Promoting Investment in the Cultural and Creative Sector: Financing Needs, Trends and Opportunities

Report prepared for ECCE Innovation – Nantes Métropole

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EXECUTIVE SUMMARY

1. Introduction

This report has been produced on behalf of Nantes Métropole. It provides an analysis of the financing needs of the cultural and creative sector. It also looks at the existing trends and identifies opportunities for improvements in access to finance within the sector in some European countries. It aims to raise awareness amongst policy makers of the financing schemes and support measures that can enable the development of the cultural and creative industries (CCIs). It wishes to encourage private investment in the sector.

It has been compiled within the framework of ECCE Innovation (ECCEI), an INTERREG IVB-funded European project which aims to enhance the ability of CCIs to access new markets across partner cities: Aachen, Birmingham, Cardiff, CIDA (Doncaster), Eindhoven, Dublin, Nantes and Stuttgart.

Very few economic sectors have revealed as much potential for the economy and society as the CCIs have over the last few years. Their positive impact on the economy in terms of growth, employment and innovation is being increasingly recognized and measured at local, national and international level. “Culture-based creativity” is a key driver of this process, stemming from art and cultural productions to nurture innovation in the economy. It clearly contributes to stimulating our knowledge-based societies.

CCIs were worth 2.6% of the EU’s GDP in 2003, generating a turnover of more than € 654 billion and accounting for 3.1% of total EU employment in 2004. Overall, the growth of CCIs in 1999-2003 was 12.3% higher than the growth of the general economy.¹

Culture and innovation are now a crucial “soft location” factor, helping regions to attract investment, support creative talent, boost tourism and social cohesion and thereby contributing to local development. Local and regional authorities are well placed to develop “creative ecosystems” to support the sector.

The European Commission (EC) also sees a greater role for culture in local development. This is apparent in the EC’s first ever Green Paper on CCIs published in 2010 which highlights the need to help the sector develop in its local and regional environment as well as the importance of access to finance, a “core barrier to growth for many businesses within the sector.”² The paper acknowledges the potential of the EU Regional Funds to support the sector. In the framework of its innovation policies, DG Enterprise is also placing increasing emphasis on the regional dimension of CCIs and plans to give local authorities a central role in stimulating the sector and developing policies.

2. Characteristics and financial needs of the cultural and creative sector

The European cultural and creative sector is largely made up of micro, small and medium sized enterprises operating in several sub-sectors which this report groups as follows:

- Visual and digital arts; Performing arts.
- Creative industries (fashion, design, advertising).

Evolving in a number of different markets and subject to different levels of demand and competition, these companies account for the bulk of employment in the sector and are the main developers of creative talent. The common features of cultural and creative businesses are:

- An organic approach to business growth - creative entrepreneurs manage passion-driven activities which are often project-led.
- Often a lack of business training and financial support.
- Problems in valuing intangible assets.
- A dependence on public investment schemes.
- A lack of organisation at trade association levels.
- They evolve in culturally and linguistically fragmented markets.
- Business models challenged by the digital shift.

The financial needs of CCIs are different from those of businesses (or SMEs) in other sectors due to their particular characteristics and the challenges they face. This argues for the development of sector specific tailor-made solutions for access to finance for CCIs.

However, financing needs of CCIs usually vary according to a number of factors, ranging from the company’s stage of development, the particular sector and its value chain as well as the nature of the activity that needs finance.

One of the main reasons given to explain the limited commercial success of CCIs is the trend to focus on financing projects rather than the company itself. Only 37.2% of cultural and creative companies try to raise finance for the business itself rather than for an individual project. Greater attention needs to be paid to corporate finance if creative businesses are to succeed in attracting a wider range of investment (e.g. equity finance).

3. Access to finance instruments

Access to finance is a priority. It represents a challenge for 85% of companies surveyed in the course of producing this report. This access problem is not only due to the lack of adequate capital resources. In the Netherlands, a survey shows that one in seven creative businesses call on external finance. However, less than half expect to get financing when needed, compared to two in three SMEs from other sectors.

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4 Ibid.
Such a difficulty to attract investment is often due to investors’ problems in assessing risks and valuing intangible property. Public policy has a great role to play in encouraging investors. Improving the relationship between CCIs and investors by enabling CCIs to become investment ready is therefore a key challenge.

The main obstacles for CCIs to raise finance can be explained from two perspectives, the one related to the investor and the one related to CCIs:

The investor:
- Insufficient business skills of CCIs in analysing risks and opportunities.
- Difficulty in assessing the value of intellectual property assets.
- Insufficient tangible assets within businesses to offer as guarantee.
- Insufficient information on the growth potential of the companies of the cultural and creative sector and of the economic importance of the sector.
- Dependency on public support which makes recourse to private resources less important (so encouraging a passive approach of cultural and creative businesses).

The cultural and creative companies:
- Misunderstandings and prejudices between CCIs and the finance sector.
- Inability of the CCIs to organise the sector to speak with a single voice.
- Little awareness/understanding about finance opportunities.
- Insufficient information on available funds.
- Few tailor-made instruments addressing needs of CCIs.

4. A wide range of financial instruments and support infrastructures available

A wide range of schemes offering funding opportunities within ECCEi countries exists. There are already many multi-sectoral support schemes (notably for investments in ICT, technological innovation or SMEs in general). CCIs rarely access them. However, a number of creative specific schemes have also been established over the last few years, often at local and regional level. We distinguish between the following instruments: loans and guarantees; equity finance; tax incentives and public grants; non monetary support measures.

- **Loans and guarantees**
  
  **Debt capital** represents an important source of finance for CCIs, although its use varies from one sub-sector to another. Either banks or public authorities usually provide CCIs with loans, even of very small amounts (micro-credits). Numerous loans schemes exist but they rarely target CCIs. We distinguish between two main categories of loan schemes: multi-sectoral and creative sector-specific schemes.

  In the UK there is a range of multi-sectoral loans provided by regional funds such as the Advantage WestMidland agency’s Arrow Fund or the Capital Cardiff Fund. In Germany, the Berlin Investment Bank or the NRW.Bank regional development bank provide micro loans to SMEs.

  A few creative specific initiatives have also been established. The main beneficiaries of these schemes, however, are audiovisual and music businesses. Examples of specific instruments include the Culture Loan and the Triodos Culture Fund (Netherlands), Coficiné/Cofiloisirs or IFCIC
(France), the “Clann Credo-The Social Investment Fund” (Ireland) or the GLS Gemeinschaftsbank (Germany).

**Guarantee schemes** aim at stimulating investment in CCIs by sharing the risks of investors. There are three main categories of guarantee that could be used by CCIs:
- Public guarantee schemes for SMEs, for which cultural and creative businesses have shown little interest so far (examples exist in Germany, Ireland, or the UK).
- Public-private guarantee instruments intended specifically for the creative sector (IFCIC – France; Audiovisual SGR - Spain).
- Recently, private guarantee schemes which are available for some creative sub-sectors (Kunstenaars & Co – The Netherlands).

➢ **Equity finance**
Generally CCIs still make very limited use of equity finance and this instrument remains to be stimulated for CCIs. There are however several examples of interesting initiatives:

**Venture capital fund/Mezzanine capital**: there are around 62 specific equity finance schemes across Europe that are partly dedicated to CCIs. Most of them have been established only very recently with 32 out of 62 funds being for audiovisual businesses linked to the ICT sector. Many are regionally based and publicly funded.

In the UK, the Enterprise Capital Funds (ECF) provides co-investment schemes for innovative SMEs. Around 25% of businesses supported by ECF are creative companies. Other examples of specific schemes include the Advantage Creative Fund in the West Midlands, the Creative Advantage Fund in Birmingham or the Wales Creative IP Fund. Examples in France, Germany or the Netherlands include “Mode et Finance” for the fashion sector in France, the investment schemes for CCIs of the NRW.BANK in Germany and the Dutch Creative Industry Fund in the Netherlands.

**Business angels and “P2P finance”**: CCIs still make very little use of money from Business Angels (BAs), wealthy risk-taking individuals willing to invest at the early and start-up phase. There are currently several BA networks and public initiatives stimulating investment by BAs across ECCEI countries (e.g. Media Deals). In addition new alternative forms of finance are also emerging such as *P2P finance* which enables companies from the sector to attract individual investments from consumers via internet.

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6 Ibid.
**Tax incentives and public grants**

Cultural and creative businesses have access to multi-sectoral tax incentives (e.g. for R&D activities). However they do not make sufficient use of these instruments.

As to tax incentives specific to CCIIs, there are two main forms: incentives that encourage the sector to produce cultural goods and services; and incentives that stimulate private external investment in CCIIs. Most of these specific tax incentives have traditionally benefitted the film sector. Several countries have however progressively opened up these schemes to other sectors such as music or video games (e.g. France, Italy, and Ireland).

The study also provides a state of play of grants for businesses in general (e.g. targeting “SMEs” or “innovation”). It seems CCI have less access to these direct subsidies. New forms of grants such as “Innovation Vouchers” are also starting to emerge which cannot only nudge innovation and creativity in businesses in any sector (e.g. “Creative Credits” in Manchester) but also provide CCIIs with the financial resources they need to secure external expertise for marketing, IPR advices or management.

**Non monetary support measures and “investment readiness” schemes**

Non monetary support measures provide a series of services to CCIIs. Services provided usually include:

- Investment readiness (IR) programmes (e.g. NESTA Creative Pioneer Programme or Gateway2Investment in the UK; Creative NRW in Germany).
- Face-to-face meetings with investors (e.g. Start West in France; Creative Investor Awareness Project in the UK).
- Advisory sessions on intellectual property rights and legal advice and general support on marketing and promotion (e.g. “Own-it” in London)
- Provision of incubation services and spaces (e.g. Incubator Design in the Netherlands).

**5. EU Opportunities**

Policy interest in CCIIs and “culture-based creativity” as drivers of innovation means that CCIIs should have better access to a wider range of EU funded programmes in the future. The opportunities and trends identified at European level can be summarized as follows:

- European funds (in particular structural and innovation funds –,the Competitiveness and Innovation Programme, CIP) are putting increased emphasis on CCIIs and creativity.
- Specific policies will be developed to address issues that are critical for European CCIIs such as access to finance, skills and training, market access, trade and mobility.
- The European Investment Bank/European Investment Fund (EIB/EIF) could mobilize funding for the benefit of CCIIs.
- The support of transnational collaboration projects in the context of the Lifelong Learning Programme or the research programme FP7 in the area of education and research.
- DG Enterprise, responsible for trade and SME policy is refocusing its innovation strategy to encompass non-technological forms of innovation.

EU programmes already support various projects and initiatives launched by local and regional authorities which are aimed at developing the potential of CCIIs. The Advantage Creative Fund in
Birmingham and the VC Fonds Kreativwirtschaft in Berlin have, for example, obtained support from EU Structural Funds. Likewise the JEREMIE and JASMIN Programmes enable Member States to use the Structural Funds to create new finance schemes with EIB/EIF support. The European Social Fund also finances training projects for cultural and creative entrepreneurs at regional level. Other EU funds have also helped the launch of several pan-European collaboration projects such as CReATE (FP7), Europe Innova (CIP), or ECCEi (Interreg IVB North West).

6. Conclusions and Recommendations

Public intervention is justified to address market failure and trigger more private investment in the sector. Local and regional authorities play a major role to facilitate better access to finance as they are better placed to:

- Meet the needs of local cultural stakeholders and of the CCIs and tailor support for them.
- Develop and/or adapt financial schemes for CCIs.
- Improve relations with potential investors.
- Put support for culture and CCIs at the heart of other economic and social policy areas, encouraging a multi-disciplinary approach and fostering lateral thinking.
- Facilitate access to EU funding (structural and innovation funds, EIB/EIF).

The specific features of the industry and its relationship with investors justify the development of tailor-made mechanisms. However there is no “one size fits all” solution providing a unique answer to CCIs’ financing needs. There are geographic and sectoral differences in the use of the available financing instruments. Certain types of schemes can also only be set up at national level (e.g. tax incentives). However local authorities are the best positioned to implement financing mechanisms able to benefit SMEs and micro organisations.

Decisions on finance can therefore be determined in relation to:

- Funding of arts projects or “corporate” activities.
- Priority sub-sectors or types of enterprise.
- The type of financing mechanisms (scope, resources, instruments).
- The type of activities (training, incubation, entrepreneurial, trade/craft etc).

Furthermore, CCIs can be used as a test-bed for new types of financing mechanisms (e.g. micro finance) since they can provide a model for how the knowledge economy may look in the future (networked, collaborative, culture-based).

Public authorities can make use of different types of support mechanisms for CCIs according to their strategy and objectives:

- To attract private investment by reducing risk (in particular for capital intensive industries such as cinema):
  - Guarantee mechanisms in relation to loans granted by banks
  - Support for intermediaries specialising in risk assessment
  - Tax Shelters, tax credits
- Regulatory support to secure market access (for instance broadcast quotas and investment obligations in TV/Telecom)
  - To set up specific financial schemes:
    - Specialised bank - Coficiné/Cofiloisirs (F)
    - Specific venture capital fund – Advantage Creative Fund (UK)
    - Normal project funding – direct subsidies
  - To provide micro-financing (such as Siagi (F) – SFLG (UK) or Kunstenaars (NL)):
    - Micro-finance – loans/credits
    - Voucher scheme (to buy expertise)
  - To provide advice and general support and get CCIs “investment ready”:
    - Incubators and clusters
    - Face to face meetings with investors
    - Training in management
    - Support for export

While there is a need to initially develop specific financing schemes for the sector because of the market failure, such a support should progressively be integrated into multi-sectoral support mechanisms (e.g. targeting SMEs or innovation in general).

The proposed financing tools for CCIs should vary according to the local creative ecology (established thorough a mapping of local facilities and activities) and to the economic and social priorities which are specific to a region.

To support these initiatives, local and regional authorities need to be better positioned to further exploit the full potential offered by EU Programmes (e.g. Structural Funds; CIP; Lifelong Learning; research programme FP7). It is highly likely that EU funding will be more widely available to support regional initiatives aimed at CCIs, whether via structural funds or innovation schemes (e.g. CIP).
MAIN REPORT

The Assignment

KEA European Affairs has been commissioned by Nantes Métropole to compile a report into the “Analysis of the financing needs, trends and opportunities for the cultural and creative sector in Europe”.

The report is produced within the framework of ECCE Innovation (ECCEi), an INTERREG IVB-funded project which aims to foster the capacity of cultural and creative industries (CCI) to access new markets across partner cities (Aachen, Birmingham, Cardiff, Doncaster, Eindhoven, Dublin, Nantes and Stuttgart).

The rationale for this study is based on the need to raise the awareness of policy makers of the business finance schemes available to enable the development of the CCIs and to provide investors with a clear understanding of the cultural and creative sectors and of the business opportunities they offer.

The present report therefore provides ECCEi members with:
- A status report on financial opportunities across their countries, regions and cities for creative companies, especially micro and small enterprises.
- A condensed analysis of the main trends concerning: the challenges to the sectors' growth, the finance and support needs and the main barriers to accessing funding.
- An overview of the main advice services existing across ECCEi countries.
- Examples of mechanisms (in ECCEi countries and across Europe) that show how finance tools and advisory services can benefit creative entrepreneurs.
- Specific recommendations to policy makers.

The report also touches upon the importance of public-private partnerships and the complementary value of different sources of funding, whilst highlighting the importance of investment readiness programmes to encourage investment in cultural and creative industries.

The report is in six parts:

- Parts I and II position the cultural and creative industries in the EU and explain their characteristics and the challenges they face with regard to accessing finance;
- Part III maps the principal financing instruments available in Europe with a particular focus on ECCEi regions and countries, including examples of financing trends and existing support schemes;
- Part IV provides an assessment of the added value of support services;
- Part V maps the current funding trends and opportunities at the EU level;
- Part VI provides a conclusion and recommendations to local and regional authorities concerning the adaptation of existing schemes and the launch of new tools to finance the creative sectors.
This research focuses on the five ECCEi countries (France, Germany, The Netherlands, UK and Ireland) and city/regions.

The research has been conducted in three ways: desk research to gather secondary data; semi structured interviews with the ECCEi members and external experts and finally a small scale online survey targeting cultural and creative businesses to test out the preliminary results obtained from the desk research and to support the proposals presented in this report.⁷

The methodology used to conduct the survey together with its results can be found in the annexes.

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⁷ Due to its limited scope, respondents to the survey cannot be said to truly represent a balance of all creative businesses in the target areas.
PART I - The dimensions of the cultural and creative industries in the EU

The contribution of culture and creativity to societal development is increasingly being recognized in Europe, as demonstrated by the attention being given to the development of the cultural and creative industries (CCIs).

Although the extent of public support for CCIs varies greatly from one country or one region to another in Europe it generally aims to do the following:

- To contribute to a cultural policy aimed at stimulating artistic production and its availability to the general public (for educational and social purposes).
- To contribute to economic development. Traditionally the value of investment in culture was not questioned – it was not regarded as an economic issue because culture was deemed to be a non-profitable sector that should be isolated from market mechanisms. But its economic impact is now recognised. There is obviously an obligation to support culture on the basis of “art for art’s sake” arguments as well as because culture enlightens people, reflects our past and is integral to our identities. And yet, at a time when the public purse is shrinking, it is also important to look at the reasons for supporting culture – over and above the “art for art’s sake” arguments.

This document highlights the contribution of CCIs to economic development. It would be difficult to contemplate a coherent cultural policy which nurtures public interest objectives without a strong business underpinning. Business and culture and their respective commercial and public interests are strongly interdependent in this policy area. This argues for a holistic approach where cultural policy can support other policy areas covering social, environment, and economic as well as cultural objectives. Giving consideration as to how to improve access to finance for cultural and creative companies does not mean that public support for art and culture should be reviewed or diminished. On the contrary it provides an opportunity to attract more investment into the cultural sector.

In relation to this assignment we would like to stress three essential dimensions of CCIs:

- The economic and social dimension.
- The regional dimension.
- The European dimension.

1. The economic and social dimension

Very few economic sectors have generated as much expectation at EU level as CCIs have in the last few years. The positive results of these knowledge-based sectors on the economy in terms of growth, employment and innovation is increasingly being recognized and quantified at local, national and international level.8

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Whilst the ICT sector accounted for 5.3% of the EU’s GDP growth and 3.4% of total employment in Europe (2005 figures), the cultural and creative sectors accounted for 2.6% of the EU’s GDP in 2003 and represented 3.1% of total EU employment in 2004 (5.8 million people overall). It generated over € 654 billion turnover. Overall, the cultural and creative sectors’ growth in 1999-2003 was 12.3% higher than the growth of the general economy.9

This potential can also be observed at regional level, as illustrated by many policy documents and figures across the EU, including in ECCEi cities.10 Middle-sized cities such as Aachen, Birmingham, Cardiff, Eindhoven, Dublin, Nantes and Stuttgart, are showing promising economic results. Take for instance the Aachen area where creative businesses represent 6.5% of the total number of companies and have managed to achieve a total turnover of almost € 990 million in 2005.11 Likewise, Birmingham’s creative economy employed over 28,000 people in 2007, representing 5.7% of total employment in the city.12 In Eindhoven, one of the most dynamic and creative Dutch cities, about 30,000 people were working for the creative industries in 2003.13 In Cardiff, the main creative hub in Wales, the rate of employment in the creative field was 3.7% in 2003 and employment in the sector grew by 50.1% between 1991 and 2003.14 In the Nantes area in France 20,000 jobs are directly related to culture.15 In Germany, Stuttgart and the surrounding Baden-Württemberg region and its 4000 creative businesses are amongst the best performing creative regions in Europe.16

In addition, the cultural and creative sectors are now seen as essential drivers of innovation. Long-term structural changes in our societies towards a knowledge-based economy have led to new forms of non-technological innovation in which “culture-based creativity” plays a key role. People today attach more importance to the “experience” and/or “immaterial” values embodied in products and services than to their functionality.

Consequently, investing in “culture-based creativity” is beneficial not only for the sector itself but also for innovation in other sectors.17 As shown by a recent KEA study completed for the European Commission, “culture-based creativity” helps to stimulate and develop product and services innovation, plan branding strategies, trigger creativity among staff within non-creative sectors or trigger new business and technological practices.18 Creativity produces a spillover effect on the overall economy. Research carried out by NESTA, the National Endowment for Science, Technology and the Arts in the UK, has revealed that firms from any sector who spend twice the

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12 University of Birmingham, Centre for Urban and Regional Studies (CORS), April 2007, in ECCE (2009), *Creative Industries in North West Europe: mapping innovation opportunities*, Stuttgart.
16 Soendermann,Backes,C./Amdt,O./Bruenink,D.”Culture and Creative Industries in Germany. Defining the Common Characteristics of the Heterogeneous Core Branches of the “Cultural Industries” from a Macro-economic Perspective, on behalf of the German government, 2009.
17 The Commission defines innovation as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relation." Source: [http://ec.europa.eu/enterprise/policies/innovation/](http://ec.europa.eu/enterprise/policies/innovation/)
average amount on creative inputs are 25% more likely to introduce product innovations into their business.19

Last but not least, culture and creativity also trigger innovation in a diverse range of social areas. Design thinking can help restructuring public services, while arts projects carried out in collaboration with local communities can help to innovate the way local governments pursue social policy objectives such as integration, social cohesion, health care and crime prevention.

2. The regional dimension

Culture and innovation play a crucial role in helping regions to attract investment, creative talent and tourism. Although we are living at a time where information technologies have abolished distance and time constraints, “physical location” and the “socialization” factor remain decisive for economic success. Culture has become an important soft location factor and a key factor for boosting local and regional appeal. In this regard, developing cultural and creative clusters to increase local competitiveness is becoming more and more important.20 In areas where there is cultural activity there is a great deal of formal and informal trading of tangible elements (material, equipment) and intangible elements (knowledge, know-how) which is easier to achieve within a limited and densely populated area.

The very nature of cultural activity entails:
1) Constantly changing cultural products and,
2) Uncertainty about the demand for a cultural product.

Consequently geographic concentration or clustering is a good way to alleviate or reduce the risks associated with cultural goods,21

There are several enabling factors that ensure that culture and creative activity contributes to local development. In his research Professor Richard Florida developed the concept of a “creative class”22. According to Prof. Florida, creative people will seek out a district or a city that offers them:
- Cultural amenities (a good and diverse cultural offer, in different and diverse cultural venues),
- High-tech services (high-tech “poles” including research, academic and businesses),
- International openness (favouring international students and the establishment of foreign businesses),
- Good living & recreational conditions,
- An atmosphere of freedom and respect for individualism.

21 The OECD report gives the example of researchers Markell and Lorenzen who for instance showed that in the pop music industry, where there is great uncertainty about tastes and demand, there has been a heavy territorial concentration of composition, recording and publishing activity whereas in the furniture industry where demand trends are less volatile, networking has won over clustering. These clusters appear at places where the levers of “exogenous growth” and “endogenous growth” come into play.
- “Exogenous growth” occurs to the extent that the district can meet outside demand for its cultural goods even when that demand is satisfied on-site, for example, through visitors’ attendance at museums or festivals.
- “Endogenous growth” occurs to the extent that the proximity of the different stakeholders allows for the conception and production of new products that are in demand once they put on the market.
22 FLORIDA (Richard) The Rise of the Creative Class, 2002; The Flight of the Creative Class, 2005
The city in turn will benefit from the presence of this “creative class”. As a consequence, a city wishing to attract the creative class must provide it with an environment conducive to creation and invention. In this way local authorities are playing a crucial role in converting their trade economies to “creative ecosystems” able to:

1) Create employment and stimulate economic activity,  
2) Make regions and cities more attractive to creative talent,  
3) Help cities and regions to better communicate their identity and attract tourists,  
4) Strengthen communities’ identities and social cohesion.

In the cinema sector for instance, research has shown that each EURO invested attracts additional investment in the region (infrastructures, tourism, etc.) worth on average to € 2.5 as well as contributing to cultural dynamism and social integration.23

Countries, regions and cities are now developing policy strategies targeting creative talent and businesses as key drivers of local development and putting into place various support mechanisms and infrastructures to unlock their economic potential and develop new creative products, services and processes. 24 The mere existence of ECCEI clearly illustrates this trend.

Regions are in the best position to assess the needs of the sector and provide it with tailor-made answers, including with regard to access to finance. Not only because some cultural products have a territorial dimension (cultural and linguistic factors for films and books, for instance) but also because regions know their creative potential and can therefore better target priority sectors for support (not only by means of funding but also by providing advice and training services and networking opportunities with investors in the region).

3. The EU dimension

It has been shown that CCIs have a major impact on Europe at different levels. The EU therefore has a key role to play to support the sector.

The characteristics of cultural and creative goods are that they cater essentially for a local audience, its languages and cultures. This makes it difficult for the production of cultural goods and services to move to other continents. Therefore off-shoring is less developed than in other sectors of the economy (even at manufacturing level). Because of this characteristic (non-delocalisation), and given that Europe is a major producer of intellectual property assets, it would be well advised to try and make the most out of this potential to boost its economy.

Secondly, there is a competitive race to attract talent and creators (“the creative class”) to local environments supporting the clustering of creativity and innovation skills. Europe risks experiencing a talent drain in sectors such as video games and cinema attracted abroad by better conditions, essentially financial.

23 KEA European Affairs, The contribution of Regional Film Funds to cohesion, cultural diversity, growth and creativity, June 2009.  
Finally, the added value of culture as a key driver for Europe’s tourism should also not be underestimated. Europe’s cultural and creative assets make the sector one of Europe’s most successful industries, accounting for 5.5% of the EU’s GDP with Europe holding a 55% share of the global market. Europe is the most visited destination in the world. In 2005, the continent recorded 443.9 million international arrivals.25

Towards a cultural and creative industry policy at EU Level
The shift towards more political recognition of the economic value of CCIs has recently been demonstrated in various policy papers. In 2009, the Council of the EU for instance defined culture as a catalyst for creativity and innovation and called for strategic investment in culture and for CCIs to be part of the post-Lisbon strategy after 2010.26

The EU now sees a greater role for culture in local development. This change can be seen in the recent European Commission’s first ever Green Paper on Cultural and Creative Industries which highlights the need to help the sector develop in its local and regional environment as well as the importance of access to finance which it considers as a “core barrier to growth for many businesses within the sector.”27

The Green Paper also acknowledges the potential of the EU Regional Funds to support the sector at local level, observing that “this potential is insufficiently tapped.” This is likely to pave the way towards inclusion of this dimension of culture in the future Regional Funds for 2014-2020.

In addition, DG Enterprise plans to commit € 10 million (a budget of € 100 is planned as from 2013) to the development of a “Creative Industries Alliance”- ECIA (see EU Opportunities section of this report) which will also develop financing schemes and investment readiness programmes for the sector. This initiative also places great emphasis on the regional dimension of CCIs. It plans to give local and regional authorities a central role to stimulate this process.

25 Source: United Nations World Tourism Organization (UNWTO)
PART II – The characteristics of the cultural and creative sectors

Providing adequate and tailor-made support mechanisms (whether finance based or not) for the sector requires an understanding of CCIs, their structure as well as the needs and challenges of their businesses.

This report adopts the categorisation of the creative and cultural sectors used in the 2006 report on the Economy of Culture in Europe.28 That definition groups the cultural and creative sub-sectors as follows:

- Visual and digital arts; Performing arts.
- Creative industries (Fashion, design, advertising).

The vast majority of the European cultural and creative sector is constituted of micro, small and medium sized enterprises. These companies are extraordinarily creative and able to produce innovative artistic projects, often on a shoe-string budget. They account for most of the employment and are the main resource for developing new talent. Their financial resources are consumed by their production costs, leaving them with inadequate financial capacity to market and distribute their products. The vast majority of music and film companies in Europe are for instance micro-businesses and SMEs. Policies aimed at supporting SMEs at European level need to take into account the special characteristics of smaller companies in the cultural and creative field.

However, whether large or small, locally based or internationally established, the European cultural and creative sector is vulnerable. This is largely due to the heterogeneous political, commercial and cultural environment in Europe as well as to the very nature of the economy for cultural products:

- Cultural products are often short lived with a high risk ratio of failure over success. The market for cultural products is highly volatile, dependent on fashion and trends with uncertainty in demand. Some sectors are strongly “hit driven” (cinema and music for instance).
- Companies evolve in a fragmented market made up of a medley of languages and cultures – accessing the internal market remains difficult for local language products. However, this reality is less the case in sub-sectors such as design, fashion, or visual arts for instance.
- This market fragmentation, based mainly on structural constraints linked to the features of local markets, hinders their international development. Products are marketed for local audiences with different languages but competing with international products with global appeal. The internal market often works better for large international companies active in distribution that are vertically integrated and specialised in the production of mainstream films (blockbuster) or American pop music.
- The market structure is oligopolistic in some sectors (music and cinema notably).

1. **Main special features of cultural and creative businesses**

Cultural and creative businesses evolve in a great diversity of market segments, with different levels of demand and competition. The common features of micro businesses and SMEs in CCIs (compared to other SMEs) are that:

- They take an organic approach to the growth of their businesses.
- They lack the business skills and financial support to develop business and growth strategies, financial planning and marketing.
- They face serious problems in obtaining adequate valuation of copyright assets when raising finance.
- They are often dependent on public investment schemes (notably in cinema but also in a wide range of performing sectors such as dance, opera, theatre etc).
- They are often less well organised at trade association levels (apart from music) and consequently lack bargaining power at commercial and political levels.
- SMEs tend to take more risks with talent development – they are an essential factor in the creativity process. Larger companies involved in distribution need them as an essential source of creative production.
- Finally it should be stressed that while the cultural market is becoming more and more global, CCIs, as we have seen before, have remained essentially regional or national.

It is interesting to expand on some of those features that characterize the CCIs or some of its sub-sectors. These illustrate why creative businesses are generally perceived as “high risk” and why they find it difficult to access funding opportunities both at start-up and growth stages:

**Passion-driven businesses – importance of individual talent**

- Most creative start-ups are set up because their founders want to express or do something different and original. Wealth is rarely the main motivation. Cultural and creative businesses rely on talent, the relationship with talent and a passion for artistic expression.
- Lack of commercial ambition and of long term vision for commercial growth is often quoted as one of the main problems for these entrepreneurs.
- Most creative businesses are project based. This often prevents them from developing a long-term ‘corporate’ vision and relying on sound business models with clearly pre-identified market opportunities.
- The reliance on talent makes market entry into the cultural market relatively easy.
- Talent often needs to pair with a business person to succeed (Lagerfeld/Chanel, Coen Brothers/Working Title, U2/Blackwell/McGuiness, St Laurent/Bergé etc).
- Public sector investment in the cultural and creative sectors provides R&D funding enabling company start-ups on the basis of public funding (in particular film directors in cinema).29

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29 Spanish film director Pedro Almodovar with the production company El Deseo; Danish film director Lars von Trier with Zentropa; or French director Luc Besson with Europacorp, or Michael Winterbottom.
Small size, high competition, difficult scalability

- Small (less than 10 employees) and micro businesses as well as self-employed/free-lancers essentially dominate the sector. On average those companies employ not more than 5 persons. There is a “missing middle” syndrome: very few medium-sized companies in comparison to the number of SMEs.
- As creative businesses are built on personal talent, it is quite easy to enter the market at production level. What is more difficult is to access the market at distribution level. Micro and small businesses find it difficult to get beyond the start-up stage and develop into medium or larger-sized companies with adequate business strategies (difficult scalability). The talent therefore has to move to larger companies in order to benefit from wider distribution and marketing reach. This limits the ability of small companies to grow with the talent they often discovered in the first place.

Lack of security and difficulty in valuing and managing intellectual property assets

- Lack of security: firms are usually unable to access debt finance at a viable cost or at all because they are unable to offer security.
- Financial operators have difficulty in measuring the effective value of business assets such as copyright, licenses and royalties. Little attention is paid to equally valuable intangibles such as creativity, invention, originality and talent – which constitute the main assets owned by creative industries. Not only are these unpredictable variables but they also present particular complexities with regard to their exact valuation. Accounting standards therefore represent an important tool to gain the investors’ confidence.

Uncertainty in demand and linguistic fragmentation for content industries

- Demand for creative products or services is often unpredictable (the so called “nobody knows” principle).
- In Europe, linguistic and cultural fragmentation decrease market access opportunities and increase distribution and marketing costs (e.g. for content industries). Cultural products are often made for a local market. They therefore struggle to reach a global market - in particular cultural products in local languages (i.e. not English language).

Sector exposed to massive remodelling because of digital shift

- For most cultural and creative sectors (mainly music, audiovisual, videogames, media and publishing), the digital economy is turning traditional business models upside down. The music industry has lost 50% of its turnover worldwide in 5 years. The record industry has had to adapt with dramatic consequences for employment and investment in music.
- On the other hand the digital shift is an opportunity to address structural weaknesses in distribution and to conquer new markets through new marketing techniques and a better

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30 The share of independent workers is more than twice as high in the cultural sector as in total employment (independent workers in the cultural sectors represented 28.6% in 2004 compared to 14.1% in total employment).
31 The corresponding figures in traditional industrial sectors, e.g. the chemical or the automobile industries amount to an average of up to 128 persons. Source: FESEL, B., SONDERMANN, M., Culture and Creative Industries in Germany, German Commission for UNESCO, Bonn, 2007.
33 www.ifpi.com
understanding of consumer behaviour, an example of which is “the Long Tail”.\textsuperscript{34} New offerings can meet demand on digital networks provided the industry adapts to new consumer requirements, technology and integrates new skills.\textsuperscript{35}

Public support plays an important role for CCI\textsuperscript{s}

- Public funding is very important for the sustainability of the sector, in particular for some sub-sectors such as heritage, film, television, museums and performing arts. The European Cultural Foundation estimates European public spending (direct funding) on culture at € 55 billion.\textsuperscript{36} The sector also benefits from support through privileged regulation (such as reduced VAT rate, tax reliefs, broadcasting quotas to ensure market access for local language production and minimum prices).

2. Financial needs of CCI\textsuperscript{s}

On the basis of the features of CCI\textsuperscript{s} highlighted previously, the following section identifies the main needs (both financial and advisory) of these businesses, which vary depending on a series of parameters. Due to their particular characteristics and challenges the financial needs of CCI\textsuperscript{s} are different from those of businesses (or SME\textsuperscript{e}s”) in other sectors. This argues for the development of sector specific tailor-made solutions for access to finance for CCI\textsuperscript{s}.

Overall most cultural and creative businesses need external finance to:

- Help (for artists/entrepreneurs) to start up: they do not have the resources or the management skills to transform their passion into a business;
- Finance investment in new products and services: the experimentation, research and development required may entail unaffordable risks for cultural and creative SME\textsuperscript{e}s.
- Access markets: creative businesses usually do not face high barriers to enter the market. The most important source is personal talent and, at least in some sectors like design or visual arts, little investment is needed to start-up. What is really challenging is to 1) pass from local to global market, 2) find the right market; 3) find new demand in the digital market.
- Invest in growth in order to scale up and reach a critical size.

However, not all cultural and creative SME\textsuperscript{e}s share these needs to the same extent. Funding needs usually depend on a series of parameters, ranging from the development stage reached by the company (1), the type of sector and working mechanisms (2) and type of activity (3). The fact that they work on a project basis also greatly influences their financial needs (4). These features make it impossible to define a “one size fits all” financing support model.

\textsuperscript{34} The “long tail” re-establishes the concept of word of mouth and viral recommendation. Chris Anderson Wired Magazine October 2004.

\textsuperscript{35} Think of the three dimensional cinema “machinima” (http://www.machinima.com/) or other films realised through P2P networks and free software (http://orange.blender.org/, http://www.bigbuckbunny.org/, http://www.yofrankie.org/).

a. Needs according to the development stage and size

Each stage in the life cycle of a business presents different risks and opportunities and requires specific and adequate funding sources. At an early development stage, businesses (mainly start-ups) traditionally suffer from a lack of financial support. They generally need cash flow to finance the development of the initial concept and the human resources required (hiring a graphic designer to develop the business’ website for instance).

It is all but easy to raise money in early days for a start-up company without a track record. Self-finance (personal savings or family resources) or initial trade revenues are usually the only resource available to a creative entrepreneur. Formal sources of seed and early-stage financing or even private business angels (see below) willing to invest in high-risk and potentially highly profitable projects may also fill the financial gap.

When a company enters an expansion stage and becomes medium-sized or larger firm, other sources of finance such as venture capital or bank loans may become available. This might for instance help it improve its ICT or digital resources, develop new infrastructures, or acquire new skills. The more the company is able to assess its potential risks and results, the more it is likely to benefit from external funding sources, for instance provided by formal investment capital. Banks lend money more readily to established businesses with a track record.

Large companies are also an important source of funding for start-ups as they often rely on the latter to discover new talent. In CCIs funding often trickles through the entire value chain as large distributors are dependent on small producers for talent scouting in a large number of businesses.

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b. Needs across sub-sectors

One also needs to distinguish between the different financing needs of each sub-sector. Investors will support a creative business if they believe in the talent and managers driving the business. They may be in a position to limit the investment risk if the company has some track record in creative achievement, a catalogue of IP rights (to weather the bad years), strong contacts and sound financial results. The ability of a company to master risks related to uncertainty in demand, resource constraints, and industry structure is important. These three dimensions largely vary according to the relevant sub-sector.

Performing arts: performing arts companies need funding for numerous activities, ranging from hiring talent, developing talent, organising festivals or concerts, or investing in equipment (e.g. costumes, instruments, stage design, etc.). The sector relies mainly on public grants (with differences depending on the country), personal resources and, again, retained profits (if any). Some examples show that these sectors may increasingly need resources from venture capitalists to finance R&D activities for instance (see the Advantage Creative Fund’s case study).

Content industries: content industries need to access external finance for various activities. Public subsidies (in particular for the film sector), long-term loans, venture capital or business angels might be called upon to finance equipment, production, distribution and, in particular, marketing and promotion costs. In some cases an investment (say in a film) may be recouped over the long term, so there is a need for a long-term loans and also financing to fill any gap in production budgets. The film industry is particularly capital intensive and public support is increasingly making up for a clear market failure on the part of traditional banks to invest in the sector. Public support for cinema amounts to € 1.5 billion a year in Europe.

Fashion and design: this sub-sector usually relies on retained profits (direct sales or services), personal resources, debt-based finance or subsidies. A design firm might be more likely to look for external funding to finance working capital rather than equipment (although this might vary in the case of an industrial design company). External resources might also be used to promote their services and reach clients on international markets.

Visual arts and digital arts: Probably more than in other sub-sectors, individual artists/entrepreneurs and micro businesses or SMEs are predominant in the visual and digital arts fields. They usually use financial resources for equipments (including online tools and websites) or human capital. Personal resources, patronage, public grants (commissioning) and, when available, retained profits are very important for a sector usually considered very risky, especially at the start-up stage. Micro loans are also important relevant for this sector as well as bank guarantees. Innovation vouchers, tax incentives, risk capital and business angels do not seem to target most of these micro businesses.

38 Ibid.
39 Source: European Audiovisual Observatory, www.obs.coe.int
c. Financial needs for specific activities

Certain sub-sectors such as audiovisual, publishing or music, have also developed specific new financing needs for instance in relation to the digitisation of creative content and its distribution online. The pace of the technological development is a challenge as it requires companies to quickly rethink their business models and adapt their promotion, marketing and distribution strategies to the digital environment.

Businesses may need support to digitise archives or books (for museums, publishers, etc.), switch to digital equipment (for cinemas), develop online content distribution platforms (for film and music producers) or simply develop new online marketing tools to sell creative products.

Specific funding is also needed for “Research & Development” (R&D) activities which suffer from a chronic lack of finance and resources within cultural and creative businesses. Most respondents to the KEA survey have revealed that they need financial support for R&D and “innovation”. The music sector for example dedicates vast amounts of resources to R&D (called A&R for “artist and repertoire”) and marketing activities for scouting new talent. Music companies, according to IFPI, invest more than € 3.5 billion annually in developing and marketing artists – around 30% of their turnover.

41 This statement must be considered while taking into account that most respondents are from the design and “Media and Communication” sectors.


43 “Corporate finance [emphasis added] is an area of finance dealing with the financial decisions a business make and the tools and analysis used to make these decisions. [...] Project finance [emphasis added] is the financing of creative outputs based upon a financial structure where debt and equity used to finance the project are paid back from the cash flow generated by the project. [...] The financing is typically secured by the project assets, including the revenue-producing contracts”. G. Hopkinson, N. Butler, “A best practice guide to investment risk analysis in the creative industries”, CIDA, 2010, p. 6-7.


d. Project versus corporate finance

One of the main reasons often put forward to explain the lack of commercial success of cultural and creative companies is the focus on financing projects rather than companies. Most creative companies are working on given projects rather than corporate finance. Their financial needs therefore mainly relate to cashflow and loans guaranteed on assets. Only 37.2% of these companies try to raise finance for the business itself as opposed to trying to raise finance for an individual project.

Many experts consider that greater attention needs to be paid to corporate finance if creative businesses want to succeed and attract a wider range of investment sources (e.g. equity finance). However, it seems the problem is also on the financial offer side which, as we will see, offers reduced tailor-made “corporate” finance instruments to the sector. Take the film sector for instance: existing public support mechanisms rarely provide incentives to film businesses to create a sustainable economic model for their activity which would require corporate finance strategies.
3. Problems to access finance

As the Chair of NESTA Chris Powell summarizes: “Start-ups in the creative economy usually happen because founders want to do something differently, rather than a simple desire to make themselves rich. They want to have the independence to do it their way. It is often done as a conscious escape from what they see to be the restrictions of business and the inhibitions of financial structures. None of this is a problem in the early days, but when a company starts to develop successfully it quickly becomes a problem, as the lack of business or financial skills makes them ill-equipped to attract capital”.

CCIs often cite access to finance as one of the main challenges impeding the development of a sustainable business model with growth potential. According to the KEA survey around 85% of creative companies take the view that access to finance is an important issue for them.

Access to finance is however difficult for creative entrepreneurs for reasons that go beyond the lack of adequate capital resources. It hinges mainly on the relationship between the entrepreneur and the financier. The main problems can be summarised as follows:

- Insufficient skills in analysing risks and opportunities.
- Difficulty in assessing the value of intellectual property assets.
- Insufficient information on their growth potential.
- Dependency on public support which makes recourse to private resources less important (so encouraging a lame duck mentality in some creative businesses).
- Misunderstandings and prejudices between the creative and the investment sector.

Cultural and creative SMEs have more difficulty in attracting investment as investment in such activity requires a real ability to assess risks and to value intangible property. However the sector is no less profitable than other sectors of the economy. It continues to suffer from a “show business” reputation, with the eccentricities of its talent contributing to creating a negative image amongst the corporate sector. Passion should not drive investment in the sector but rather expectation of a return on the investment. Moreover it is challenging for creative businesses to know where to find funding opportunities and meet potential investors.

Public policy has a great role to play to attract such investment and limit the risks of such involvement. Improving relations between these businesses and investors by becoming investment ready is therefore a key policy challenge. As summarized in the previous paragraphs, the following illustrates the main obstacles (macro and micro) that impede improving access to finance opportunities. They are essentially based on the results of the KEA survey as well as other data:

- **Lack of management/business skills to make CCIs investment ready**

  Cultural and creative companies’ business plans often do not show revenue generated turnover or a suitably robust business model to provide assurance of their ability to repay a loan. More than half of companies that have answered the survey are aware of such a problem.  

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48 One should however highlight the positive impact of new technologies to address this challenge. For instance, the increasing sophistication of online technology has had the effect of introducing CCIs to a new set of business people or online tools (accounting
has shown that only 35% of creative SMEs use formal business planning techniques.49 “Creative people have to be investment-ready”, says Patrick Bradley, Director at Ingenious Venture, in this regard.50 The solution might either be to increase entrepreneurs’ skills in this field, or to provide them with opportunity to find external support to tackle this need.

- **Lack of security and tangible assets to offer as guarantee and lack of adequate accounting tools to value intellectual property assets**
  About 83% of respondents to the KEA survey reveal that the lack of tangible assets affects more or less all CCIs when trying to apply for external sources of finance. These companies usually cannot obtain bank loans due to the lack of security (company assets).

- **Lack of track record for start-ups**
  Combined with high risk which is usually associated to CCIs, the lack of a track record seems to present a problem in accessing external sources of funding. Although risk-taking investors usually commit for projects with high growth potential, the potential of a creative start-up is often difficult to assess.

- **Lack of awareness/understanding**
  Creative people are not used to looking at certain financing sources because they are not aware of their existence or of the opportunities they offer. For about 66% of respondents to the survey, this is an important issue to face.

- **Disorganisation of the sector**
  Until now, the sector has not been able to speak with a single voice and spell out what kind of support it needs.

- **Lack of expertise and understanding of investors of the risk dimension**
  KEA survey reveals that 66% creative companies think that investors do not sufficiently understand how the creative sector works. There is usually no clarity with regard to how business models evolve and the value chain is poorly defined and understood.

- **Lack of tailor-made instruments addressing needs of a specific creative sub-sector**
  According to the KEA survey, all respondents affirm that they need more tailor-made financing schemes which take account of their business models and working mechanisms. They also acknowledge the need to build a link between the investment and creative communities.

- **Lack of communication on available funds**
  The KEA survey shows that about 80% of respondents consider the lack of communication/information on available funds is a significant problem.

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PART III – Financial tools

1. Introduction and state of play

The following chapter provides a non-exhaustive review of existing financing schemes for CCIs.

Access to external capital turns out to be a real challenge for CCIs. In the Netherlands, a survey shows that one in seven creative businesses call on external finance. However less than half expect to get financing when needed, compared to two out of three in the case of SMEs from other sectors.51 This clearly shows the disadvantage suffered by creative entrepreneurs when trying to access finance when compared to other sectors.

National, regional and local authorities now seem to increasingly acknowledge the economic importance of the cultural and creative sectors. While the core arts (and also cinema) have traditionally been funded with public money to pursue socio-cultural purposes, policy makers are increasingly advocating for a greater and better use of private money to match public resources with a view to further stimulating the sector’s innovation and economic dimensions. The financing of culture and creativity seems to be moving towards public-private partnerships models where venture capital, tax deductions, direct public subsidies or bank guarantees can support creative activity to generate wealth, economic activity and create employment.

Private and public sources can provide different types of answers to the sector’s financial needs, as we will see in the next sections.

One can easily observe the emergence of a wide range of support instruments (public; private; public-private) offering potential (indirect) funding opportunities within ECCEi countries or directly targeting the creative sectors. However, there are geographic and sectoral differences. For ECCEi countries, the following general trends can be outlined:

1. Financing trends
   - Personal resources remain a basic source of finance for CCIs to launch a project or a business52, followed by retained profits, public grants (especially for the audiovisual sector, performing arts and music) and debt-based finance. Creative businesses still under use equity finance. A growing number of examples of mechanisms can however be identified in this last area.
   - No “one size fits all” financing model for CCIs exists.

2. Available support schemes
   - Many multi-sectoral support schemes (for innovation or SMEs) exist but CCIs rarely access them. The specific features of these businesses are not sufficiently taken into account.
   - A number of support instruments specifically for the creative sector have been established recently. But their number remains limited despite the opportunities they offer to CCIs.
   - Many multi-sectoral and creative specific support schemes and services existing at

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regional level are publicly driven and focus on micro and small and medium size businesses. However several private initiatives can also be highlighted (e.g. Ingenious Media; Kunstenalrs & Co).

- **Clear market failure.** Banks or other private companies/individuals rarely invest in CCIs. This shows the importance of public intervention to trigger and stimulate private investment.
- **Advisory services are essential both for the creative sectors and for investors:** sector specific support infrastructures have been created across ECCEi countries in the last few years to facilitate access to finance for creative businesses, stimulate private investment, and make creative people **investment ready.**
- **Within the cultural and creative industries, the audiovisual, cinema and media sectors (more capital intensive) are the main beneficiaries of support measures.**
- **Equity investment in CCIs remains to be stimulated** (e.g. CCIs VC Fund in Berlin in 2008).
- **New alternative finance tools such as “Innovation Vouchers” or “P2P finance” are being launched which can also help CCIs address specific needs.**

3. **Support from the EU**
- **The EU will make funding available to regions to support CCIs (e.g. through Regional and innovation funds).**
- **The European Investment Bank and the European Investment Fund** can provide more support to CCIs.

The following sections present the financing trends as well as relevant examples of schemes currently available for the sector. They focus mainly on finance and support schemes designed specifically for CCIs. However, we also touch upon other more general financing schemes (mainly for SMEs) that could potentially be of interest to cultural and creative SMEs because of their easy access conditions, the small amounts of credit provided, their focus on innovation, etc.
A wide range of sources of finance for the sector

The following diagram presents a picture of the types of funding available for creative businesses. The next section explains each of them, their added value and the issues related to creative businesses. It focuses on the ECCEi countries (France, Germany, Ireland, UK and The Netherlands).

![Diagram of financing sources for the cultural and creative sectors]

Figure 1 – Source: KEA, 2010.

2. Debt-based finance and Guarantees

   a. Debt-based finance

After self-finance, retained profits and public grants, debt capital represents an important source of finance for creative businesses, although its use varies from one sub-sector to another. Overall lending institutions seem to give priority to the film and media sectors compared to other creative fields. But the use of debt-based finance also benefits other sectors. 67% of design companies for instance claim to use debt-based finance compared to 12% in the music sector.53 Moreover, use of debt to finance creative companies is more likely to benefit to larger SMEs.54

Either private banks or public authorities may provide companies with short, medium and long-term loans, even of very small amounts (micro-credits). Numerous SME loan schemes exist, but they

54 Ibid.
rarely target creative SMEs. However, this is slowly changing especially thanks to the development of tailor-made guarantee schemes (see IFCIC below) to encourage bank loans to these SMEs.

Many creative businesses (such as in the film or music sectors) need mid or long-term bank loans due to the long investment cycle that characterises these companies. Loans are usually used for financing investments, working capital and stock financing. They can take the form of discounting receivables, cash-flowing and loans guaranteed by a charge on assets.\textsuperscript{55}

Debt-based finance arguably presents complementary advantages when compared for instance to risk capital (see next section). On the one hand, debt capital is less costly and enables the owner to retain control of his company (as he will not share ownership with the investor). On the other hand, in contrast to equity finance, loans do not carry with them a direct involvement of investors’ expertise, which can turn out to be very useful for people lacking business skills.

However, most lenders are quite reluctant to provide loans to creative SMEs (even audiovisual) because of:
- Insufficient turnover
- Lack of tangible guarantees
- Development potential that is difficult to measure (also due to project-based activity)
- The disproportionate costs of administrative procedures in comparison to the limited amount of money often asked.

As a result of these barriers, most banks are reluctant to provide working capital (for example via appropriate overdraft facilities), or discounts of future cash-flow related to IPRs.\textsuperscript{56}

This proves there is a need for more specific loan and guarantee schemes and the establishment of specialised bodies that can mediate between investors and creative businesses to highlight the potential and opportunities of financial collaboration.

At present, there are two main categories of loan scheme for creative businesses: general SMEs loan schemes (of potential interest for the creative sectors), and creative sector-specific loans. Most of them are managed by public organisations (for instance regional, especially in the UK or Germany) and they can be used to leverage private sources of finance. Banks (whether private or public) also play an important role in providing loans to the sector.

A few creative specific initiatives have been established at national level both by private (Netherlands), public (Ireland) and public-private (IFCIC) stakeholders. The main beneficiaries of these specialised schemes however are audiovisual and music businesses.

Loan schemes also exist at regional level with several regional agencies or banks for instance developing more and more multi-sectoral or creative specific initiatives in this field (in the UK or Germany for instance). This trend seems to show the important role regions have to play in this respect.

\textsuperscript{55} Scrope, A., Duffield, G., \textit{Financing for the Creative Industries – Addendum to the report}, UKFC, 2004
\textsuperscript{56} Ibid.
i. Multi-sectoral loan schemes

- In the UK, there is currently no nationwide tailor-made loan scheme for CCIs but a number of loan instruments have emerged at a local level. There seems to be a consistent offer of loans provided by regional funds (mainly publicly funded) to regional SMEs operating in any sector including, for example, the Advantage West Midland agency’s Arrow Fund (loans up to € 15,000), the North West Development Agency’s Loan Fund (up to € 320,000 for innovative SMEs) and the South Yorkshire Investment Fund (up to € 75,000). Interestingly, the London Development Agency, which also provides support for CCIs, has also recently launched an Economic Recovery Loan Fund, providing up to € 60,000 in loans to any SME in London. Finally, Finance Wales offers mid-term micro loans worth between € 5,500 and € 25,250 to Wales-based businesses with growth potential (see below for more information on equity capital through the same organisation). Other initiatives in Wales include the Capital Cardiff Fund. Managed by the Cardiff Council Business Support for SMEs, this € 730,000 fund offers loans and grants (but also equity takes) to technology and knowledge-based companies at start-up and growth stages. Beneficiaries include creative businesses active in the video game and ICT sectors, such as the social network developer Microcosm.57

- In Germany, the Berlin Investment Bank (IBB) has also designed simplified and quick access for SMEs to micro-credits up to € 10,000. A business plan is not required and financing decisions are based on personal interviews. Interestingly, creative businesses currently represent 18% of the total share of micro-credits provided. Likewise, in North Rhine Westphalia, the regional development bank, NRW.BANK offers micro loans to start-ups and SMEs from € 5,000 to 25,000. It also provides long-term loans (up to € 50 million) and low interest loans for R&D projects.

ii. Loans specific to the cultural and creative sector

- Since 2007, CCIs in the Netherlands have benefited from a Culture Loan. This private instrument is made available to all independent working professional artists, creative persons, as well as projects through Kunstenaars&Co (Artists&Cultural Entrepreneurship) and the Triodos Culture Fund (launched by the Triodos Bank). Culture Loan gives micro (up to € 3,000) or large credits (€ 10,000 or more) for long-term investments such as the acquisition of musical instruments, digital equipment (e.g. cameras), software, etc. Most of the beneficiaries are visual and performing artists and designers58.

  ➢ To date, 236 microcredits and 96 loans (over € 15 million) have been granted.

In 2006 the Triodos Bank also launched the Triodos Culture Fund which gives loans to cultural organisations at preferential rates.

  ➢ By the end of 2007, about 4,000 people had invested € 53 million into the Fund, mainly to finance cultural institutions such as the Royal Theatre in Amsterdam or the Werkplaats Kunstenaars foundation in Utrecht.

57 http://www.mgames.com/index.html
58 Data presented at the validation workshop for the “Study on the entrepreneurial dimension of creative SMEs”, Utrecht School of Art, 2010. (Internal documentation).
Furthermore, Triodos also gives out loans (€ 4 million budget) for incubation spaces/services thanks to the € 1 million Counter Guarantee Fund, which has just been launched by the municipality of Amsterdam.

- As to sector-specific debt financing schemes, in France, Coficiné and Cofiloisirs are two specialised private instruments providing credit to cinema and TV productions. The two of them receive financial support from the European Investment Fund (EIB) to co-finance loans for the production and distribution of audiovisual works in France and other EU countries. Loans are also provided to the cultural sector by the Crédit Cooperatif, a cooperative bank whose members are companies and organisations operating in the social field.

The French public-private IFCIC (Financing Institute for Cultural Industries and Cinema) also provides medium term loans to music businesses for structural development through the ‘Fonds d’Avance aux Industries Musicales’ (up to 70% of the costs for a maximum of € 800,000).

  - **Since its launch, the fund has given a total of € 2.5 million to 40 businesses, supporting a total of € 11.6 million investments**

- In Germany, the GLS Gemeinschaftsbank, a private cooperative bank, is one of the most innovative German banks financing non-typical sectors including culture. It has developed innovative models mixing bank loans for production activities (such as events, performances and tours) with subsidy and donations for investment costs (such as rehearsals, costumes and premises). The organisation has for instance supported the Bochum Symphony Orchestra.

The region of Baden-Württemberg also benefits from MONEX, a microfinance organisation created in 2005 that grants loans to young businesses from any sector up to a maximum of € 20,000. As it works in partnership with the GLS Bank, it is likely to finance culture.

Likewise in North Rhine Westfalia, NRW.BANK also offers specific support for film and TV productions, including short-term loans up to € 2 million.

- In Ireland, a similar initiative to the GLS Bank has been launched by the "Clann Credo - The Social Investment Fund", a not-for-profit organisation providing loans to organisations working in a wide range of sectors not usually targeted by banks, such as culture.

Finally, national film institutes in the ECCEi countries also usually grant loans to film companies in different European countries essentially to support the production of long feature films, a very capital intensive activity. They have also a range of financial instruments to attract investment, including foreign investment to sustain the local film industry and its infrastructure.

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59 Peacefulfish, Study on The role of Banks in the European Film Industry, 2009.  
61 IFCIC grants loans only in the framework of 'fonds d’avances remboursables'.  
62 [www.ifcic.fr](http://www.ifcic.fr)  
63 [www.nrwbank.de](http://www.nrwbank.de)  
64 [http://www.clanncredo.ie/default.aspx?m=1&mi=41](http://www.clanncredo.ie/default.aspx?m=1&mi=41)
**b. Guarantees**

Guarantees are a necessary tool to encourage financial institutions to provide debt-based finance to creative SMEs. Guarantees function as security against the fulfillment of an obligation like the repayment of a loan. By sharing the risk of supporting a creative project along with lenders, guarantees play a crucial role in facilitating access to finance for SMEs. However, for most cultural and creative businesses, access to those guarantees is not an easy task although several initiatives have started to emerge and show positive results, as one can see below.

The successful example of the IFCIC in France (below) clearly shows the positive impact of creative specific guarantee schemes for CCIs. However, they essentially benefit the audiovisual and media sectors. Furthermore, most traditional guarantee instruments that have been identified do not draw distinctions between sectors and they focus mainly on SMEs. Moreover, research carried out with German banks shows that banks are not used to evaluating creative projects.65

The majority of guarantee schemes that we have identified are managed by public bodies at national or regional level. One key challenge for the future of CCIs is to open up these instruments to further support them.

There are a few private initiatives such as Kunstenaars & Co in The Netherlands which has become the most important guarantee fund for the cultural sector delivered in collaboration with a private bank.

At European level, the European Commission is planning to launch a European MEDIA Production Guarantee Fund that will benefit the audiovisual sector. This pan-European guarantee scheme would be a first in Europe.

There are three main categories of guarantee that could be used by CCIs: public guarantee schemes for SMEs for which cultural and creative businesses have shown little interest so far (Germany, Ireland, UK), public or public-private guarantee instruments intended specifically for the creative sector (France, Spain) and, recently, private guarantee schemes available for some creative sub-sectors (Netherlands).

### i. Multi-sectoral guarantee schemes

Public guarantee systems for traditional SMEs can be also used by the CCIs. In Germany, state guarantees (Landesbürgschaften) are provided to SMEs through federal public guarantee banks. In North Rhine Westfalia and Baden-Württemberg, the two regional public guarantee banks, Bürgschaftsbank NRW and the Bürgschaftsbank Baden-Württemberg GmbH provide guarantees worth up to 80% on loans to SMEs. Likewise, the Ministry of Economic Affairs in the Netherlands provides a State guarantee scheme for loans to any businesses through the *Borgstelling MKB Kredieten*. In the UK, the Small Firms Loan Guarantee (SFLG) provides guarantees for loans up to

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65 “Another difficulty in connection with financial support is the assessment problem of banks and providers of economic support. Many providers of economic support in Germany are not accustomed to dealing with enterprises of culture and creative industries” from CBC, KWF, prognos, *Culture and Creative Industries Defining the Common Characteristics of the Heterogeneous Core Branches of the “Cultural Industries” from a Macro-economic Perspective*, 2009, p. 143.
€ 275,000 for companies from any sector with a trading record of more than five years. This public initiative provides 75% of the security to the bank on acceptance by them of the application.

- Around 9% of SFLG loans are given to creative businesses.\(^{66}\)

ii. Public-private guarantees for creative SMEs

Few countries have developed specialised schemes for cultural and creative SMEs.

- France is the only country in Europe with a public-private national guarantee body for the sector. The IFCIC gives out guarantees to French but also European companies from any creative sub-sector.\(^{67}\) In 2009, IFCIC observed that “guarantee” activities within creative businesses had increased by 60%.\(^{68}\)

IFCIC has equity of about € 16 million and, more importantly, two active guarantee funds with a total gross value exceeding € 75 million: the “Fonds de Garantie Cinéma et Audiovisuel”, which is funded by the Centre National de la Cinématographie (CNC) and the “Fonds Industries Culturelles”, funded in large part by the Ministry of Culture.

These funds enable IFCIC to guarantee up to € 273 million (IFCIC share), corresponding to total loans of the order of € 565 million. Risk ratios are regularly reviewed. IFCIC typically guarantees 50% of the loans. However, it guarantees up to 70% of development credits for the audiovisual sectors as these are considered to be riskier than other kinds of loans. This means that when a company fails, the bank’s losses are limited to 50% or, in the second case, 70%. IFCIC can also guarantee European audiovisual co-productions without French partners.

- In 2009, IFCIC guaranteed about 100 films for a total amount of € 102 million credits. 85% were independent films with a budget between € 1 million and € 10 million. In the same year, € 15 million European co-productions were guaranteed for a total of 19 films and 16 production companies based in six different countries.\(^{69}\)

Similarly, in Spain, Audiovisual SGR is a public-private guarantee institution managed by the Ministry of Culture and EGEDA, the Spanish audiovisual producers’ rights management association. Since 2005, it has provided guarantees to banks lending money to audiovisual companies.

- In 2005-2009, SGR guaranteed about € 53 million for some 200 projects, ranging from a total amount of € 7 million in 2006 to € 23 million in 2008. These in turn stimulated € 180 million industry-related expenditure creating over 2,000 jobs.\(^{70}\)

\(^{67}\) http://www.ifcic.fr/english-version.html
\(^{68}\) Interview – Laurent Vallet (Directeur Général de l’IFCIC), Ecran total, 15 Mai 2010.
\(^{69}\) Ibid.
• In **Germany**, the NRW.BANK in North Rhine Westfalia also offers a guarantee up to € 750,000 for film and TV productions.

  **iii. Private guarantees for some creative sub-sectors**

• Smaller private guarantee funds also exist in **France**, such as Siagi, a private financial institution created by the national Chamber of Trade and whose members include craftsmen. It offers guarantees to the craft industry across the country through local agencies (such as Siagi Nantes).

• Similarly, the private Guarantee Fund (up to € 100,000 for max. 25% of the total loan) managed by Kunstenarhs & Co in the **Netherlands** also makes an impressive impact. Since 2004, Kunstenarhs & Co has worked to fill the “financing gap” that often prevents micro and small creative companies in any sector from accessing funds. Its main focus is creative people needing micro-finance, such as visual artists, performing artists and designers.

  ➢ **With a budget of € 1.8 million, Kunstenarhs & Co has helped raise € 20 million in loans for creative businesses, especially in the fields of design, visual arts and performing arts.**

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3. Equity finance

Creative businesses still make very limited use of equity finance. However, this varies greatly according to the sub-sector and the size of the business. Large businesses are likely to call on private investors more than the average of smaller businesses although equity finance is also often used for start-ups with high growth potential.\(^72\) The content sector, including ICT-oriented creative businesses (video games, animation, web designers, broadcasters, etc.), seems to be the sector that benefits most consistently from equity finance, as one can see for instance through the successful example of Ingenious Media (see below).

On the one hand, equity has traditionally generated mistrust and lack of understanding on the part of creative entrepreneurs. On the other hand, investors remain in general skeptical about the sector. This skepticism is triggered by an image problem (is this a serious sector to invest in?), by the fact that the sector is plagued by piracy and technology developments which make investment more insecure and by a poor knowledge of the sector. This leads to many misunderstandings and prejudices. Equity finance involves external investors taking an equity stake in the investee company so as to share in the profits. This requires the company to keep investors constantly updated on the progress and financial results achieved. This accountability imposes financial obligations which distract creative companies from their creative ambitions. Furthermore, many creative entrepreneurs do not want to give away control of their business to external investors or give investors the chance to interfere in creative projects. However, equity finance also has a considerable advantage over other sources of finance as investors are likely to provide both financial and business support.

There are two main forms of equity finance: venture capital and mezzanine capital. Venture capitalists (VCs) take equity in the company by investing third party money (from insurance companies, the state, etc.) and look for a high rate of annual return (30% and above). Investments usually range from € 250,000 up to € 5 million. The investor will have a right to a share in the profits of the business. In contrast, mezzanine capital is provided through hybrid instruments combining elements of risk and debt-based finance. For example, a preferred equity gives no voting rights (as in the case of loans) but gives priority in the payment of dividends (one of the possible benefits of investment capital).

### Capital invested or lent by stakeholders in the same value chain

For most creative sectors, trade revenues and capital provided by other stakeholders in the same value chain represent the main source of finance for their businesses (alongside personal resources for start-up companies). In the book, music, video game or audiovisual sectors, many majors act as the “gatekeepers” of smaller creative businesses, by providing them with finance for finding new talent or exploiting a catalogue, for instance. As Osman Eralp, CEO of Spectrum Ventures, points out: “There is a unique benefit to trade financing which is that if I borrow money from the distributor, or if I license to a major label, they are always making money on my repertoire. By distributing it, they are making several margins and, therefore, they have a reason to keep me in business where an investor might see things are going poorly.”\(^73\) The creativity of smaller

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stakeholders in the sector is often used as a resource by majors and larger companies which see this as an opportunity to invest. This reality makes it important for policy makers to support not only smaller creative businesses, but also larger ones as this will eventually benefit the smaller ones which depend on these intra-sectoral investments.

a. Venture and mezzanine capital

In Europe there are few venture capital and mezzanine capital funds in comparison to the United States, where these funds are significantly more developed. Most investment funds are destined for ICT related businesses. The challenge is to make those schemes more available to creative businesses.

There are, however, some 62 specific equity finance schemes across Europe which are partly dedicated to CCIs. Most of them have been established only very recently with 32 out of 62 funds being for audiovisual businesses sectors linked to the ICT sector. Importantly, most of them are regionally based and publicly funded, showing the importance of regional government in guiding investments in this sector. One example is the audiovisual investment fund Wallimage in Wallonia (Belgium). In less than 10 years, it co-financed 120 film projects for a total amount of € 30 million which generated about € 100 million expenses in the Wallonia and Brussels regions.

As equity opportunities are quite new, few impact studies exist. It is therefore difficult to assess their effectiveness. However, there are several examples of mechanisms which illustrate the potential of equity finance for the sector. Existing equity capital funds for CCIs are therefore mainly publicly funded (often with support from the EU regional funds) and act as leverage on private sources of finance. Furthermore, they may include advisory services to help businesses understand the financial implications in their business development.

The investment funds available across the ECCEi countries for the CCIs are illustrated below by country.

- The UK has been the first in the EU to investigate the opportunities offered by risk finance for different sectors. It is where private stakeholders have developed specific expertise to invest in cultural and creative businesses, although this has been mainly in the audiovisual and media sectors and, more rarely, in the fashion and luxury goods sectors.

At national level, multi-sectoral initiatives potentially relevant for the sector are the “Venture Capital Trusts” (VCTs) launched by the British government as from 1995 to attract private money for investments. Within 12 years those tax efficient UK closed-end collective investment schemes designed to provide private equity capital for high growth SMEs raised € 3.3 billion from investors and provided mentoring skills. Similarly, the Enterprise Capital Funds (ECFs) set up in 2005 are co-investment schemes targeting innovative SMEs with investments worth up to € 2 million.

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75 Ibid.
Around 25% of businesses supported by ECF are creative companies.\textsuperscript{77}

With regard to sector specific equity opportunities, the UK has seen several initiatives emerge in the last few years. Firstly, it is the home of leader investors in the creative sectors such as Ingenious Media.

**Ingenious Media: a successful strategy to invest in the CCIs**

Ingenious is a group of specialist media investment companies which provide private equity tools worth up to €16 million to entertainment companies. In 2009, it registered a turnover of €588 million compared to 291 million in 2008 and from 2008 to 2009 the operating profit increased by 11%, reaching more than €28 million.

The founder Patrick McKenna is former CEO of the successful entertainment company Really Useful Group. He has built on his own knowledge and expertise in the creative sector to the benefit of CCIs. Ingenious offers sound expertise in assessing risks within creative businesses on behalf of investors and lead them towards profitable investments. The rigorous selection and training of the staff are part of its strategy to mitigate risks and make investors confident.

The group acts through different companies and investment funds. These focus on companies with high growth potential and offer both project-based and corporate finance. For instance the company Ingenious Media Active Capital Limited (IMAC) invested €1.7 million in the digital marketing agency Outside Line which has enabled the company to expand. Likewise, the VC Ingenious Music VCT has so far invested in a wide portfolio of music companies, backing 12 artists such as the last Prodigy album in 2007 (over €2 million invested). The album reached Number 1 in the UK charts in its first week of release and has now sold over 550,000 units in the UK. A further example is a €630,000 investment made through Ingenious “Entertainment VCTs” in 2008 in the 80s Rewind Festival. Held in 2009, the event attracted an audience of over 15,000 each day.\textsuperscript{78}

In 2008, the company also successfully invested in the worldwide blockbuster “Avatar” directed by David Cameron.

At regional level, various risk capital funds have started to flourish in the UK in the past few years with a number of relevant public and public-private initiatives benefiting mainly the audiovisual sector (East of England Low Carbon Digital Content Fund, 4iP Fund) but also other creative sub-sectors (Advantage Creative Fund, Creative Advantage Fund).

Set up with funding from Advantage West Midlands in 2003, the Advantage Creative Fund (ACF) make equity investments up to €280,000 in any creative business.\textsuperscript{79} The Fund provides support for drafting the business plan and in return takes a small equity stake. ACF is financed by the European Regional Development Fund (ERDF) of the EU Cohesion Policy. ACF has drawn down a total of €7.4 million from investors to date.\textsuperscript{80}


\textsuperscript{78} More information available at: www.ingeniousmedia.co.uk


ACF has provided €6 million in 55 creative businesses, contributing to the creation of 300 jobs and generating a total turnover of €29 million.

**ACF finances research for new ballet shoes**

Matthew Wyon is renowned for his contribution to dance science research across the globe. Thanks to an ACF investment, he was able to develop a new line of shoes for ballet dancers: Inspire – The Future of Dance.

His Flyte shoe supports dancers’ feet fully and smoothly as they go up on point, and gives comfort, support and poise. Based on sports science technology used in major sports, it also lasts longer than any previous type of shoe.

Founded in 1999, the Creative Advantage Fund (CAF) is a Birmingham-based venture capital fund for CCIs, providing capital investments in SMEs with a view to capital growth. It traditionally focuses mainly on TV, film, software, theatre, toy design and jewellery by making equity investments of between €80,000 and €170,000 in SMEs. The fund does not invest in stand alone projects. It was first established by Birmingham City Council and West Midlands Arts (now part of the Arts Council), with support from Advantage West Midlands, the European Regional Development Fund and the private sector to bridge the “equity gap”.

Both ACF and CAF were set up as “Evergreen” funds: there are no returns to investors and realized monies are to be reinvested in the Fund.

In the London area the Creative Capital Fund (CCF) is a €7.5 million equity fund that helps cultural and creative businesses by providing seed capital investment and business support. It was established in March 2005 as part of the Creative London programme. Creative London is the strategic agency for the creative industries and is part of the London Development Agency. The CCF makes equity investments of up to €750,000 in early stage companies. The CCF operates as a matching fund and so every €1 invested by the CCF must be matched by at least €1 in equity from private investors on the same terms.

The regional East of England Low Carbon Digital Content Fund focuses on digital TV and film production methods with low environmental impact being implemented in East of England. With a publicly funded budget in the region of €11.4 million, about €5.5 million of the fund will support 10 to 15 equity investments of €275,000. The Fund is financed by EU regional funds, the East of England Development Agency, and the Screen East Film Fund.

In Wales, a sector-specific scheme has been developed by the local government through Finance Wales. Established in 2005, the Wales Creative IP Fund invests private and public funds (including EU funds) for the benefit of creative businesses based in Wales through loans and equity capital at all stages of their development. Wales Creative IP invests mainly in film, TV, new media and music production and has a budget of €11 million. It provides capital (of between €55,000 and €780,000) alongside money already raised by the business (which needs to raise a minimum of 60%). Other funding packages managed by Finance Wales and benefitting any SME include:

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81 http://www.ccfund.co.uk/
82 http://www.financewales.co.uk/what_we_do/how_we_invest/creative_projects.aspx
http://wales.gov.uk/docs/drah/meetings/20090827wagpapercreativeindustries-e.pdf
“Early stage”; “Development Capital”; “Management Succession Funding”; “Micro Loans”; “Follow-on Investing” (see “EU Opportunities” section to see how Finance Wales uses both EIB and ERDF funding to provide capital to SMEs).

British public-private broadcaster Channel 4 has also introduced an interesting fund, the 4iP Fund aiming at stimulating public service digital media across the EU. 4iP provides project funding and equity seed capital. The Fund is a partnership between broadcaster Channel 4 and a network of partners across the UK providing co-investment and/or in-kind support of up to € 54 million.

• Although to a smaller extent, **France** has also started experiencing the use of public-private investment funds for the cultural and creative sectors with several sector initiatives being launched in the last few years. Such a change seems to have largely been supported by the Tepa law (see next section on fiscal incentives) which has stimulated the creation of innovation funds. This fiscal scheme grants fiscal reductions (a 75% tax reduction) to individuals investing up to € 50,000 in SMEs directly or through investment funds. It can benefit SMEs in two main ways. It can help SMEs or existing funds to attract more private money and/or it can stimulate the creation of new investment funds. Overall, it is estimated that the French law attracted € 580 million investment in a wide range of sectors in 2008 and € 322 million in 2009.

The law may open up new investment opportunities for the cultural and creative companies. Several examples illustrate such a potential. ISF Innovation, for instance, provides investments into high-growth companies in areas such as ICT, e-Commerce or sustainable development, while the “Fonds communs de placement dans l’innovation – FCPI” are obliged to invest at least 40% of their assets in innovative SMEs which are not more than 5 years old but can be located in any geographical area.

Although the scheme does not target the CCIIs, it enabled the audiovisual sector to raise € 10 million in 2009 through the “Capucines” funds and the new investment company ISF Cinéma that has been created under the Tepa law83.

One can also highlight the following relevant examples of French investment funds directly or indirectly benefitting CCI:

Mode et Finance is a risk capital company that invests in young French fashion companies with a turnover above € 500,000 and high growth potential. The company is indirectly linked to the public-private investment company, CDC Enterprises, a wholly owned subsidiary of the French public bank Caisse des Dépôts. CDC’s overall objective is to promote equity capital financing (€ 2 billion from 2006 to 2012) of growing French SMEs in the technology sector or in traditional industries which create value and employment. CDC also provides direct investment in businesses through funds such as the “Co-investment fund for young companies”, mainly focusing on “technology companies”, and the “Fonds Patrimoine et Création”. Launched in 2005, the latter provides capital worth between € 1 and 5 million for mature, profitable “cultural or heritage” companies. They need to have a turnover of more than € 5 million and focus in particular on literature, publishing, films, radio and television, music or luxury goods.

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As for private initiatives, Success Europe is a € 10 million private Venture Capital Trust Fund established by Sophia Business Angels under the French Tepa law to support investment in early stage funds, with specific focus on digital and media companies. It is closely linked to “Cap Digital Pole de Compétitivité”, a French business cluster for digital content, but it can invest anywhere in Europe.

In the specific case of the Nantes area, the “Pays de la Loire Développement” is another private risk capital company affiliated to the CDC Enterprise whose mission is to invest in innovative projects enterprises operating in any industrial sector but with a turnover under € 4 million. At the moment, it seems to focus more on the technology and renewable energies sectors.

Likewise, I-Source is a French early stage venture capital firm focusing mainly on high growth ICT companies but it also looks increasingly to cultural and creative businesses. I-Source has made over 60 investments in the last ten years and manages around € 185 million.

*I-Source investing in online photography platform - DarQroom*

In December 2009, DarQroom, an online distribution platform for professional and amateur photographers, managed to raise € 1 million through I-Source. DarQroom is a platform enabling users to store high quality pictures and sell or distribute them to online users. The service also offers high quality printing services.

The platform was born from its founders’ shared passion for photography and new technology. When they brought together their shared vision with their complementary personalities and experience in June 2008 the DarQroom project came to life.

- In Germany, the regional development bank, NRW.BANK, has developed an investment scheme specifically designed for creative industries in North Rhine Westfalia. It provides co-investment from € 250,000 up to € 3 million in emerging and mid-sized companies in sectors such as film, radio and TV, publishing, music/entertainment, advertising/communications, fashion, design, architecture, multimedia, games and software. Similarly, the Berlin Investment Bank (IBB) created the public “Venture Capital Funds Creative Industries Berlin” in 2008. The fund amounts to € 30 million (with plans to increase this amount to € 60 million with support from private investors), 50% from the ERDF and 50% from the bank. It contributes up to € 1.5 million per project and requires co-investment by the company.

- In Ireland, no specific creative-based financing scheme exists at the moment. However, several funds offer potential investment opportunities for cultural and creative businesses. Since 2007 the AIB Seed Capital Fund benefits from a private-public partnership to provide venture capital for businesses at seed and early stages across a range of sectors through the Republic of Ireland. The Fund has a total of € 53 million and provides investment of up to € 500,000. The public-private Sandy Cove Enterprises fund provides management and financial support worth up to € 50,000 to start-up projects in the Dublin/Wicklow area (either through loans, share capital or

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84 [http://www.soderogestion.com/1-543-578/Pays-de-la-Loire-Developpement.htm](http://www.soderogestion.com/1-543-578/Pays-de-la-Loire-Developpement.htm)
85 [www.isourcegestion.fr](http://www.isourcegestion.fr)
86 [www.darqroom.com](http://www.darqroom.com)
guarantees).\textsuperscript{88} Target sectors include software development, internet marketing, furniture manufacturing, publishing and education products and fashion distribution.

The Irish film sector has particular access to equity finance through the Producer Recoupment scheme\textsuperscript{89} under which the Irish Film Board invests in film production. It entitles producers to retain 50% of total revenues while the Board will deem to have recouped its investment when it has earned the remaining 50%. In this way, the Irish Film Board acts as an investor but it also stimulates producers’ investments in film projects.

- In the \textbf{Netherlands}, equity finance has only very recently been introduced into the creative sector. The Dutch Creative Industry Fund, a € 200,000 seed capital fund, was set up by the companies Telegraaf Media Group, Sanoma, IDG and Veronica to fund Dutch media and technology start-ups. Furthermore, the country has recently extended the scope of the national TechnoPartner SEED Facility to CCIs.\textsuperscript{90} Co-financed by the ministries of Economic Affairs and Education, Culture and Science as well as private investors, the seed fund provides, as from 1 January 2010, loans to regional investment funds up to € 4 million. The aim is to target businesses working in the media, entertainment, arts and other “cultural services” sectors.

Another investment fund financed by a mix of both international public and private investors, including the European Investment Bank, “Technostars”, could also offer potential opportunities for creative businesses. At this stage, it focuses mainly on technological innovation (e.g. for new materials) within seed and early stage businesses in the south of the country.

Other public-private investment fund initiatives include the “Peak Capital II”, managed by the private equity firm Peak Capital and twelve informal investors. It essentially supports the ICT sector but also content, online platforms, games, software and mobile devices. With a budget of € 5 million over ten years, the Fund provides on average € 500,000 to young companies. Similarly, VOC Capital Partners offers an interesting initiative by a private venture firm focusing on early-stage investing in sectors such as new media & consumers as well as ICT fields. Investments range in size from € 50,000 to € 500,000.

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\begin{tabular}{|l|}
\hline
\textbf{Cultuurinvest (Belgium)}
\hline
Cultuurinvest is a € 21.5 million private investment fund established in 2006 to consolidate CCIs in Flanders, mainly in the music and audiovisual sectors. It provides loans and equity participation in the investee’s capital.\textsuperscript{91}
Until 2008, 190 proposals have been submitted and 33 have been successful in accessing funds, with € 1.3 million invested and € 2.6 million provided through loans. The fund expects to invest a total of € 100 million over ten years (i.e. by 2016).
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\textsuperscript{88} See conference minutes (Internal documentation).
\textsuperscript{89} \url{http://www.irishfilmboard.ie/financing_your_film/Producer_Recoupment/25}
\textsuperscript{90} \url{http://www.technopartner.nl/wiki/pionerkapitaal/seedfaciliteit}
\textsuperscript{91} \url{www.cultuurinvest.be}
**Business Accelerator Seed Funding**

Creative businesses might also benefit from Business Accelerator Seed Funding Programmes in the future. Also called micro seed funds, these development programmes combine traditional business incubator services (e.g. cheap office space) with coaching/mentoring and small amounts of investment capital (equity-based funding starting from € 8,000). They usually target ICT companies with high growth potential and looking for small amounts of money to develop their business ideas (usually web based services).

As an example, Seedcamp is a British Business Accelerator programme intended to link the next generation developers and with entrepreneurs (including seed fund investors). The yearly event, Seedcamp Week, gives European start-ups looking for funds the opportunity to get in touch with Seedcamp, which acts as a micro seed fund. Selected companies receive investment capital to stay in London for three months in order to grow and develop their company. Seedcamp also runs Mini Seedcamp programmes across Europe. Investments range between € 30,000 and € 50,000, which is higher than other business accelerators.

\[ \text{b. Business angels} \]

CCIs still make very little use of money coming from Business Angels (BAs), rich risk-taking individuals willing to invest their money at the early and start-up phase. Recent research shows that BAs do not identify with the terminology “cultural and creative industries”. There are several local networks of BAs or public initiatives stimulating BAs’ investment across ECCEi countries (see below). However, few of them show an interest in the creative sector and this needs to be addressed.

BAs usually invest in their own industry so BAs who have been active in the creative industries are likely to have the expertise to identify the best creative plans and provide capital and personal support for their implementation.

Normally, BAs’ investments are too specific and too small for venture capital funds. They are therefore important for filling the “financing gap”. Public authorities can also play an important role by launching programmes intended to increase contact between the creative and business communities and by encouraging investors through tax incentives (such as the Enterprise Investment Scheme in UK).

We identified a few initiatives of specific BA networks:

- In the UK, the Creative Arts Investment Network (CAIN) is a private and independent BA network created in 2008 which wants to link into UK companies in the film, TV, theatre, music and live events sectors.
  - **CAIN’s members (120 now) seek to finance up to about € 3.3 million for production costs. They have already invested € 1.7 million into seven businesses.**

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92 The Y Combinator and Techstarts – both USA based – are the best known.
Some UK cities have also launched programmes to attract BAs to the creative “realms”. The Creative Business Accelerator is an investment readiness programme supported by the London Development Agency and the London Business Angels. Recently replaced by Gateway Investment Programme (see PART IV), it helped early stage businesses from CCIs to access information and advice about external finance in order to grow their creative businesses and become investment ready.

- **In Germany**, Media Deal is a pan-European private investment network focusing on mediatech early-stage companies. Supported by Cineuropa, the network attracts BAs looking for opportunities in film, TV, mobile, video games, and new platforms. It arranges pitching events for equity investors and media entrepreneurs.

- **In the Nantes area (France)**, the **Atlantique Business Angels Booster (ABAB)** has, since 2008, built a network of 40 private investors wishing to invest in businesses with high growth potential from all sectors at a local level.

### BA support for new innovative French magazine

Terra Economica, an innovative French magazine, has recently managed to raise up € 1 million with the help of the Atlantique Business Angels Booster and Xavier Niel, a private investor who is the founder of Free, a major French ISP. Xavier Niel is already known for investing in several online press platforms.

Launched in 2004 by four young entrepreneurs, the magazine was created with a view to offering something new by putting man and sustainable development at the heart of the economy. The investment they have managed to obtain helps the magazine to develop online and to launch other services such as a cartoon series.

- **In Ireland**, the Halo Business Angel Partnership has been involved within the Dublin’s Creative D programme to support creative industries in the city.

- **In the Netherlands**, the Business Angels Programme is also a public initiative attempting to attract BAs. The Dutch government has announced it is planning to extend it to include the creative sector within its scope.

### c. P2P finance to attract investments from the general public

A number of emerging businesses are using the internet and social networking tools to offer clients ways to invest in artists and creative projects. Without the traditional intermediary of a bank, activities can include borrowing, lending and investment. This is commonly referred to as peer-to-peer (P2P) finance.

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96. [www.terra-economica.info](http://www.terra-economica.info)
97. [www.businessangels.ie](http://www.businessangels.ie)
98. [http://www.minocw.nl/documenten/creative_potential.pdf](http://www.minocw.nl/documenten/creative_potential.pdf)
For the creative sector, P2P networks which attract private investors (or BAs) generate additional funding on the back of people who wish to be associated with the development of artists in which they believe. It is a simple way to become an executive producer for “Joe Bloggs”. For instance, fans can invest in their favourite artists through Dutch company Sellaband.com which operates in the music sector. These “affinity investors” can pay € 5 for a “share” in an artist. Sellaband offers the studio and related services to record a CD to any artist who raises € 28,000 through this model. Artists also receive one third of advertising revenues from the website and 60% of the publishing income. In return, “investors” receive a copy of the CD, 0.01% of any sales revenues for a period of five years, and a share of one third of the advertising revenues attributable to the artist on the website. Since its launch in August 2006, 29 bands have benefitted from this model and 17 albums have been released.

There are also examples of crowd funding in the film sector. In 2009, TousCoprod, Motion Sponsor and Peopleforcinema were launched in France. TousCoprod raised € 75,000 to produce “Entre nous deux” and € 64,450 for “Thelma, Louise et Chantal”. Motion Sponsor was able to finance a € 47,000 movie. Peopleforcinema (P4C) raised € 50,000 in three weeks for “Le Siffleur” through its 372 fans. In a month, its members passed from 7,000 to 10,000 thanks to the fidelity cards offered under the recent partnership with the UCG cinema theatre. Serge Hayat, co-founder and President of Sofica Cinémage, believes that P4C may be able to raise up to € 1 million for certain movies.

P2P finance seems to offer major funding opportunities for the creative sector. This could enable entrepreneurs to raise money directly from fans or consumers through digital networks in order to finance a film, a book or distribution platforms. It could also eventually involve fans more fully in the creative process by giving them a say on projects.

99 http://www.sellaband.com/
100 « Les producteurs cherchent des sources alternatives de financement », Ecran total, 15 Mai 2010.
4. Tax incentives and public subsidies

Public support is very important for the sustainability of the CCIs, in particular for some sub-sectors such as heritage, film, television, museums and performing arts. The European Cultural Foundation estimates European public spending (direct funding) on culture at € 55 billion.\textsuperscript{101}

However, public contribution to culture can also come through:
- Indirect subsidies, such as fiscal rules to attract private funds, donations and/or sponsorship to the benefit of cultural activities, reduced taxation on certain categories of creative people, reduced VAT rates on cultural products and services,
- Regulatory support in the form of protection from market forces (investment quotas to ensure market access) or,
- Public procurement.

Public procurement is an unexplored opportunity for the CCIs. Creative people can provide their expertise to public authorities and contribute to urban regeneration through public procurement procedures. For instance, designers or landscape architects can offer hints to produce innovative street furniture such as outdoor benches or to regenerate public parks. Likewise, graffiti and street artists can be promoted by local authorities to redecorate neighborhoods or public buildings such as train or metro stations. The EC 2007 Communication on “Small and medium-sized enterprises - Key for delivering more growth and jobs. A midterm review of Modern SME policy” has called for more support in this field and highlights that public procurement markets, which account for 16% of EU GDP, should be better used to promote SMEs’ competitiveness.

The following section focuses on public support through tax incentives and direct grants.

\textbf{a. Tax incentives}

\textbf{Tax incentives} benefiting CCIs are becoming more and more popular across the EU as a form of indirect public subsidy.\textsuperscript{102} All OECD countries have developed tax credit schemes benefitting at least the cinema sector. Most of them seem to be successful in attracting investors. This is illustrated below in the case of the audiovisual sector.

Tax incentives are usually used to stimulate external private investment (whether from a company or an individual) in CCIs. Alternatively they are used to encourage a creative business to produce cultural goods and services.

Most of these specific tax incentives have traditionally benefitted the film sector. Several countries have however progressively opened up these schemes to other sectors such as music or video games (e.g. France, Italy, and Ireland). Most of these tax incentives target investment in projects rather than companies. A report published by the UK Film Council in 2004 suggested that tax measures for the audiovisual sector should be based on investment in companies rather than on


\textsuperscript{102} See Ernst&Young “The way of cultural diversity in tax policies”, 2009; KEA, Etude sur les crédits d'impôt culturels à l'étranger, 2008.
the production of projects or individuals. This would, for the film sector at least, “transform the way that producers and sales agents finance their projects,” the report suggests.\textsuperscript{103}

Furthermore, there are also many general tax incentive schemes in ECCEi countries to attract investors in SMEs or innovation sectors. This could eventually also attract external investments into CCIs.

General tax incentives can also benefit cultural and creative companies willing to make specific investments, such as in R&D activities - which usually suffer from lack of resources. Several countries have also interesting examples of R&D tax credit for research which could potentially benefit a sector.

- In the\textbf{ UK} the UK Enterprise Investment Scheme (EIS)\textsuperscript{104} helps small higher risk trading companies from any sector to raise finance through a range of tax reliefs for investors such as individual BAs.

More specifically, a tax credit also helps the audiovisual industry to attract foreign investors. It enables film production companies to claim a cash rebate worth up to 20% of UK qualifying film production expenditure. It is estimated that the tax credit contributes around €1.4 billion to the national GDP and generates around 25,000 jobs directly and 50,000 if one takes account of multiplier effects.\textsuperscript{105}

Finally, specific R&D tax credits can also be obtained in the UK by any company for projects solving scientific or technological uncertainty (the percentage varies according to the size of the company).\textsuperscript{106}

- In\textbf{ Ireland}, the Irish Seed Capital Scheme (SCS) and the Business Expansion Scheme (BES) are tax relief schemes for those who invest capital in qualifying Irish companies (any sector). Through the BES for instance, individuals who want to invest in music production can benefit from tax relief on investments.\textsuperscript{107}

Likewise, under Section 481 of Irish tax law, audiovisual producers can apply for a tax shelter on qualifying expenditure for cultural films up to €50 million (recently increased from €35 million).\textsuperscript{108} In 2005, the cinema and TV industries used Section 481 to raise 31% of its overall funding, thus becoming the most important funding source for the local audiovisual industry.\textsuperscript{109}

As to R&D incentives, since 2004 a 20% R&D tax credit is aimed at stimulating research into new scientific and technical knowledge.\textsuperscript{110}

\begin{itemize}
  \item [104] \url{http://www.hmrc.gov.uk/eis/index.htm}
  \item [105] Oxford Economics, supported by UKFC and Pinewood Shepperton plc, \textit{The Economic Impact of the UK Film Industry}, London, 2007.
  \item [106] \url{http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm}
  \item [107] \url{http://www.arts-sport-tourism.gov.ie/arts/music/business_expansion_scheme.html}
  \item [108] \url{http://www.irishfilmboard.ie/financing_your_film/Section_481/5}
  \item [109] Indecon International Economic Consultants, \textit{Review of Section 481 Film Relief}, November 2007.
  \item [110] \url{http://www.entemp.ie/science/technology/rdtaxcredit.htm}
\end{itemize}
• In **Germany**, the German Federal Film Fund (DFFF) supports audiovisual productions through a grant which works in a very similar way to a tax shelter. The grant received may reduce the taxable income by up to a maximum of 20% of production costs and a maximum of € 4 million per project.111

• In **France**, the Tepa law enables tax reductions for people investing (up to € 50,000) directly in SMEs or through investment funds targeting SMEs (see “Equity Finance” section).112

For the French audiovisual sector, tax credits are available to external private investors investing in SOFICA stocks. These stocks are issued by the French film body, CNC, to attract private funding for national audiovisual production. It seems that only a marginal proportion of film finance is currently raised through SOFICA, however it is encouraging that the amount raised in 2009 (€ 63 million) is similar to that raised in 2008 after a pick in 2007113.

The CNC (French film institute) also grants a 20% tax reduction on French expenses for films production. Such measure aims at encouraging investment in the national territory, but may also discourage international co-productions.

In France, a 20% tax credit has also been introduced for independent music producers investing in young talent (for up to € 1.1 million production costs). In the case of video games, France has established a special R&D tax credit to encourage research into video games – in addition to the general French tax credit for R&D, mostly aimed at supporting research for the growth of SMEs.114

• In the **Netherlands**, tax reductions (1.3%) are also available for private individuals investing in a cultural fund which in turn finances cultural projects in any sector (for example, the Prince Bernhard Cultural Foundation (Prins Bernhard Fonds) or the recently created VandenEnde Foundation for the promotion of cultural entrepreneurship, or the Triodos Culture Fund). Tax incentives were previously available for the film sector but have been substituted by direct grants.115

A R&D tax incentive also applies to scientific and technological projects that are new to the company and can create improvements.116

• In **Belgium**, the success of the film tax shelter which aims to stimulate local investment in the film sector has recently been demonstrated for the first time.117 An impact study assesses this scheme as from its introduction in 2004. By looking at the examples of various films, it shows that for each € 1 of fiscal benefit granted by public authorities the scheme can help generate up to € 1.15 and has attracted international productions to Belgium. In 2009, the tax shelter enabled the sector to raise € 44 million and to create 3,100 jobs.118

114 http://research-and-development-tax-credits.com/franceranddcir.html
116 http://www.senternovem.nl/wbso/English.asp
The scheme enables any company investing in Belgian cinema to benefit from a reduction of tax on its profits equal to 150% of the invested amount. Through this mechanism, the company is able to recover around 50% of its investment. The exemption cannot be exceeding € 750,000.

Globally, tax shelter investments account for around 10% of the total budget for audiovisual works produced but they can cover as much as 50-100% of the budget in the case of European co-productions. The success of the Belgian scheme, which so far has generated a total of € 600 million expenses in the cinema sector, has encouraged the government to start considering the possibility of extending it to the fashion sector.

### A tax-free bonus for creative employers

The Belgian Ministry of Economy has launched an interesting “innovation bonus” for creative employees within any industry sector. The measure consists of a 100% tax free bonus given by an employer to an employee to reward him/her for the development of a new idea, product, service or process within the company. Innovation is here defined as a novelty bringing an added value to various aspects of the business’ activities including profitability, productivity, environmental, organizational and well-being at work.

### Tax incentives for sponsorship and donations

Sponsorship and donations provide another way of financing cultural and creative entrepreneurs through external private capital. They can both be encouraged through attractive tax incentive schemes. However, whereas sponsorship (or “patronage”) is part of a commercial strategy which includes quantifiable returns, no financial return is expected when making donations (or “mécénat”) except in terms of promoting the donor’s corporate image.119 Most European countries, including the UK, France, Germany and the Netherlands, try to encourage cultural sponsorship and donation through tax incentives for individuals and businesses.120 The main national bodies which attempt to encourage cultural sponsorship and donations from businesses or individuals are “Kunst & Zaken” in the Netherlands, “Business to Arts” in Ireland, “Arts & Business” in the UK and Admical in France.

#### b. Public grants and cultural, industrial and innovation policies

Public support can also include grants. These are traditionally a very important source of finance for cultural and arts projects, training activities or support for the mobility of cultural stakeholders. Again, the audiovisual sector is the main beneficiary of these subsidies, followed by the core arts fields (visual arts, performing arts and heritage).121 Grants are also given to other sectors such as design, fashion, music production, etc.

Traditional forms of grants come from the different government levels and agencies dealing with cultural affairs.122 In Germany for instance, the 16 Länder autonomously administer Federal

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Cultural Funds for literature, architecture and design, performing arts, media, etc. In the UK and Ireland, the various arts councils (such as Arts Council England, the UK Film Council and the Irish Arts Council) have traditionally provided subsidies for a wide range of sectors, including visual arts, architecture, film, music, dance, theatre and literature. In the Netherlands, the Ministry of Culture provides grants to the visual arts, design and performing arts sectors mainly through the public cultural funds. In France, the Ministry of Culture is the main body providing public funding consisting of grants managed through dedicated funds for each arts/creative sub-sectors such as theatre, music, dance, visual arts, literary creation and cinema and audiovisual. The National Centre for Cinema (CNC) also provides specific grants both to audiovisual productions and videogames through the “Fonds d’aide aux jeux video” (see Annexes).

Regional support bodies and regional funds also contribute increasingly to CCLs. Again the film sector provides an interesting example with a large number of regional film funds currently existing in Europe and which provide subsidies and grants for film production activities. Recent regional initiatives include micro-budget feature film-making schemes like Microwave. The scheme is backed by London Film and BBC Films. It offers cash, in-kind support and training to guide small budgets film projects. Similar schemes have been launched in Liverpool (Digital Departures) and Bristol (iFeatures).

The size of the subsidies available varies greatly from one type of grant to another. But critics have pointed out that the costs that creative SMEs have to bear when applying for grants are often disproportionately high in comparison to the small amounts of money that they may need (especially in some creative sub-sectors like design). Applying for public grants is very time consuming for small companies with few or even only one employee.

Regions also offer direct multi-sectoral grants to businesses which can also benefit to CCLs. For instance, in the framework of the initiative “International Business Wales”, launched by the Welsh Assembly Government and supported by the EU Regional Funds, the Single Investment Fund supports companies based in Wales at start-up or growth stage in any sector by offering grants

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124 In UK there are the Arts Council of England, the Scottish Arts Council, the Arts Council of Wales, the Arts Council of Northern Ireland and the national arts funds ‘Artists taking the lead’, ‘Cultural Leadership Programme’, ‘Made in England’, ‘Artsmark’, ‘Own Art’ and ‘Take it away’. In Ireland, there is the Irish Arts Council which manages national initiatives to support art such as the ‘Music project award’, the ‘Small Arts Festival Scheme’, and the ‘Bannf residency’.

125 The national funds are, namely, the Press Fund, Dutch Foundation for Literature, Music Composers Fund, Netherlands Foundation for Visual Arts, Design and Architecture, Dutch Cultural Broadcasting Promotion Fund, Fund for Special Journalistic Projects, Netherlands Fund for Literary Production and Translation, Netherlands Fund for the Amateur Arts and Performing Arts, National Fund for Performing Arts Programming and Marketing Support, Netherlands Architecture Fund, National Restoration Fund, and the Dutch Film Fund.


127 KEA, Study on The contribution of Regional Film Funds to cohesion, cultural diversity, growth and creativity, completed for Cineparegio, Brussels, 2009.

128 http://www.filmlondon.org.uk/content.asp?CategoryID=779

129 http://www.digitaldepartures.co.uk/

130 http://ifeatures.swscreen.co.uk/home/knowmore/28/667.html
worth up to € 5,600, as well as training and specialist advice. Beneficiaries have included creative companies such as the Cardiff-based independent production company, Machine Productions.131

National, regional and local authorities are also experimenting with new forms of grants, “nudging” innovation into non-creative businesses (see Innovation Voucher box). These grants may also provide creative companies with the financial resource they need to cover R&D expenses or to acquire external expertise from research institutes, universities or other companies.

**Innovation and creative vouchers**

New forms of grants such as “Innovation Vouchers” are also starting to emerge. As seen before, cultural and creative businesses suffer from a major lack of resources for specific activities (artists & repertoire, IPR skills, management training, etc.). They could now fill this gap by taking advantage of a new type of public subsidy, often defined across the EU as “Innovation voucher”. Other industry sectors are increasingly benefitting from this new form of grant which helps a company to acquire external expertise (from research body, for instance) or to cover R&D expenses. Such a grant is particularly innovative in that it does not cover costs for general activities but rather the costs of specific activities that can improve the company’s professionalization. This includes securing external expertise for marketing, IPR advices or management.

Most of the existing schemes focus on projects but without a specific focus on culture and creativity.

Innovation vouchers exist in Ireland, the Netherlands, Germany and the UK. In the latter case for instance, the INDEX (Innovation Delivers Expansion) scheme enables UK SMEs to obtain academic support in the West Midlands. In the past, a few creative businesses have been able to benefit from it. There are similar instruments such as the Konsultcheck in Sweden and the “Budget voor Economisch Advies” in Belgium. In Germany, the KfW SME Bank in North Rhine Westfalia also offers special grants that work in a similar way to innovation vouchers.132 These grants (worth up to € 6,000 per company) provide companies from any sector with the opportunity to benefit from training or from the advice of qualified consultants. This initiative is supported by the European Social Fund (see Part 5).

Specific “creative vouchers” for CCIs could be used for a similar purpose (help CCIs acquire external R&D or ‘innovation’ expertise) or could also be used also to “nudge” innovation and culture-based creativity in non-creative businesses. Being trialled in Manchester (UK), “Creative Credits” is the world’s first programme to support businesses in developing their ideas by teaming up with creative firms. SMEs from all sectors and based in Manchester can benefit from an innovation voucher worth up to € 4,400 to purchase services from a local creative firm. This initiative is under the leadership of NESTA with support from the Arts & Humanities Research Council, the Economic and Social Research Council, the Manchester City Council and the Regional Development Agency NorthWest.

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131 [http://fs4b.wales.gov.uk/bdotg/action/detail?site=230&r.s=m&r.l1=5001392897&r.lc=en&r.l2=5001457679&r.i=5001457738&type=RESOURCES&itemId=5001457744&r.t=RESOURCES](http://fs4b.wales.gov.uk/bdotg/action/detail?site=230&r.s=m&r.l1=5001392897&r.lc=en&r.l2=5001457679&r.i=5001457738&type=RESOURCES&itemId=5001457744&r.t=RESOURCES)

132 [www.kfw.de](http://www.kfw.de)
This programme has enabled Brynels Hats & Accessories, a company specialised in “Clothing & Fabrics, and Hats”, to develop an innovative product for people experiencing hair loss. The idea was to combine a hat and a hairpiece to create a high-quality, stylish item that would make the wearer feel good. The innovative producer created a new product with fibres which are potentially comfortable for the wearer and likely to offer healing qualities.

Brynels received a special recognition award at the British Female Inventors and Innovators Awards 2008. Furthermore, the NHS Centre for Healthcare Innovation & Development and the Health, Design & Technology Institute are both interested in working with Brynels to continue the development of the product through product testing and user trials.
PART IV – Non-monetary measures and investment readiness schemes

There are ways to support culture and creative industries other than by financial means. At various stages of business development creative entrepreneurs require skills and competences to sustain their enterprises by developing commercial strategies, financial planning and obtaining expert advice on technology.

Across the EU, public and private bodies are increasingly recognizing the need to develop service infrastructures to support cultural and creative businesses including for the development of creative clusters. **Non-monetary accompanying measures** can help businesses to identify financial schemes and resources that support their endeavours. Services provided usually include:

- Investment readiness (IR) programmes (e.g. tailor-made training for creative entrepreneurs, organization of B2B events, advice on business plans, etc.).
- Support programmes for investors to better understand the CCIs.
- Advisory sessions on intellectual property rights and legal advice and general support on marketing and promotion.
- Advice on technology.
- Provision of incubation services and spaces.
- B2B facilities.

An increasing number of regions in Europe allocate funding for such services, sometimes with the support of EU Regional Funds. The ECCE Innovation project and its network of “Transfer Agents” also bear out the need for these services. The following is a brief description of some of these initiatives.

1. **IR Programmes**

In the UK, the NESTA Creative Pioneer Programme - from 2003-2006 - helped to identify new creative talent and provided training on business skills. Within three years, the programme launched 100 new business initiatives and trained over 50 business pioneers. While NESTA still supports pilot projects across UK, other local and regional initiatives have been set up, such as the Creative Business Accelerator, to make creative entrepreneurs investment ready and put them in touch with potential investors. It was however in place until 2008 and was then replaced by Gateway2Investment (see box below). The Advantage Creative Fund, a West-Midland-based investment fund, also gives advice on business plans.\(^{133}\) ACF states that € 1 million has been spent on investor readiness activity between 2003 and 2008 reaching out over 100 creative firms.\(^{134}\) These activities are an integral part of the fund (e.g. in generating and appraising deal flow). In France, the “Pole de Competitivité” in Lyon offers IR programmes in the games and video sectors, while the Sophia Antipolis cluster offers the same for the digital media sector. In the Netherlands, a national investment readiness programme has been launched by the Ministry of Economic Affairs. In Finland, a Creative Industry Platform is led by the Aalto University to link businesses to potential investors.

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Finally, the North Rhine Westphalia and Baden-Württemberg regions (Germany) have also launched IR programmes specifically targeting the creative sector. In North Rhine Westphalia, Creative NRW is a regional initiative offering networking opportunities and information on funding schemes available to CCIIs in the region. There are competitions to select the best business ideas to be developed, while programmes such as the Go! Gründungsnetzwerk NRW offer consulting services to start-ups in the areas of music, literature, books and press market, arts market, performing arts and entertainment. In this framework, the STARTERCENTER NRW is the central contact point for start-ups in NRW, providing young entrepreneurs with initial consultation as well as financial assistance to complete all start-up formalities.

**Gateway2Investment (g2i) makes creative companies “investment ready”**

Supported by the London Development Agency and private funds, the Gateway 2 Investment (G2i) programme aims at making London-based companies investment ready, including those operating in the areas of design, music, visual arts, performing arts, publishing, film, radio & TV (new media), advertising and games development. This advisory programme includes training and networking with a community of BAs, VCs and corporate investors.

Artem Digital, a company specialized in motion capture technologies, was recently put under financial pressure by the new generation of games platforms such as PS3. With G2i support and contacts with investors, the company has been able to obtain € 420,000 through equity finance and long-term loans. The company is now involved in some high-profile projects, working with a major games developer in Japan, as well as with Electronic Arts on the next Harry Potter game.

2. **Support programmes for investors**

There are a number of support programmes and short term projects designed to raise investors’ awareness of the potential of investing in CCIIs. In the UK, the Creative Investor Awareness Project, set up by GLE London Business Angels, for instance, has helped raise awareness (through pitching events, case studies, etc.) over a 12 month period of the importance of the creative sector to Business Angel investors and early stage VC funds.135

- The Project resulted in further investments (worth € 4 million in total) in creative businesses thanks to London Business Angels.

Other initiatives include the Start West event organised in Nantes (France) each year. It gathers together entrepreneurs and investors and gives entrepreneurs the opportunity to present their projects to potential investors through matchmaking sessions.136 Supported by ECCEi, the 2010 session has put special emphasis on cultural and creative businesses. Similarly, “France Business Angels” aims to attract investors in the media and IT sectors. In Germany, the multi-sectoral Media Deals provides a network of investors in Berlin (see Business Angels section) and is managed by the Investor Academy Germany. Such support programmes mainly target the ICT sector.

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135 [www.lbangels.co.uk](http://www.lbangels.co.uk)
136 [www.start-west.com](http://www.start-west.com)
3. Intellectual Property Rights (IPR) and legal advisory services

Specific services advising on IPR are less developed. Some examples can however be found in the UK and Northern Europe. Creative London supports “Own-It”, an initiative providing IPR advice to creative businesses.137 In Scandinavia, the Nordic Centre for Innovation Creative Capital also provides training sessions on this topic. Such schemes are important as very often creators and creative businesses do not fully appreciate the importance and value of IPR in relation to protecting their creation and promoting its distribution. IPR assets are the most important assets in a creative company and the most valuable for trading purposes.

4. Incubation services

Many regions recognise the important role of incubation spaces and services. There are numerous initiatives across Europe, for instance: the “Incubateur National Multimédia Belle-de-Mai” within the cluster “Pôle Médias Belle de Mai” in Marseille (France); or Incubator Design (The Netherlands). In the UK, Seedcamp is a result of the Business Accelerator Programme which combines equity finance and incubation services. It offers micro seed funding and incubator spaces in London to innovative start-ups. Investments range between € 30,000 and € 50,000. In Birmingham, Creative Space offers incubation spaces to artists at reasonable fees, while Nantes Création (France) also provides the support of lawyers, financial experts and accountants to creative people to set up their business. Similarly, the Centre for Cultural Entrepreneurship in Aachen provides consultancy services to start-ups in the creative sector.

This form of support measures is very cost effective with results that are easy to measure. Local authorities can roll out such schemes in educational establishments (universities), and in local mentoring of well established businesses or creators/artists. It is part of an essential mission to enable CCIs to expand their skills and as a result to increase confidence in CCIs of potential investors.

137 www.own-it.org
PART V - EU opportunities

The European Union has embarked on an ambitious programme to support cultural and creative businesses in the recognition of the fact that the ability of Europe to transform into an “experience” economy, led by innovation, will determine its competitive position in the world. The European Commission recognises CCI as important drivers of economic and social innovation that offer “a path out of the crisis and towards a more imaginative, cohesive, greener and more prosperous future”. The EC is calling for an EU strategic approach to make Europe’s cultural assets and creativity the basis of a powerful economy. This strategic approach is taking shape in the context of the “EU 2020” strategy that determines EU priorities for the next 10 years. This strategy proposes strategic priorities as well as financial commitments of the EU for 2014-2020. It suggests improving the development of innovation and creativity in the future.

Policy interest in CCI and “culture-based creativity” as drivers of innovation means that CCI will have better access to a range of EU funded programmes in the future. The opportunities and trends can be summarized as follows:

- European funds (in particular structural and innovation funds) are increasingly putting emphasis on CCI and creativity.
- Specific policies will be developed to address issues that are critical for European CCI such as access to finance, skills and training, market access, trade and mobility.
- The European Investment Bank/European Investment Fund (EIB/EIF) could be mobilized to the benefit of CCI.
- Transnational collaboration projects could support the sector in the context of the Lifelong Learning Programme or FP7 in the fields of research and education.
- Remarkably DG Enterprise, responsible for trade and SME policy is refocusing its innovation strategy to encompass non-technological forms of innovation. It plans to launch by the end of this year a policy forum, driven by regional and local authorities, to advise the European institutions on the best way to support CCI in Europe.

Towards putting culture at the heart of EU innovation policy?

A recent initiative launched by DG Enterprise suggests there has been a change of approach within the Commission which is likely to have a great impact on the future financing opportunities for creative SMEs and that culture is being progressively put at the heart of EU innovation policy. The DG has launched an initiative to support creative companies which could result in a € 10 million support programme to finance a new platform called “Creative Industries Alliance.” This budget should increase to € 100 million from 2013 - a significant amount when compared to the MEDIA or Culture Programme. The initiative aims promote better transnational cooperation and support services in this sector. The Alliance would involve national and regional authorities and cover a wide variety of creative sectors. The DG is due to launch the details of a call to select the stakeholders (mainly regional authorities) who will lead the platform as from Autumn 2010.

140 The strategy, which aims at rescuing Europe from the economic crisis by creating a smart, sustainable and inclusive EU, does not identify the creative industries as an important resource for the development of Europe’s competitiveness in the knowledge-based economy.
The following sections give an overview of support opportunities currently existing at EU level:

1. **Culture and Media Programmes**

   - With a budget of € 400 million (2007-2013) the Culture Programme provides grants for activities involving cultural co-operation and cultural bodies. Its main objective is to support and "disseminate" European culture. However, by focusing mainly on projects organised by not-for-profit cultural organisations and networks, the Programme does not attempt to address the entrepreneurial and financial needs of creative businesses.

   - The Media 2007 Programme and its € 755 million budget is wholly dedicated to audiovisual enterprises. The Programme provides grants for audiovisual pre-production and postproduction work, mostly the distribution of long feature films for cinemas. It also finances training courses and the promotion of European films at festivals. It also supports the development of commercial relations between EU and third-country film-makers (through the Media Mundus sub-programme). It covers specific projects in the area of digitisation (e.g. development of VOD platforms) and measures to facilitate access to credit for audiovisual SMEs ("i2i Audiovisual"). Furthermore, a European MEDIA Production Guarantee Fund is scheduled to operate as from the end of this year to guarantee loans given by banks to film producers. The aim is to offer concrete support and facilitate access for European production companies to bank credit.

2. **The Cohesion Policy and the Structural Funds**

   The Cohesion Policy and the Structural Funds offer major funding opportunities for culture, creativity and innovation across the EU. The Structural Funds (ERDF141 and ESF142) are the financial instruments of EU Cohesion policy for 2007-2013. They focus on competitiveness, growth and jobs at regional level. Innovation also stands at the heart of EU regional policy.\(^{143}\)

   Out of a budget of € 344 billion, € 6 billion are officially allocated to the category of “culture” (mainly for cultural heritage actions).\(^{144}\) Cultural and creative businesses only seem to have benefitted from those funds to a limited extent so far. This is mainly due to a lack of awareness and information on what is available, difficulties in accessing those funds and the wide range of different regional priorities existing across the EU.

   However, various regional initiatives across ECCEi countries show the potential of this type of financial support from the EU.

   The Funds can be used by cultural and creative businesses through other categories such as urban regeneration, tourism, information society (e.g. digitisation of cultural assets) or innovation (for which € 86 billion are available). However, this largely depends on each region’s specific priorities.

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\(^{141}\) ERDF: European Regional Development Fund, instrument of the EU Regional Policy.

\(^{142}\) ESF: European Social Fund, instrument of the EU Social Policy

\(^{143}\) Infoview DG REGIO database, Theme Innovation, categorisation defined in the regulations (update)

\(^{144}\) Infoview DG REGIO database.
a. Support for the development of local financial instruments

A number of regions and cities are increasingly using the Cohesion Policy to match local, national or even EIB funds to create finance schemes (such as investment capital or guarantees). Those initiatives can be used to leverage private investment.

- For instance, several EU regions have used ERDF funds to set up venture capital funds for CCIs, such as the Advantage Creative Fund in Birmingham, the East of England Low Carbon Digital Content Fund and the VC Fonds Kreativwirtschaft in Berlin. The ERDF usually covers 50% of the fund.

In contrast to traditional subsidy financing, these VCs permanently bind EU funds to the region and make them available for financing activities on a sustainable basis. Unlike one-off subsidies, the EU funds are used as quasi endless revolving funds – and in the event of positive returns they might even multiply and grow.

- The JEREMIE and JASMINE programmes enable Member States to use part of their Structural Funds allocation to create multi-sectoral financing schemes for SMEs (alongside national resources). However, there has been little or no emphasis on CCIs. The two programmes are directly managed by the EC and involve participation from the European Investment Fund (EIF) and the European Investment Bank (EIB).

JEREMIE may finance the development of holding funds that can co-finance SMEs through equity funds, guarantees, etc. The Holding Fund can be managed either by the EIF or by national institutions. It organises calls of expressions of interest to select the financial intermediaries, such as venture capital funds, guarantee funds, banks and micro-credit providers.

Within JASMINE, the EIF has been mandated to finance micro-credit providers and micro finance institutions as well as to provide them with technical assistance.

Use of JEREMIE to finance British SMEs

With two schemes currently in operation, the UK has interesting examples of the use of JEREMIE to finance growing businesses and possibly creative entrepreneurs.

In Wales, Finance Wales acts as a holding fund for an EIB loan which lends onwards to a specially created JEREMIE Fund. The European Regional Development Fund (ERDF) supplements finance to this Fund which provides capital to SMEs in the form of loans, mezzanine finance and equity investments.

In North East UK, “North East JEREMIE” will deliver investment into 850 SMEs between 2010 and 2015. It will provide loans and equity investments into business start-ups and technology-based companies. The total fund under management is €120.5 million. The EIB and the ERDF/Regional Development Agency North East each contribute €70 million.
• Regions and local authorities may also use the European Social Fund to develop specific support schemes for businesses as shown by the grant scheme for businesses established by KfW Bank in North Rhine Westfalia (Germany – see “Innovation Voucher” section in Chapter 3).

The **European Social Fund** (ESF) is one of the EU's Structural Funds, set up to promote employment in the EU. It helps Member States make Europe's workforce and companies better equipped to face new, global challenges. With € 75 billion available for 2007-2013, the ESF is spread across the Member States and regions, in particular those where economic development is less advanced.

The ESF has financed a wide range of local projects focusing on developing the potential of cultural and creative entrepreneurs. Examples include: “The hidden strength” (training project for youths within the creative visual area - € 188,000 budget); “Creative Partnership” (Strengthening of design and architect entrepreneurs’ business development and competitiveness - € 150,000 budget); or “Entrepreneurial and innovation awareness programme: awareness in the field of creative industries” (Training project for workers - € 800,000 budget).

**b. Support for pan-European cooperation projects**

Through programmes such as URBACT or INTERREG, the Cohesion Policy has also proved to be successful in supporting the development of “cultural” or “creative” pan-European networks of cities or regions such as ECCE Innovation, Creative Metropoles, Creative Growth and Creative Clusters. Under the “Region for economic changes” initiative, launched in 2006, a number of projects were also co-funded by ERDF, such as “Leading by Design: Introducing Design to SMEs” (2004-2005).

3. **Seventh Research Framework Programme**

The objective of FP7 is to reinforce the scientific and technological base of European industry and foster its international competitiveness. With a budget of over € 50 billion, for 2007-2013, it is built around five major specific pillars: cooperation between industry and universities in key technology areas; fundamental research “at the frontiers of science”; mobility for researchers; the development of the knowledge economy and supporting a new energy policy.

The programme has supported R&D in relation to the technological challenges and opportunities for some creative sub-sectors. It has mainly benefitted the audiovisual and media sectors so far.

• The CReATE project involves several research institutes and creative companies in four European regions (Baden-Wüttemberg, Rhône-Alpes, Piemonte and West Midlands) with a view to promoting ICT-based innovations in the creative industries (including the audiovisual sector).

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• FP7 also has a budget of €86 million for “Networked Media” which addresses the technological challenges of the digital revolution. This has helped the establishment of a Networked and Electronic Media (NEM) Technology Platform which focuses entirely on IT.

4. Competitiveness and Innovation Programme (CIP)

With a total budget of over €3.6 billion for 2007-2013, the CIP is the European funding scheme for fostering the competitiveness of European firms and SMEs in particular. It is mainly designed to encourage innovative activities, better access to finance as well as business support services. The CIP has three programmes: the Information Communication Technologies Policy Support Programme (ICT PSP), Entrepreneurship & Innovation Programme (EIP) and Energy Europe Programme (IEE).

At present, the CIP has provided only limited support to CCIs. However, there is already some evidence of the potential this Programme offers to the sector, and for increasing links with investors.

• Through the High Growth and Innovative SME Facility (GIF 1) under the CIP, the Commission is also planning to further improve SME’s access to guarantees and venture capital in the future. The GIF 1 provides support to address the early-stage equity gap in Europe.

In Ireland, First-Step Microfinance is a private non-profit making company which provides loans to SMEs (worth up to €25,000) in Ireland and also abroad. It has recently become the beneficiary of a SME Guarantee Facility financed by the European Investment Fund (EIF) through the CIP.147

• Within the CIP, the Europe INNOVA initiative supports new knowledge transfer (for instance between universities, enterprises and investors) in support of innovation and networking among small companies from different sectors, which include the creative sector.

Europe Innova finances the ImMediaTe project.148 This €3 million project is aimed at developing tools and services to assist the growth of digital media SMEs by helping them negotiate the right deals with investors and secure access to international markets. It mainly focuses on making media companies more investment ready and investors more "sector aware".

• PRO Inno Europe, another CIP-based initiative, aims to foster transnational cooperation on support for innovation. The programme is intended to support new forms of innovation management, including design management and service design. PRO Inno Europe has funded the Design Management Europe project and the EASY Cross-Border Investment Project to put business angel investors in touch with software, digital media, mobile and Web 2.0 companies.149 The latter resulted in 12 transnational deals worth a total amount of €10 million.

• Replacing the previous EU eContent Plus Programme, the ICT PSP Programme within CIP also provides more specific funding opportunities for digitisation activities, including for digital libraries.

147 http://www.first-step.ie/european-investment-fund/
148 http://www.europe-innova.eu/web/guest/innovation-in-services/kis-innovation-platform/immediate/about
149 www.designmanagementeurope.com; www.earlystageinvestors.org
5. **Lifelong Learning Programme**

The Lifelong Learning Programme (LLP) is an underestimated support scheme to meet the training and education needs within creative businesses. With a budget of € 7 billion for 2007-2013, the LLP is the EU’s main funding programme for education and training projects and activities at the following levels: schools (Sub-Programme Comenius); higher education (Erasmus); Vocational education and training (Leonardo da Vinci); Adult education (Grundtvig).

Since 2010 the development of creativity and support for training within the creative sectors is often cited as a priority area within the LLP.

6. **European Investment Bank (EIB) and the European Investment Fund (EIF)**

The potential of the EIB and the EIF to support the creative sector – mainly through SME support – still remains to be unlocked. At this stage, a few examples of EIB funding for a creative sector such as Cofiloisirs and Coficiné in France (€ 83 million) or the First-Step Microfinance private company in Ireland illustrate this potential (see relevant section). Likewise, the record of the EIF (the branch of the EIB focusing on providing risk capital) in audiovisual is even more dismal. It currently manages a portfolio of 294 equity funds across the EU with an almost exclusive focus on technology.

However, the increasing amount of capital expected to be dedicated by the EU to SMEs in the future might provide new financing opportunities for the sector. Regions are well positioned to benefit from this. The European Economic Recovery Plan for instance has mandated the European Investment Bank to provide € 30 billion for lending to SMEs with less than 250 employees in the 2008-2011 period. In this framework, the EIB has also earmarked € 1 billion for mezzanine financing and has announced it will attempt to make up to € 50 billion available over the current decade for innovation under the Innovation 2010 Initiative. While the EIB and EIF still have a poor track record in financing and supporting creative businesses, this is likely to change with the new policy priorities at EU level.

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150 Although in 2001, the European Commission and the EIB had announced the launch of a joint strategy to provide € 1 billion to support investment in the audiovisual sector.
PART VI – Conclusions and Recommendations

Whether at European, national or local level, it is now firmly established that culture, creative industries and creative activities:

- Generate economic development and jobs.
- Provide an alternative to declining trade activities.
- Retain creative and talented people.
- Make cities and regions more attractive.
- Attract tourism.
- Promote social cohesion and the confidence of local communities.
- Enhance access to culture and art.

In order to support the development of creative activities in cities and regions it is crucial to address the issue of access to finance as the sector in general seems to be largely disconnected from traditional financing mechanisms set up to support SMEs and R&D. This report illustrates that there is an important market failure with regard to private investment in this growth industry. It also highlights the need to re-appraise public funding to take proper account of the commercial and social dimension of cultural activities. 85% of companies surveyed stated that access to finance is a priority issue. The lack of connection with financial institutions (whether public or private) largely stems from the specific features of CCIs which can be summarised as follows:

- Uncertainty in demand linked to “experience” based products.
- Difficulty in valuing intangible assets.
- Linguistic and cultural fragmentation of the market which poses additional constraints with regard to accessing and marketing in different territories.
- Creative entrepreneurs manage passion-driven businesses which are often project lead.
- The sector is confronting the digital shift and the consequent reassessment of business models.

These characteristics explain to some extent the particular problems encountered by cultural and creative stakeholders in accessing finance, which include:

- The difficulty in selling a creative project to potential investors (it is often a question of finding the same “language” – financiers express their expectations and market promises differently from creative people and expect them to be able to do the same).
- The inability of investors to assess and manage the risks of creative projects (a skill to be developed).
- Poor visibility and valuation of IPR assets in balance sheets and accounting standards (IP is rarely used as a guarantee to secure finance). Insufficient knowledge of IP exploitation in CCIs.
- Insufficient information on existing financing schemes aimed at SMEs and innovation.
- Absence of risk capital investment in CCIs (unless the activity is linked to ICT).
- A certain inability to research, identify and target private funding on the part of cultural entrepreneurs who may be used to relying on public support.
The specific features of the sector and its problems in accessing finance justify the development of schemes that are tailored to CCIIs. This should happen even if ultimately it is decided that support for CCIIs should become part of the established funding mechanisms aimed at technological innovation and SMEs in general.

Financing needs are numerous and vary according to the stage of a company’s development, its positioning in the value chain, its geographic location and the market it evolves in. There is no one size fits all solution. However one can distinguish between the following financial needs:

- Support for starting up an enterprise (seed funding).
- Support for attracting and promoting investment in creativity, assistance for the cultural and creative industries to produce and support in attracting private investors.
- Support for distribution (promotion and marketing) and market access (including access to technology) including:
  - From the local to the international market;
  - Digital shift;
- Support for the development and growth of the enterprise (e.g. catalogue acquisition, attending international trade fairs).

Public intervention is justified to address market failure and trigger more private investment in the sector. There are different types of support mechanisms which exist for CCIIs in Europe. They can be distinguished according to their objectives:

- To attract private investment by reducing risk (in particular for capital intensive industries such as cinema):
  - Guarantee mechanisms in relation to loans granted by banks - IFCIC (F)
  - Tax Shelters, tax credits
  - Regulatory support to secure market access (for instance broadcast quotas, or investment obligations in TV/Telecom)
  - Support for intermediaries specialised in risk assessment
- To set up specific financial mechanisms:
  - Set up specialised bank - Coficine/Cofiloisirs (F)
  - Specific venture capital fund – Advantage Creative Fund (UK)
  - Normal project funding – direct subsidies
- To provide micro-financing - Siagi (F), SFLG (UK), Kunstenaars (NL):
  - Micro-finance – loans/credits
  - Voucher scheme (to buy expertise)
- To provide advice and general support – get “investment ready”:
  - Incubators and clusters
  - Face to face meetings with investors
  - Training in management
  - Support for export

It is important to recognise that local and regional authorities are often better placed to establish and manage many of these schemes because of their proximity to a sector that is by its very nature extremely fragmented and essentially composed of a large number of micro enterprises. They are in a better position to capture the statistical importance of the different sub-sectors and so to
develop adequate strategies reflecting the real needs. For instance, they can adopt measures to attract private investment (in cooperation with local banks), to provide advice, training, incubation facilities and micro-finance. On the other hand, certain types of schemes can also only be set up at national level (e.g. tax incentives).

Implementing support schemes in relation to access to finance at local or regional level is effective as it can facilitate networking and clustering between cultural and creative actors, companies that operate outside the CCIs, educational institutions including universities, specific regional R&D programmes as well as other public sector institutions. Financial support schemes should vary according to the creative ecology (established through a thorough mapping of local facilities and activities) and to the political/industrial priorities which are specific to a region. In this regard decisions on finance can be determined in relation to:

- Funding projects or “corporate” activities.
- Priority sub-sectors or types of enterprise that require support.
- The type of financing mechanisms (scope, resources, instruments).
- The type of activities (training, incubation, entrepreneurial, trade/craft etc).

In general, there are still few specific instruments for CCIs and finance schemes for other industries or SMEs are rarely accessed by CCIs. While there is a need to initially develop new specific financing schemes for the sector because of the market failure, such a support should progressively be integrated into multi-sectoral support mechanisms (e.g. targeting SMEs or innovation in general).

To support this, more advanced public-private partnerships (e.g. between local authorities, EU programmes and banks or investment funds) are needed. Above all this requires decisive political leadership and vision stemming from the belief that by improving the financial environment of CCIs the region will benefit from economic growth, social innovation and a more cohesive society. This is also the opportunity to put culture at the heart of other policy areas such as local economic development, education, social participation, access to culture and tourism. Local and regional public authorities that are experienced in giving support to CCIs have a role to play in ensuring this happens. While CCIs’ development bodies and film funds, for example, know about the value of the CCIs, those working in finance departments or economic development units remain to be convinced. Advocacy and more cooperation across departments and policy units will be needed to overcome this obstacle.

In the context of the unfolding EU 2020 Agenda it seems evident that EU funding will be more widely available to support regional initiatives aimed at CCIs either via structural funds or innovation schemes. The recent initiative of DG Enterprise on the establishment of a Creative Industry Alliance led by local and regional authorities is evidence of this important policy shift towards supporting non-technological innovation in general and culture-based creativity in particular. The EC Green Paper “Unlocking the Potential of Cultural and Creative Industries” has made access to finance a priority, stating that “access to finance is a core barrier to growth” (page10) and calling on the EIB and the EIF to play a bigger role in supporting the sector. The same policy document highlights the local and regional dimension of creativity and calls on the EU cohesion policy to be more assertive in this field.
As this study shows, local and regional stakeholders should play a role in facilitating better access to finance as they are better placed to:

- Capture the needs of local CCIs and tailor support to their needs,
- Adapt and/or develop financing mechanisms,
- Facilitate relations with investors,
- Put support for culture and CCIs at the heart of other policy domains, encouraging a multi-disciplinary approach and fostering lateral thinking,
- Access EU funding (structural or innovation funds, EIB/EIF).

As CCIs in particular and the wider economy in general are undergoing significant changes due to the digital shift, globalisation (and individualisation) there is a clear need to rethink how finance works and how it is targeted. In this respect, public authorities should also test new types of finance for the sector such as micro finance. Research indicates that micro-finance targeted at SMEs can play a role in triggering the development of small, innovative business ventures, some of which may in the long term lead to significant growth and employment. CCIs could act as a test bed for new types of finance (e.g. micro) since they can be seen as a model for how the knowledge economy may look in the future (networked, collaborative, culture-based).

There are numerous tools to help with gaining access to finance, ranging from support services training and workshops to specific financial schemes that are more or less sophisticated.

The following are examples of financing trends and innovative schemes:
- Several regions have successfully used EU regional funds to set up venture capital funds for creative industries. Examples include the Advantage Creative Fund in Birmingham, the East of England Low Carbon Digital Content Fund or the VC Fonds Kreativwirtschaft in Berlin. To develop these initiatives, regions have received support from EU Regional Funds.

- The IFCIC model in France provides a specific example of guarantee mechanism that encourages investment in CCIs.

- Initiatives such as the Culture Loan or the Guarantee Fund, both managed by Kunstenaars & Co and the Triodos Bank are examples of loan and guarantee schemes targeting smaller structures in the art sector.

- The Start West B2B event in Nantes gives an interesting example of a matchmaking forum gathering investors and businesses (with emphasis placed on CCI in 2010). Other success stories include the Creative Investor Awareness Project (UK) supported by GLE London Business Angels and the Creative Business accelerator in London which helped early stage creative businesses improve access to external investment and get investment ready.

- The “Creative Credits” (or “innovation vouchers”) in Manchester support the input of creative firms into traditional businesses.

END
## ANNEXES

1. **List of main financing instruments in ECCEi countries (non-exhaustive)**

### Table 1 - France

<table>
<thead>
<tr>
<th>Target sectors</th>
<th>Financial instrument</th>
<th>Benefit</th>
<th>Web Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guarantees</strong></td>
<td></td>
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<tr>
<td>Art crafts</td>
<td>Small guarantee funds provided by Siagi, a French private financial institution with local agencies such as Siagi Nantes.</td>
<td>Guarantees to craftsmen covering from 35% to 50% of the loans.</td>
<td><a href="http://www.siagi.com/">http://www.siagi.com/</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>Guarantee funds provided by IFCIC, the French private financing body for CCIs.</td>
<td>Guarantees covering from 50% to 70% of the medium term loans.</td>
<td><a href="http://www.ifcic.fr/english-version.html">http://www.ifcic.fr/english-version.html</a></td>
</tr>
<tr>
<td><strong>Debt finance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Film and audiovisual</td>
<td>Loans provided by Coficiné and Cofilosirs, two private banks specialized in the audiovisual sector.</td>
<td>Loans for audiovisual businesses (variable amounts).</td>
<td><a href="http://www.natixis.com/jcms/c_5154/accueil">http://www.natixis.com/jcms/c_5154/accueil</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>‘Fonds d’Avance aux Industries Musicales’ is a national public loan fund managed by the IFCIC.</td>
<td>Medium term loans to music businesses for structural development (up to 70% of the costs for a maximum of € 800,000)</td>
<td><a href="http://www.ifcic.fr/entreprise-culturelle/musique.html">http://www.ifcic.fr/entreprise-culturelle/musique.html</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>Loans provided by Crédit Cooperatif, a private bank for cooperatives and associations.</td>
<td>Medium and long term credit for start-ups (variable amounts).</td>
<td><a href="http://www.credit-cooperatif.coop/entreprises/offre/">http://www.credit-cooperatif.coop/entreprises/offre/</a></td>
</tr>
<tr>
<td><strong>Equity finance</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fashion</td>
<td>‘Mode et Finance’ is a private investment fund of the private company CDC Enterprise.</td>
<td>Risk capital to French SMEs with a turnover above € 500,000 and with high growth potential.</td>
<td><a href="http://www.cdcentreprises.fr/portefeuille/fiche/fonds_directs/M74/mode_et_finance.php">http://www.cdcentreprises.fr/portefeuille/fiche/fonds_directs/M74/mode_et_finance.php</a></td>
</tr>
<tr>
<td>Films and audiovisual, luxury goods, publishing</td>
<td>‘Fonds Patrimoine et Création’ is a private investment fund managed by the company CDC Enterprise.</td>
<td>Risk capital for investments between € 1 million and 5 million to companies with a turnover above € 5 million.</td>
<td><a href="http://www.cdcentreprises.fr/portefeuille/fiche/fonds_directs/P198/patrimoine_et_creation.php">http://www.cdcentreprises.fr/portefeuille/fiche/fonds_directs/P198/patrimoine_et_creation.php</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>‘Succès- Europe’ is a private venture capital trust fund established by Sophia Business Angels, a network of business angels from all over the world.</td>
<td>Investment funds for early stage companies with specific focus on digital and media businesses (variable amounts).</td>
<td><a href="http://www.succes-europe.com/">http://www.succes-europe.com/</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>‘T-Source’ is an early stage venture capital firm operating at national and international level.</td>
<td>Equity finance mainly for high-growth ICT companies (variable amounts).</td>
<td><a href="http://www.isourcegestion.fr">www.isourcegestion.fr</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>“Pays de la Loire Développement” is a regional private risk capital company affiliated to the CDC Enterprise.</td>
<td>Equity finance for businesses with a turnover lower than €4 million (variable amounts).</td>
<td><a href="http://www.soderogestion.com/1-543-578/Pays-de-la-Loire-Developpement.htm">http://www.soderogestion.com/1-543-578/Pays-de-la-Loire-Developpement.htm</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Atlantique Business Angels Booster’ (ABAB) is a business angels’ network gathering 40 individual investors wishing to invest in high-growth potential businesses from all sectors in the Nantes area.</td>
<td>At least €15,000 has to be invested each year by each partner in the targeted companies.</td>
<td><a href="http://www.businessbooster.fr/pages_cfm/template.cfm?page=pourquoireshape">http://www.businessbooster.fr/pages_cfm/template.cfm?page=pourquoireshape</a></td>
</tr>
<tr>
<td>Film and audiovisual</td>
<td>Grants provided by the National Centre for Cinema - CNC (Centre Nationale de la Cinématographie).</td>
<td>Grants for production and distribution (variable amounts).</td>
<td><a href="http://www.cnc.fr/Site/Template/T6B.aspx?SELECTID=511&amp;id=113&amp;i=3">http://www.cnc.fr/Site/Template/T6B.aspx?SELECTID=511&amp;id=113&amp;i=3</a></td>
</tr>
</tbody>
</table>
Centre National de la Danse: [http://www.cnd.fr/](http://www.cnd.fr/)  
| Any sector (not CCIs specific) | The national law ‘Loi Tépa’ grants fiscal benefits to those investing in SMEs or investment funds. | Reduction of the solidarity tax on wealth (ISF) by 75% up to €50,000. | [http://www.loi-tepa.fr/](http://www.loi-tepa.fr/) |
| Any sector (not CCIs specific) | Tax credit on research expenses (Crédit Impôt Recherche – CIR) granted by the Ministry of Education and Research to companies investing in research. | 30% research tax credit on research expenses (basic research or applied research such as production of new materials/products/processes) up to a limit of €100 million. | [http://research-and-development-tax-credits.com/franceranddcor.html](http://research-and-development-tax-credits.com/franceranddcor.html) |
| Videogames | R&D tax credit provided by the CNC to videogames companies. | Tax credit for investments in new concepts with a minimum expense of €150,000. | [http://www.cnc.fr/Site/Template/T3.aspx?SELECTID=3005&ID=2055&t=1](http://www.cnc.fr/Site/Template/T3.aspx?SELECTID=3005&ID=2055&t=1) |
Film and audiovisual

- ‘SOFICA stocks’ are stocks issued to raise investment capital for cinema productions managed by the CNC. Subscribers are granted a tax shelter.

Film and audiovisual

- Tax credit provided by the CNC on expenses incurred in France for film and audiovisual production.

Table 2 - UK

<table>
<thead>
<tr>
<th>Target sectors</th>
<th>Financial instrument</th>
<th>Benefit</th>
<th>Web Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Small Firms Loan Guarantee’ is a national guarantee scheme to encourage bank loans to SMEs.</td>
<td>75% guarantee on loans up to €275,000 for companies with a trading record of more than five years.</td>
<td><a href="http://www.strategycorporatefinance.co.uk/sfg.html">http://www.strategycorporatefinance.co.uk/sfg.html</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Arrow Fund’ is a regional fund managed by the Advantage West Midlands agency.</td>
<td>Micro loans up to €15,000 to regional SMEs based in the region.</td>
<td><a href="http://www.arrowsbf.co.uk/what-we-do.php">http://www.arrowsbf.co.uk/what-we-do.php</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Loans Fund’ is a regional fund managed by the North West Development Agency.</td>
<td>Loans up to €320,000 for SMEs based in the North West Region.</td>
<td><a href="http://www.nwdabusinessfinance.co.uk/transitional-loan-fund">http://www.nwdabusinessfinance.co.uk/transitional-loan-fund</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>Unsecured loans provided by the South Yorkshire Investment Fund, a public-private investment fund for South-Yorkshire based businesses.</td>
<td>Loans typically ranging from €17,270 to €57,556 for early stage businesses, and from €17,270 to €172,670 for established and profitable businesses.</td>
<td><a href="http://www.syif.com/finance/loans/">http://www.syif.com/finance/loans/</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Capital Cardiff Fund’ is a finance provider managed by the Cardiff Council Business Investment Team.</td>
<td>Loans for SMEs from €577 up to €577,000.</td>
<td><a href="http://www.cardiff.gov.uk/content.aspx?nav=2874,5852&amp;parent_directory_id=2865&amp;id=9227&amp;Language=CYM">http://www.cardiff.gov.uk/content.aspx?nav=2874,5852&amp;parent_directory_id=2865&amp;id=9227&amp;Language=CYM</a></td>
</tr>
<tr>
<td>Film, audiovisual, new media and music</td>
<td>Micro loans provided by Finance Wales, a public agency investing in Wales-based businesses with growth potential at all stages of their development.</td>
<td>Micro loans between €5,500 and €25,250.</td>
<td><a href="http://www.financewales.co.uk/what_we_do/how_we_invest/micro_loans.aspx">http://www.financewales.co.uk/what_we_do/how_we_invest/micro_loans.aspx</a></td>
</tr>
<tr>
<td>Equity finance</td>
<td>Film, audiovisual and media</td>
<td>Film, audiovisual and media</td>
<td>Film, audiovisual and media</td>
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</tr>
<tr>
<td><strong>Film, audiovisual, new media and music</strong></td>
<td>The ‘Wales Creative IP Fund’ is managed by Finance Wales and mainly invests in film, TV, new media and music production.</td>
<td>Investment capital between € 55,000 and € 780,000, provided alongside money already raised by the enterprise (60% minimum already raised). Other investment packages managed by Finance Wales and benefiting any SME include: “Early stage”, “Development Capital”, “Management Succession Funding” and “Follow-on Investing”.</td>
<td><a href="http://www.financewales.co.uk/what_we_do/how_we_invest/creative_projects.aspx">http://www.financewales.co.uk/what_we_do/how_we_invest/creative_projects.aspx</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>The ‘Advantage Creative Fund’ is a public and non-profit venture capital fund for West-Midlands-based companies.</td>
<td>Investment capital up to € 280,000 per company with the Fund taking a small equity stake in the investee company.</td>
<td><a href="http://www.advantagecreativefund.co.uk/acf-index.php?id=244">http://www.advantagecreativefund.co.uk/acf-index.php?id=244</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>The ‘Creative Advantage Fund’ is a public venture capital fund for Birmingham-based companies.</td>
<td>Investment capital between € 80,000 and € 170,000 per company.</td>
<td><a href="http://www.creativeadvantagefund.co.uk/sign_in.asp">http://www.creativeadvantagefund.co.uk/sign_in.asp</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>The Creative Capital Fund (CCF) is a € 7.5 million equity fund established in 2005 as part of the Creative London programme.</td>
<td>The CCF makes equity investments of up to € 750,000 in early stage companies. The CCF operates as a matching fund and so every € 1 invested by the CCF must be matched by at least € 1 in equity from private investors on the same terms.</td>
<td><a href="http://www.ccfund.co.uk/">http://www.ccfund.co.uk/</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>‘NESTA Investments’ is managed by the independent National Endowment for Science, Technology and the Arts (NESTA) and provides investment funds for innovative companies.</td>
<td>Investments from € 1.35 million up to more than € 4 million in companies addressing very large and profitable markets, having potential growth opportunities and annual sales of at least € 135 million.</td>
<td><a href="http://www.nesta.org.uk/investments/criteria">http://www.nesta.org.uk/investments/criteria</a></td>
</tr>
<tr>
<td>Film, audiovisual and media</td>
<td>‘INGENIOUS investment’ is managed by the private investment company INGENIOUS Media and offers a range of alternative investments in the media and entertainment sector.</td>
<td>Extensive selection of investment offerings (of variable amounts), from private equity investments on projects to structured investments.</td>
<td><a href="http://www.ingeniousmedia.co.uk/investments/investment-offerings/ingenious-film-partners">http://www.ingeniousmedia.co.uk/investments/investment-offerings/ingenious-film-partners</a></td>
</tr>
<tr>
<td>Film, audiovisual and media</td>
<td>INGENIOUS VENTURES is the private equity division of INGENIOUS Media. It provides funding alongside experienced entrepreneurial management across the media sector to partner with them in the strategic development of their company.</td>
<td>Equity investments of € 3-20 million in the form of expansion capital for media companies.</td>
<td><a href="http://www.ingeniousmedia.co.uk/ventures/investment-criteria/">http://www.ingeniousmedia.co.uk/ventures/investment-criteria/</a></td>
</tr>
<tr>
<td>Sector</td>
<td>Description</td>
<td>Equity investments in film, audiovisual, videogames companies of up to €275,000 (maximum 40% of the budget).</td>
<td><a href="http://www.screeneast.co.uk/low-carbon-fund-2.aspx">http://www.screeneast.co.uk/low-carbon-fund-2.aspx</a></td>
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</tr>
<tr>
<td>Film, audiovisual and videogames</td>
<td>The ‘East of England Low Carbon Fund’ is an investment fund managed by the local development agency Screen East.</td>
<td>———————</td>
<td></td>
</tr>
<tr>
<td>Film, audiovisual and media</td>
<td>The ‘4iP Fund’ is an investment fund managed by British public-private broadcaster Channel 4.</td>
<td>Equity seed capital mainly for projects using new digital media (variable amounts).</td>
<td><a href="http://www.4ip.org.uk/">http://www.4ip.org.uk/</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Enterprise Capital Funds’ are public-private equity funds which operate within the ‘equity gap’ and are managed by Capital for Enterprise Limited, a national business support body for SMEs.</td>
<td>Co-investment schemes targeting innovative SMEs with up to €2 million equity investments.</td>
<td><a href="http://www.bis.gov.uk/Policies/enterprise-and-business-support/access-to-finance/enterprise-capital-funds">http://www.bis.gov.uk/Policies/enterprise-and-business-support/access-to-finance/enterprise-capital-funds</a></td>
</tr>
<tr>
<td>Film, audiovisual, music, theatre</td>
<td>The ‘Creative Arts Investment Network’ (CAIN) is a private and independent BA network created in 2008 which wants to connect with UK companies in the film, tv, theatre, music and live events sectors.</td>
<td>Investment covering up to about €3.3 million of production costs.</td>
<td><a href="http://www.cainuk.com/">http://www.cainuk.com/</a></td>
</tr>
<tr>
<td>Film and audiovisual</td>
<td>Grants provided to audiovisual companies through the ‘Film Fund’ and ‘Innovation Fund’, managed by the UK Film Council.</td>
<td>Grants to screenwriters/writer-directors to write and develop a feature film and encourage innovation, new methods of distribution and new exhibition platforms.</td>
<td><a href="http://www.ukfilmcouncil.org.uk/whatwefund">http://www.ukfilmcouncil.org.uk/whatwefund</a></td>
</tr>
<tr>
<td>Film</td>
<td>The ‘Film Tax Relief’ is a tax relief scheme for film companies managed by the UKFC.</td>
<td>Tax deduction of 80% with a payable cash element of 20% of UK qualifying film production costs.</td>
<td><a href="http://www.ukfilmcouncil.org.uk/taxrelief">http://www.ukfilmcouncil.org.uk/taxrelief</a></td>
</tr>
<tr>
<td>Film</td>
<td>‘Microwave’ is a micro finance scheme for low budget films (€70,000 maximum) backed by Film London and BBC Film.</td>
<td>Investment in cash and/or in-kind support up to €70,000 per film and training to guide the project.</td>
<td><a href="http://microwave.filmlondon.org.uk/">http://microwave.filmlondon.org.uk/</a></td>
</tr>
<tr>
<td>All CCIs</td>
<td>‘Creative credits’ is an innovation voucher programme for CCIs managed by the Arts &amp; Humanities Research Council, the Economic and Social Research Council, the Manchester City Council and the Regional Development Agency North West.</td>
<td>Grants for Manchester-based SMEs - up to more than € 5,000 to purchase services from a local creative firm.</td>
<td><a href="http://www.creative-credits.org.uk/">http://www.creative-credits.org.uk/</a></td>
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<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘UK Enterprise Investment Scheme’ (EIS) is a tax relief scheme managed by the HM Treasury and available to individuals who subscribe for shares in an EIS qualifying company.</td>
<td>For a minimum investment of € 576 in a small high-risk trading company, the tax relief is 20% of the cost of the shares up to a maximum of € 576,500 invested in such shares, giving a maximum tax reduction in any one year of € 115,300.</td>
<td><a href="http://www.hmrc.gov.uk/eis/part1/1-2.htm">http://www.hmrc.gov.uk/eis/part1/1-2.htm</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>Managed by HM Treasury, the R&amp;D Relief for Corporation Tax grants tax reliefs on R&amp;D expenses to any company.</td>
<td>R&amp;D tax credit (the percentage varies according to the size of the company) for projects solving scientific or technological uncertainty.</td>
<td><a href="http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm">http://www.hmrc.gov.uk/ct/forms-rates/claims/randd.htm</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘INDEX’ (Innovation Delivers Expansion) scheme is a regional fund managed by Advantage West Midlands.</td>
<td>Grants for regional SMEs to purchase up to € 4,000 of academic support from 1 of the 13 universities in the West Midlands.</td>
<td><a href="http://www.innovationvouchers-wm.co.uk/">http://www.innovationvouchers-wm.co.uk/</a></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The 'Single Investment Fund' is managed by Finance Wales and supports Wales-based companies at start-up or growth stage in any sector.</td>
<td>Grants up to € 5,600 per company.</td>
<td><a href="http://fs4b.wales.gov.uk/bdotg/action/detail?site=230&amp;itemId=5001457744&amp;type=RESOURCES">http://fs4b.wales.gov.uk/bdotg/action/detail?site=230&amp;itemId=5001457744&amp;type=RESOURCES</a></td>
</tr>
<tr>
<td>Type</td>
<td>Target sectors</td>
<td>Financial instrument</td>
<td>Benefit</td>
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</tr>
<tr>
<td>Guarantee</td>
<td>Any sector (not CCIs specific)</td>
<td>Guarantees provided by First-Step Microfinance, a private and non-profit company.</td>
<td>SME Guarantee Facility providing guarantees of variable amounts according to the amount of the loan.</td>
</tr>
<tr>
<td>Debt Finance</td>
<td>All CCIs</td>
<td>Loans provided by the 'Clann Credo - The Social Investment Fund', a private not-for-profit organisation working in a wide range of sectors including culture.</td>
<td>Loans up to € 500,000.</td>
</tr>
<tr>
<td></td>
<td>Any sector (not CCIs specific)</td>
<td>Loans to start-ups and growing companies provided by First-Step Microfinance.</td>
<td>Loans of up to € 25,000 to start up or new expanding businesses.</td>
</tr>
<tr>
<td></td>
<td>Film</td>
<td>A recoupment of investments is offered to film producers' by the Irish Film Board to stimulate investment in Irish productions.</td>
<td>The Irish Film Board entities producers to acquire 50% of total revenues, while the Irish Film Board will deem to have recouped its investment when it has earned the remaining 50%. In this way, the Irish Film Board acts as an investor but especially stimulates producers' investments in film projects.</td>
</tr>
<tr>
<td></td>
<td>Any sector (not CCIs specific)</td>
<td>The 'Sandy Cove Enterprises Fund' is a local investment fund managed by a public-private partnership of banks, universities and enterprises' boards which provides support for start-up projects in the Dublin-Wicklow area.</td>
<td>Up to € 50,000 investment on projects related to software development, internet marketing, fashion distribution, furniture manufacturing, professional services, printing and packaging, publishing and education programmes. The funding may take the form of loans, share capital or guarantees based on the preference of the applicant.</td>
</tr>
<tr>
<td>Equity finance</td>
<td>Technology</td>
<td>The ‘AIB Seed Capital Fund’ is a public-private investment fund managed by Enterprise Ireland, a national government agency for business development.</td>
<td>Up to € 500,000 seed capital available per project.</td>
</tr>
<tr>
<td></td>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Halo Business Angel Partnership’ is a recently created national network of business angels who aim to foster private equity and business angel activity in Ireland.</td>
<td>Matches private investors with investment opportunities in start-up and developing business.</td>
</tr>
<tr>
<td>Public subsidies</td>
<td>Any sector (not CCIs specific)</td>
<td>The Irish ‘Seed Capital Scheme’ (SCS) is a funding scheme providing seed capital and managed by Enterprise Ireland.</td>
<td>Tax relief for individual investors on investments made at start-up phase up to a maximum of €150,000 per annum for each tax year until 2013. The relief is available at the investor's highest rate of income tax.</td>
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</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Business Extension Scheme’ (BES) is a tax relief incentive scheme managed by the Dublin City Enterprise Board.</td>
<td>Refunds of tax paid in the last years can be claimed up to a maximum of €100,000 on the basis of investment in certain R&amp;D activities and for production, publication, marketing and promotion of a qualifying musical/video recording.</td>
<td></td>
</tr>
<tr>
<td>Film</td>
<td>A tax incentive scheme for film producers is managed by the Irish Film Board (Section 481).</td>
<td>Tax shelter up to 28% of the eligible Irish expenses on film production up to €50 million.</td>
<td></td>
</tr>
<tr>
<td>Music</td>
<td>The ‘Business Expansion Scheme for Music’ is a tax relief scheme for external investors in music companies managed by the Irish Minister for Arts, Sport and Tourism.</td>
<td>Tax relief up to a maximum of €150,000 per annum in each tax year up to 2013 for external investors investing in certain music activities.</td>
<td></td>
</tr>
<tr>
<td>Music, visual arts, performing arts</td>
<td>Grants provided to arts projects by the Irish Arts Council through specific initiative such as the 'Music project award', the 'Small Arts Festival Scheme', and the 'Bannf residency'.</td>
<td>Grants to help Irish artists develop their talents and projects (variable amounts).</td>
<td></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘Research and Development Tax Credit’ is a tax credit on R&amp;D expenses granted by the National Department of Enterprise, Trade and Development.</td>
<td>20% R&amp;D tax credit to stimulate research on new scientific and technical knowledge.</td>
<td></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>Innovation vouchers are provided by Enterprise Ireland to support innovation within SMEs.</td>
<td>Grants up to €5,000 accessible to SMEs for new product/process development and new business models.</td>
<td></td>
</tr>
</tbody>
</table>
### Table 4 – Germany

<table>
<thead>
<tr>
<th>Target sectors</th>
<th>Financial instrument</th>
<th>Benefit</th>
<th>Web Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guarantees</strong> (not CCIs specific)</td>
<td>Any sector</td>
<td>Guarantees provided by State guarantee banks such as the Bürgschaftsbank North Rhine Westfalia and the Bürgschaftsbank Baden-Württemberg.</td>
<td>Guarantees granted to any SMEs based in the federal State up to a maximum of 80% of the loan.</td>
</tr>
<tr>
<td></td>
<td>Any sector</td>
<td>'MONEX - Micro-credit' is a regional microfinance organisation supported by the Baden-Württemberg region.</td>
<td>Loans to young businesses up to a maximum of €20,000.</td>
</tr>
<tr>
<td></td>
<td>Any sector</td>
<td>Micro-credits provided by the Berlin Investment Bank.</td>
<td>Micro-credits for SMEs – up to €10,000.</td>
</tr>
<tr>
<td></td>
<td>Any sector</td>
<td>Micro-credits and loans provided by the regional development bank NRW Bank.</td>
<td>Micro-loans to start-up and SMEs from €5,000 to €25,000, long-term loans up to €50 million and low interest loans for R&amp;D projects.</td>
</tr>
<tr>
<td><strong>Debt Finance</strong> (not CCIs specific)</td>
<td>Any sector</td>
<td>Tailor-made mezzanine finance instruments are provided by GLS Gemeinschaftsbank, a private bank specialised in non-typical sector.</td>
<td>Innovative models for financing the sector (mezzanine instruments), including bank loans for production activities combined with subsidy and donations for investment costs (such as rehearsals, costumes and premises).</td>
</tr>
<tr>
<td></td>
<td>All CCIs</td>
<td>The ‘Venture Capital Funds Creative Industries Berlin’ is a private-public investment capital fund managed by the Investitionbank Berlin.</td>
<td>Up to €1.5 m investment per financing cycle - less profit oriented than traditional VCs and so more open to creative sectors, especially to film and audiovisual, software/videogames, music, design and fashion companies.</td>
</tr>
<tr>
<td></td>
<td>All CCIs</td>
<td>The ‘NRW.BANK’s Fund for Creative Industries’ is an investment fund management by the NRW.Bank.</td>
<td>Co-investment from €250,000 up to €3 million in emerging and mid-size cultural and creative companies.</td>
</tr>
<tr>
<td><strong>Equity Finance</strong></td>
<td>Fine Arts, Film, Literature, Performing arts</td>
<td>National grants provided for arts projects by German Federal Cultural Funds such as the ‘Arts Fund Foundation’, the ‘World Cinema Fund’, the ‘German Literature Fund’, the ‘Wanderlust - Fund for International Theatre Partnerships’ and the ‘Performing Arts Fund’.</td>
<td>Working grants, travel grants, awards but also grants for concrete artistic projects, media restoration projects and exhibitions (variable amounts).</td>
</tr>
<tr>
<td></td>
<td>Film</td>
<td>Grants for film production provided by the German Federal Film Fund (DFF).</td>
<td>Grants functioning in a very similar way to tax shelter. A grant up to 20% of production costs of the approved German production costs will reduce the imposable income.</td>
</tr>
<tr>
<td></td>
<td>Any sector</td>
<td>Innovations-gutscheine is an innovation voucher scheme for SMEs managed by the Baden-Württemberg region.</td>
<td>Grants up to €5,000 for new products, processes or businesses.</td>
</tr>
<tr>
<td></td>
<td>Film</td>
<td></td>
<td><a href="http://www.ffa.de/content_dfff/dfff_leitfaden.phtml?language=en">http://www.ffa.de/content_dfff/dfff_leitfaden.phtml?language=en</a></td>
</tr>
<tr>
<td></td>
<td>Any sector</td>
<td>Innovations-gutscheine is an innovation voucher scheme for SMEs managed by the Baden-Württemberg region.</td>
<td>Grants up to €5,000 for new products, processes or businesses.</td>
</tr>
</tbody>
</table>

**Web Links**

- [http://www.buergschaftsbank.de/english.php/aboutus/CompanyProfile?PHPSESSID=15bpisb6k9k9g6bra99ohd9l03](http://www.buergschaftsbank.de/english.php/aboutus/CompanyProfile?PHPSESSID=15bpisb6k9k9g6bra99ohd9l03)
- [http://www.buergschaftsbank.de/english.php/aboutus/CompanyProfile?PHPSESSID=15bpisb6k9k9g6bra99ohd9l03](http://www.buergschaftsbank.de/english.php/aboutus/CompanyProfile?PHPSESSID=15bpisb6k9k9g6bra99ohd9l03)
- [www.nrwbank.de](http://www.nrwbank.de)
- [http://www.gls.de/](http://www.gls.de/)
- [http://vcfondsberlin.de/vc_fonds_kreativ.0.html?L=qumkyldhzyvouio&L=1](http://vcfondsberlin.de/vc_fonds_kreativ.0.html?L=qumkyldhzyvouio&L=1)
- [http://vcfondsberlin.de/vc_fonds_kreativ.0.html?L=qumkyldhzyvouio&L=1](http://vcfondsberlin.de/vc_fonds_kreativ.0.html?L=qumkyldhzyvouio&L=1)
- [http://www.newcome.de/innovation/](http://www.newcome.de/innovation/)
<table>
<thead>
<tr>
<th><strong>Table 5 – The Netherlands</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target sectors</strong></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
</tr>
<tr>
<td>Visual arts, performing arts, design</td>
</tr>
<tr>
<td>Visual arts, performing arts, design</td>
</tr>
<tr>
<td>All CCIs</td>
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<tr>
<td>Media, entertainment</td>
</tr>
<tr>
<td>All CCIs</td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
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<tr>
<td>Any sector (not CCIs specific)</td>
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</tbody>
</table>
| Public support | Music, Visual Arts, Architecture, Performing Arts, Literature | Grants provided for arts projects and artists through national cultural funds such as the 'Dutch Foundation for Literature', ‘Music Composers Fund’, the 'Netherlands Foundation for Visual Arts, Design and Architecture', the ‘Netherlands Fund for the Amateur Arts and Performing Arts’ and the ‘Dutch Film Fund’. | Subsidies for beginning artists, financial assistance for applicants at the basic level to help them continue their work, grants for projects, research, new work, continuing education abroad, travels and publications (variable amounts). | Dutch Foundation for Literature: [http://www.nlpvf.nl/](http://www.nlpvf.nl/)  
Netherlands Fund for the Amateur Arts and Performing Arts: [http://www.fondspodiumkunsten.nl/](http://www.fondspodiumkunsten.nl/)  
Dutch Film Fund: [http://www.filmfund.nl](http://www.filmfund.nl) |
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<tbody>
<tr>
<td>Film</td>
<td>National grants to film production granted by the Dutch Film Fund.</td>
<td>Grants for film production up to a maximum of € 200,000 per film.</td>
<td><a href="http://www.filmfund.nl/node/91">http://www.filmfund.nl/node/91</a></td>
<td></td>
</tr>
<tr>
<td>Film, audiovisual, media and videogames</td>
<td>The ‘Media Fonds’ are national public funds providing subsidies to media companies.</td>
<td>Subsidies for radio- and television programmes aimed to stimulate new genres, like video clips and games (variable amounts).</td>
<td><a href="http://www.mediafonds.nl/page/50495/english">http://www.mediafonds.nl/page/50495/english</a></td>
<td></td>
</tr>
<tr>
<td>All CCIs</td>
<td>Tax credits are granted by the national government to private individuals investing in a cultural fund which in turn finances cultural projects in any sector.</td>
<td>1.3% tax credit of the average amount invested in the cultural investment fund.</td>
<td><a href="http://www.belastingdienst.nl/variabel/buitenland/en/private_taxpayers/private_taxpayers-43.html">http://www.belastingdienst.nl/variabel/buitenland/en/private_taxpayers/private_taxpayers-43.html</a></td>
<td></td>
</tr>
<tr>
<td>Any sector (not CCIs specific)</td>
<td>The ‘WBSO: Research and Development (R&amp;D) tax credit’ is granted by the Ministry of Economy (SenterNovem Agency).</td>
<td>Tax deductions from 50 to 64% of the R&amp;D costs incurred for scientific and technological projects that are new to the company and that can create improvements.</td>
<td><a href="http://www.senternovem.nl/wbso/English.asp">http://www.senternovem.nl/wbso/English.asp</a></td>
<td></td>
</tr>
<tr>
<td>Any sector (no CI specific)</td>
<td>The ‘Innovatievouchers’ is an innovation voucher scheme managed by the Ministry of Economy (SenterNovem Agency).</td>
<td>Grants from € 2,500 to € 7,500 to acquire external expertise (knowledge voucher) or for paying patent costs (patent voucher).</td>
<td><a href="http://www.senternovem.nl/innovatievouchers/">http://www.senternovem.nl/innovatievouchers/</a></td>
<td></td>
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</table>
## 2. Support and advice services

<table>
<thead>
<tr>
<th>Type of advising service</th>
<th>Description</th>
<th>Web Link</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment readiness programmes</strong></td>
<td>The Gateway2Investment (g2i) is a London-based Investment Readiness (IR) Programme for London-based companies operating in the design, music, visual &amp; performing arts, publishing, film, radio &amp; TV (New Media), advertising, games development sectors.</td>
<td><a href="http://www.g2i.org/">http://www.g2i.org/</a></td>
</tr>
<tr>
<td></td>
<td>The Advantage Creative Fund in an investment fund for CCIs providing support for companies to draft their business plans.</td>
<td><a href="http://www.advantagecreativefund.co.uk/acf-index.php?id=244">http://www.advantagecreativefund.co.uk/acf-index.php?id=244</a></td>
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<tr>
<td></td>
<td>Seedcamp is a Business Accelerator Programme which combines equity finance (between € 30,000 and € 50,000) and incubation services spaces in London for innovative start-ups operating in any sector.</td>
<td><a href="http://www.seedcamp.com/">http://www.seedcamp.com/</a></td>
</tr>
<tr>
<td></td>
<td>The Pôle de Compétitivité in Lyon offers IR programmes to companies operating in the games and video sectors.</td>
<td><a href="http://www.economie.grandlyon.com/poles-competitivite-lyon.55.0.html">http://www.economie.grandlyon.com/poles-competitivite-lyon.55.0.html</a></td>
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<td>The Sophia Antipolis cluster in Sophia Antipolis (France) offers IR programmes to digital media companies.</td>
<td><a href="http://www.sophia-antipolis.org/fsa/international/projets-europeens/cluster-mapping/cluster-mapping.htm">http://www.sophia-antipolis.org/fsa/international/projets-europeens/cluster-mapping/cluster-mapping.htm</a></td>
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<td>Creative NRW is a regional initiative offering networking opportunities, support to start-ups and information on funding schemes to CCIs based in North-Rhine Westphalia.</td>
<td><a href="http://www.creative.nrw.de/">http://www.creative.nrw.de/</a></td>
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<td>The Centre for Cultural Entrepreneurship in Aachen focuses on practical activities, including the organization of training and B2B workshops for individual artists and potential entrepreneurs.</td>
<td><a href="http://www.kulturunternehmen.info">http://www.kulturunternehmen.info</a></td>
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<td><strong>Support programmes for investors</strong></td>
<td>The Creative Investor Awareness Project is an IR programme set up by GLE London Business Angels to attract investors to CCIs.</td>
<td><a href="http://www.lbangels.co.uk/">http://www.lbangels.co.uk/</a></td>
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<td>Media Deals gathers a network of investors in Berlin and puts them in contact with media-tech companies.</td>
<td><a href="http://www.media-deals.org/">http://www.media-deals.org/</a></td>
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<td>France Business Angels is an association aimed to develop business investments especially in the media and IT sectors.</td>
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<td>’Start West’ is an annual event organised in Nantes by ECCEI to attract investors to CCIs.</td>
<td><a href="http://www.start-west.com/">http://www.start-west.com/</a></td>
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<td><strong>IP and legal advice</strong></td>
<td>Own-It is a London-based initiative providing IPR advice for creative businesses.</td>
<td><a href="http://www.own-it.org">www.own-it.org</a></td>
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<td><strong>Incubation services</strong></td>
<td>Creative Space is a Birmingham-based centre offering incubation spaces to start-ups at reasonable rent fees.</td>
<td><a href="http://www.locatebirmingham.com/economic_profile/creative_industries">http://www.locatebirmingham.com/economic_profile/creative_industries</a></td>
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<td>Incubator Design is an Eindhoven-based incubation centre which puts young design entrepreneurs in contact with design experts.</td>
<td><a href="http://www.incubator3plus.nl/">http://www.incubator3plus.nl/</a></td>
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<td>The Incubateur National Multimédia Belle-de-Mai is an incubation space within the cluster ‘Pôle Médias Belle de Mai’ in Marseille (France).</td>
<td><a href="http://www.belledemai.org/">http://www.belledemai.org/</a></td>
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<td></td>
<td>Nantes Création offers CCIs advice from</td>
<td><a href="http://www.nantesreation.fr/">http://www.nantesreation.fr/</a></td>
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</tbody>
</table>
3. Bibliography

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INGENIΘUS, DCMS, DTI. (2007). Sustainable Investment for the Creative Industries?
KEA European Affairs, Nesta Creative Services Innovation Voucher – Final project proposal, 2008.
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4. Methodology and results of the online survey

1. Scope, methodology and added value

The present report has been completed through a condensed online survey aimed at testing and complementing results obtained through KEA’s desk research and expert consultations.

The survey explored the main challenges and opportunities of cultural and creative businesses to access finance in the cities and areas of Nantes, Birmingham, Eindhoven, Cardiff, Stuttgart, Dublin and Aachen.

The survey was set up to contribute to both the completion of the report and to the entire ECCEi project:
- It was part of a “double-check” process in order to test results obtained through the previous steps (i.e. desk research and interviews).
- It gave voice to creative businesses active in ECCE regions/cities and ensures that they get the opportunity to express their comments on this specific topic.
- It made target stakeholders more aware of financing issues.
- The survey is ongoing until the end of the ECCE Innovation project, therefore contributing to its overall visibility.

The survey was drafted in three different languages (English, French and German) and forwarded by ECCEi members to creative businesses operating in their regions. It was launched in January and closed (at least for the completion of the study) on 1 April.

2. Main results of the survey

In spite of the survey’s reduced scope, its results have helped to confirm trends identified through desk research and expert consultations:

- 45 creative businesses have replied to the survey, most of them being from the “design” and “media & communication” sectors.
- The geographical repartition of respondents is as follows: 42.2% (France), 37.7% (UK), 8.8% (Ireland), 4.4% (Germany), 4.4% (The Netherlands).
- The majority of respondents are micro (less than 10 employees) (70%) or small (23%) companies (less than 50 employees).
- Respondents say they were active in the following sectors:
  - Design (37.7% of them)
  - Media / Communication (31.1%)
  - Performing Arts (17.7%)
  - Visual Arts (17.7%)
  - Audiovisual (15.5%)
  - Videogames (15.5%)
  - Music (11.1%)
  - Books (11.1%)
  - Digital Arts (8.8%)
  - Arts Crafts (8.8%)
  - Fashion (6.6%)
  - Advertising (6.6%)
- 85% affirm that access to finance is “very important” or “important” to their business especially for “marketing & communication” (30%) as well as “product/service development and R&D” (28%) activities.
- Most respondents (61%) say they have never benefitted from external financing instruments. Amongst the remaining 39%, 85% of them see these tools as “useful/very useful”.
- Companies ranked the following financial opportunities and support services with the following order of importance:
  1. Retained profits (68% cite them as “important/very important”)
  2. Personal resources (66%)
  3. Advising services (61%)
  4. Public grants (59%)
  5. Innovation vouchers (58%)
  6. Tax incentives (57%)
  7. Debt finance (55%)
  8. Risk Capital (38%)
  9. Guarantees (33%)
- According to companies surveyed, the most difficult barriers to access finance are the lack of:
  1. Communication on available funds (75% of respondents)
  2. Awareness/understanding on the investors’ side (63%)
  3. Tailor-made financing instrument for the sector (59%)
  4. Tangible assets as guarantee (54%)
  5. Awareness/understanding from creative businesses (48%)
  6. Adequate accounting tools to value IP capital (46%)
  7. Management/business skills (34%)

3. Questionnaire

Description of your business:
- In what cultural or creative sector are you mainly active in? (multiple choice: design, craft, fashion, performing arts, visual arts, digital arts, media & communication, advertising, audiovisual, music, books, videogames, serious games).
- What is the size of your business? (multiple choice).
- What stage of development has your company reached (multiple choice: Pre-seed phase; Seed phase; Start-up phase; Emerging growth; Development).

Financing needs:
- How important is access to finance for your business? (multiple choice: very important, important, not important).
- What do you need financial support for – what field of business activity/value chain? (multiple choice: Very important; important; not important; does not know)
  - Start-up
  - Creative product/service development
  - Creative product/service production (manufacturing, production, etc.)
  - Distribution
- Please give levels of importance for your business to the following financing instruments (multiple choice: Very important; important; not important; does not know)
  - Public
    - i. Public grants
    - ii. Tax incentives
  - Debt finance (micro-credits; loans; etc.)
  - Risk capital (venture capital; etc.)
  - Guarantees
  - Others (please fill in blank space).

- Do you consider that the following problems are barriers to access existing financial instruments? (multiple choice: Yes a lot; Yes; Not really; Not at all)
  - Lack of Management/business skills/plans
  - Lack of tangible assets as guarantee (structural barrier)
  - Lack of adequate accounting tools to value intellectual capital
  - Lack of specific instruments for your sector
  - Lack of awareness/understanding on the investors’ side
  - Lack of communication on available funds
  - Others (please fill in blank space).

**Existing financing tools:**

- Has your business benefitted in the past year from one or several of the above-mentioned instruments/funds? (multiple choice: Yes or No)

- If yes, which of those (empty box) – please mention their names?

- Where those instruments/funds useful for your business?