimates come with a strong 'health warning': they should be treated as indicative only, as they are based on:

- a small number of companies who provided quantified data
- a skewed sample towards micro-enterprises and AV
- grossing-up from the sample to the population of CCS enterprises in Europe is not based on sector differences (i.e. no weightings applied).

6.110 The calculations are highly sensitive to changes in certain assumptions – e.g. proportion of all SMEs accessing equity finance in Europe. We believe, however, that the assessments which inform and underpin our assumptions are broadly conservative.

6.111 The estimates and key assumptions for equity and loans are set out in Table 6-18 and Table 6-19 respectively. In summary, the indicative funding gaps calculated are, for:

- **Equity,** of €4.5m - €7.5m over three years for the sample. Extrapolating to the potential population of CCS enterprises in Europe that access equity finance, gives a range of
  - ➢ €1.20bn - €1.94bn over three years; or
  - ➢ €399m - €648m per year.
- **Loans,** of €0.9m - €2.2m over three years for the sample. Extrapolating to the potential population of CCS enterprises in Europe that access loan finance, gives a range of:
  - ➢ €2.51bn - €6.22bn over three years; or
  - ➢ €837m - €2.07bn per year.

[103] The reasons why finance was not offered or not taken up also informs our assumptions.

Equity

Table 6-18: Indicatives estimates of funding gap for equity finance

Steps in calculation and assumptions	Number /Amount (€)
SURVEY SAMPLE:	
(1) No. of respondents	473
(2) No. of businesses that considered and sought external finance	279
(3) No. of businesses that considered equity finance	98
(4) No. of businesses that considered and sought equity finance	65
(5) No. of businesses that considered but not sought equity finance	31
(6) No. of businesses that considered but not sought equity finance and provided a value	28
(7) Average value of equity considered by (6)	€203,930 – €446,964
(8) Multiply (6) by (7) to calculate the aggregate amount of equity finance required for respondents that considered but not sought	€5,710,028 – €12,515,000
(9) Proportion of (5) that are assumed to be financially viable	20%
(10) Multiply (8) by (9) to calculate **unmet demand**	€1,142,006 – €2,503,000
(11) No. of businesses that considered and sought equity finance and have received a decision	44
(12) No. of businesses that considered and sought equity finance, received a decision, and did not receive the full amount	25
(13) (12) as a proportion of (11) for proportion of businesses that did not receive full amount sought	57%
(14) No. of businesses that did not receive full amount that provided a value for the shortfall	24
(15) Average value of equity shortfall for (12)	€709,376 – €1,049,948
(16) Multiply (14) by (15) to calculate the aggregate shortfall in the amount of equity finance sought	€17,025,019 – €25,198,752
(17) Proportion of (12) that are assumed to be financially viable	20%
(18) Multiply (16) by (17) to calculate **viable demand**	€3,405,004 – €5,039,750
(19) Sum of (10) and (18) for aggregate equity finance gap for the sample	€4,547,009 – €7,542,750

Steps in calculation and assumptions	Number /Amount (€)
EXTRAPOLATE TO POPULATION:	
(20) No. of CCS SMEs in Europe population (Source: Eurostat[104])	1,185,689
(21) SQW assumption on proportion of enterprises considering but not accessing equity finance in CCS[105]	0.5%
(22) Multiply (20) by (21) to calculate the no. of CCS SMEs considering but not accessing equity finance	5,928
(23) Multiply (9) by (22) to calculate the number of CCS SMEs that considered but did not seek equity finance that are financially viable	1,186
(24) Multiply (7) by (23) to calculate **unmet demand**	€241,797,050 – €529,960,637
(25) SQW assumption on proportion of enterprises accessing equity finance in CCS[106]	1%
(26) Multiply (20) by (25) to calculate the no. of CCS SMEs accessing equity finance	11,857
(27) Multiply (13) by (26) for the number of CCS SMEs not receiving full equity amount sought	6,737
(28) Multiply (17) by (27) for the number of CCS SMEs not receiving full equity amount sought that are financially viable	1,347
(29) Multiply (15) by (28) to calculate **viable demand**	€955,794,373 – €1,414,672,493
(30) Sum of (24) and (28) for total funding gap for equity finance in population	**€1,197,591,423 – €1,944,633,130**

Source: SQW analysis; CCS business survey; see sources in table

[104] Eurostat. Culture Statistics - cultural enterprises. http://ec.europa.eu/eurostat/statistics-explained/index.php/Culture_statistics_-_cultural_enterprises

[105] The survey sample overstates the proportion of companies considering but not accessing equity finance, at 6.6%. A review of other surveys, both at a European and national level, found little information to quantify the proportion that considered but did not seek equity. These sources often provided a figure that viewed equity finance as relevant, for example SAFE gave a figure of 10%, but this overstates the proportion that we would expect to have applied for equity if it were not for obstacles to accessing this finance. The 0.5% figure is a conservative estimate based on findings both from the survey review and this survey which pointed towards an additional 50% on top of those that sought equity finance that would have sought it had there not been obstacles: this has then been applied to the assumption that 1% of CCS SMEs have sought equity finance.

[106] Similarly, the survey sample overstates the proportion of companies seeking equity finance, at 13.7%. A review of other surveys, both at a European and national level, suggested that roughly 2% of all business have sought equity finance recently. Based on this, as well as the findings that suggest CCS businesses are less likely to access equity than the general business population, and adopting a conservative approach, the figure of 1% was used.

Loans

Table 6-19: Indicatives estimates of funding gap for loan finance

Steps in calculation and assumptions	Number /Amount (€)
SURVEY SAMPLE:	
(1) No. of respondents	473
(2) No. of businesses that considered and sought external finance	279
(3) No. of businesses that considered loan finance	144
(4) No. of businesses that considered and sought loan finance	85
(5) No. of businesses that considered but not sought loan finance	55
(6) No. of businesses that considered but not sought loan finance (5) as a proportion of all respondents (1)	12%
(7) No. of businesses that considered but not sought loan finance and provided a value	53
(8) Average value of loan considered by (5)	€50,850 – €113,019
(9) Multiply (7) by (8) to calculate the aggregate amount of loan finance required for respondents that considered but not sought	€2,695,053 – €5,990,000
(10) Proportion of (5) that are assumed to be financially viable	20%
(11) Multiply (9) by (10) to calculate **unmet demand**	€539,011 – €1,198,000
(12) No. of businesses that considered and sought loan finance and have received a decision	82
(13) No. of businesses that considered and sought loan finance, received a decision, and did not receive the full amount	39
(14) (13) as a proportion of (12) for proportion of businesses that did not receive full amount sought	48%
(15) No. of businesses that did not receive full amount that provided a value for the shortfall	31
(16) Average value of loan shortfall for (13)	€57,823 – €161,694
(17) Multiply (15) by (16) to calculate the aggregate shortfall in the amount of loan finance sought	€1,792,523 – €5,012,500
(18) Proportion of (13) that are assumed to be financially viable	20%
(19) Multiply (17) by (18) to calculate **viable demand**	€358,505 – €1,002,500
(20) Sum of (11) and (19) for aggregate loan finance gap for the sample	€897,515 – €2,200,500

Steps in calculation and assumptions	**Number /Amount (€)**
EXTRAPOLATE TO POPULATION:	
(21) No. of CCS SMEs in Europe population (Source: Eurostat[107])	1,185,689
(22) Multiply (6) by (21) to calculate the number of CCS SMEs that considered but did not seek loan finance	137,871
(23) Multiply (10) by (22) to calculate the number of CCS SMEs that considered but did not seek loan finance that are financially viable	27,574
(24) Multiply (11) by (23) to calculate **unmet demand**	€1,402,147,739 – €3,116,400,663
(25) SQW assumption for the proportion of SMEs accessing loan finance in CCS[108]	17%
(26) Multiply (21) by (25) for the number of CCS SMEs accessing loan finance	201,567
(27) Multiply (14) by (26) for the number of CCS SMEs not receiving full loan amount sought	95,867
(28) Multiply (18) by (27) for the number of CCS SMEs not receiving full loan amount sought that are financially viable	19,173
(29) Multiply (16) by (28) to calculate **viable demand**	€1,108,673,242 – €3,100,224,728
(30) Sum of (24) and (29) for total funding gap for loan finance in population	**€2,510,820,981 – €6,216,625,390**

Source: SQW analysis; CCS business survey; see sources in table

6.112 For comparison and context, the ex-ante assessment of the Single Market Programme[109] estimated a loan finance gap of €200bn over seven years across the total European population of 23m SMEs. This represents an annual gap of €28.6bn, compared to the above calculation of a €837m - €2.07bn annual loans gap for CCS SMEs.

[107] Eurostat. Culture Statistics - cultural enterprises. http://ec.europa.eu/eurostat/statistics-explained/index.php/Culture_statistics_-_cultural_enterprises

[108] This figure is taken from the SAFE survey, which asks whether SMEs from all sectors have accessed loan finance within the last six months. The figure is therefore used conservatively because it is being applied to a three-year period but, given the findings that indicate lower use of loans by CCS businesses compared to the general business population, this seems sensible. The figure also closely reflects the findings from the survey as 18% of the sample reported having accessed loans in the past three years.

[109] EC (2018) Impact assessment for the successor to COSME. Commission Staff Working Document. Proposal for a regulation of the European Parliament and of the Council. Establishing the Programme for single market, competitiveness of enterprises, including small and medium-sized enterprises, and European statistics and repealing Regulations (EU) No 99/2013, (EU) No 1287/2013, (EU) No 254/2014, (EU) No 258/2014, (EU) No 652/2014 and (EU) No 2017/826.

7. Overall findings

7.1 The importance, and potential for further development, of the creative industries in Europe has been recognised by the EU for over 20 years. The Creative Europe Programme, which covers the period 2014-2020, widened the earlier focus on promoting trans-national activities to an intervention offering substantial support across cultural and media totalling €1.46bn, including the c. €180m CCS Guarantee Facility to encourage the growth of businesses across the sector.

7.2 A key starting point for CEP is that Europe's diversity and cultural riches provides the basis for real strengths in creative activities and industries which go beyond financial returns, and provide positive effects for people, places, nation states and for Europe. But this cultural diversity, and the many different languages, may also have limited the scope to scale-up these effects, and spread their reach beyond Europe. Although some CCS businesses and organisations based in Europe are widely known across the world, there are no global champions at the scale of the US and, now increasingly the Chinese, leaders in the creative industries.

7.3 Earlier work by Richard Caves (2000)[110] identified seven economic properties which are shared across the breadth of the creative industries, in addition to the handling of uncertainty, originality, complexity, and variety, the sector is also characterised by differentiation of skills, establishing ownership and protection of products, tight timescales to delivery. Taken together with the diverse cultural backdrop in Europe and unusual dependence on individuals and new projects, one result is that mainstream financial intermediaries tend to see risk for this sector dominating reward. There is evidence that funding constraints have proved a greater barrier to the development of the creative businesses than is the case in other sectors.

7.4 The overall CEP objective is to strengthen the competitiveness of CCS while promoting diversity and European heritage. Building financial capacity in CCS was introduced in the 2014-20 Programme, which also promotes policy development, innovation and new business models. The ex-ante evaluation of financial instruments is charged to assess the extent to which:

- A wider understanding is being built of CCS financial issues, and specifically of barriers and potential remedial actions
- The Guarantee Fund is working effectively, and might be extended
- There is potential for a new financial equity-based instrument, and the form this might take.

7.5 The key findings to date on these questions are set out below. They have been used as the basis for the outline options, which follow in section 8.

[110] Caves, R (2000) Creative industries: contracts between arts and commerce.

Understanding of financial issues facing CCS

7.6 There is a broad consensus in the organisations concerned with the development of CCS that these industries and activities have considerable potential to develop further, but face serious constraints based on the extent to which innovative and potentially significant (and worthwhile) activities can be financed: in other words, there is a funding gap. This is the case across Europe, both in countries and regions with a high concentration of these activities and in those where there is some presence, but at an earlier stage of development.

7.7 The research undertaken for this study confirmed the existence of this gap, and that it has probably been exacerbated as the European economies recovered some impetus after the recession. The persistence of this gap is related to the squeeze on public finances, as well as investor caution at a time of financial retrenchment. Effective actions to close the gap will need to be based on recognition of the underlying issues, including those of demand (the degree of investment hunger and readiness, issues around treatment of assets and IP) as well as supply (understanding of CCS, appropriate finance for different types of activities and projects, the requirement for co-funding packages, to address complex project requirements).

7.8 The implication is that a holistic approach is required, in which different types of funding are made available or facilitated alongside CEP and other initiatives at regional/national and European levels, and with the scope for more integration of financial and non-financial support, where this is likely to produce benefits.

Roll-out and positioning of the CEP Guarantee Fund

7.9 The 2017 Mid-Term Evaluation saw CCS GF as having the potential to reduce the overall funding gap by 15-20%, but it was then too early to assess performance. Concerns were expressed about the €2m limit, which was below that required by many AV projects. It was also recommended that further action was needed to enable an adequate response across CCS to the threats and opportunities involved in digitisation, and other radical shifts affecting the sector.

7.10 We found that the Guarantee Facility has been broadly welcomed by the sector (including the capacity building component). Given that CCS GF is in early stages of implementation, it has progressed well in signing funding agreements with financial intermediaries operating in six countries (Italy, Spain, France, Czech Republic, Belgium and Romania), and with a maximum portfolio volume of all financial intermediaries combined equating to €440m (see Table 4-3). A total of 386 SMEs and organisations had received financial support in 512 deals through CCS GF (as of 30 June 2018).

7.11 CCS GF is gaining momentum with further countries and financial intermediaries in the pipeline. The Creative Europe Desks, representatives from the CEP and EC, financial intermediaries (with signed agreements), and others are pro-actively raising the profile of the Guarantee Facility through a range of marketing channels (e.g. CCS GF was marketed at the Cannes Film Festival, 2018). However, CCS GF would benefit from further increasing its profile and visibility to reach a wider audience. Perceptions of limited visibility may partly result from the fact that, to date, the guarantees have been made mostly in one country: 80% of beneficiaries (73% by value) are in Spain. Also, around three-quarter of the total amount committed to final recipients is in AV. However, it is important to re-iterate the timing of implementation, for example the guarantee agreements in Italy, Belgium, and Romania were only concluded in 2018, and the guarantee in Romania is in its infancy. It is hoped this will generate further interest in these (and other) countries as the loans are disbursed over time. The concentration of funding in AV is evidently driven by market demand (and AV is one of the main focus areas of the CEP).

7.12 As recent agreements become fully operational, and also taking into account the wider views from the sector and the financial communities, and the differences in financial support available across Europe, we anticipate that CCS GF will continue to broaden as well as deepen its reach. However, the Facility is better suited to some countries and activities than others, and it cannot be expected to achieve the same level of penetration across all markets.

7.13 We found that CCS GF is fulfilling a useful, but to date limited, role in helping to close the gap for loan funding, re-estimated for this study at €837m - €2.07bn annually for CCS SMEs. Qualitative evidence suggests that this gap will remain, even if as expected, GF funding is augmented as the initial allocation is fully used, and the roll-out which is already underway widens to benefit other sub-sectors and countries.

The scope for a new equity instrument

7.14 Given the persistence of the funding gap, and the encouraging take-up, but limits on penetration, of the Guarantee Fund, we concluded that there is a potential role for other types of funding, including equity, and for the involvement of a wider range of financial intermediaries in the future mix. Two-thirds of the CCS consultees, working across different geographies and spanning the main sub-sectors, stated that they believed there was a significant funding gap: most of the other respondents said they could not answer the question from their own experience and knowledge. Of the majority that recognised an on-going gap, 80% believed that equity should or could be part of the solution.

7.15 The existence of a funding gap was also recognised on the supply side. Financial intermediaries noted that, given the particular characteristics of the sector, equity would be the solution for only a minority of funding needs; other forms of finance would be needed, and flexible packages, put in place alongside and linked to other supply-side interventions, would be needed to meet the wide range of circumstances, needs, aptitudes, and ambitions.

7.16 Equity investment is already happening in CCS: EIF-backed investment worth €157m has been made in the last five years, mainly alongside venture capitalists; €122m of this is in multi-country deals; mostly in music followed by AV and design.

7.17 In CCS as in other sectors, other forms of financing, including equity crowdfunding, have also become part of the mix in recent years. Although expected to continue to have a role, crowdfunding investment opportunities in CCS have tended to be pitched towards investors who are looking for the 'buzz' of involvement with a high profile, or potentially high profile, activity, or to play a part in launching something they strongly identify with or want to see happen. Many may not be investing primarily for financial return.

7.18 Any action to provide or facilitate further equity funding in CCS will look to opportunities based on business potential, where this type of investment is appropriate to the project/product, and the potential would not otherwise be realised. There is some existing private sector activity in providing equity for CCS, but this is on a small-scale and partial; there would seem to be scope for co-investment rather than a danger of crowding-out.

7.19 The scope for a new equity initiative for CCS is likely to be mainly at the smaller end of the market, where business angels are particularly active: larger businesses are much more likely to already have a track record which would enable them to make credible pitches to VC funds. A new initiative could be directed particularly towards new and innovative products, and recognise that for business angels, personal enthusiasms and opportunities for engagement will also drive interest. There may also be a role for equity in business restructuring, which is anticipated across Europe in some sub-sectors, and where venture capital might be expected to become involved. In CCS, probably more than in other sectors, equity investment in a business might be only one part of a wider funding package, which could also include other 'patient' forms of finance as well as commercial loans.

7.20 Our indicative estimate of the gap for CCS equity funding, based on a series of conservative assumptions in extrapolating the survey response to the potential population of CCS enterprises in Europe that access equity finance, gives a range of c. €1.20bn - €1.94bn over three years. This equates to an annual funding gap for CCS equity of c. €399m - €648m.

7.21 Most CCS organisations with a view on the form of a new financial initiative noted that the availability of loans on suitable terms, and also grants, would continue, in volume terms, to be more important to the industry than equity. They also believed that any new financial intervention should be linked into the CCS sector, and with other support actions; it should if possible be linked into an existing mechanism, rather than being created as a wholly new initiative. These views on the potential importance of equity, of the limits of its role in CCS, and also on avoiding a wholly new instrument, were also held by most of those interviewed from the financial sector.

7.22 The sections which follow set out the options and the proposed way forward.

8. Options going forward: assessment of longlist

8.1 In this section of the Report, we set out, and make an initial assessment of, the longlist of options for financial instruments for CCS. These include a range of options for a new equity, or quasi-equity, initiative, consideration of a continued or amended debt instrument, and the implications of no action.

8.2 The thinking in this section is informed by the evidence gathered for this study, as set out in earlier sections and summarised under overall findings in section 7. It also draws on the finance expertise within the SQW study team. First, we set out the context, against which the longlisted equity options have emerged.

Overview of approaches to equity financing

8.3 Different types of financing instruments may be appropriate at different stages of the development of a firm. Entrepreneurs typically start their ventures with their own funds and those of friends and family. Depending on the size, scope and ambition of the venture, some entrepreneurs look at an early stage for other external sources of seed capital, including debt or equity. Equity investments require a future exit opportunity for the investors and therefore are typically focused on innovative high growth firms.

8.4 Venture capital firms focus on investing in companies in markets characterised by new technologies that are rapidly developing. Venture capital is commonly assumed to be the main source of external equity financing, but the majority of venture capital firms look for later stage investments leaving the seed and early stage equity financing market to 'informal' investors (OECD, 2011).[111]

8.5 Angel investors, who are often experienced entrepreneurs or business people, have become increasingly recognised as an important source of equity capital at the seed and early stage of company formation (Harrison and Mason, 2010).[112] They operate in a segment which falls in between informal founders, friends and family financing, and formal venture capital investors (Freear and Wetzel, 1990;[113] Sohl, 1999[114]). Venture capital involves "formal" or "professional" equity, in the form of a fund run by general partners, typically aimed at investing in early to expansion stages of high growth firms.

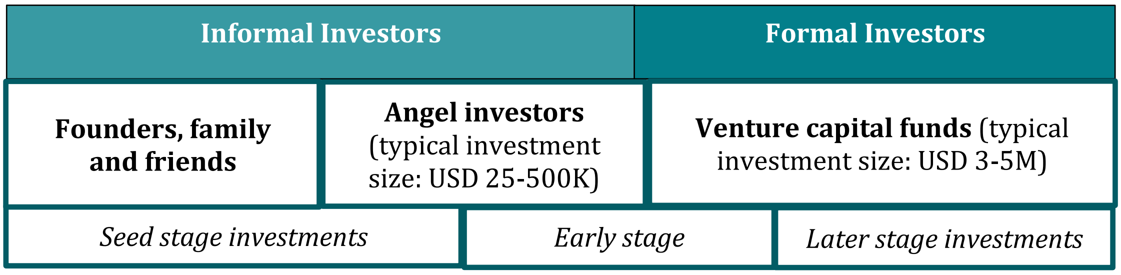
[111] OECD (2011), Financing High-Growth Firms: The Role of Angel Investors, OECD Publishing.

[112] Harrison, R.T. and C. M. Mason, (2010), Annual Report on the Business Angel Market in the United Kingdom: 2008/09, June 2010.

[113] Freear, J., and Wetzel, W. E. jr. (1990), Who bankrolls high-tech entrepreneurs? Journal of Business Venturing, Volume 5, Issue 2, March 1990, Pages 77-89.

[114] Sohl, J. E. (1999), The early-stage equity market in the USA, Venture Capital: An international journal of entrepreneurial finance, 1(2), 101-120.

Figure 8-1: Equity investors at the seed, early and later stages of firm growth


Informal Investors
Formal Investors
Founders, family and friends
Angel investors (typical investment size: USD 25-500K)
Venture capital funds (typical investment size: USD 3-5M)
Seed stage investments
Early stage
Later stage investments

Source: Wilson (2016)[115]

8.6 Venture capital firms tend to invest in high technology sectors such as ICT, biotech and clean tech. Angel investors tend to invest in a broader range of sectors than VCs, although the bulk of investment is also typically in ICT, biotech and health related technologies (OECD, 2011).[116] Companies in the ICT sector often have a lower capital intensity and shorter route to exit (Ries, 2011),[117] making them attractive to investors.

8.7 Both angel investors and venture capitalist are promoted as providing 'smart money' – funding accompanied by experience, expertise and connections (OECD, 2011). This type of support can be particularly valuable to firms pursuing high growth strategies and it differentiates this type of financing from other forms, including crowdfunding.

8.8 Equity crowdfunding is receiving attention from policy makers as a potential source of funds to start-ups. Equity crowdfunding departs from the models of traditional angel investors and venture capital firms as transactions are intermediated by an online platform. Some platforms play a more active role in screening and evaluating companies than others. Also, their role during the investment and post-investment stages can vary dramatically (Wilson and Testoni, 2014).[118]

8.9 Table 8-1 elaborates the differences and similarities between these investment approaches.

Table 8-1: Differentiating key characteristics of business angels, venture capitalists and equity crowdfunders

Characteristics	Business angels	Venture capitalists	Equity crowdfunders
Background	Former entrepreneurs	Finance, consulting, some from industry	Many different backgrounds, many have no investment experience
Investment approach	Investing own money	Managing a fund and/or investing other people's money	Investing own money
Investment stage	Seed and early stage	Range of seed, early stage and later stage but increasingly later stage	Seed and early stage

[115] Wilson, K. (2016), "Study on the Design of a Potential Government Venture Capital Programme", State Secretariat for Economic Affairs SECO, Promotion Activities Directorate, September 2016.
[116] Ibid 111.
[117] Ries, E. (2011), "The Lean Start up: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses", Crown Publishing Group, New York, NY.
[118] Wilson, K.E. and Testoni, M. (2014), "Improving the role of equity crowdfunding in Europe's capital markets", Bruegel Policy Contribution Issue 2014/09, August.

Characteristics	Business angels	Venture capitalists	Equity crowdfunders
Investment instruments	Common shares (often due regulatory restrictions)	Preferred shares	Common shares
Deal flow	Through social networks and/or angel groups/networks	Through social networks as well as proactive outreach	Through web platform
Due diligence	Conducted by angel investors based on their own experience	Conducted by staff in VC firm sometimes with the assistance of outside firms (law firms, etc.)	Conducted by individual, if at all, and sometimes by the platform
Geographic proximity of investments	Most investments are local (within a few hours' drive)	Invest nationally and increasingly internationally with local partners	Investments made online: most investors are quite distant from the venture
Post investment role	Active, hands-on	Board seat, strategic	Depends on the individual investor, but most remain passive. Some platforms represent the interests of the crowd
Return on investment and motivations for investment	Important but not the main reason for angel investing	Critical. The VC fund must provide decent returns to existing investors to enable them to raise a new fund (and therefore stay in business)	Important but not the only reason for investing.

Source: Wilson and Testoni (2014), adapted from Wilson (2011)

Limits to direct policy response and possible public-private arrangements

8.10 First, this sub-section discusses arguments, why direct intervention in the financial markets in the form of provision of venture capital is undesirable. Then we discuss the merits and drawbacks of alternative public and private arrangements, including co-investment funds and fund-of-funds.

8.11 As outlined earlier in this Report, young firms, including those in the CCS sector, face many difficulties accessing seed and early stage finance and these have increased over the past years. In most countries, the critical role that innovative firms play in creating jobs and economic growth, and the positive spillover effects of creativity and innovation, are well-recognised. A vibrant creative sector is one of key elements of an entrepreneurial ecosystem, and governments are seeking ways to facilitate these networks and accelerate business creation and growth, often through economic development agencies and partnerships.

Limitations on the role of government/public sector

8.12 One of the major concerns with all government funding programmes is the extent to which they crowd out private markets. Clearly the presence of government funding affects the market equilibrium. The debate is whether these programmes have a large effect on total investment quantities with limited effect on valuations (the intended market expansion effect), or have a limited effect on total investment quantities with large effects on valuations (the unintended crowding out effect).[119]

8.13 There are several important challenges for the design of government funding programmes. These involve four investor criteria for financing high growth firms: deep pockets, smart money, networked investors, and patient money (Duruflé et al, 2017).[120]

8.14 The 'deep pocket' requirement runs contrary to the natural instincts of most governments. To ensure horizontal equity of opportunity, public interventions must provide funding to all beneficiaries that meet transparent criteria. This can result in situations where public funds are spread out widely, but thinly. This approach may run against the grain of business growth opportunities at the start-up stage, where economies of agglomeration suggest that investments are more likely to succeed inside than outside the main entrepreneurial hubs. At the scale-up stage, a distributed funding approach becomes even more problematic, because scale-up involves focusing on the relatively small fraction of start-ups that are judged to have extraordinary growth potential. In consequence, government-supported funding programmes are typically more dispersed than would be economically efficient.

8.15 The requirement to provide 'smart money' is also a challenge for governments. Governments are unlikely to have the expertise in house: hence the move towards more indirect investment approaches. However, even when working with private investors, there is relatively little that the government can do to improve the quality of venture capital teams. One possible avenue for government to consider is attracting the best international talent to set up venture capital operations in their jurisdiction.

8.16 The requirement of being well networked points to another challenge in the design of venture capital programmes, namely the appropriate definition of geographic boundary restrictions. The natural instinct of most governments is to create programmes for domestic companies and domestic investors. However, if scale-up requires international networks, such domestic restrictions may be inappropriate. One issue is whether domestic companies can still make use of the programme when their investors come from abroad. This is a particularly sensitive question for tax credit initiatives, but the issue also arises in co-investment programmes.

8.17 Another issue is whether investors that receive government support (such as government LPs) can make investments in foreign companies. From a government perspective it is difficult to justify spending government funds abroad. However, from the perspective of the venture capital firm, investing only in domestic companies may preclude it from becoming a global specialist, and force it to become a local generalist. Moreover, it may limit the firm's ability to build stronger international networks which may be important to support its scale-up companies.

[119] This is a difficult question to assess empirically, mainly due to the lack of a counterfactual. The work of Brander et al (2015) finds evidence that there appears to be some partial crowding out (both at the level of individual companies and at the aggregate market level), but that the crowding out was far from way full.

[120] Duruflé, G., Hellmann, T. and Wilson, K. (2017), From Start-up to Scale-up: Examining Public Policies for the Financing of High-Growth Ventures, CEPR, 2017.

8.18 The extent to which the government can influence the patience and investment horizons of private investors is also limited. As one among several partners, the government can influence but not control the terms of the partnership agreement. In practice, most government-supported venture capital funds continue to have the standard ten-year fund life.

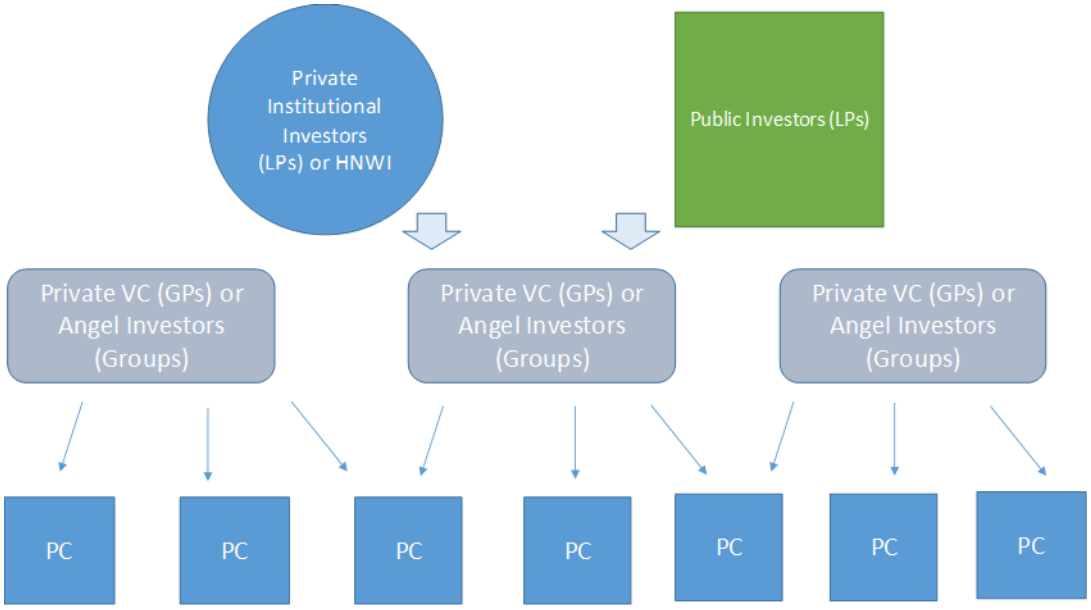
8.19 Just as the EU is doing under the InvestEU umbrella, many countries have also begun to streamline their seed and early stage policies. Consistent, long-term policies are important to provide the appropriate incentives to invest in seed and early stage firms, however, changes in public policies are driven not only by market conditions and economic opportunities, but also, in many cases, by the political cycle. It is not just a matter of which policy to put in place but how to structure and implement it. Also, the size of the public intervention must be appropriate - i.e. large enough that it makes a difference, but not so large that it has a negative distorting effect on private incentives and objectives.

8.20 Given this context, and the growing popularity of co-investment and fund of fund approaches, these are discussed in more detail.

Co-investment funds

8.21 Co-investment funds use public money to match private investment. Typically, these programmes work by matching public funds with those of approved private investors. Co-investment schemes are often seen as a way to leverage private money, but they also act as an important driver in building, growing and professionalising the seed and early stage investment market by providing a more structured investment process. Co-investment schemes can also be an effective way to attract foreign investors, where the regulatory environment allows. Figure 8-2 outlines the co-investment approach.

Figure 8-2: Co-investment approach


Private Institutional Investors (LPs) or HNWI
Public Investors (LPs)
Private VC (GPs) or Angel Investors (Groups)
Private VC (GPs) or Angel Investors (Groups)
Private VC (GPs) or Angel Investors (Groups)
PC
PC
PC
PC
PC
PC
PC

Source: SQW; Note "PC" refers to portfolio companies

8.22 Concern is frequently expressed that governments lack the expertise and appropriate incentives for making good decisions on investment. These concerns are partly alleviated when the governments partners one or more others, as investment decisions are usually made by a private investor, with appropriate scrutiny of public funding taking place at one remove. Against these benefits, there are also some costs to the government, including the payment of management fees and interest to VC firms. From the perspective of the private venture capital firms, there are also costs of accepting the government as a partner, because the money typically comes with additional restrictions and reporting requirements.

8.23 Co-investment funds have nevertheless become increasingly popular in recent years, as they can bring market discipline to alleviate economic risks; outside as well as within Europe, several are perceived as real successes. New Zealand has had co-investment funds in place for several years: a co-investment fund was established for venture capital investment in 2002 (VCF); a fund focused on angel investment followed in 2005 (SCIF). The latter was modelled on the Scottish Co-investment Fund: its rationale was to work at the seed and early stages, targeting innovative, technology-based firms at and beyond start-up, which often faced financial difficulties but were judged to have high growth potential.

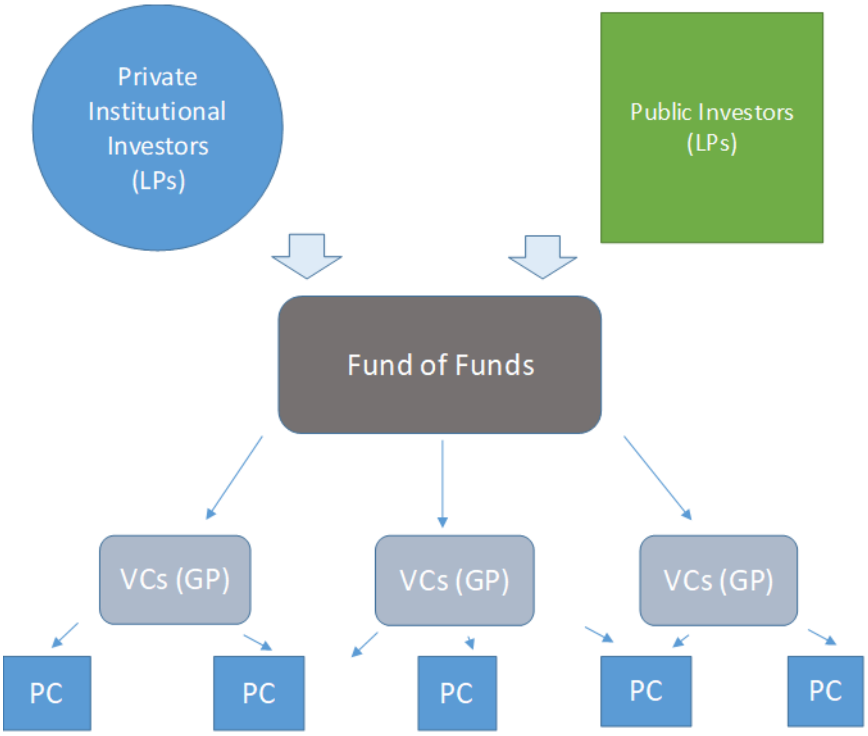
Fund of funds

8.24 The investment strategy for a 'fund of funds'(FOF) involves holding a portfolio of venture capital investment funds (GPs) rather than investing directly in individual venture capital firms (GPs) or companies (PCs). Where these are set up by government, there is often a requirement that other private institutional investors also participate. The FOF approach has become more prevalent in recent years as a way to incentivise more private investment from institutional investors into the venture capital market. EIF has taken this approach with the goal of helping to grow the size of venture capital firms in Europe.

8.25 Under this approach the government's role is removed one further level: it does not pick venture capital teams, it picks a fund of funds. In support of this is the argument that picking successful venture capital teams is a challenge for governments, whereas picking fund-of fund-managers is easier. The cost of this approach is a second layer of management fees and carried interest. Fund of funds are also used to engage the interest of institutional investors. The value proposition of a fund of funds is to allow institutional investors with limited understanding of venture capital dynamics to build a diversified portfolio of venture capital funds.

8.26 Co-investment funds and fund-of-funds, both of which seek to leverage private sector investment, are more effective than direct public equity funds: leveraging private sector networks, experience and funding, while also minimising public sector transaction costs. The design, management and incentive structures of these instruments play a determining role in whether or not they meet their objectives. Often these programmes are either managed or overseen (via and advisory board) by experienced private sector experts. In some cases, the funds are managed from within a government agency and in others, funding vehicles are created with public and private financing.

Figure 8-3: Fund of funds


Private Institutional Investors (LPs)
Public Investors (LPs)
Fund of Funds
VCs (GP)
VCs (GP)
VCs (GP)
PC
PC
PC
PC
PC

Source: SQW; Note "PC" refers to portfolio companies

Lessons learned from countries with Government VC programmes (GVCPs)

8.27 In Table 8-2, which follows, some examples are shown of current GVCPs. These demonstrate the different approaches taken in various countries, and are summarised on a range of dimensions, including structure, size and rules of engagement.

Table 8-2: Examples of current Government VC programmes (GVCPs)

Country	GVCP name	Funding	Years	Type	Stage	Size	Limits	Sector	Monitoring/evaluation	Notes
Australia	IIF	DIISRT	1997-2014	Co-invest (into VC fund managers)	Early stage	IIF: $360M in 3 rounds + private: total AUD$644 (as of 2012)	Up to AUD$ 20M to each VC fund with private matching	Early stage firms with goal to commercialise R&D	Ongoing monitoring, external evaluation in 2010	IIFF (follow on fund) created in 2009 of AUD$65M
Canada	VCAP Fund of Funds	BDC + private	Last of four funds just created in April 2016	FOF (co-funded4 new private sector-led FOFs)	4th FOF: Growth (Harbourvest Canada)	$400M gov't + over $900M private: total of CA $1.35B	BDC FOF: Max 10-25M per VC fund	IT, healthcare, clean tech	Funded to date by other 3 FOFs: 19 VC funds 100 companies	Investments in Canadian and US VCs
Germany	HTGF I, II	HTG mgmt. GmbH (public + private funding)	2005-	Direct/Co-invest (into PCs/start-ups)	Seed + follow on	500M public + private: total EUR 560M (HTGF I: 270M, HTGF: 228M)	Up to EUR 600K in seed and 1.4M in follow up	Technology driven firms – across sectors	Ongoing monitoring	HTG team has 25-30 people, Germany's most active seed investor
Netherlands	DVI I, II	EIF + PPM Oost (Dutch govt funding)	2013-	FOF (investing into VC fund managers)	Early	DVI I: EUR 202.5M DVI II: EUR 300M	DVI II targets 20 investments in VC firms over 4-5 years	Innovative, high tech	Ongoing monitoring	DVI I supported 12 VCs + angel fund by end of 2015
New Zealand	NZVIF		2002-	FOF (into VC fund managers)	Early	NZ$ 260M	Can invest up to NZ$ 25M per VC	Not specified	Ongoing monitoring, external evaluations	
	SCIF		2005-	Co-invest	Seed	NZ$ 40M	Up to 4M per BA group/500K per PC			
UK	ECF	British Business Bank	2005	Co-invest (into VCs)	SES	GBP 580M (fund 2-3 VCs per year)	60% public, max of GDP 50M per VC	Not specified	Ongoing monitoring, periodic evaluation	Asymmetric profit sharing on upside only
	Angel co-invest.	British Business Bank	2011	Co-invest (with angels)	Seed (angels)					

Source: SQW

Government VC programmes - key success factors

8.28 As discussed earlier, the evidence on government venture programmes is mixed. Once a clear need has been identified and the appropriate starting conditions in place, the key success factors lie in the way they are structured and implemented. Particularly in this arena, public policy is likely to be effective only if it is implemented in close cooperation with the private market actors. In setting up GVCPs, the approaches summarised in Table 8-3 seem to be critical to success. The most notable factor is the management of the fund: independent, professional management of the funds is one of the most important key success factors. Many experts have commented that the key gap is not money, but expertise drawn from experienced entrepreneurs, executives, investors and policy makers.

Table 8-3: GVCP key success factors

Topic	Factors
Objectives	• Clear and focused objectives. Too many GVCPs are put in place with too many, and often conflicting objectives, put upon them
Governance	• Independent private sector management of the investments. While this is increasingly understood, it is still not practiced or possible in many countries • The rules of engagement should be as simple and flexible as possible. If the GVCP is too complex, bureaucratic or slow, the market players will not engage
Expertise	• Engagement of public and private sector experts (some countries set up expert groups or processes of engagement with key stakeholders and experts) in the planning stages to build support, knowledge and consensus • Ability to tap into international expertise and standards
Incentives	• Provide incentives on the upside, not by protecting the downside
Size	• VC funds need to have sufficient size. It is difficult for funds under 50m to be economically viable, although the relevant size of funds depends the country context • Many European VC funds (private and public) are of suboptimal size
Time	• It takes time to set up the GVCP (from initial idea to implementation can take 18 months) • Also, investing can take time and should not be rushed as it is also a learning process (testing the market, experimenting, seeing what works)
Monitoring and evaluation	• Systematic tracking and monitoring to make sure GVCP is on track to meet long-term objectives • Periodic external evaluations: ➢ criteria set up at the start of the GVCP to avoid unintended consequences ➢ selecting appropriate times for the evaluation (not too early).

Source: SQW (2018)

Longlist of possible options

8.29 Against this backdrop, we set out below our longlist of possible options for a financial instrument for CCS. These include for each option: the main market failures and barriers they address; a summary of pros and cons, the EU added value, and overall rating to show which options are preferred more than others. As noted at the start of this section, the options have been drawn from the stakeholder consultations, our desk research and the wider knowledge and experience of the study team. In outline form, the options have already been discussed with the EIF and EC.

8.30 We recognise that the EIF does have a mandate for investing in CCS (including equity), but we also note that there is no CCS category within the EIF instruments. Some investments have been made in this sector through the business angels supported by the European Angels Fund (EAF) and VC funds supported by the EIF. Nevertheless, as noted at the end of section 3, CCS to date has, relative to its size, attracted low levels of equity funding from generic sources. The working premise is that, across a diverse and fast-changing sector, a disproportionate share of opportunities for growth are being missed because of a mismatch between potential and funders' perceptions and expectations. These (and other) issues have informed the longlist of potential options and influenced the selection of the 'front-runners'.

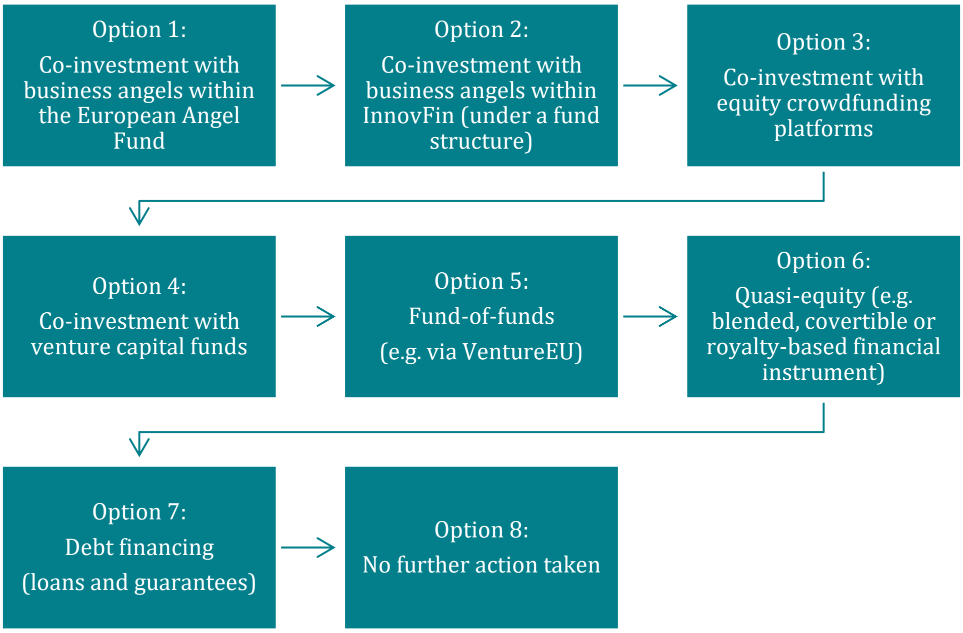
8.31 As noted throughout this report, the cultural and creative industries are highly diverse; the sector spans very different activities, and encompasses a wide range of scale and types of businesses and not-for-profit organisations. These operate at every level, from world and Europe-wide to national and local. In some areas, strong pull from recent shifts in consumer demands and expectations is interacting with new technologies to create opportunities for disruptive market change. The shape and potential of these changes, the speed at which they can be realised, and the implications for different businesses are difficult to foresee. But at any one time, across CCS firms and organisations, there will be needs for finance in the 'traditional' forms of debt and equity, and also for higher-risk, longer-term or other specialist forms of funding. The balance between these different types of funding at any given time is consequently not easy to assess – it is partly determined by supply as well as market demand, and may be expected to change rapidly.

8.32 Evidence from desk research, stakeholder consultations and surveys has indicated that the funding requirements of this complex sector are also varied, that the businesses and organisations involved may have failed to articulate their needs effectively, and that, partly in consequence, there is limited understanding of the type and scale of needs on the supply side, which has limited both the offer and the take-up.

8.33 The majority view of key representatives from EIF and EC is that it may not be necessary to develop completely new financial instruments as there are already generic financial instruments in place which could be tailored to thematic areas. Potential options also need to be considered in the context of InvestEU (see section 3).

8.34 In view of all the above, we propose a longlist of eight potential options as identified in Figure 8-4 are proposed. The options set out below, include a range of instruments from business angel investment and venture capital to crowdfunding. They are not mutually exclusive alternatives: several could cater to the needs of different, but overlapping, target groups and to different types of firms/ organisations, and some could be relevant at different times in one firm's evolution. But, for example: Option 2 on co-investment with business angels is more for start-ups / young firms, Option 3 is more relevant for funding individual projects rather than growth of firms, while Option 4 is more relevant to mature firms. The list of options for testing also includes no further action.

Figure 8-4: Longlist of potential options for financial instruments


Option 1:
Co-investment with business angels within the European Angel Fund
Option 2:
Co-investment with business angels within InnovFin (under a fund structure)
Option 3:
Co-investment with equity crowdfunding platforms
Option 4:
Co-investment with venture capital funds
Option 5:
Fund-of-funds
(e.g. via VentureEU)
Option 6:
Quasi-equity (e.g. blended, covertible or royalty-based financial instrument)
Option 7:
Debt financing
(loans and guarantees)
Option 8:
No further action taken

Source: SQW

8.35 Table 8-4 and Table 8-5 identify and link the main market failures and barriers that would be addressed by each of the options involving further action. Market failures include information failures, risk and uncertainty; the barriers relate to different dimensions of incomplete markets. As noted above, this categorisation is based on the evidence gathered for this study (set out mainly in sections 4 and 6), but also draws on our wider understanding of the financial instruments proposed.

Table 8-4: Summary of main market failures and barriers addressed by each option – Information failures, risk and uncertainty

	INFORMATION FAILURES, RISK AND UNCERTAINTY			
	Knowledge and skills gap amongst CCS organisations	**Knowledge and skills gap amongst financiers**	**High risk and uncertainty amongst CCS organisations***	**High risk and uncertainty amongst financiers relating to future financial returns****
Option 1: **Co-investment with business angels within the European Angel Fund**	✓	✓	✓	✓
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	✓	✓	✓	✓
Option 3: **Co-investment with equity crowdfunding**	Platforms per se do not provide guidance and advice	Platforms per se do not provide guidance and advice	✓	✓
Option 4: **Co-investment with venture capital funds**	✓	✓	✓	✓
Option 5: **Fund-of-funds**	✓	✓	✓	✓
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	Lack of knowledge and understanding of quasi-equity instruments acts as barrier to take-up	Not necessarily focus of quasi-equity financiers	✓	✓
Option 7: **Debt financing (loans and guarantees)**	✓ If accompanied by technical assistance/capacity building for CCS organisations	✓ If accompanied by technical assistance/capacity building for lenders	✓	✓

*Source: SQW; *High risk and uncertainty covers two aspects that are pronounced for CCS organisations: (i) too much risk to take on equity; (ii) fear of diluted ownership/reduced control over the organisation. **The main drivers of this risk include: (i) lack of track record in generating revenues; (ii) highly variable returns to investment.*

Table 8-5: Summary of main market failures and barriers addressed by each option – Incomplete markets

INCOMPLETE MARKETS			
	Perceived limited size of the market/s or 'niche' nature of the market/s	**Lack of scalable business models**	**Scarce transferability of assets (CCS reliant on human capital which cannot be transferred easily)**
Option 1: **Co-investment with business angels within the European Angel Fund**	✓	✓	✓
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	✓	✓	✓
Option 3: **Co-investment with equity crowdfunding**	✓	✓	✓
Option 4: **Co-investment with venture capital funds**	Tend to invest in products/services with sufficiently large potential markets	✓ Tend to invest in companies with high growth potential	✓
Option 5: **Fund-of-funds**	Tend to invest in products/services with sufficiently large potential markets	✓	✓
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	✓	✓	✓
Option 7: **Debt financing (loans and guarantees)**		✓	

Source: SQW

8.36 In reviewing the options, the key characteristics of which are set out in Table 8-6 , it is important to consider five points.

- First, all the proposed options are designed to be interventions at the European level, and not at the level of the Member States – each is intended to complement and expand existing provision within Member States.
- Second, the assessment of market failures and barriers is based on the evidence gathered for this study (set out mainly in sections 4 and 6), but also draws on our wider understanding of financial instruments proposed.
- Third, the summary of pros and cons are informed by consultation evidence and wider desk review, and our own view - they are not necessarily a comprehensive list.
- Fourth, the approach to identifying EU's added value for each option draws on The Better Regulations Guidelines,[121] in which three potential sources of EU added value are identified: Effectiveness,[122] Efficiency,[123] and Synergy.[124]
- Finally, an overall rating is provided to show which options are preferred more than others: **+++** indicates most preferred option, and **---** indicates least/not preferred option. These ratings are informed by our analysis of the evidence gathered for this study, including testing the options with consultees from the EU, financial intermediaries and CCS organisations, and our assessment of what is practically feasible and appropriate in the new context for funding instruments set by InvestEU.

[121] Better Regulations Guidelines tool #42 'identifying the evaluation criteria and questions'.

[122] EU level action is the only way to gain and communicate understanding on the scale and nature of CCS issues, and to address these issues through actions which seek to improve conditions for development across Europe, utilise cultural and creative strengths and mitigate against fragmentation, and facilitate the emergence of champions which can realise the potential of a border-free Europe.

[123] EU action can offer better value for money because externalities can be addressed, resources or expertise can be pooled, and action can be better co-ordinated.

[124] EU action is necessary to complement, stimulate and leverage action to reduce disparities, raise standards and create synergies. This can notably include the promotion of EU goals and policy priorities.

Table 8-6: Longlist of potential options for financial instruments

Options	Pros	Cons	EU added value	Overall rating
EQUITY:				
Option 1: **Co-investment with business angels within the European Angel Fund (EAF)**	• Business angel appropriate for sub €2m – most CCS enterprise seek this amount • Approx. €40m has been invested in all sectors through EAF to date, so provides some indication for potential pilot (e.g. €5-€10m pilot) • Targets experienced business angels with track record of successful investments and good financial capacity - increases their investment in seed, early stage enterprises • Individual business angels retain high level of freedom in decision-making • Business angels involved in capacity building, and may get involved for non-financial reasons e.g. interested in film	• Requires individual (long-term) agreements with business angels • Any sectoral focus/restriction may discourage business angels • Need to ascertain level of demand amongst business angels on the EAF • The amount of EIF-backed business angel investment in CCS is relatively small compared to VC investment (see section 6) • Difficult to structure under EU financial rules • Current EAF targets experienced business angels and may not be inclusive for all investors “new comers”	*Effectiveness:* • Business angels benefit from the EIF’s strong expertise and extensive network *Efficiency:* • Part of established structure within EAF: all investments are on a pari-pasu basis; no deal-by-deal review by EAF; pre-agreed investment scope; minimal reporting and standardised legal documents • There is equal split of all joint investments and costs between business angels and EAF; admin cost of joint investment structure *Synergy:* • EU level action which complements other finance interventions for CCS (national and EU-wide) helps to alleviate the funding gap and create synergies in CCS	++
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	• More relevant for start-ups / young firms • The investment risk is spread with other investors • Funds are managed or pooled by business	• Need to ascertain level of demand amongst business angels in InnovFin • Variation in the skill ad level of activity among business angels in InnovFin	*Effectiveness:* • Potentially fits well in the new InvestEU programme • The EC can assist in the capacity building for the business angels and VCs to better connect with CCS businesses and develop them further	+++

Options	Pros	Cons	EU added value	Overall rating
	angels – potential to generate large fund size • Potentially more efficient/ organised fund structure - managed by business angels with some expertise in CCS • Leverages on the expertise and knowhow of angels' networks/groups who pool investors with a common interest in CCS businesses • Facilitates the development and professionalism of investment syndicates • Encourages the creation of new funds and train other angel investors with an interest in CCS • Facilitates the identification and provision of investment readiness to CCS businesses	• Currently, not many business angel funds or networks specialise in CCS, so capacity building for investors and raising awareness of the potential of CCS will be important • Requires the EIF to proactively reach out to potential CCS angel investors to encourage them to set-up CCS focused funds	• A consistent EU-level approach may contribute to potential sharing of best practice between financial intermediaries (which may not happen otherwise) e.g. through referral mechanisms between countries • Potentially less fragmentation of the financing and CCS landscape *Efficiency:* • Improve efficiency through economies of scale - pooling resource and developing critical mass of activity, potentially leading to more co-ordinated approach • The EC, through the EIF, has significant experience with co-investment models and has a track record of focusing on leveraging private financing for investment *Synergy:* • EU level action which complements other finance interventions for CCS (national and EU-wide) helps to alleviate the funding gap and create synergies in CCS, including policy objectives for e.g. growing CCS businesses	🟩
Option 3: **Co-investment with equity crowdfunding platforms**	• Interest from crowdfunding platforms/networks • Complements other financial instruments rather than a solution on its own • More relevant for pre-revenue/ early stages - funding individual projects	• The right operational model needs to be designed • Intervention at EU level through a scheme that co-invests with crowdfunding platforms may take a long time – • Many crowdfunding platforms are still	*Effectiveness:* • The EC proposal as part of its Fintech action plan (March 2018) for a regulation on European crowdfunding will enable the crowdfunding platforms to provide their services across the EU (once implemented)	+

Options	Pros	Cons	EU added value	Overall rating
	rather than growth of firms • Suited to project focus of CCS enterprise • Intervention can be at national/regional level using ESIF (European Structural Investment Funds)	investing at national level and therefore it might be premature to develop an EU (cross border) scheme that allows co-investments with CF platforms • Amounts raised likely to be insufficient to be of material value to, for example, the AV sector • Crowdfunding platforms do not provide “smart money”, i.e. mentoring, access to the networks, etc. • There is a trade-off between attractiveness of crowdfunding platforms and high accountability standards • Public money co-invested with other private investors could be subject to ‘bandwagon’ effect. As a result, resources would be allocated to popular projects that do not necessarily have the best long-term growth prospects	*Efficiency:* • The EU proposal is designed to make it easier for crowdfunding platforms to offer their services EU-wide and improve access to funding (incl. equity) • Once adopted by the European Parliament and the Council, the proposed Regulation is expected to allow platforms to apply for an EU label based on a single set of rules. This is hoped to enable them to offer their services across the EU *Synergy:* • Under the proposals investors in crowdfunding platforms will be protected by clear rules on information disclosures, rules on governance and risk management and a coherent approach to supervision – overall, reducing risk, and raising standards	
Option 4: **Co-investment with venture capital funds**	• Suited more for scale-up firms who are looking for above €2m - more relevant to mature firms • Potential to generate greater returns	• Need to be clear on exit strategies for VCs • Focus on certain sub-sector - mainly digital/tech related e.g. AV	*Effectiveness:* • Fits well in the new InvestEU programme and therefore would be seen as an integral part of the EC offering	+++

Options	Pros	Cons	EU added value	Overall rating
	• The increased fund's capital under management may lead to the development of a larger fund • The creation of VC funds for CCS investments • Potential for broadening the scope of existing VC funds, possibly by incentivising the managers of existing funds to allocate new capital towards CCS firms	• Public co-investment has to address both financial and economic development/policy objectives • Requires critical mass of suitable deals and investment readiness, an established VC market and experienced co-investors (very few VC firms specialised in CCS in Europe) • Requires already established VC market (including a network of institutional investors)	• The EC has the added advantage of being able to set up longer term funding structures with durations beyond political mandates, which can often be an issue at the national level *Efficiency:* • Improve efficiency through economies of scale – through portfolio of VC investments and developing critical mass of activity, potentially leading to more co-ordinated approach • The EC, through the EIF, has significant experience with co-investment models and has a track record of focusing on leveraging private financing for investment *Synergy:* • By offering these co-investments on a pan-European scale, the EC would promote CCS across Europe rather than national provision, which would only encourage CCS with certain countries	🟩
Option 5: **Fund-of-funds** **(e.g. via VentureEU[125])**	• Designed for SMEs and mid-caps and has sector focus: ICT, digital, life sciences, medical technologies, and resource and energy efficiency ➢ CCS could be added • Privately led with six fund managers in place	• Not clear if additional sectors can be included to VentureEU • May need to widen pool of fund managers on VentureEU (if not conflicting with existing fund managers) i.e. add fund managers interested in CCS	*Effectiveness:* • Learning from InnovFin Fund of Funds *Efficiency:* • Part of established structure within VentureEU • Possibility of cross-referral of investment opportunities between funds (within Fund of Funds) and from other funds	---

[125] European Commission. VentureEU: €2.1 billion to boost venture capital investment in Europe's innovative start-ups. 2018. http://europa.eu/rapid/press-release_IP-18-2763_en.htm

Options	Pros	Cons	EU added value	Overall rating
	• Generates scale of impact through fund-of-fund structure • More for scale-up/growth-orientated businesses seeking larger amounts	• In practice, the scale of fund investments may be too small to make tangible difference in the CCS funding ecosystem	*Synergy:* • Development of the wider capital financing ecosystem for CCS	
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	• Royalty based investment instrument - rather than purchasing equity, angel investors purchase a percentage share of future revenue streams, thereby reducing the potential risk for investors as they are involved only when actual revenues are generated • Capital is provided and in return, investors receive a portion of all sales until a specified return is realised • No requirement for personal guarantee • No dilution in shareholdings • Investment sits as a liability rather than a debt • Better suited for CCS businesses which do not have track record of sales, but future revenue streams are expected • Benefit of increased capitalisation with limited debt exposure and collateral risk	• Further evidence required on demand for this type of instrument, and how this would work operationally • Lack of understanding of equity instruments among investee CCS business may be a barrier to take-up • High risk for the provider • Time-consuming and cost-intensive investment • High set-up and operational costs • Potentially challenging to establish the price for the investment • Short-term financing is not possible	*Effectiveness:* • Support with technical assistance/ capacity building – educating CCS businesses and potential investors on the suitability of this form of investment • EU (as independent third party) can potentially help in the assessment of quasi-equity providers' proposals – thereby reducing risk for CCS businesses *Efficiency:* • The EU could help with the administration aspects as quasi-equity investments tend to be more difficult to administer than loans (high set-up and operational costs), and more time-consuming *Synergy:* • Bring synergies through influencing wider changes in the regulatory framework (cross-border) to encourage a private equity market	++

Options	Pros	Cons	EU added value	Overall rating
DEBT:				
Option 7: **Debt financing** **(loans and guarantees)**	• Loans are a widely-used formal financing mechanism; this offers apparent opportunity to intervene behind proven and generally understood financial products, and to influence and widen the market • Loans can be used for a variety of purposes and tailored accordingly - to support new product and services for businesses and projects; also working capital • EU track record now being built through the CCS Guarantee Facility – supporting intervention utilised through specific agreements with FIs in different countries • FIs are familiar and experienced in working with loan products; mainstream sources may meet effective demand from CCS in some countries	• Complex landscape across Europe: significant differences in the understanding of CCS, and in the responses from FIs and public policy across, and in some cases within, different countries • Scale and diversity of sector activity and also of existing loan finance may make it difficult for a debt financing initiative to have wider effects, influence on the market	*Effectiveness:* • The EU has the track record and experience through the CCS Guarantee Facility (and other EU-wide guarantee facilities) which can be utilised to improve the effectiveness and realise the potential of CCS (including through capacity building of businesses and financial intermediaries) *Efficiency:* • The speed with which the CCS Guarantee Facility has been disbursed where operational was a positive finding in this study – the EU has the potential to quickly co-ordinate and disburse debt funds efficiently *Synergy:* • The purpose of InvestEU is to make EU funding for investment projects “simpler, more efficient and more flexible”. There are also potential synergies to be gained from the single InvestEU Fund. This includes the guarantee facilities under InvestEU (e.g. COSME, EaSI and the CCS Guarantee Facility).	+++
NO FURTHER INTERVENTION				
Option 8: **No further action taken**	• No increase in financial resource required – no set-up and operational costs	• This assumes the existing finance provision is sufficient to meet demand. This is contrary to the evidence gathered	• N/A	---

Options	Pros	Cons	EU added value	Overall rating
	• Focus on CCS Guarantee Facility and other general financial instruments may be simpler – less risk of crowding-out and duplication with existing provision	for this ex-ante evaluation (both demand and supply-side) • The specific conditions and needs of CCS enterprises are unlikely to be quickly or adequately addressed through current provision		

Source: SQW: Note, in relation to overall rating: +++ indicates most preferred option, and --- indicates least/not preferred option

8.37 In the remainder of this section, these options are set out in more detail. We first provide an overview of the differences between two approaches to equity financing, keeping in mind that the needs of CCS firms will vary according to their stage of development, and therefore that more than one of the options outlined later might be appropriate. This will help to inform the selection of the preferred options going forward.

The options in more detail

8.38 A 'co-investment with business angels' option was strongly advocated by consultees. It was suggested that this could be realised either through European Angel Fund (EAF)[126] or through InnovFin (or its successor in the future).[127] There were mixed views as to which would be the most achievable and effective route.

8.39 EAF started in 2012 in Germany and now operates in Austria, Denmark, Finland, Germany, Ireland, and the Netherlands and Spain. With a budget of €80m, it is shortly to be extended to Italy and also to other EU countries. The EAF does due diligence on the business angels and signs a contractual agreement with them, committing to matching their investments on *pari passu* basis. In effect, it acts as a fund of funds: approximately €320m is under management, €250m committed to business angels, and agreements signed with 79 angels. A total of €56m has been committed to companies to date, and in the order of €30m commitments are now being made each year. The business angels report on a biannual basis to EAF on investee, sector, country, valuation etc. The EAF does not pay any fee to business angels; these do their own diligence on deals.

8.40 An alternative to the co-investment with angels through EAF would be to use the existing InnovFin Business Angels instrument. Under InnovFin Business Angels, EIF provides equity investments into funds managed or pooled by business angels, or co- investment funds aiming at co-investing with business angels on a systematic basis. One of the main differences between the EAF and the InnovFin options is that under the latter no agreement would need to be signed with individual business angels - the co-investment fund structure would be managed by business angels with expertise on the sector or angel network/s with experience in the CCS.

Option 1: Co-investment with business angels within the EAF

Rationale and objectives

8.41 Business angel investment is most appropriate for amounts under €2m, which is the typically the size range sought by most CCS enterprises. In addition, business angels often chose to invest in sectors of particular interest to them, and not always for financial reasons. They also sometimes engage in capacity building.

8.42 The European Angel Fund (EAF) aims to support innovative SMEs. Investments are possible in all sectors and at every stage (seed, early and expansion) of a company's development. Co-investments under the EAF are primarily focused on new investments by business angels. However, subsequent follow-on investments in these companies may also be included. EAF is

[126] European Investment Fund, 2017. European Angels Fund. http://www.eif.org/what_we_do/equity/eaf/index.htm
[127] European Investment Bank, 2016. InnovFin Business Angels. http://www.eif.org/news_centre/publications/innovfin-equity-leaflets/innovfin_business_angels.pdf

advised by the EIF. Furthermore, EAF is about to be extended to other geographies, aiming to achieve a pan-European coverage. The current volume of the aggregate facility is around €280m, of which approximately €120m have already been committed to business angels that have built a portfolio of more than 150 SMEs.

8.43 Allocating a certain portion (€10m or 3.57% of the current volume of EAF) of the funding for CCS, as a pilot initially, could help to increase the amount of business angel funding to CCS companies. The objectives of the co-investment would be to encourage individual angel investors, already registered via EAF, to consider investments in CCS.

Operating model

8.44 The programme would operate through EAF. Instead of granting co-investments on a deal-by-deal basis, EAF enters long-term contractual relationships with business angels. Co-investment framework agreements (CFAs) are established, through which the EAF provides upfront a predefined amount of equity to each business angel. For ease and speed, CFAs are generally standardised. Nonetheless, they leave sufficient room for adaptions to the specific requirements of individual business angels – such as timeframe, sector focus, and number of planned investments. Investment decisions are taken by business angels and their investments are matched by the EAF on a pari-passu basis, i.e. by the same amount. The total available volumes under individual CFAs typically range between €250k and €5m. EAF does not pay a management fee to business angels but shares investment-related costs on a pro-rata basis.

Geographic Coverage

8.45 EAF is currently operational in Germany, Spain, Austria, the Netherlands, Ireland and Denmark; it plans to extend to other geographies, with the aim of achieving pan-European coverage.

Criteria

8.46 The criteria for EAF includes: adequate experience in the targeted investment area; track record of successful investment; good access to quality deals; and financial capacity to invest at least a total of€250k during the CFA's lifetime (10 years).

Structure

8.47 The structure of the potential co-investment approach with business angels under EAF is summarised in Table 8-7.

Table 8-7: Structure of co-investment with business angels within the EAF

Structure	Summary
Size	• €10m allocation to CCS as a pilot • The total amount for CCS under each CFA to be: ➢ €250k (same minimum as EAF) to… ➢ €1m (to allow more business angels to be included in the pilot)
Sector	• All CCS
Stage	• Same as for EAF - all stages (seed, early and expansion)
Investment type	• Same as for EAF- new (but subsequent follow on allowed)
Duration	• Same as EAF - 10 years (although perhaps the pilot could be for a shorter amount of time – 5 years).

Source: SQW

Benefits

8.48 EAF provides significant financial support while granting a maximum degree of freedom to each business angel. 'Carry payments' from the EAF, i.e. disproportionate profit splits, increase the upsides of the investments for the business angels even further. Business angels can also benefit from the EAF's expertise and network. At the same time, administration processes are designed to be as lean as possible so that business angels can fully focus on their investment activity.

Challenges

8.49 One of the main challenge with this approach is the geographic coverage of EAF is not yet pan-EU and does not currently cover all of the main CCS clusters. This, therefore, might limit the engagement of business angels with some specific CCS knowledge and/or access to good quality CCS deals. Other main challenges include: the need for individual (long term) agreements with business angels; any sectoral focus/restriction may discourage business angels; the need to ascertain the level of demand amongst business angels through EAF; also, the amount of EIF-backed business angel investment in CCS is relatively small compared to VC investment.

Possible requirements:

8.50 This pilot instrument would require the EAF to proactively reach out to potential CCS business angel investors in the countries in which it operates. This means identifying business angels with adequate experience in CCS as well as a track record in angel investing and structuring an appropriate CFA.

Option 2: Co-investment with business angels (under a fund structure)

8.51 In this Option, the co-investment vehicle could be via a new or based on an existing mechanism (e.g. InnovFin). In contrast to the previous option, this vehicle would co-invest in funds that are managed or pooled by business angels.

Rationale and objectives

8.52 As outlined in Option 1 above, business angels are the most promising equity investors in CCS due to the typical size of their investments and their investment approach. Co-investing in funds that are managed are pooled by business angels would facilitate the development of CCS focused angel groups or funds. The objectives of the co-investment with funds would be to encourage some business angel groups and funds to focus on investments in CCS.

Operating model

8.53 The co-investment programme would operate in a similar way to the current InnovFin Business Angels. InnovFin Business Angels (BA) is part of the InnovFin Equity umbrella managed by EIF, which enables investments into business angel funds that focus on ICT and further sectors covered by Horizon 2020. In this case, the co-investment programme would target funds pooled by business angels or business angel co-investment funds investing into innovative early-stage enterprises and social enterprises in the CCS sector.

Geographic coverage

8.54 The co-investments could be made into funds across the EU (or in participating countries if through an existing programme such as InnovFin BA).

Criteria

8.55 The criteria could follow those of InnovFin BA. Under InnovFin BA, EIF invests on a pari-passu basis with other investors in the fund:

- the maximum investment under InnovFin BA usually represents up to half of the fund's total commitments and is limited to €50m
- under the co-investment model, InnovFin BA may invest more than half of the co-investment fund's total commitments provided that the co-investment rate with other investors in each transaction will not exceed 50% on a deal-by-deal basis. As an exception the fund may take up to 100% of follow-on rounds
- the fund's lifetime may not exceed 15 years
- the fund shall typically be able to raise 30% of its total commitments from private investors at the time of EIF's closing
- the fund manager must be established or operating in one of the Participating Countries
- EIF selects applicants after a full assessment and due diligence process.

Structure

8.56 The structure of the co-investment approach with business angels under a fund structure is summarised in Table 8-8.

Table 8-8: Potential structure for co-investment with business angels (under a fund structure)

Structure	Summary
Size	• As with InnovFin BA, the maximum investment should not represent more than half of the fund's total commitments • In terms of amount, the total might be lower than that of InnovFin – €20m
Sector	• All CCS
Stage	• All stages (seed, early and expansion) but with a focus on seed and early stage
Investment type	• CCS focused angel funds making new and subsequent follow on investments
Duration	• As with InnovFin BA – max of 15 years.

Source: SQW

Benefits and challenges

8.57 In terms of benefits, the focus on co-investing in CCS related funds would encourage experienced business angels who had interest in and earlier engagement with CCS to team up and set up their first business angel funds (also in countries with less developed ecosystems for early stage investments). The co-investment in CCS angel funds would not only encourage the creation of new funds but would also engage and train other angel investors with an interest in CCS. It would also facilitate the identification and provision of investment readiness to CCS companies interested in approaching the business angel fund. Finally, business angel groups would likely be more willing to invest in start-ups/young firms as they are sharing the risk with other investors.

8.58 The key challenge to this co-investment approach would be whether there would be sufficient demand from angel investors to create new funds and/or angel groups to focus on CCS.

Possible requirements

8.59 As in Option 1, this would require the EIF to proactively reach out to potential CCS angel investors to encourage them to set up CCS focused funds. It would also require finding other angel investors that might be interested in investing in those funds.

Option 3: Co-investment with equity crowdfunding platforms

8.60 Given the smaller size of the funding requirements from CCS companies, equity crowdfunding is another possible option. In addition, there is growing interest from the public as well as from crowdfunding platforms/networks in CCS.

Rationale and objectives

8.61 Co-investment through equity crowdfunding platforms would further encourage interested individuals to invest in CCS start-ups. This funding mechanism would not be a solution on its own but would complement other funding options, with a focus on seed/early stage projects.

8.62 The objective would be to broaden funding for CCS projects to build a pipeline of potential CCS firms for later funding by business angels and VCs. The operating model and criteria would need to be decided, but there are likely to be some technical issues associated with platforms which may need to be addressed first (as highlighted earlier in this report).

Geographic coverage

8.63 Ideally pan-EU, but regulations for equity crowdfunding currently differ substantially across Europe so this would likely only be able to include countries in which equity crowdfunding platforms are currently allowed to operate.

Structure

8.64 The size of the co-investment would be relatively small compared to that with business angels and VCs. It would cover all CCS but is perhaps more suited for audiovisual, music and design (and possibly performing arts). It would be more focused on project investment at seed and early stage (not even necessarily firms). The duration would be maximum 15 years.

Benefits and challenges

8.65 The main benefits of this investment approach include: its greater relevance for pre-revenue/ early stages - funding individual projects rather than growth of firms; suitability to project focus of CCS enterprise; intervention can be at national/regional level. However, there are some challenges which will need to be considered and overcome. It is unlikely that investors will have a successful exit from their investment (and therefore the chance to have any return is slim – they would need to invest for primarily non-financial reasons). An appropriate operational model will need to be designed, which can work at EU level through a scheme that co-invests with crowdfunding platforms. This may take time to develop as many crowdfunding platforms are still investing at national level. It might be premature to develop an EU (cross border) scheme that allows co-investments with crowdfunding platforms. In any case, the amounts raised are likely to be insufficient to be of material value to, for example, the audiovisual sector. The main requirement would be the further development of pan-European policies and approaches to equity crowdfunding.

Option 4: Co-investment with venture capital funds

8.66 Option 4 would be aimed at CCS firms seeking larger amounts of funding than the general CCS firm population. The main issue with this option is that, for reasons of perceived market scale and potential return, few venture capital funds focus on CCS, even fewer in their entirety. This option would therefore be predicated on the creation of new, smaller VC funds with a focus on CCS.

Rationale and objectives

8.67 Co-investing with venture capital funds would allow more early stage as well as more mature CCS firms seeing funds above €2m to access funding for scaling up. These firms would be ones with the potential to generate greater returns.

8.68 The objectives would be to facilitate the funding of CCS firms ready to scale up their businesses. This would likely be in certain CCS sub-sectors such as digital/tech related areas such as AV.

Operating model

8.69 The operation model could be similar to InnovFin Venture Capital (InnovFin VC) which targets investments into venture capital funds that provide funding to innovative enterprises (including social enterprises) in their early stage operating in Horizon 2020 sectors. Under InnovFin VC EIF seeks to invest in first closing of the funds. It can also invest in other closings, especially if its intervention is catalytic to further fundraising. 'First-time' or 'emerging' investment teams seeking institutional fundraising are also eligible. Through selected venture capital funds, EIF provides risk capital financing to enterprises in their seed, start-up and other early stage phases investing predominantly in their seed and series A rounds. Complementary to this, COSME EFG focus on later stage funding, and there would seem to be some potential for collaboration.

Geographic coverage

8.70 The co-investments could be made into funds across the EU (or in participating countries, if through an existing programme such as InnovFin VC).

Criteria

8.71 The criteria could follow those of InnovFin VC - EIF invests on a pari-passu basis with other investors in the funds:[128]

- the maximum investment under InnovFin VC is limited to €50m, and will not usually represent more than 25% of the total commitments of the fund. However, EIF may invest more than 25% and not more than 50% of the fund's total commitment, if an EIF investment is made at any other closing than the final closing, and the policy fit of EIF's investment in a fund is high as per EIF's assessment
- the fund manager will need to commit to invest at least twice the InnovFin VC investment into enterprises in the early stage, established or operating in one or more Participating Country/ies (or in any case up to at least 2/3 of the fund's invested amounts). The remaining amounts may be invested in companies in other geographies or stages
- the fund's lifetime may not exceed 15 years
- the fund shall have at least 30% of its total commitments coming from private investors at the time of EIF's closing
- the fund's manager must be established or operating in one of the Participating Countries

[128] Criteria from other relevant funds should also be taken into account – in particular, COSME-EFG

- the fund's activities should not breach ethical principles or contravene EIF restricted sectors.

Structure

8.72 The structure for co-investment with venture capital funds is summarised in Table 8-9, below.

Table 8-9: Potential structure for co-investment with venture capital funds

Structure	Summary
Size	• The maximum investment should not represent more than 50% of the fund's total commitments. In terms of amount, the total might be lower than that of InnovFin – €20m
Sector	• All CCS (but most likely digital/tech related)
Stage	• All stages (seed, early and expansion)
Investment type	• New CCS focused venture capital funds
Duration	• As with InnovFin VC – max of 15 years.

Source: SQW

Benefits and challenges

8.73 This approach will lead to the creation of new VC funds focused on CCS investments which will greatly enhance funding for the sector. It will also enable the funding of CCS firms looking to scale up their business models.

8.74 The challenges are likely to include the need to find VCs willing to focus on CCS investments; also, and related to this, the need for clear exit strategies for VCs, in order to be able to generate a return on these investments. In practice, the main focus may be on certain sub-sectors - mainly digital/tech related e.g. AV.

8.75 As in the other options, this option would require the EIF to proactively reach out to venture capitals who could be potential CCS investors to encourage them to set up CCS focused funds.

Option 5: Fund of funds

8.76 Given the lessons learned from InnovFin Fund of Funds and the recently announced launch of VentureEU,[129] another option is to use an existing fund of funds vehicle to support CCS firms. Currently VentureEU is designed for SMEs and mid-caps in sectors focused on ICT, digital, life sciences, medical technologies and resources and energy efficiency. CCS could be added as an investment sector.

Rationale and objectives

8.77 To leverage a fund of funds vehicle that would enable the scaling of CCS investment. To facilitate the development of the venture capital financing ecosystem for CCS by targeting investments into a fund of funds holding, or targeting to build a portfolio of investments in underlying funds with significant CCS focus.

[129] European Commission. VentureEU: €2.1 billion to boost venture capital investment in Europe's innovative start-ups. 2018. http://europa.eu/rapid/press-release_IP-18-2763_en.htm

Operating model

8.78 Six participating funds will receive EU support in their mission to invest in the European venture capital market. The six funds will take stakes in a number of smaller investee funds and cover projects in at least four European countries each. Backed by EU funding of €410m, the funds are aiming to raise up to €2.1bn of public and private investment. In turn this is expected to trigger an estimated €6.5bn of new investment in innovative start-up and scale-up companies across Europe, doubling the amount of venture capital currently available in Europe. The co-investments could be made into funds eligible under VentureEU.

Criteria

8.79 The criteria would follow those of VentureEU, which include: participating funds that are investing in at least four countries; investments in innovative start-up and scale-ups across Europe.

Structure

8.80 The structure for FOF is shown in Table 8-10, below.

Table 8-10: Potential structure for Fund of Funds

Structure	Summary
Size	Each of the participating funds would seek to raise approximately €350m. In turn, they would likely be making investments into funds of €20-50m
Sector	ICT, digital, life sciences, medical technologies, resources and energy efficiency, CCS
Stage	All stages (seed, early and expansion)
Investment type	Funds investing in venture capital funds that include CCS related investments
Duration	Max of 15 years.

Source: SQW

Benefits and challenges

8.81 The main benefit of FOF approach is that VentureEU is privately led with six fund managers in place, and it may generate scale of impact through fund-of-fund structure. However, the challenge is that it is not clear if additional sectors can be included to VentureEU – it seems likely that only those CCS sectors in the ICT/digital sub-sectors could be included. There would also be a need to widen pool of fund managers on VentureEU (if not conflicting with existing fund managers) i.e. add fund managers interested in CCS.

8.82 The key requirement would be having enough funds interested in investing in CCS related focused VC. It is likely that, in practice, the scale of fund investments would be too small to make a tangible difference in the CCS funding ecosystem.

Option 6: Quasi-equity e.g. a blended or royalty-based financial instrument

8.83 A quasi-equity in the form of a royalty-based financial instrument could also be considered, perhaps alongside one or more other equity mechanisms. This could take the form of a shareholder royalty loan (SRL) model, involving a small percentage of the monies (10-25%) invested as equity, with the balance supplied as a shareholder 'royalty' loan. The interest rate on the loan is low, with the balance of repayment made up through payment of a percentage of gross revenues, i.e. a royalty on sales. This results in low initial debt payments growing to higher levels as the company expands, and when debt payments are expected to become less burdensome.

8.84 The rationale for SRL in this context is that, for many growing companies, traditional commercial lending is out of reach or only available in limited amounts because, for example, of onerous collateral requirements. Likewise, VC tends towards companies with an exponential growth trajectory. The traditional VC route is limited and opportunities for exit are slim, making VC an ineffective option for generating growth enterprises, especially across what are perceived as mainly low-tech activities.

8.85 The SRL model aims to apply the most effective aspects of commercial banking and VC. It is a hybrid of cash flow-based lending and equity-based VC which can be managed by an experienced team with the ability to work with companies and who understand finance. It also can supply sufficient funds to meet the needs of a company seeking significant expansion with expensive technology and know-how.

8.86 The model works as follows: 10-25% is invested as equity with the balance 75%-90% supplied as a shareholder “royalty” loan. The basic interest rate on the loan is low, with the balance of repayment made up through payment of a percentage of gross revenues, i.e. a royalty on sales. This results in low debt payments in the initial phase of investment rising to higher levels when the company is growing, and the debt payments would be less burdensome. The variable debt payment then relates to the sales performance. The equity is bought back after a fixed period, normally five years, at a return agreed in advance by the borrower and the lender. The return is expected to generate a reasonable rate of return for the fund. The agreement also normally includes a clause precluding dividend distribution.

8.87 For example: a small company has a €200k pre-investment worth and needs €500k for its new project. The fund would invest €100k, giving the fund a 33% shareholding since the total shareholding would be £300k after the investment. The agreement is that after five years the owners will buy back the shares at three times their initial purchase value. The remaining €400k will be loaned with a year’s holiday period on the principal, and will have a low interest, but with an agreed percentage of sales, based on agreed projections of sales. Repayment would be a total of five years, although this could be stretched depending on company needs and the amount of royalty. There is a one-year holiday period on principal and sales-based earnings. The attempt is made to ensure that payments in years 2-5 remain almost flat relative to the revenues of the company.

8.88 Another option for quasi-equity is the issuance of cumulative preferred shares by CCS companies. This allows CCS companies to maintain autonomous management and attract capital from investors seeking lower risk profiles, in view of the equity investors' privileges of this type of shares in a bankruptcy scenario and their rights on retained dividends. Depending on the company’s performance, investors could also be allowed to convert their cumulative preferred stocks into common ones and actively participate in the company management.

Option 7: Debt instruments

8.89 An obvious advantage of working with and through loan mechanisms is that these are a very frequently used instrument, in CCS as in other sectors. While, however, the terms and conditions for cost and repayment are readily understood, the availability of loans, and associated with this the expectations and conditions attached to them by financial intermediaries, varies considerably across Europe. Where money is tight, both the terms for repayment and the requirement for collateral will be more demanding, leading to particular difficulties for enterprises in sectors such as CCS, which are characterised by intangible products and services, frequently produced with inputs by key individuals on a project-by-project basis, and able to offer only limited collateral to offset the perceived risks.

8.90 The funding gap for debt finance in CCS which was identified in section 6 (€837m - €2.07bn per year) reflects both the ubiquitous nature of loan finance, and the characteristics of CCS. The challenge is how to use the limited resources available to make a difference at European level.

8.91 Debt instruments could include direct lending, perhaps alongside local institutions, as well as the Guarantee Facility which has been put in place under the Creative Europe Programme. This could offer the potential to create early direct impact in different national markets and sub-sectors, on the basis of shared risk with local institutions. But there would be a strong likelihood of displacing other lending, and the extent of additionality would be likely to be limited, and hard to assess.

8.92 In practice, CCS GF, currently working with €180m funding, offers the opportunity to respond to local conditions and possibilities through local agreements, and therefore to focus on specific areas of opportunity. In the first two years to March 2018, these agreements had a maximum portfolio volume of €440m (loans to 386 enterprises have been facilitated). The extent to which these loans would not otherwise have been advanced will depend on the policies and practices of partner FIs, but as they are responsible for loans being made which, from their perspective, are lower risk, there should be an interest in expanding the market as well as in gaining experience with CCS – both important aims of the intervention.

8.93 To date, the effect of CCS GF has been concentrated geographically (particularly in Spain, and to a lesser degree, France) and in the AV sub-sector. As a Europe-wide initiative, which seeks to impact across CCS, and given the scale of funding gap, it has had limited impact to date. This appears to reflect its fit with mechanisms which were already operating in Spain in particular, and with the needs of the audiovisual sector for larger loans. This is expected to change as agreements in other countries, which were signed relatively recently, are put into effect.

8.94 Nevertheless, given the different conditions and the instruments already in play in some European countries, we anticipate that the roll-out will continue to be uneven. If more agreements are concluded, the case could be made for additional resources under InvestEU. With regard to the €2m cap on individual transactions, our thinking though, is that this should stay in place, to encourage sustained focus on other sub-sectors as well as AV, and on smaller enterprises at an early stage of development. There is also possibility for 'exceptional' provision i.e., when larger projects are brought forward with genuine Europe/world-level impact potential, these cases could be brought back to EIF for assessment and specific approval – this could be added on to the agreed FI Facility.

Option 8: Do nothing - take no further action

8.95 The final option, which must be considered as part of the ex-ante evaluation, is to take no further action. The starting premise here is that the existing interventions targeting investments in SMEs, specifically CCS GF in its present form, are sufficient to address the problems in financing CCS activity, and therefore that no further action by the EC is needed.

8.96 The research undertaken for this study, which included a full review of reports and existing data as well as extensive stakeholder interviews and a Europe-wide survey of CCS enterprises, found that both the demand and supply sides identified a clear need for further intervention. The complex and changing nature of CCS meant that that there was less clarity of the form this intervention should take, but we found that there to be an on-going unsatisfied requirement for both loan and equity finance which was linked to the specific conditions in the sector.

8.97 The funding gaps for effective demand were quantified using a set of assumptions which were necessarily tentative, but nevertheless conservative. These gaps appeared to be increasing, in response to changing technological and market conditions within and across the sub-sectors. EC responses in the form of new financial instruments will not in themselves fill these gaps, but they can have a significant effect, particularly through a form of equity co-investment with others, and by offering guarantees which encourage financial institutions to expand their activities and gain experience in the sector. Both types of intervention will be taken up selectively, but, a focus on opportunities in new and growing activities, and on encouraging projects that reach across national boundaries, will contribute to filling these gaps, and demonstrate potential for others to follow-up. This is unlikely to be realised only through private sector or national/development bank initiatives.

Potential size of the EU intervention

8.98 The suggested size of the EU intervention and leverage effect (per option) are set out in Table 8-11. The values presented in the table are estimates based on fund sizes of existing EU funds (e.g. European Angel Fund, InnovFin), best practice from other funds, and our own view on what would be appropriate. Further, the values relate to piloting the equity instruments over a three-year period. A full roll out should be subject to the performance of the funds. The amounts suggested will need to be considered further by the EC within the developing context of Invest EU. To be clear, the values relate to the proposed fund size to address the funding gaps estimated in section 6. This does not include management, administration, marketing and any other costs needed to implement the option. These costs would need to be added to the fund size.

Table 8-11: Potential size of financial instruments (in the form of three-year pilots for equity instruments)

	Potential size of the EU intervention over three-year pilot period (€m)	Estimated leverage ratio	Total (€m)
Option 1: **Co-investment with business angels within the European Angel Fund**	10	0.5-1.0x	15-20
Option 2: **Co-investment with business angels within InnovFin (under a fund structure)**	20	0.5-1.0x	30-40
Option 3: **Co-investment with equity crowdfunding**	10	0.5-1.0x	15-20
Option 4: **Co-investment with venture capital funds**	50	0.2-0.5x	60-75
Option 5: **Fund-of-funds**	50	0.2-0.5x	60-75
Option 6: **Quasi-equity e.g. a blended, convertible or royalty-based financial instrument**	10	0.5-1.0x	15-20
Option 7: **Debt financing (loans and guarantees)***	135	6-10x	810-1350
Option 8: **No further action**	N/A	N/A	N/A

*Source: SQW; *Debt finance values are for three-year period*

Capacity building

8.99 Feedback from CCS consultees, financial intermediaries and funding bodies has emphasised the major gaps in understanding on both the demand and supply sides of this industry – the lack of financial and business understanding in CCS SMEs, and the limited understanding on the sector and sub-sectors on the part of potential funders. Business feedback in section 6 (Table 6-4) showed that the biggest single impediment to seeking external finance was lack of understanding, of what was perceived to be an unknown but complicated funding environment.

8.100 CCS GF, and any extension to this or new financial instruments, therefore needs to be accompanied by capacity-building interventions, which focus on skills development, and with clear links into the funding interventions. This may be expected to take place under the other strands of the Creative Europe Programme, but CEP activities are not well known on the funding supply side, and evidence from CCS organisations across Europe points to limited awareness of actual or potential actions taking place or planned alongside the current funding intervention.

8.101 The financial intermediaries consulted for this study included pan-European and wider platforms, as well as organisations working on the national and regional levels, in countries including Germany, Italy, Sweden, England, Scotland, Luxembourg, Bulgaria, Estonia and Slovenia. There was no unanimity on whether there was a need for, and scope of, a new equity instrument focused on CCS, some felt this was inappropriate for many CCS businesses, or best left to the market; others recognised the need but thought other instruments, including more loan provision, quasi-equity and royalty-based models might offer better ways forward. But there was a strong shared recognition of the need for better understanding of CCS on both the funding supply and demand sides.

8.102 The rationale to invest in targeted capacity-building is the need – and scope – for much improved financial propositions from the sector; one consultee noted that many of the propositions made fail to provide a clear plan to profit realisation. In parallel, on the financial side there is evidence of the need for greater understanding of what to look for, and how to judge the potential for success. Specific points made in the consultations included the following:

> *(prioritise) 'the integration of financial and business literacy, in CCS education and training channels such as incubators'*
>
> *'education at an early stage always leads to better returns down the line'.*

8.103 We understand that the EC has commissioned independent work to provide capacity building support to financial intermediaries to enable them to engage effectively with CCS.[130] The capacity building activities include: improving the capacity of financial intermediaries to assess risks associated with SME organisations in the CCS; proving capacity building activities to the relevant financial intermediaries; increasing financial intermediaries' knowledge and practice in CCS issues e.g. assessing credit risk, understanding business models, assessing debt finance applications, raising awareness of the CCS GF, and, broadening financial intermediaries involvement in CCS sub-sectors. Each financial intermediary engaged is expected to participate in a nine-month capacity building programme to put in place the changes needed to achieve the aims above.

8.104 However, the diversity of CCS means that the opportunities and needs in capacity-building are also highly differentiated, certainly by sub-sector but, more importantly for delivery, also by

[130] Deloitte and KEA (2018) 2017-MM_CCSGF-001: Capacity Building in the Cultural and Creative Sectors Guarantee Facility – 28/05/2018

type of CCS business, funding requirement and geography. Sub-sector-specific investment platforms should be created (particularly for new equity instruments), while business understanding and investment readiness needs to be organised and delivered at national and regional level, for:

- creative and cultural businesses developing and providing them with investment readiness programmes, helping them to understanding the different types of private investors and their expectations
- investors, to raise awareness of conditions, opportunities and risk-handling specific to the creative and cultural sector
- financial intermediaries, raising awareness on the instruments available to support SMEs.

8.105 These points suggest a key role for investment readiness programmes (IRP), taking into consideration three aspects Mason and Kwok (2010)[131] identified in relation to equity finance:

- *"Equity aversion"* - IRPs can provide information about equity and discuss with businesses issues around control/ownership so that firms can realise their full growth potential.
- *"Investability"* - a high proportion of applications to VCs and angels are rejected because the business is not a good "fit" for the investor, or because of question marks over returns. IRPs can help businesses to understand better the expectations of investors.
- *"Presentational failings"* - many small businesses lack the expertise in making investment propositions, and therefore do not effectively promote themselves. Expert advice can assist through developing business plans, propositions and pitches.

8.106 The scope and form of capacity building for CCS will need to be adopted to each funding mechanism and partner. But three principles should guide this:

- Involving CCS organisations in the design and implementation of capacity building programmes, to ensure the distinctive features of the sector are recognised and understood
- Promote the relevant funding mechanisms at sector level, to CCS organisations that will inform their members
- Monitor interest (demand) from the sector, and also gather information on barriers from the supply side to feed back into the on-going process of building understanding of CCS needs, and the capabilities and capacity to address this.

8.107 A specific example in relation to crowdfunding is provided below, based on consultee feedback.

[131] Mason and Kwok (2010) Investment Readiness Programmes and Access to Finance: A Critical Review of Design Issues. Working Paper 10-03, University of Strathclyde.

Example of capacity-building for crowdfunding

Stimulate intermediary organisations to develop jointly with crowdfunding sector organisations and networks, quality material and training about crowdfunding (what, opportunities and challenges) for their relevant target group(s).

Support intermediary CCS organisations to further promote entrepreneurial and business skills as an integral part of CCS actors' curriculum in general, as well as non-formal skills development specifically targeted at CCS (such as the peer-to-peer exchange programme under the European creative hubs programme), including the promotion of crowdfunding as a tool for entrepreneurial and business skills development.

Encourage the integration of financial and business literacy in CCS education or training channels, such as incubators, to strengthen the financial capacity of CCS actors to enable the sector to also better tap into the possibilities of (crowd-)equity where relevant and suitable for the sector and attract larger amounts and more longer -term finance; provide specific grants and coaching for CCS actors to develop (European) crowdfunding campaigns.

9. Recommended options

9.1 This section presents our recommended options from the longlist identified in section 8. In doing so, it draws on the evidence gathered and analysed for this study, including the context provided by InvestEU as well as the findings on the financial needs of CCS businesses, and the scope to improve their positioning and economic prospects.

Recommended options

Guiding principles

9.2 As identified in the fi-compass report (2015),[132] the choice of financial instruments depends on: the market failures/gaps and the investment need to be addressed; the acceptable level of risk, reward and ownership; leverage effects and reinvestment. The EU's New Financial Regulation,[133] launched in August 2018, sets out the modern, simplified, system that will govern InvestEU funding, and focuses specifically on the need to demonstrate added value at European level.

9.3 We set out below some 'guiding principles' for new financial instruments derived from the consultations with selected stakeholders, and our wider knowledge and experience of finance.

- 'Nudge' investee businesses to obtain take-up of new facilities and involvement of financial intermediaries, where evidence points to market gap/s
- Tailor to the specific needs of CCS, but also recognise in designing the proposed intervention that financial intermediaries do not want sector restrictions, or a plethora of rules
  - ➢ consider specific form, including rates for guarantee, from perspective of fit in supply side - presentation and management, including e.g. requirement for collateral, as well as business needs/demand
  - ➢ avoid financial intermediaries facing different reporting requirements where they are involved with more than one mechanism
  - ➢ also bear in mind that the EU Parliament will look for visibility
- More broadly, recognise that FinTech is a rapidly changing market at an early, disruptive, stage of development - driven by new product offers, new sources of information - in this context design new instruments in the form of tailored, relatively low risk products[134] that can be:
  - ➢ changed to meet new/emerging market requirements/business needs, and
  - ➢ can be removed if/when they are no longer needed

[132] Fi Compass (2015) Financial Instrument products: Loans, guarantees, equity, quasi-equity See https://www.fi-compass.eu/sites/default/files/publications/ESIF-factsheet-FI-products.pdf

[133] http://ec.europa.eu/budget/library/biblio/publications/2018/financial-regulation_en.pdf

[134] Taking into account credit scores, and General Data Protection Regulations (GDPR).

- Focus proposed EU interventions only where added value can be shown to result at European level:
  - ➢ As part of the appraisal of each preferred option, below, assess how/where this fund is expected to add value at European level
  - ➢ Build/maintain strategic capacity within the EC to reassess the dynamic nature of fintech, the supply of early stage finance in high risk markets such as creatives and the appropriate scale of fund operations.

9.4 Taking into consideration these guiding principles, **we recommend that for the EC, co-investing with business angels through a fund structure or with venture capitals funds would likely be the most effective approach** as this would help further develop the CCS market in Europe, allowing those investors to then invest larger amounts in CCS start-ups and scale ups. Therefore, of the longlist of options outlined in section 8, we recommend the following complementary interventions:

- **Option 2: Co-investment with business angels within InnovFin under a fund structure**
  - ➢ to support start-up and young CCS firms and needing funding below €2m
  - ➢ these firms could be in any CCS sub-sectors
- **Option 4: Co-investment with venture capital funds**
  - ➢ to support CCS more mature firms seeking to grow their businesses and needing funding above €2m
  - ➢ these firms would likely be in certain sub-sectors such as digital and tech related
- **Option 7: Continuation/expansion of the CCS Guarantee Facility**
  - ➢ to support CCS firms at all stages of development and capped at €2m on individual transactions
  - ➢ these firms could be in any CCS sub-sectors.

9.5 Options 2 and 4 can be implemented as co-financing models which follow well-established parameters and practice.[135]

- Equity finance (or convertible loan) is likely to be more suitable to early stage high risk ventures without trading than debt (or deferred debt).
- Angels and seed VCs can provide the hands-on support to nurture businesses – sector expertise and early stage risk financing experience is crucial here and we would expect these to be accredited providers with early stage investment track records.
- Investing pari passu with ordinary shares is desirable, and the encouragement of increased early stage private investment and a 'demonstration model' approach, as

[135] Robyn Owen, Associate Professor of Entrepreneurial Finance, Middlesex University Business School, UK.

used in some national initiatives, is also desirable: upskilling the early stage investment market is a key benefit.

- The model would be able to target local equity providers – a potential problem here is the lack of established angel networks across the whole EU, but an initial pilot programme should be targeted to work with existing angel groups/networks.

9.6 Co-finance funds carry additional management costs – depending on the set-up, these could include the oversight management by, for example, EIB or the funding facility, and additionally the annual fund management costs for the angels or VCs to manage their portfolios (the latter is usually a very small percentage of the overall funds handled).

9.7 In addition, we recommend for adoption **Option 3: Equity Crowdfunding** as this complements, the co-investment and debt options identified above.

9.8 **It is important to state that each of these recommended interventions addresses distinct funding needs. Option 2 is essential for nurturing high growth start-ups; Option 4 would facilitate scale-ups to the global market, while debt financing would be targeted to the lower risk/lower returns segments of the CCS. There is also potential for regulatory interventions to facilitate operation of EU wide platforms for crowdfunding and technical-assistance facility to nurture the dialogue between CCS and providers of capital.**

9.9 Options 2 and 4 are recommended as co-investment is a proven model in supporting start-ups, and to provide scale-ups with equity finance as outlined in section 8. Option 2 is preferred to Option 1 as investing through a fund structure enables the engagement of a greater number of angel investors in CCS rather than just individuals who might be willing to engage in the sector. This could lead to the development of a larger pipeline of angel investors willing to invest in CCS. The consultation evidence also indicated that under its financial regulations, the EC cannot engage directly with individual business angels; and intermediary/ 'umbrella organisation', which will provide an interface, is needed to syndicate the offer. An appropriate structure, with procedures for vetting, accountability and regular reporting, is therefore essential.

9.10 These two options together would cover support for a broad spectrum of CCS start-ups and early stage firms, as well as those in certain higher growth sub-sectors, such as digital and tech related that are in a scale-up phase. It is important that the expectations about the likely investment sub-sectors is clear from the beginning as Option 4 would not apply to all CCS given that many sub-sectors are not high growth and would not provide any exit opportunities for VC investors.

9.11 In addition, Options 3 and 7 would address different and complementary markets which are highly relevant in CCS. Capacity building will also be important for these:

- CCS GF is now well-established, and operates through a proven approach, which includes capacity building
- In the case of crowdfunding, we anticipate that the provider would have to be accredited to ensure that adequate post-investment care was provided, as would be the case under Options 2 and 4.

9.12 Equity crowdfunding is recommended as a complementary option for the following reasons: to broaden funding for CCS projects so that a pipeline of potential CCS firms is created, with more enterprises in position to access funding later through business angels and VCs; its suitability for project investment (not even necessarily firms) especially at pre-revenue, seed and early stages; the small size of the co-investment relative to business angels and VCs; and the potential to cover all CCS.

9.13 The value-added in supporting the above options includes the following.

- By offering these co-investments on a pan-European scale, the EC would promote CCS across Europe: national mechanisms will inevitably focus within their own boundaries and may miss the potential for wider market perspectives; countries with emerging potential in CCS may not benefit from EU-wide experience.
- The EC, through the EIF, has significant experience with co-investment models and has a track record of focusing on leveraging private financing for investment.
- Co-investment models also fit well in the new InvestEU programme and therefore would be seen as an integral part of the EC offering.
- The EC is able to set up longer term funding structures with durations beyond political mandates, which can often be an issue at the national level.
- Within InvestEU, enabling the introduction/transfer of seed VC skills to new EU locations will be an important element in capacity building for investment.
- The EC would expect to also support capacity-building alongside co-investment funding, to facilitate the investment readiness of the CCS firms and the connection with investors. This will need to be tailored to individual opportunities and needs.
- These funding and capacity-building programmes would also facilitate the link of CCS networks and ecosystems across Europe while capacity building for CCS in angel networks would also help give a higher profile to CCS activity and businesses, and enable further development of markets at European level.

9.14 As noted above, these recommended options complement the loans offered through the continuation of CCS GF. This is already working through established financial intermediaries across Europe which have recognised a need for specific support to CCS, and are looking to build volume and understanding of sector requirements. The new funding initiatives are expected to be operationalised through InvestEU, and will therefore follow the general criteria and structure of InvestEU programmes. Key dimensions, with regard to programme structure, size of funds and private partner engagement, are outlined below.

Programme structures

9.15 Evidence has shown that the design and implementation of programmes play key roles in how well they meet the intended objectives (EC, 2012).[136] Also, the linkages between these programmes and other support schemes are very important, bringing potential synergies.

[136] European Commission (2012) Evaluation of Member State Policies to Facilitate Access to Finance for SMEs, Centre for Strategy and Evaluation Services & EIM, United Kingdom, June.

Leveraging the new InvestEU programme and mechanisms, rather than creating a completely separate CCS focused programme, is therefore critical.

9.16 Co-investment funds leverage private sector networks, experience and funding while also minimising public sector transaction costs (Owen and Mason, 2016).[137] As noted earlier, public sector support for start-ups and scale-ups has shifted from direct investment via publicly funded and managed funds to co-investment funds (Murray, 2007)[138] in which public money is used to leverage private investment into funds that are operated by private sector fund managers. A key feature of these schemes is their different approaches to incentivising and encouraging private investment. These can be generated directly through setting attractive minimum matching percentage requirements for private investors and scheme upside investment returns or through allowing indirect tax breaks (Baldock and Mason, 2015).[139] Lerner (2010)[140] indicates that co-investment programmes enable experienced private fund managers to make business portfolio investment decisions within the parameters of the schemes (e.g. sector, location, business stage) which improve targeting into viable businesses.

9.17 If these co-investment funds are put in place, the EC must be committed for the long term as the results would not come through in full for at least 10 years. Part of the problem with existing and past programmes in other countries has been the political pressure to start or stop these programmes at inappropriate times, either because of political agendas or limited results over the short and medium terms.

9.18 Also, these programmes should not be seen as a single intervention. Capacity building is needed alongside, as noted in other parts of this report, and further funds could be needed in future years to build upon early successes, and further develop the model. These funds should be seen as part of a broader iterative learning processes with the first co-investment funds being pilots.

9.19 Public policy is likely to be effective only if it is implemented in close cooperation with the private market actors. Engagement of private sector actors should start as early in the process as possible, both informally and later formally (in the form of advisory boards, etc.). This process of engagement between public and private sector players is crucial not only to the planning of the programmes (sharing knowledge and building consensus) but also to the longer-term success.

Venture capital fund size

9.20 The general consensus is that venture capital funds should not be too small (at least €50m and optimally at least €100m), otherwise they are not economically viable: under €50m it is hard to operate effectively. VC funds need to be large enough to cover overhead costs, to spread risks, and to participate in follow on fund rounds, which can safeguard and bring

[137] Owen and Mason C (2016) The role of government co-investment funds in the supply of entrepreneurial finance: An assessment of the early operation of the UK Angel Co-investment Fund.

[138] Murray G (2007) Venture capital and government policy. In: Landstrom H (ed.) Handbook of Research on Venture Capital. Cheltenham: Edward Elgar, pp. 113–151.

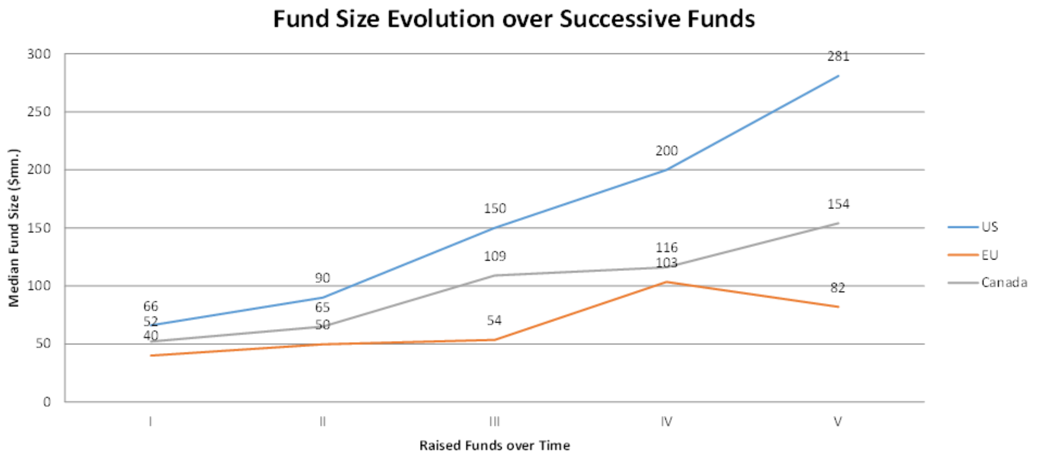
[139] Baldock R and Mason C (2015) Establishing a new UK finance escalator for innovative SMEs: The roles of the Enterprise Capital Funds and Angel Co-Investment Fund. Venture Capital 17: 87–112.

[140] Lerner J (2010) The future of public efforts to boost entrepreneurship and venture capital. Small Business Economics 35(3): 255–264.

forward returns. In this regard, some private funds in Europe are too small (under €50m), which is why a number of government programmes have focused on increasing the size of VC funds. In comparison, many US early stage funds, which started at $25m-$50m, are now $200-$350m which allows them to make larger investments over multiple rounds - this is perhaps more possible in North America, where there is more familiarity with VC funds than in Europe. Figure 9-1 compares the median fund size for venture capital firms in US, Europe and Canada.[141]

9.21 The size of the fund obviously impacts the number of investments per year as well as the number of follow on rounds. However, if a venture capital fund is too large (€250-€500m) there can be too much pressure to spend money. Also, funds of this size tend to push venture capital managers to invest in larger and later stage firms, than might be the initial target:[142] there are more likely to be purely private sector funders in that space, and the scope for additionality is substantially less.

Figure 9-1: Venture capital firm fund size: US, Europe and Canada



Source: Duruflé et al (2016)

Private sector investor engagement

9.22 Co investment funds can be structured in many different ways. The majority of co-investment funds are pari-passu (on the same terms). Another approach is that the government provides some form of subsidisation through asymmetric funding schemes, providing either upside leverage or downside protection to the private investors. These schemes can allocate a higher proportion of the returns to the private sector investors and/or a greater part of the losses to the public sector investors. These schemes provide a premium to private sector investors to compensate for the risk and long term nature of seed and early stage investments. Earlier work showed that these programmes provided the appropriate incentives, without creating unintended disincentives, and resulted in a positive impact on returns when the fund is managed by a private sector manager.

[141] Duruflé, G., Hellmann, T., and Wilson, K. (2016). "From Start-up to Scale-up: Examining Public Policies for the Financing of High-Growth Ventures". University of Oxford and Centre for Economic Policy Research.
[142] Based on the experience of SQW study team expert members (Karen Wilson).

9.23 While pari-passu is still the most common approach (and the one used for current EC programmes), there has been a growing interest in asymmetric funding schemes, offering partners upside benefits.

9.24 This, and other facets of the new financial mechanisms, will need to be explored further and tested as part of the EC appraisal of the proposed new financial instruments, and the emerging thinking on how funds are organised under, and promoted through, InvestEU.

Annex A: List of consultees

Inception phase

Table A-1: Inception phase interviews

Consultee	Role	Organisation
Lucia Recalde	Head of Unit	EC, Creative Europe - MEDIA Support Programmes
Astrid Bartels	Team Leader - COSME Financial Instruments	DG Internal Market, Industry, Entrepreneurship and SMEs
Agnieszka Wojdyr	Policy Officer - COSME Financial Instrument	DG Internal Market, Industry, Entrepreneurship and SMEs
Merete Clausen	Head of Unit - Financing of innovation, competitiveness and employment policies	EC, DG Economic and Financial Affairs
Vladimir Bilek	Deputy Head of Unit - Financing of innovation, competitiveness and employment policies	EC, DG Economic and Financial Affairs
Kestutis Juras	Team Leader, Debt Finance and Guarantee Instruments	EC, DG Economic and Financial Affairs
Jarmila Keller	Evaluation	EC, DG Economic and Financial Affairs
Pierfederico Asdrubali	Market intelligence	EC, DG Economic and Financial Affairs
Helmut Kraemer-Eis	Head of Research & Market Analysis; Chief Economist	European Investment Fund
Salome Gvetadze	Research Officer	European Investment Fund
Gunnar Mai (& three colleagues)	Head of Division, EU Guarantee Facilities	European Investment Fund
Virginie Civrais	Directrice générale St'art	Start-Invest - Fonds d'investissement pour les entreprises créatives
Mónica Carretero	Head of Business Development	Crea SGR

Source: SQW

Interim phase interviews

Table A-2: Equity investors and associations

Consultee	Role	Organisation
Rayk Reitenbach	Investment Director	IBB Beteiligungsgesellschaft
Jarmo Liiver	Head of Enterprise Division	Kredex
Frederic Court	Founder and Managing Partner	Felix Capital
Maria Marinova	Director	Bulgarian Private Equity and Venture Capital Association (BVCA)

Consultee	Role	Organisation
Isabella de Feudis	CEO	Swedish Private Equity & Venture Capital Association (SVCA)
Sten Tärnbro	Analyst	Swedish Private Equity & Venture Capital Association (SVCA)
Alessia Muzio	Head of Studies & Research	Italian Private Equity, Venture Capital and Private Debt Association (AIFI)
Paolo Anselmo	President	Associazione Italiana degli investitori Informali in Rete (IBAN)
David Belovič	Project Manager (Fundraising)	Business Angels Slovenia
Eva Sever	Project Manager (Start-ups)	Business Angels Slovenia
Andrei Tabarcea	Director	Business Angels Romania
Cécile Sevrain	Director	Luxembourg Business Angel Network (LBAN)
John Phelan	National Director	The Halo Business Angel Partnership
René Reijtenbagh	Board Member	Dutch Federation of Business Angels Networks
David Grahame	Director	LINC Scotland
Javier Megias	CEO	Startupxplore
Marta dall'Omo	Project Manager	Produzioni dal basso
Jeff Lynn	Executive Chairman & Co-Founder	Seedrs
Oliver Gadja	Executive Director of ECN Secretariat	European Crowdfunding Network
John Holmes	Business Development Executive	Advantage Creative Fund

Source: SQW

Table A-3: CCS representative organisations

Consultee	Role	Organisation
Music		
Stefan Gies	CEO	European Association of Conservatories
Alicja Swierczek	Programme Manager	European Composer & Songwriter Alliance
Loredana Bucseneanu	Executive Officer	European Composer & Songwriter Alliance
Ger Hutton	Advisor	Independent Music Publishers Forum (IMPF)
Matthieu Philibert	Public Affairs Manager	The Independent Music Companies Association

Consultee	Role	Organisation
Enzo Mazza	CEO	Italian Federation of Music Industry (FIMI)
Vilma Dzienaitė	Project Manager	Lithuanian Music Business Association
Lodovico Benvenuti	CEO	International Federation of the Phonographic Industry (IFPI)
Johnny Phelan	Head of Communications	International Federation of the Phonographic Industry (IFPI)
Performing and Visual Arts		
Gillian Willmann	Administrator & Project Coordinator	Apollonia
Nan van Houte	Secretary General	International network for contemporary performing arts (IETM)
Cassie Chadderton	Head of Campaigns	UK Theatre
Audio-visual (Film, TV, Video Games)		
Muriel Joly	IPEDA Treasurer	Independent Pan European Digital Association (IPEDA)
Nicolas Steil	Secretary General	Luxembourg Producers Association (ULPA)
Jan Bradáč	Member of the Board	Film Producers' Union
Mark Higham	Director	Film Literacy Europe
Pauline Durand-Vialle	Director	Federation of European Film Directors (FEFD)
Bérénice Honold	EU Affairs Officer	German Federal Film Board (FFA)
Julia Piaseczny	EU Commissioner of the Federal Film Board FFA	German Federal Film Board (FFA)
Mario Latorre	Professor	European Film Agency Directors Association (University of Rome)
Bertrand Moullier	IFTA International Adviser	Independent Film & Television Alliance (IFTA)
Emmanuel Roland	Director	Centre du Cinéma et de l'audiovisuel
Julie-Jeanne Regnault	Adviser EU & International Affairs	Le Centre national du cinéma et de l'image animée
Axel Scoffier	Head of the Funding Department	Le Centre national du cinéma et de l'image animée
Rosina Robson	Lead on EU policy for PACT	The Producers Alliance for Cinema and Television (Pact)
John McVay	CEO	The Producers Alliance for Cinema and Television (Pact)
Alex Traila	Adviser on European Affairs	Romanian Film Centre

Consultee	Role	Organisation
Vincenzo Mosca (x2)	Board Member	Europa International/TVOC
Laura Houlgatte	CEO	International Union of Cinemas (UNIC)
Jo Mühlberger	Deputy Managing Director	European Film Promotion e.V
Ilann Girard	CEO	ARSAM & OLFFI
Jari-Pekka Kaleva	COO	European Games Developer Federation (EGDF)
Hendrik Lesser	EGDF Chairman	European Games Developer Federation (EGDF)
Guillaume de Fondaumière	EGDF Vice-Chairman	European Games Developer Federation (EGDF)
Books and Publishing		
Anne Bergman-Tahon	Director	Federation of European Publishers (FEP)
Enrico Turrin	Deputy Director	Federation of European Publishers (FEP)
Cigdem Aker	Office Manager of the CEO and Head of Strategy and Innovation	Börsenverein des Deutschen Buchhandels
Vincent Bonnet	Director	European Bureau of Library Information and Documentation Associations
Generic CCS		
Gail Caig	Head of Policy	Creative England (Creative Finance Network)
Caroline Norbury	CEO	Creative England
Mehjabeen Patrick	Chief Finance and Operating Officer of Creative England UK	European Creative Business Network
Andrew Murray	Director	European Union National Institutes for Culture
Lina Kirjazovaite	Project Manager	European Union National Institutes for Culture
Jeroen van Erp	Chairman	Dutch Creative Council
Jo Houben	Director	Cultuur+Ondernemen
Roelof Balk	Fund Manager/Exec Director	Fonds Cultuur+Financiering
Stephen Bristow	Partner	Saffery Champness
Maria Virto Marcilla	Managing Fund and Partnerships	European Cultural Federation
Rasmus Tscherning	Managing Director	Creative Business Cup

Source: SQW

Table A-4: European Investment Fund and financial intermediaries

Consultee	Role	Organisation
Donnchadh Cullinan	Manager	Enterprise Ireland
Sarah Thirtle	Director of Business Support Programmes	Creative United
Andrea Nuzzi	President	Cassa Depositi e Prestiti
Marie Delbeke	Investment Manager	PMV
Bertoud Coose	Responsible for the PMV-investments within the Creative Industries	PMV
Pablo Millan	Head of Division and former Head of Business Angels	European Investment Fund
Laoura Ntziourou (x2)	Mandate Management	European Investment Fund
David González Martín	Head of Growth and Educational Programmes Mandate Management - Institutional Business Development	European Investment Fund

Source: SQW

Final phase interviews

Table A-5: EC and EIF

Consultee	Role	Organisation
Astrid Bartels	Team Leader - COSME Financial Instruments	DG Internal Market, Industry, Entrepreneurship and SMEs
Agnieszka Wojdyr	Policy Officer – COSME Financial Instrument	DG Internal Market, Industry, Entrepreneurship and SMEs
Merete Clausen	Head of Unit - Financing of innovation, competitiveness and employment policies	EC, DG Economic and Financial Affairs
Vladimir Bilek	Deputy Head of Unit - Financing of innovation, competitiveness and employment policies	EC, DG Economic and Financial Affairs
Jarmila Keller	Evaluation	EC, DG Economic and Financial Affairs
Pierfederico Asdrubali	Market intelligence	EC, DG Economic and Financial Affairs
Filippo Munisteri	Economic Analyst	EC, DG Economic and Financial Affairs
Patric Gresko	Head of Unit - Venture Capital	European Investment Fund
Laoura Ntziourou	Mandate Management	European Investment Fund
Chiara Amadori	Officer - EU Guarantee Facilities Division	European Investment Fund

Consultee	Role	Organisation
David González Martín	Head of Growth and Educational Programmes Mandate Management - Institutional Business Development	European Investment Fund

Annex B: CCS business survey results

Profile of survey respondents

Table B-1: Q2. Which of the following best describes the main sector that your organisation is active in (as developer, creator, producer, distributor, preserver…)?[143]

Response	No. respondents	% of respondents
Advertising	15	3%
Architecture	6	1%
Audio-visual & multimedia (motion picture, television and radio, video, video-games…)	214	43%
Book & publishing (all genres, including specialised press, newspapers and magazines)	20	4%
Design & arts craft (fashion, object, industrial, graphic, furniture, lighting, jewellery, pottery, glass making…)	30	6%
Education in and/or research on arts, culture or creativity	39	8%
Archives & museums	9	2%
Cultural heritage	17	3%
Literature	4	1%
Music (all genres e.g. classic, pop, rock, world, jazz, hip-hop…)	41	8%
Performing arts, excluding music performance (theatre, opera, musical, music theatre, dance, circus, comedy…)	29	6%
Visual arts (painting, sculpture, photography, drawing, engraving…)	31	6%
None of the above	20	4%
Other cultural and creative sector (please specify)	18	4%
n=	493	100%

Source: SQW CCS survey

Table B-2: Q3. How would you characterise your organisation? Please select one.[144]

Response	No. respondents	% of respondents
Micro business (<10 employees, ≤ €2m turnover)	353	74%
Small business (<50 employees, ≤ €10m turnover)	54	11%
Medium-sized business (<250 employees, ≤ €50m turnover)	15	3%
Large business (250+ employees, €50m+ turnover)	12	3%
Don’t know	9	2%

[143] Note that this table excludes 22 respondents that were determined to be located outside of Europe based on question 5.

[144] Note that this table excludes 22 respondents that were determined to be located outside of Europe based on question 5.

Response	No. respondents	% of respondents
Other	32	7%
n=	475	100%

Source: SQW CCS survey

Table B-3: Q4. Where is your organisation located? Please select one – note this should be where your headquarters/main office is located.

Response	No. respondents	% of respondents
Netherlands	75	15%
Poland	63	13%
Italy	29	6%
Portugal	31	6%
Sweden	31	6%
France	27	5%
Germany	23	5%
Belgium	21	4%
Other	22	4%
Romania	19	4%
Spain	19	4%
Czech Republic	15	3%
Ireland	13	3%
Croatia	8	2%
Finland	12	2%
Hungary	8	2%
Lithuania	12	2%
Luxembourg	10	2%
Malta	8	2%
United Kingdom	12	2%
Austria	5	1%
Bulgaria	7	1%
Denmark	7	1%
Estonia	3	1%
Norway	3	1%
Slovakia	3	1%
Slovenia	5	1%
Cyprus	1	0%
Greece	2	0%

Response	No. respondents	% of respondents
Latvia	1	0%
n=	495	100%

Source: SQW CCS survey

Table B-4: Q5. How many people (headcount) does your organisation currently employ in both full time and part time positions? Please select one - this figure should exclude the owner of the business and any unpaid workers.

Response	No. respondents	% of respondents
0 employees	116	25%
1-9 employees	247	52%
10-49 employees	72	15%
50-249 employees	22	5%
250+ employees	12	3%
Did not answer	4	1%
n=	473	100%

Source: SQW CCS survey

Table B-5: Q6. Approximately how old is your organisation? Please select one.

Response	No. respondents	% of respondents
Less than 2 years	81	17%
2 years or more, but less than 5 years	93	20%
5 years or more, but less than 10 years	201	42%
10 years or more	96	20%
Did not answer	2	0%
n=	473	100%

Source: SQW CCS survey

Table B-6: Q7. Does your organisation have a business plan for the next three years? Please select one.

Response	No. respondents	% of respondents
Yes	219	46%
No	98	21%
Not yet, but we are currently developing this	137	29%
Don’t know	14	3%
Did not answer	5	1%
n=	473	100%

Source: SQW CCS survey

Use of external finance

Table B-7: Q8. In the last three years, has your organisation…? Please select one.

Response	No. respondents	% of respondents
Considered applying for external finance	90	19%
Considered and sought external finance	279	59%
Not considered applying or sought external finance	72	15%
Don't know	32	7%
n=	473	100%

Source: SQW CCS survey

Table B-8: Q9. Why didn't your organisation consider and/or seek external finance over the last three years? Please select all that apply.

Response	No. respondents	% of respondents
Too complicated and/or too time consuming	30	42%
Sufficient self-generated capital	23	32%
Lack of awareness and/or understanding of appropriate finance	17	24%
Insufficient business assets to offer as collateral or guarantee	14	19%
Fear of possible rejection	12	17%
Fear of reduced control over the organisation	11	15%
Insufficient repayment capacity	9	13%
Too much risk	8	11%
Other	7	10%
Poor credit history	4	6%
Don't know	3	4%
n=	72	100%

Source: SQW CCS survey

Loans

Table B-9: Q14. Which types of external finance has your organisation CONSIDERED OR SOUGHT in the past three years? Please select all that apply.

Response	Considered	% of respondents	Actively sought	% of respondents
Government grant/subsidy	113	31%	231	63%
Other types of grant	84	23%	138	37%
Credit line, bank overdraft or credit cards	54	15%	82	22%
Bank loans	72	20%	66	18%
Crowdfunding	126	34%	60	16%

Response	Considered	% of respondents	Actively sought	% of respondents
Other loan (e.g. family and friends)	28	8%	55	15%
Equity capital	34	9%	54	15%
Guarantee loan	42	11%	29	8%
Leasing or hire purchase	31	8%	29	8%
Factoring/invoice discounting	23	6%	21	6%
Other	20	5%	22	6%
Trade credit	17	5%	12	3%
Mezzanine finance	19	5%	6	2%
Peer to peer lending platform	29	8%	7	2%
Debt securities issued	15	4%	5	1%
n=	369	100%	369	100%

Source: SQW CCS survey

Table B-10: Q15. Has your organisation CONSIDERED a bank loan in the last three years as part of its search for external finance? Please select one.

Response	No. respondents	% of respondents
Yes	144	39%
No	209	57%
Don’t know	16	4%
n=	369	100%

Source: SQW CCS survey

Table B-11: Q16. Why didn’t your organisation consider a bank loan? Please select all that apply.

Response	No. respondents	% of respondents
Too much risk	88	42%
Insufficient business assets to offer as collateral or guarantee	72	34%
Insufficient repayment capacity	54	26%
Too complicated and/or too time consuming	43	21%
Sufficient self-generated capital	42	20%
Interest rates too high	39	19%
Perception of waste of time: the lender doesn’t consider my organisation to be part of its target group	38	18%
Insufficient understanding from the lender of the sector my organisation is working in	32	15%
Fear of possible rejection	26	12%
Lack of awareness and/or understanding of appropriate finance	22	11%

Response	No. respondents	% of respondents
Poor credit history	19	9%
Other	19	9%
Don't know	6	3%
n=	209	100%

Source: SQW CCS survey

Table B-12: Q17. Has your organisation APPLIED for a loan (including credit lines and overdraft) at a bank in the last three years? Please select one.

Response	No. respondents	% of respondents
Yes	85	59%
No	55	38%
Don't know	4	3%
n=	144	100%

Source: SQW CCS survey

Table B-13: Q18. Why didn't your organisation apply for such a loan over the past three years? Please select all that apply.

Response	No. respondents	% of respondents
Insufficient business assets to offer as collateral or guarantee	24	44%
Insufficient understanding from the lender of the sector my organisation is working in	20	37%
Too much risk	18	33%
Too complicated and/or too time consuming	16	30%
Interest rates too high	16	30%
Perception of waste of time: the lender doesn't consider my organisation to be part of its target group	14	26%
Fear of possible rejection	13	24%
Insufficient repayment capacity	11	20%
Lack of business track record/poor credit history	10	19%
Sufficient other external lenders	6	11%
Lack of awareness and/or understanding of appropriate finance	4	7%
Other	2	4%
Don't know	1	2%
n=	54	100%

Source: SQW CCS survey

Table B-14: Q19. What was the approximate amount of the loan which your organisation would have required? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	9	17%
Between €10,001 and €25,000	12	22%
Between €25,001 and €50,000	11	20%
Between €50,001 and €100,000	8	15%
Between €100,001 and €250,000	9	17%
Between €250,001 and €500,000	4	7%
Between €500,001 and €1,000,000	0	0%
Between €1,000,0001 and €2,000,000	0	0%
Over €2,000,000	0	0%
Don't know	1	2%
n=	54	100%

Source: SQW CCS survey

Table B-15: Q20. Why did your organisation apply for its most recent bank loan? Please select all that apply.

Response	No. respondents	% of respondents
Developing and launching of new products or services	35	42%
Investments in property, plant or equipment	27	32%
To (co-)finance a specific artist or creative project	26	31%
Inventory and other working capital	25	30%
To (co-)finance marketing activities	12	14%
Other	12	14%
Refinancing or paying off obligations	11	13%
To (co-)finance the purchase of intellectual property rights	11	13%
Hiring and training of employees	10	12%
Don’t know	3	4%
n=	84	100%

Source: SQW CCS survey

Table B-16: Q21. What was the approximate amount of the bank loan which your organisation applied for? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	5	6%
Between €10,001 and €25,000	20	24%
Between €25,001 and €50,000	15	18%
Between €50,001 and €100,000	10	12%

Response	No. respondents	% of respondents
Between €100,001 and €250,000	13	15%
Between €250,001 and €500,000	9	11%
Between €500,001 and €1,000,000	4	5%
Between €1,000,0001 and €2,000,000	2	2%
Over €2,000,000	2	2%
Don't know	3	4%
Did not respond	1	1%
n=	84	100%

Source: SQW CCS survey

Table B-17: Q22. Was the bank loan application fully or partially accepted? Please select one.

Response	No. respondents	% of respondents
Yes, received 100% of the amount applied for	43	51%
Yes, received 75% and above the amount applied for	7	8%
Yes, received more than 50% and less than 75% of the amount applied for	0	0%
Yes, received 50% of the amount applied for	2	2%
Yes, received more than 25% and less than 50% of the amount applied for	1	1%
Yes, received 25% and below the amount applied for	1	1%
Yes, but don’t know to what extent	7	8%
No, was rejected	21	25%
Application is still pending	2	2%
n=	84	100%

Source: SQW CCS survey

Table B-18: Q23. Why didn’t your organisation obtain the bank loan in full…? Please select all that apply.

Response	No. respondents	% of respondents
Too high risk	4	36%
Terms and conditions of the loan	4	36%
Lack of trading history	2	18%
Lack of collateral	2	18%
Other	2	18%
Cost of the loan	1	9%
Absence of a credible business plan	0	0%
Don’t know	0	0%
n=	11	100%

Source: SQW CCS survey

Table B-19: Q24. What were the consequences of not obtaining the full loan? Please select all that apply.

Response	No. respondents	% of respondents
My organisation had to downsize the plan	6	55%
My organisation financed the plan with internal funding	4	36%
My organisation looked and found other finance sources	3	27%
It put my organisation in a financially difficult position	3	27%
My organisation was successful in accessing other funding sources	2	18%
It limited or slowed down the growth of my organisation	2	18%
My organisation was unsuccessful in accessing other funding sources	0	0%
Don't know	0	0%
Other	0	0%
n=	11	100%

Source: SQW CCS survey

Table B-20: Q25. What other type(s) of external finance did your organisation access? Please select all that apply.

Response	No. respondents	% of respondents
Equity capital	2	100%
Credit line, bank overdraft or credit cards	1	50%
Guarantee loan	1	50%
Other loan (e.g. family and friends)	1	50%
Other types of grant	1	50%
Trade credit	1	50%
Leasing or hire purchase	1	50%
Government grant/subsidy	0	0%
Debt securities issued	0	0%
Mezzanine finance	0	0%
Factoring/invoice discounting	0	0%
Crowdfunding	0	0%
Peer to peer lending platform	0	0%
Don't know	0	0%
Other	0	0%
n=	2	100%

Source: SQW CCS survey

Table B-21: Q26. What is/was the payback period (maturity) of the loan? Please select one.

Response	No. respondents	% of respondents
1 year or less	17	30%
More than 1 year, but less than 3 years	17	30%
More than 3 years, but less than 10 years	16	29%
More than 10 years	5	9%
Did not answer	1	2%
n=	56	100%

Source: SQW CCS survey

Table B-22: Q27. In your opinion, the interest rate on the loan is/was…? Please select one.

Response	No. respondents	% of respondents
Lower than the interest rate charged by lenders for similar loans in other sectors	8	14%
Comparable to the interest rate charged by lenders for similar loans in other sectors	26	46%
Higher than the interest rate charged by lenders for similar loans in other sectors	15	27%
Don’t know	6	11%
Did not answer	1	2%
n=	56	100%

Source: SQW CCS survey

Table B-23: Q28. Did your organisation have to meet any of the following requirements in applying/obtaining the loan? Please select one option for each entry.

Response	Yes - not difficult	Yes - slightly difficult	Yes - extremely difficult	No	Don’t know	Did not answer	n=
Accept a loan covenant (usually restrictive covenant in a loan agreement that limits the borrower’s freedom to incur more debt, increase the salaries of executives, pay bonuses etc.	4 (7%)	3 (5%)	1 (2%)	34 (62%)	12 (22%)	1 (2%)	55
Provide private assets as collateral	6 (11%)	11 (20%)	7 (13%)	25 (45%)	5 (9%)	1 (2%)	55
Provide business assets as collateral	14 (25%)	11 (20%)	4 (7%)	18 (33%)	7 (13%)	1 (2%)	55
Other	0 (0%)	3 (5%)	2 (4%)	33 (60%)	15 (27%)	2 (4%)	55
Sign a personal guarantee (i.e. allows the financial institute to go after personal assets to	11 (20%)	15 (27%)	8 (15%)	16 (29%)	5 (9%)	0 (0%)	55

Response	Yes - not difficult	Yes - slightly difficult	Yes - extremely difficult	No	Don't know	Did not answer	n=
collect money if a business loan cannot be repaid)							
Provide a business plan and/or financial plan	25 (45%)	13 (24%)	4 (7%)	9 (16%)	4 (7%)	0 (0%)	55

Source: SQW CCS survey

Table B-24: Q29. Why didn't your organisation obtain the loan? Please select all that apply.

Response	No. respondents	% of respondents
Too high risk	13	62%
Lack of trading history	7	33%
Other	7	33%
Lack of collateral	6	29%
Terms and conditions of the loan	6	29%
Cost of the loan	4	19%
Don't know	2	10%
Absence of a credible business plan	1	5%
n=	21	100%

Source: SQW CCS survey

Table B-25: Q30. What were the consequences of not obtaining the loan? Please select all that apply.

Response	No. respondents	% of respondents
It limited or slowed down the growth of my organisation	11	52%
It put my organisation in a financially difficult position	11	52%
My organisation was unsuccessful in accessing other funding sources	6	29%
Other	4	19%
My organisation looked and found other finance sources	3	14%
My organisation had to downsize the plan	3	14%
My organisation was successful in accessing other funding sources	2	10%
My organisation financed the plan with internal funding	1	5%
Don't know	0	0%
n=	21	100%

Source: SQW CCS survey

Table B-26: Q31. What other type(s) of external finance did your organisation access? Please select all that apply.

Response	No. respondents	% of respondents
Equity capital	2	100%
Guarantee loan	1	50%
Other loan (e.g. family and friends)	1	50%
Government grant/subsidy	1	50%
Other types of grant	1	50%
Mezzanine finance	1	50%
Other	1	50%
Credit line, bank overdraft or credit cards	0	0%
Trade credit	0	0%
Leasing or hire purchase	0	0%
Debt securities issued	0	0%
Factoring/invoice discounting	0	0%
Crowdfunding	0	0%
Peer to peer lending platform	0	0%
Don’t know	0	0%
n=	2	100%

Source: SQW CCS survey

Equity

Table B-27: Q34. Has your organisation CONSIDERED equity finance in the last three years as part of its search for external finance? Please select one.

Response	No. respondents	% of respondents
Yes	98	28%
No	215	62%
Don't know	34	10%
n=	347	100%

Source: SQW CCS survey

Table B-28: Q35. Why didn’t your organisation consider equity finance? Please select all that apply.

Response	No. respondents	% of respondents
Fear of diluted ownership/reduced control over the organisation	49	28%
Too complicated and/or too time consuming	47	27%
Perception of waste of time: the investor doesn’t consider my organisation to be part of its target group	48	27%
Insufficient understanding from the investor of the sector my organisation is working in	40	23%

Response	**No. respondents**	**% of respondents**
Too much risk	39	22%
Sufficient self-generated capital	37	21%
Lack of awareness and/or understanding of appropriate finance	37	21%
Other	33	19%
Don’t know	23	13%
Fear of possible rejection	15	9%
n=	175	100%

Source: SQW CCS survey

Table B-29: Q36. Has your organisation ACTIVELY SOUGHT any form of equity finance in the last three years? Please select one.

Response	**No. respondents**	**% of respondents**
Yes	65	66%
No	31	32%
Don't know	2	2%
n=	98	100%

Source: SQW CCS survey

Table B-30: Q37. Why hasn’t your organisation actively sought any form of equity finance in the past three years? Please select all that apply.

Response	**No. respondents**	**% of respondents**
Fear of diluted ownership/reduced control over the organisation	12	39%
Too complicated and/or too time consuming	10	32%
Insufficient understanding from the investor of the sector my organisation is working in	9	29%
Sufficient other external financiers	7	23%
Lack of awareness and/or understanding of appropriate finance	7	23%
Perception of waste of time: the investor doesn’t consider my organisation to be part of its target group	4	13%
Too much risk	2	6%
Other (please specify):	2	6%
Fear of possible rejection	1	3%
Don’t know	1	3%
n=	31	100%

Source: SQW CCS survey

Table B-31: Q38. What was the approximate amount of equity finance your organisation would have required? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	4	13%
Between €10,001 and €25,000	1	3%
Between €25,001 and €50,000	6	19%
Between €50,001 and €100,000	4	13%
Between €100,001 and €250,000	1	3%
Between €250,001 and €500,000	7	23%
Between €500,001 and €1,000,000	3	10%
Between €1,000,0001 and €2,500,000	2	6%
Between €2,500,0001 and €5,000,000	0	0%
Over €5,000,000	0	0%
Don't know	3	10%
n=	31	100%

Source: SQW CCS survey

Table B-32: Q39. Where did your organisation seek its most recent form of equity finance? Please select the most important.

Response	No. respondents	% of respondents
Business angel	17	26%
Venture capitalist	14	22%
Corporate investor	11	17%
Public equity (e.g. issue of shares on public market)	6	9%
Crowdfunding platform	5	8%
Other	5	8%
Internal funds from your organisation	3	5%
Government agency equity co-investment	3	5%
Institutional investor (e.g. insurance company, pension/mutual fund)	1	2%
n=	65	100%

Source: SQW CCS survey

Table B-33: Q40. Was/is the investor from the same country as where your headquarters/main office is based? Please select one.

Response	No. respondents	% of respondents
Yes	33	79%
Don't know	1	2%
No (please specify)	8	19%
n=	42	100%

Source: SQW CCS survey

Table B-34: Q41. Why did your organisation seek its most recent form of equity finance? Please select all that apply.

Response	No. respondents	% of respondents
Developing and launching of new products or services	37	60%
To (co-)finance a specific artist or creative project	25	40%
Hiring and training of employees	17	27%
To (co-)finance marketing activities	15	24%
Inventory and other working capital	13	21%
To (co-)finance the purchase of intellectual property rights	11	18%
Investments in property, plant or equipment	8	13%
Refinancing or paying off obligations	4	6%
To access knowledge or technical support from the investor	3	5%
Don’t know	3	5%
Other	3	5%
n=	62	100%

Source: SQW CCS survey

Table B-35: Q42. What was the approximate amount of equity finance which your organisation sought? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	1	2%
Between €10,001 and €25,000	9	15%
Between €25,001 and €50,000	5	8%
Between €50,001 and €100,000	8	13%
Between €100,001 and €250,000	15	24%
Between €250,001 and €500,000	3	5%
Between €500,001 and €1,000,000	8	13%
Between €1,000,0001 and €2,500,000	3	5%
Between €2,500,0001 and €5,000,000	3	5%
Over €5,000,000	5	8%
Don't know	2	3%
n=	62	100%

Source: SQW CCS survey

Table B-36: Q43. Was the organisation able to obtain the full level of equity finance sought? Please select one.

Response	No. respondents	% of respondents
Yes, received 100% of the amount applied for	19	31%
Yes, received 75% and above of the amount applied for	2	3%
Yes, received more than 50% and less than 75% of the amount applied for	2	3%
Yes, received 50% of the amount applied for	1	2%
Yes, received more than 25% and less than 50% of the amount applied for	3	5%
Yes, received 25% and below the amount applied for	0	0%
Yes, but don't know to what extent	1	2%
No, was rejected	16	26%
Discussions are still ongoing	18	29%
n=	62	100%

Source: SQW CCS survey

Table B-37: Q44. Why wasn't your organisation able to obtain the full amount of equity finance sought? Please select all that apply.

Response	No. respondents	% of respondents
Too high risk	5	63%
Lack of trading history	2	25%
Absence of a credible business plan	0	0%
Lack of collateral	0	0%
Terms and conditions	1	13%
Level of equity stake offered	1	13%
Don't know	1	13%
Other	0	0%
n=	8	100%

Source: SQW CCS survey

Table B-38: Q45. What were the consequences of not obtaining the full amount of equity finance? Please select all that apply.

Response	No. respondents	% of respondents
It limited or slowed down the growth of my organisation	5	63%
My organisation had to downsize the plan	4	50%
My organisation looked and found other finance sources	1	13%
My organisation was successful in accessing other funding sources	1	13%
My organisation was unsuccessful in accessing other funding sources	1	13%
My organisation financed the plan with internal funding	1	13%

Response	No. respondents	% of respondents
Don’t know	0	0%
Other	0	0%
n=	8	100%

Source: SQW CCS survey

Table B-39: Q46. What other type(s) of external finance did your organisation access? Please select all that apply.

Response	No. respondents	% of respondents
Government grant/subsidy	1	100%
Credit line, bank overdraft or credit cards	0	0%
Bank loans	0	0%
Guarantee loan	0	0%
Other loan (e.g. family and friends)	0	0%
Other types of grant	0	0%
Trade credit	0	0%
Leasing or hire purchase	0	0%
Debt securities issued	0	0%
Mezzanine finance	0	0%
Factoring/invoice discounting	0	0%
Crowdfunding	0	0%
Peer to peer lending platform	0	0%
Don’t know	0	0%
Other	0	0%
n=	1	100%

Source: SQW CCS survey

Table B-40: Q47. Did your organisation have to meet any of the following requirements in order to obtain the equity finance provided? Please select one option for each entry.

	Yes - not difficult	Yes - slightly difficult	Yes - extremely difficult	No	Don’t know	n=
Provide additional information relating to the business and future investment projects	15 (58%)	6 (23%)	1 (4%)	3 (12%)	1 (4%)	26
Provide a business plan and/or financial plan	11 (42%)	8 (31%)	0 (0%)	6 (23%)	1 (4%)	26
Attend and deliver a pitch to potential equity investors	11 (42%)	7 (27%)	0 (0%)	7 (27%)	1 (4%)	26
Give up more equity in the company than expected/ intended	2 (8%)	1 (4%)	3 (12%)	16 (62%)	4 (4%)	26
Other	2 (8%)	0 (0%)	1 (4%)	20 (77%)	3 (4%)	26

Source: SQW CCS survey

Table B-41: Q48. Why didn't your organisation obtain the equity finance sought? Please select all that apply.

Response	No. respondents	% of respondents
Too high risk	4	25%
Don't know	4	25%
Lack of trading history	3	19%
Lack of collateral	3	19%
Level of equity offered	1	6%
Absence of a credible business plan	0	0%
Terms and conditions	0	0%
Other	0	0%
n=	16	100%

Source: SQW CCS survey

Table B-42: Q49. What were the consequences of not obtaining the equity finance sought? Please select all that apply.

Response	No. respondents	% of respondents
It limited or slowed down the growth of my organisation	10	63%
My organisation had to downsize the plan	6	38%
Other	6	38%
My organisation was unsuccessful in accessing other funding sources	4	25%
My organisation financed the plan with internal funding	3	19%
Don't know	1	6%
My organisation looked and found other finance sources	0	0%
My organisation was successful in accessing other funding sources	0	0%
n=	16	100%

Source: SQW CCS survey

Table B-43: Q50. What other type(s) of external finance did your organisation access? Please select all that apply.[145]

Response	No. respondents	% of respondents
Credit line, bank overdraft or credit cards	0	-%
Bank loans	0	-%
Guarantee loan	0	-%
Other loan (e.g. family and friends)	0	-%
Government grant/subsidy	0	-%
Other types of grant	0	-%

[145] Note that due to the survey routing no respondents were required to answer this question.

Response	No. respondents	% of respondents
Trade credit	0	-%
Leasing or hire purchase	0	-%
Debt securities issued	0	-%
Mezzanine finance	0	-%
Factoring/invoice discounting	0	-%
Crowdfunding	0	-%
Peer to peer lending platform	0	-%
Don’t know	0	-%
Other	0	-%
n=	0	-%

Source: SQW CCS survey

Future demand for finance

Loans

Table B-44: Q10. Will your organisation apply for a bank loan in the next 12 months? Please select one.

Response	No. respondents	% of respondents
Yes	2	2%
Possibly	9	9%
No	66	63%
Don’t know	27	26%
n=	104	100%

Source: SQW CCS survey

Table B-45: Q11. What would be the approximate amount of the loan your organisation would apply for? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	1	9%
Between €10,001 and €25,000	0	0%
Between €25,001 and €50,000	3	27%
Between €50,001 and €100,000	1	9%
Between €100,001 and €250,000	0	0%
Between €250,001 and €500,000	1	9%
Between €500,001 and €1,000,000	0	0%
Between €1,000,0001 and €2,000,000	0	0%
Over €2,000,000	0	0%
Don't know	4	36%

Response	No. respondents	% of respondents
Did not answer	1	9%
n=	11	100%

Source: SQW CCS survey

Table B-46: Q32. Will your organisation apply for a bank loan in the next 12 months? Please select one.

Response	No. respondents	% of respondents
Yes	22	6%
Possibly	68	19%
No	201	56%
Don’t know	65	18%
n=	356	100%

Source: SQW CCS survey

Table B-47: Q33. What would be the approximate amount of the loan your organisation would apply for? Please select one.

Response	No. respondents	% of respondents
Less than €10,000	5	6%
Between €10,001 and €25,000	18	20%
Between €25,001 and €50,000	15	17%
Between €50,001 and €100,000	18	20%
Between €100,001 and €250,000	9	10%
Between €250,001 and €500,000	11	12%
Between €500,001 and €1,000,000	5	6%
Between €1,000,0001 and €2,000,000	2	2%
Over €2,000,000	3	3%
Don't know	2	2%
Did not answer	2	2%
n=	90	100%

Source: SQW CCS survey

Equity

Table B-48: Q12. Will your organisation be seeking equity finance in the next 12 months? Please select one.

Response	No. respondents	% of respondents
Yes	4	4%
Possibly	19	18%
No	49	47%
Don’t know	32	31%

Response	No. respondents	% of respondents
n=	104	100%

Source: SQW CCS survey

Table B-49: Q13. What would be the approximate amount of equity finance your organisation would seek? Please select one.

Response	**No. respondents**	**% of respondents**
Less than €10,000	3	13%
Between €10,001 and €25,000	2	9%
Between €25,001 and €50,000	3	13%
Between €50,001 and €100,000	4	17%
Between €100,001 and €250,000	3	13%
Between €250,001 and €500,000	3	13%
Between €500,001 and €1,000,000	1	4%
Between €1,000,0001 and €2,500,000	0	0%
Between €2,500,0001 and €5,000,000	0	0%
Over €5,000,000	0	0%
Don't know	4	17%
n=	23	100%

Source: SQW CCS survey

Table B-50: Q51. Will your organisation be seeking equity finance in the next 12 months? Please select one.

Response	**No. respondents**	**% of respondents**
Yes	41	12%
Possibly	69	20%
No	171	51%
Don’t know	57	17%
n=	338	100%

Source: SQW CCS survey

Table B-51: Q52. What would be the approximate amount of equity finance your organisation would seek? Please select one.

Response	**No. respondents**	**% of respondents**
Less than €10,000	5	5%
Between €10,001 and €25,000	11	10%
Between €25,001 and €50,000	8	8%
Between €50,001 and €100,000	19	18%
Between €100,001 and €250,000	18	17%
Between €250,001 and €500,000	16	15%

Response	No. respondents	% of respondents
Between €500,001 and €1,000,000	5	5%
Between €1,000,0001 and €2,500,000	6	6%
Between €2,500,0001 and €5,000,000	4	4%
Over €5,000,000	4	4%
Don't know	8	8%
Did not answer	1	1%
n=	105	100%

Source: SQW CCS survey

Annex C: Cross-tabs of CCS business survey results

C.1 The following tables present cross-tabulations that break down responses to questions by the profile of the respondent – namely, by business size, sub-sector, country and age of business. Note that due to the small number of respondents in some sub-sectors and countries, there are limited cross-tabs presented based on these characteristics.

Consideration and use of external finance and equity finance

C.2 This first set of tables presents the proportion of respondents that considered external finance, sought external finance, considered equity finance and sought equity finance based on the characteristics of the respondent. The percent column presents the proportion that considered or sought the finance, while the n number column presents the size of the cohort with that characteristic that answered the question. For example, in Table C-1 there were 353 respondents from micro businesses that answered whether they had considered seeking external finance, of which 81% of respondents – equivalent to 286 – said that they had considered external finance. The percentages are presented to enable comparisons across the different respondent characteristics and the n number is presented to allow for caution in interpreting results where there were not many respondents fitting that answered the question that fit the profile.

Table C-1: Considered and sought external finance and equity finance by business size

Business size	Considered seeking external finance		Sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Micro business (<10 employees, ≤ €2m turnover)	81%	353	59%	353	28%	271	18%	271
Small business (<50 employees, ≤ €10m turnover)	69%	54	61%	54	35%	34	24%	34
Medium-sized business (<250 employees, ≤ €50m turnover)	73%	15	60%	15	33%	9	33%	9
Large business (250+ employees, €50m+ turnover)	75%	12	75%	12	33%	9	22%	9
Other (please specify):	70%	30	53%	30	11%	19	11%	19
Don’t know	56%	9	44%	9	20%	5	20%	5
Total	78%	473	59%	473	28%	347	19%	347

Source: SQW analysis of CCS business survey
Question types: single response

Table C-2: Considered and sought external finance and equity finance by country

Country	Considered applying for external finance		Considered and sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Austria	100%	5	60%	5	20%	5	20%	5
Belgium	76%	21	67%	21	7%	15	7%	15
Bulgaria	57%	7	14%	7	0%	4	0%	4
Croatia	100%	8	88%	8	25%	8	13%	8
Cyprus	100%	1	100%	1	0%	1	0%	1
Czech Republic	87%	15	73%	15	27%	11	18%	11
Denmark	43%	7	43%	7	33%	3	33%	3
Estonia	33%	3	0%	3	0%	1	0%	1
Finland	100%	12	83%	12	45%	11	27%	11
France	67%	27	56%	27	44%	16	19%	16
Germany	70%	23	52%	23	31%	16	13%	16
Greece	0%	2	0%	2	-	0	0%	0
Hungary	25%	8	13%	8	0%	2	0%	2
Ireland	77%	13	69%	13	30%	10	20%	10
Italy	76%	29	48%	29	30%	20	15%	20
Latvia	100%	1	100%	1	0%	1	0%	1
Lithuania	92%	12	92%	12	36%	11	27%	11
Luxembourg	30%	10	10%	10	0%	3	0%	3
Malta	88%	8	75%	8	43%	7	29%	7
Netherlands	84%	75	60%	75	25%	59	19%	59
Norway	100%	3	0%	3	0%	2	0%	2
Poland	86%	63	68%	63	39%	49	33%	49
Portugal	71%	31	52%	31	25%	20	10%	20
Romania	89%	19	58%	19	24%	17	24%	17
Slovakia	67%	3	33%	3	0%	1	0%	1
Slovenia	20%	5	20%	5	0%	1	0%	1
Spain	89%	19	63%	19	18%	17	6%	17
Sweden	94%	31	74%	31	21%	28	11%	28
United Kingdom	67%	12	58%	12	63%	8	50%	8
Total	78%	473	59%	473	28%	347	19%	347

Source: SQW survey of CCS businesses
Question types: single response

Table C-3: Considered and sought external finance and equity finance by sub-sector

Sub-sector	Considered applying for external finance		Considered and sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Advertising	60%	15	47%	15	56%	9	56%	9
Architecture	67%	6	33%	6	67%	3	33%	3
Archives & museums	56%	9	44%	9	25%	4	25%	4
Audio-visual & multimedia	84%	214	68%	214	39%	168	26%	168
Book & publishing	65%	20	40%	20	31%	13	8%	13
Cultural heritage	82%	17	71%	17	27%	11	27%	11
Design & arts craft	63%	30	47%	30	16%	19	5%	19
Education in and/or research on arts, culture or creativity	72%	39	62%	39	22%	27	19%	27
Literature	100%	4	75%	4	25%	4	0%	4
Music	73%	41	46%	41	14%	28	7%	28
Other cultural and creative sector	78%	18	61%	18	8%	12	0%	12
Performing arts, excluding music performance	93%	29	66%	29	4%	27	4%	27
Visual arts	74%	31	35%	31	9%	22	9%	22
Total	78%	473	59%	473	28%	347	19%	347

Source: SQW survey of CCS businesses
Question types: single response

Table C-4: Considered and sought external finance and equity finance by organisation age

Business age	Considered applying for external finance		Considered and sought external finance		Considered equity finance		Sought equity finance	
	%	n	%	n	%	n	%	n
Less than 2 years	79%	81	54%	81	28%	64	23%	64
2 years or more, but less than 5 years	85%	93	61%	93	38%	77	22%	77
5 years or more, but less than 10 years	79%	96	61%	96	28%	69	23%	69
10 years or more	74%	201	59%	201	24%	136	13%	136
Total	78%	471	59%	471	28%	346	19%	346

Source: SQW survey of CCS businesses
Question types: single response

Value of equity sought and received

Table C-5: What was the approximate amount of equity finance which your organisation sought?

Response	Less than 2 years	2 years or more, but less than 5 years	5 years or more, but less than 10 years	10 years or more	Total
<€10k	8%	0%	0%	0%	2%
€10k-€25k	15%	12%	6%	25%	15%
€25k-€50k	0%	6%	6%	19%	8%
€50k-€100k	23%	18%	6%	6%	13%
€100k-€250k	15%	24%	50%	6%	24%
€250k-€500k	8%	0%	6%	6%	5%
€500k-€1m	23%	24%	6%	0%	13%
€1m-€2.5m	0%	6%	6%	6%	5%
€2.5m-€5m	8%	6%	0%	6%	5%
>€5m	0%	0%	13%	19%	8%
Don't know	0%	6%	0%	6%	3%
n=	13	17	16	16	62

Source: SQW survey of CCS businesses
Question types: single response

Table C-6: Was the organisation able to obtain the full level of equity finance sought?

Response	Micro business (<10 employees, ≤ €2m turnover)	Small business (<50 employees, ≤ €10m turnover)	Medium-sized business (<250 employees, ≤ €50m turnover)	Large business (250+ employees, €50m+ turnover)	Other	Don't know	Total
Yes, received 100%	28%	17%	40%	33%	0%	0%	28%
Yes, received 75% and above	4%	0%	0%	0%	0%	0%	3%

Response	Micro business (<10 employees, ≤ €2m turnover)	Small business (<50 employees, ≤ €10m turnover)	Medium-sized business (<250 employees, ≤ €50m turnover)	Large business (250+ employees, €50m+ turnover)	Other	Don't know	Total
Yes, received more than 50% and less than 75%	4%	0%	0%	0%	0%	0%	3%
Yes, received 50%	2%	0%	0%	0%	0%	0%	1%
Yes, received more than 25% and less than 50%	4%	0%	0%	0%	17%	0%	4%
Yes, received 25% and below	6%	42%	40%	33%	67%	0%	9%
Yes, but don't know to what extent	0%	0%	0%	33%	0%	0%	1%
No, was rejected	24%	25%	0%	0%	17%	0%	24%
Discussions are still ongoing	28%	17%	20%	0%	0%	100%	26%
n=	50	12	5	3	6	1	68

Source: SQW survey of CCS businesses
Question types: single response

Table C-7: Was the organisation able to obtain the full level of equity finance sought?

Response	Advertising	Architecture	Audio-visual & multimedia	Book & publishing	Cultural heritage	Education in and/or research on arts, culture or creativity	Music	Performing arts, exc. music performance	Visual arts	Total
Yes, received 100%	25%	0%	33%	0%	33%	20%	0%	100%	50%	31%
Yes, received 75% and above	0%	0%	5%	0%	0%	0%	0%	0%	0%	3%
Yes, received more than 50% and less than 75%	25%	0%	2%	0%	0%	0%	0%	0%	0%	3%
Yes, received 50%	0%	0%	0%	0%	0%	20%	0%	0%	0%	2%

Response	Advertising	Architecture	Audio-visual & multimedia	Book & publishing	Cultural heritage	Education in and/or research on arts, culture or creativity	Music	Performing arts, exc. music performance	Visual arts	Total
Yes, received more than 25% and less than 50%	0%	0%	5%	0%	0%	0%	50%	0%	0%	5%
Yes, received 25% and below	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Yes, but don't know to what extent	0%	0%	2%	0%	0%	0%	0%	0%	0%	2%
No, was rejected	25%	100%	28%	0%	33%	20%	0%	0%	0%	26%
Discussions are still ongoing	25%	0%	26%	100%	33%	40%	50%	0%	50%	29%
n=	4	1	43	1	3	5	2	1	2	62

Note that the following subsectors are excluded because were no responses to the question: Archives & museums; Design & arts craft; Literature; Other cultural and creative sector.
Source: SQW survey of CCS businesses
Question types: single response

Table C-8: Was the organisation able to obtain the full level of equity finance sought?

Response	Less than 2 years	2 years or more, but less than 5 years	5 years or more, but less than 10 years	10 years or more	Total
Yes, received 100%	31%	24%	38%	31%	31%
Yes, received 75% and above	0%	0%	0%	13%	3%
Yes, received more than 50% and less than 75%	0%	12%	0%	0%	3%
Yes, received 50%	8%	0%	0%	0%	2%
Yes, received more than 25% and less than 50%	15%	0%	6%	0%	5%
Yes, received 25% and below	0%	0%	0%	0%	0%
Yes, but don't know to what extent	0%	0%	0%	6%	2%

Response	Less than 2 years	2 years or more, but less than 5 years	5 years or more, but less than 10 years	10 years or more	Total
No, was rejected	15%	29%	31%	25%	26%
Discussions are still ongoing	31%	35%	25%	25%	29%
n=	13	17	16	16	62

Source: SQW survey of CCS businesses
Question types: single response

Future use of equity finance

Table C-9: Will your organisation be seeking equity finance in the next 12 months? By business size

Business size	Yes	Possibly	n
Micro business (<10 employees, ≤ €2m turnover)	10%	22%	332
Small business (<50 employees, ≤ €10m turnover)	12%	14%	50
Medium-sized business (<250 employees, ≤ €50m turnover)	9%	18%	11
Large business (250+ employees, €50m+ turnover)	8%	8%	12
Other (please specify):	11%	11%	28
Don’t know	11%	11%	9
Total	10%	20%	442

Source: SQW survey of CCS businesses
Question types: single response

Table C-10: Will your organisation be seeking equity finance in the next 12 months? By sub-sector

Sub-sector	Yes	Possibly	n
Advertising	8%	15%	13
Architecture	0%	40%	5
Archives & museums	0%	17%	6
Audio-visual & multimedia	14%	23%	202
Book & publishing	0%	26%	19
Cultural heritage	14%	0%	14
Design & arts craft	7%	14%	28
Education in and/or research on arts, culture or creativity	14%	19%	37
Literature	25%	25%	4
Music	3%	10%	39
Other cultural and creative sector	13%	13%	16
Performing arts, excluding music performance	3%	14%	29
Visual arts	7%	30%	30
Total	10%	20%	442

Source: SQW survey of CCS businesses
Question types: single response

Table C-11: Will your organisation be seeking equity finance in the next 12 months? By country

Country	Yes	Possibly	n
Austria	0%	25%	4
Belgium	0%	15%	20
Bulgaria	0%	43%	7
Croatia	13%	0%	8
Cyprus	0%	0%	1
Czech Republic	0%	23%	13
Denmark	14%	14%	7
Estonia	0%	33%	3
Finland	18%	18%	11
France	12%	24%	25
Germany	0%	13%	23
Greece	0%	0%	2
Hungary	0%	0%	7
Ireland	8%	23%	13
Italy	4%	35%	26
Latvia	0%	0%	1
Lithuania	0%	25%	12
Luxembourg	0%	0%	10
Malta	13%	25%	8
Netherlands	14%	20%	71
Norway	0%	0%	2
Poland	24%	22%	55
Portugal	10%	14%	29
Romania	12%	29%	17
Slovakia	0%	50%	2
Slovenia	0%	40%	5
Spain	0%	16%	19
Sweden	14%	21%	29
United Kingdom	25%	8%	12
Total	10%	20%	442

Source: SQW survey of CCS businesses
Question types: single response

Table C-12: Will your organisation be seeking equity finance in the next 12 months? By business age

Business age	Yes	Possibly	n
Less than 2 years	14%	22%	78
2 years or more, but less than 5 years	11%	28%	88
5 years or more, but less than 10 years	9%	18%	88
10 years or more	8%	16%	186
Total	10%	20%	440

Source: SQW survey of CCS businesses
Question types: single response

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Annex F: Equity finance instruments for CCS

F.1 Examples of equity finance instruments relevant for CCS (specific CCS and general funds).

Vækstfonden (Denmark)

- **Equity, loans, guarantees**
- **SMEs**
- Publicly provided by **Danish State Investment Fund**
- Maximum fund size **€30m** from 2013-2015
- **Direct investment** or **co-investment** through professionally managed funds
- Fund available to CCS
- The Danish Growth Fund has together with private investors co-financed growth in more than 6,600 Danish companies with a total commitment of more than DKK 20 billion

Practica Capital (Bulgaria)

- **Venture Capital**
- **Start-ups** and **SMEs**
- Publicly provided by **JEREMIE Fund-of-Funds** and privately by **Practica Capital**
- Total fund size **€24m**
- Individual investments from **€100k to €2m**
- Makes **minority investments**, takes active role in business
- Fund available to CCS
- More than 40 investments made – about 5 seem to be CCS

Eleven Founders Fund (Lithuania)

- **Venture Capital**
- **Early stage** firms
- Privately provided by **Eleven**
- Individual investments of **€100k for 10-12% of businesses**
- Potential for **additional €200k** follow on investmen
- Fund available to CCS

Vertis Venture (Italy)

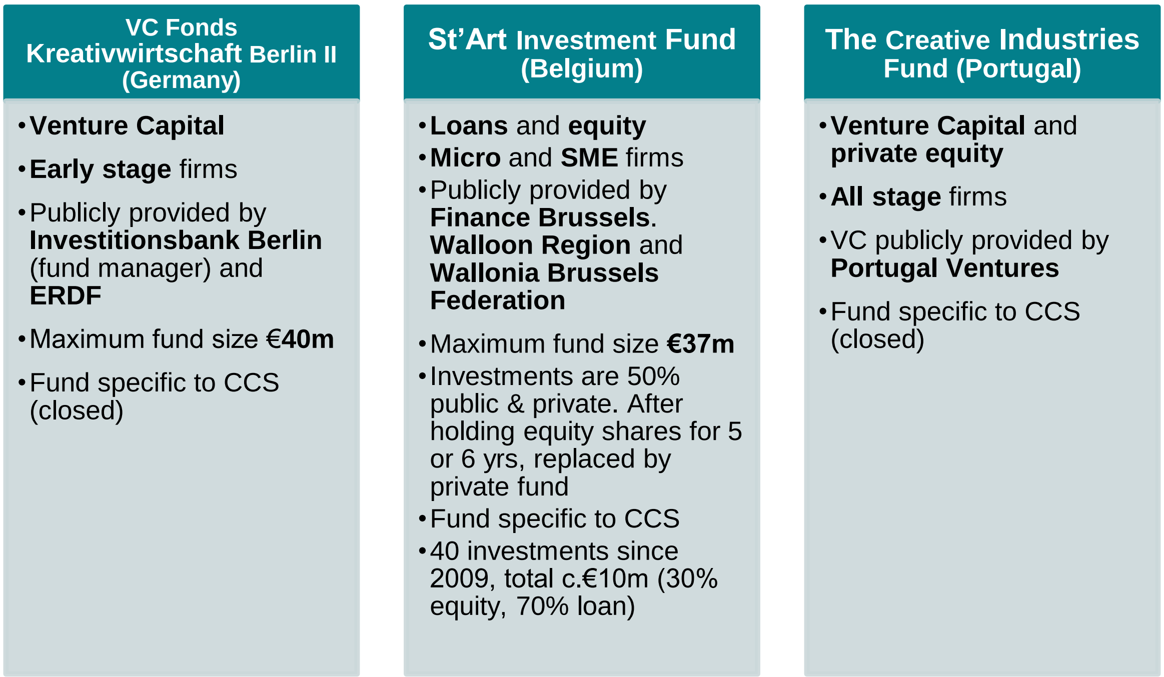
- **Venture Capital**
- **Seed stage** firms
- Publicly provided by the **Government** and private investors **Vertis SGR** (fund manager)
- Maximum fund size **€25m** from 2009-2013
- Fund available to CCS digital businesses (closes 2021)

IPR.VC (Finland)

- **Venture Capital**
- **Seed** and **early stage** firms
- Privately provided by **IPR.VC**
- Investments are typically **€0.5-2m** per case
- Fund specific to CCS: media content only

Royal Majestics (Finland)

- **Venture Capital** and **equity**
- **Start-ups** and **seed** stage firms
- Privately provided by **Royal Majestics**
- Fund specific to CCS: fashion and design only



VC Fonds Kreativwirtschaft Berlin II (Germany)

- **Venture Capital**
- **Early stage** firms
- Publicly provided by **Investitionsbank Berlin** (fund manager) and **ERDF**
- Maximum fund size €**40m**
- Fund specific to CCS (closed)

St'Art Investment Fund (Belgium)

- **Loans** and **equity**
- **Micro** and **SME** firms
- Publicly provided by **Finance Brussels**. **Walloon Region** and **Wallonia Brussels Federation**
- Maximum fund size **€37m**
- Investments are 50% public & private. After holding equity shares for 5 or 6 yrs, replaced by private fund
- Fund specific to CCS
- 40 investments since 2009, total c.€10m (30% equity, 70% loan)

The Creative Industries Fund (Portugal)

- **Venture Capital** and **private equity**
- **All stage** firms
- VC publicly provided by **Portugal Ventures**
- Fund specific to CCS (closed)

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