European Commission

Survey on access to finance for cultural and creative sectors

Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the creative Europe programme

MEDIA

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Project team:

Isabelle De Voldere (IDEA Consult)
Eveline Durinck (IDEA Consult)
Kristof Mertens (IDEA Consult)
Cathy Cardon (IDEA Consult)
Tine Maenhout (IDEA Consult)
Susan Warmerdam (Ecorys NL)
Matthijs Versteegh (Ecorys NL)
Eric Canton (Ecorys NL)

Contact person @ IDEA

IDEA CONSULT thinking ahead

ISABELLE DE VOLDERE
Kunstlaan 1-2, bus 16, 1210 Brussel
Tel. +32 2 300.85.04
E-mail: isabelle.devoldere@ideaconsult.be

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Preface

This report is the result of the study "Survey on access to finance for cultural and creative sectors" commissioned by the European Commission Directorate General for Education and Culture, within the context of the framework contract No EAC/50/2009.

The data gathering process for this study has been both diverse and challenging. A combination of secondary data from Eurostat and micro economic data from Amadeus have been used to construct the sector portrait, bearing in mind their potential and limitations. Alongside secondary data analysis, new data have been collected to increase knowledge about the role of specific barriers to access finance in cultural and creative sectors (CCS). The organization of a European-wide online survey targeting CCS organizations was a critical phase during the process and a successful roll-out was essential for the study. This was only possible thanks to the many intermediary organizations across Europe that supported us in our communication about the survey. We are grateful for all the newsletters that have been sent with reference to the survey, the blog postings, tweets and re-tweets, the webinar that has been organised by the Howtogrow platform and probably many more creative ways that have been used to spread the word. Without this support we would never have succeeded in reaching our target group. We also like to thank the different interviewees that participated in the study and were willing to share their knowledge and insights with us on the barriers for financiers to invest in the sector.

The analysis contained in the report has been undertaken by a team of consultants from IDEA Consult and ECORYS Netherlands. We would like to address special thanks to Piet Callens (Senior Investment Manager at CultuurInvest) and Joost Heinsius (Manager Knowledge & Innovation at Cultuur-Ondernemen)) who shared their sector and financial expertise with us at different moments during the project. Their comments and feedback have been valuable for the team. We are also grateful for the reflections of and the open discussions with the Commission in the various phases of the project, as well as for their support in spreading the survey through the European-wide network of MEDIA Desks and Cultural Contact Points.

Brussels, October 2013

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Executive Summary

Context and approach

The cultural and creative sectors have been recognized as important contributors to societal development in different key European policy documents. With almost 1 million enterprises, the cultural and creative sectors (CCS) represent nearly 4.5% of the total business economy[1]. The sector employs over 3.2 million people, predominantly in very small enterprises and provides work to many who are self-employed. However, various studies on cultural and creative sectors highlight the fact that access to finance currently is a core barrier to further development. Therefore, within the new « Creative Europe » programme, the European Commission plans to introduce a sector specific guarantee facility for the period 2014-20, specifically in order to stimulate the provision of loans to CCS organizations by financial institutes across Europe.

In order to adequately develop and position the new financial instrument requires a good understanding of the demand for and supply of bank loans in the CCS and the (perceived) barriers to accessing external finance, taking into account the significant diversity in the sector. Better information about the problem of access to finance in the CCS facilitates a more precise sector specific estimation of the financing gap. To this end, both CCS organizations and financial institutes active in the sector were questioned in the first half of 2013. Information from a large online survey and different interviews has been combined with secondary data analysis to estimate the financing gap in the sector.

A critical element for the data collection and analysis is a clear delineation of 'CCS'. Over the years the concept of 'cultural and creative industries' has been debated extensively. An international standard working definition is still lacking. But recently, a network of European Statistical Systems (ESSnet-Culture) has published a guideline to harmonize statistics on the CCS at the European level. The ESSnet-Culture guideline has been the basis for the delineation of the CCS in this study.

Access to finance in the cultural and creative sector: beyond the typical SME problems

Based on the secondary data analysis, the study finds no evidence that the cultural and creative industries in Europe generally underperform in terms of profitability and financial health vis-à-vis other sectors. But abundant literature points to existing barriers for CCS organizations – mainly (very) small – when accessing finance. SMEs generally face more challenges than large organizations in attracting external finance, mainly due to problems of information asymmetry. In addition to the barriers to accessing finance for SMEs in general, specific characteristics of CCS organizations reinforce the problem of access to finance. These relate to:

- intrinsic characteristics of CCS activities: e.g. lack of tangible assets, dependence on intangible assets, high uncertainty of market demand;

[1] *Excluding financial and insurance activities; in number of enterprises.*

- characteristics of organizations and entrepreneurs within the CCS: e.g. (perceived) lack of business skills, dependence on public investment schemes and
- specific market conditions: e.g. size of the market, lack of good market intelligence, pressure on existing business models.

The problem of access to finance is closely linked to the fact that the CCS in Europe suffers from a lack of middle-sized firms (the 'missing middle' phenomenon). Small CCS organizations have difficulty growing into medium-sized firms. Good access to bank loans is critical for CCS organizations which have the potential to grow.

In the study the impact of these sector-specific characteristics on the problem of access to finance in the CCS has been confirmed by both CCS organizations (online survey) and financiers (interviews).

Financing needs of CCS organizations

Focusing on the financing structure of CCS organizations, a number of elements specifically characterize the cultural and creative sectors:

- Own earnings and government subsidies play an important role in the financing of cultural and creative organizations, but they are only part of a mix of financing sources in most organizations. Apart from bank loans, informal financing such as loans from private individuals or organzations and crowdfunding are also being used. Due to high levels of novelty and risk, equity investment also plays a role in a number of specific subsectors;
- There is an above average use of short term finance in many CCS subsectors to finance businesses. According to the survey results, the majority of the loan applications relate to gap financing (to bridge the period of waiting for other funds such as e.g. subsidies) and (short-term) pre-financing of projects. Intermediate and longer term financing in CCS organizations appear to be lacking. Short term finance is easier to attract, although often at a higher cost. For long term finance, financial institutes normally require assets as collateral, which is difficult for many CCS organizations. However, long term finance is critical in order to support longer term business planning and stable business growth.

Based on the results from the online survey, the following findings characterise the needs and barriers of cultural and creative organizations to apply for external finance and in particular bank loans:

- There is a large discouragement in the sector from applying for external finance. The most frequently cited barriers are the (perceived) complexity of applying for external finance, the required time investment and a lack of sufficient business assets to offer as collateral. Combined with the fact that many of the organizations which did not apply for external finance have no business plan points to a lack of managerial skills in many CCS organizations required to draft a solid business plan and prepare a financial dossier. Yet a good business plan/financial plan is the most frequently requested requirement by banks when applying for a loan;
- Bank loans are mainly requested for short term and project-led financing. Only a minority of the bank loan applications are meant to finance corporate activities (e.g. management, investments in tangible assets, purchase of IPR);

- With the exception of audiovisual production, in all other activities microcredits (loan amounts below €25,000) represent an important proportion of loan applications. This finding has important implications for the type of financiers involved in the sector;
- Over half of the loans applied for have been accepted for at least 75% of the amount applied for. To guarantee (part of) the risk of the loan the majority of the applicants had to meet specific requirements set by the financier. The requirement most frequently requested is a business plan and/or financial plan. Private assets such as collateral were requested from more than one third of the applicants and signing a personal guanrantee to almost half. Both requirements appear to be very difficult to provide for many respondents.

Providing finance to CCS organizations

From the perspective of the banks (the financiers), it seems that it is specifically the business model of many CCS organizations which poses the main problem in providing finance to CCS organizations. Often, but not always, CCS business models do not correspond with the traditional financial products offered by general banks as there is no underlying collateral in the form of tangible assets to cover the financing risk. Due to a lack of sound knowledge on how to assess the value of intangible assets (such as copyright, licences), banks are reluctant to use these as collateral. The limited size of the market (small loan amounts) also prevents them from developing this specialised knowledge. Alternatively, financial institutes active in the CCS look more closely at the quality of business plans and management team within the CCS organizations which apply for bank loans. However, a lack of good business and managerial skills appear to be an important barrier which dissuades financial institutes from providing finance to CCS organizations.

Assessing the financing gap for CCS

Depending on the different scenarios, we estimate that the total financing gap in the CCS over a 7-year period ranges from €8 billion (when on average only 30% of the business plans of CCS organizations are sufficiently solid for financiers) to €13.4 billion (when on average, 50% of the business plans of CCS organizations are sufficiently solid for financiers). The largest proportion of this financing gap is determined by the financing gap in other CCS (i.e. Visual Arts, Performing Arts, Music, Books, Design, Arts & Craft, Architecture and Advertising). Although the average loan amount is substantially lower than the average loan amount in the other subsectors (Audiovisual, Heritage & Education), this subsector contains by far the largest number of organizations.

In the analysis we do not take into account potential differences in the level of market failure between regions or countries. The survey results do not allow us to reach any reliable conclusions in this area at country level. Assuming that the level of market failure does not differ significantly across countries, the geographical distribution of the financing gap is more or less[2] in line with the geographical distribution of the CCS (see Figure 9 in Chapter 3).

[2] *The CCS structure at country level can differ in terms of specialization (e.g. more than average proportion of audiovisual production) and therefore there might be some deviation.*

Moreover, we do not take into account the future impact of the financial and economic crisis. The survey results provide input on past experiences of CCS organizations with respect to external financing needs and possible barriers. However, in a number of countries the most important source of external finance in CCS – subsidies – have already been affected. Moreover, due to the financial crisis it is expected that financiers will adopt stricter criteria when screening loan applications. It is clear that this might affect demand for and access to bank loans for CCS organizations in the future.

Leveraging the effect of the CCS guarantee facility

The study results highlight that the problem of access to finance in the CCS is multidimensional. Lowering the financing risk for banks through the third party guarantee mechanism is important. But to leverage the effect of the instrument, we recommend that the CCS guarantee facility is embedded into a broader 'ecosystem' of measures to stimulate finance in the sector.

The new Creative Europe programme will supplement the guarantee facility with a capacity building programme in order to strengthen skills and sector knowledge, primarily with financiers. But the study results also stress the importance of capacity building on the side of CCS organizations. We recommend that EU policy makers reflect on finding ways to extend the capacity building programme to the potential beneficiaries of the guarantee facility as well.

The results of the study also show that both financing needs and the right financing mix in the CCS are very diverse. Bank loans are only part of a range of financing instruments which might provide finance to the sector. We therefore also recommend the promotion of a framework that creates opportunities for co-financing and stimulates closer interaction between banks, public-private financiers, micocredit providers, business angels and VCs.

Document de synthèse

Contexte et approche

Les secteurs créatifs et culturels ont été reconnus comme des contributeurs importants au développement sociétal dans divers documents de politique européenne essentiels. Avec près de 1 million d'entreprises, les secteurs créatifs et culturels (SCC) représentent près de 4,5 % du total de l'économie[3]. Le secteur emploie plus de 3,2 millions de personnes, essentiellement dans de très petites entreprises, et fournit aussi du travail à de nombreux indépendants. Cependant, plusieurs études consacrées aux secteurs créatifs et culturels montrent que l'accès au financement est actuellement un obstacle fondamental au développement de ces structures. C'est pourquoi, dans le cadre de son nouveau programme « Europe Créative », la Commission européenne prévoit de créer un mécanisme de garantie sectoriel pour la période 2014-20 afin de stimuler en particulier l'octroi de prêts aux organisations SCC par des institutions financières dans l'ensemble de l'Europe.

Pour développer et positionner adéquatement le nouvel instrument de financement, il est nécessaire de bien comprendre la demande et l'offre de prêts bancaires dans les SCC et les obstacles (perçus) à l'accès au financement externe, en tenant compte de la grande diversité du secteur. L'amélioration des informations disponibles sur le problème de l'accès au financement dans les SCC permet d'établir une estimation probante du déficit de financement propre au secteur. À cette fin, les organisations SCC et les institutions financières actives dans le secteur ont été interrogées pendant le premier semestre de 2013. L'information issue d'une vaste enquête en ligne et de divers entretiens a été combinée à une analyse de données secondaires afin d'évaluer le déficit de financement dans le secteur.

L'un des aspects critiques de la collecte et de l'analyse des données consiste à disposer d'une définition claire des SCC. Au fil des années, le concept des « secteurs créatifs et culturels » a fait l'objet de nombreux débats. Une définition standard internationale fait pourtant encore défaut. Récemment toutefois, un réseau d'organisations membres du système statistique européen (ESSnet-Culture) a publié des directives en vue d'harmoniser les statistiques sur les SCC au niveau européen. La directive ESSnet-Culture a servi de base à la définition des SCC dans la présente étude.

Accès au financement dans les secteurs créatifs et culturels : au-delà des problèmes généralement rencontrés par les PME

Sur la base de l'analyse des données secondaires, l'étude ne permet pas de conclure que les secteurs créatifs et culturels en Europe en général seraient (considérablement) moins performants en termes de rentabilité et de santé financière que les autres secteurs. Mais de nombreux travaux confirment l'existence des barrières qui se dressent entre les organisations SCC (essentiellement (très) petites) et l'accès au financement. De façon générale, les PME sont confrontées à davantage de défis que les organisations plus grandes pour attirer un financement externe, surtout en raison de problèmes d'asymétrie de l'information. En plus des difficultés rencontrées par les

[3] *Hors activités financières et d'assurances; en nombre d'entreprises*

PME en général pour accéder au financement, certaines spécificités des organisations SCC renforcent le problème.
Elles sont liées à :

- des caractéristiques intrinsèques des activités SCC : ex. manque d'actifs matériels et dépendance envers des actifs immatériels, grande incertitude de la demande du marché;
- des caractéristiques propres aux organisations et aux entrepreneurs SCC: ex. manque (perçu) de compétences commerciales, dépendance envers les programmes d'investissement publics;
- des conditions spécifiques au marché: ex. taille du marché, manque d'informations de qualité sur le marché, pression sur les modèles d'entreprise existants.

Le problème de l'accès au financement est étroitement lié au fait que les SCC en Europe souffrent d'un manque de sociétés de taille moyenne (le phénomène dit du « missing middle »). Les petites organisations SCC éprouvent des difficultés à acquérir une taille moyenne. L'accès aux prêts bancaires est essentiel pour les organisations SCC qui présentent un potentiel de croissance.

L'impact de ces caractéristiques sectorielles sur l'accès au financement a été confirmé dans l'étude à la fois par les organisations des SCC (enquête en ligne) et par les pourvoyeurs de financements (entretiens).

Besoins de financement des organisations SCC

Au sujet plus précisément de la structure de financement des organisations SCC, plusieurs éléments caractérisent spécifiquement les secteurs créatifs et culturels:

- Les revenus propres et les subsides publics jouent un rôle important dans le financement d'organisations créatives et culturelles, mais ils constituent une partie seulement d'un ensemble de sources de financement dans la plupart des organisations. Outre les prêts bancaires, des financements informels tels que des prêts émanant de particuliers ou de sociétés privées et le financement participatif sont aussi utilisés. Vu le degré élevé de nouveauté et de risque, la prise de participation intervient aussi dans un certain nombre de sous-secteurs spécifiques;
- Le recours au financement à court terme pour financer les activités est supérieur à la moyenne dans de nombreux sous-secteurs SCC. D'après les résultats de l'enquête, la majorité des demandes de prêt sont liées à la couverture du besoin de financement (pour couvrir la période d'attente d'autres fonds comme des subsides) et le préfinancement (à court terme) de projets. Le financement intermédiaire et à plus long terme semble faire défaut parmi les organisations SCC. Le financement à court terme est plus facile à attirer, bien qu'il s'assortisse souvent d'un coût plus élevé. Pour un financement à long terme, les institutions financières exigent généralement des actifs en garantie, ce qui est difficile à fournir pour bon nombre d'organisations SCC. Le financement à long terme est pourtant essentiel pour soutenir un calendrier d'activités et une croissance stable à plus long terme.

Sur la base des résultats de l'enquête en ligne, les conclusions suivantes caractérisent les besoins et les obstacles rencontrés par les organisations des secteurs créatifs et culturels lorsqu'elles font appel à un financement externe, en particulier les emprunts bancaires :

- Le secteur est profondément découragé de solliciter un financement externe. Les obstacles les plus fréquemment cités sont la complexité (perçue) d'une demande de financement externe, le temps qu'il faut y consacrer et le manque d'actifs à offrir en garantie. En outre, l'absence de business plan chez bon nombre des organisations n'ayant pas sollicité de financement externe montre que beaucoup d'organisations SCC manquent des compétences de gestion nécessaires pour élaborer un business plan solide et constituer un dossier financier. Néanmoins, un bon business plan/plan financier est le critère le plus souvent réclamé par les banques lors d'une demande de prêt;
- Les emprunts bancaires sont principalement demandés pour le financement à court terme et le financement d'un projet. Seule une minorité des demandes d'emprunt bancaire ont pour but de financer des activités internes à l'entreprise (ex. gestion, investissements en actifs immatériels, achat de DPI);
- Les microcrédits (emprunts inférieurs à 25 000 €) représentent une part importante des demandes de prêt dans toutes les activités, à l'exception de la production audiovisuelle. Ce constat entraîne des implications importantes concernant le type de financiers impliqués dans le secteur;
- Plus de la moitié des emprunts sollicités ont été accordés pour au moins 75 % du montant demandé. Pour garantir le risque (ou une partie) de l'emprunt, la majorité des demandeurs a dû satisfaire à des exigences spécifiques imposées par le financier. La condition la plus fréquemment réclamée est un business plan et/ou un plan financier. Des actifs privés ont été demandés en garantie à plus d'un tiers des demandeurs et la signature d'une garantie personnelle à près de la moitié des demandeurs. Pour bon nombre des participants à l'enquête, les deux conditions semblent très difficiles à remplir.

Financer les organisations SCC

Sous l'angle des banques (les financiers), il semble que le modèle d'entreprise de nombreuses organisations SCC en particulier soit l'obstacle principal à l'octroi d'un financement à ce type de structure. Souvent, mais pas toujours, les modèles d'entreprise SCC ne correspondent pas aux produits financiers traditionnels proposés par les banques généralistes parce qu'il n'y a pas de garantie sous-jacente sous la forme d'actifs matériels pour couvrir le risque de financement. Par manque de connaissance sur la façon d'évaluer la valeur d'actifs immatériels (tels des copyrights, des licences), les banques se montrent réticentes à les utiliser comme garantie. La taille limitée du marché (emprunts réduits) les retient également de développer cette connaissance spécialisée. En revanche, les institutions financières actives dans les secteurs créatifs et culturels examinent plus attentivement la qualité des business plans et des gestionnaires des organisations SCC qui demandent des prêts bancaires. Toutefois, le manque d'aptitudes commerciales et de compétences de gestion semblent être un obstacle important aux yeux des institutions financières.

Évaluer le déficit de financement du SCC

En fonction des scénarios différents, nous estimons que le déficit de financement total dans les SCC sur une période de 7 ans s'étend de 8 milliards € (si une moyenne de 30 % seulement des business plans d'organisations SCC sont assez solides pour les financiers) à 13,4 milliards € (si une moyenne de 50 % des business plans d'organisations SCC sont assez solides pour les financiers). La majeure partie de ce déficit de financement est déterminée par le déficit de financement dans d'autres SCC (i.e. Arts plastiques, Arts du spectacle, Musique, Littérature, Design et Artisanat, Architecture et Publicité). Bien que le montant moyen d'un prêt soit sensiblement inférieur au montant moyen d'un prêt dans les autres sous-secteurs (Audiovisuel, Patrimoine et Éducation), ce sous-secteur compte de loin le plus grand nombre d'organisations.

Dans l'analyse, nous ne tenons pas compte des différences potentielles de degré de défaillance du marché entre les régions ou les pays. Les résultats de l'enquête ne nous permettent pas d'effectuer une analyse fiable sur ce point au niveau régional ou national. En supposant que le degré de défaillance du marché ne varie pas significativement entre les pays, la répartition géographique du déficit de financement est plus ou moins[4] conforme à la répartition géographique des SCC (voir Schéma Figure 9 dans le Chapitre 3).

En outre, nous ne tenons pas compte de l'impact futur de la crise financière et économique. Les résultats de l'enquête ne fournissent aucune donnée sur les expériences passées d'organisations SCC concernant les besoins de financement externe et les obstacles éventuels. Cependant, dans un certain nombre de pays, la principale source de financement externe dans les SCC (subsides) a déjà été affectée. De plus, en raison de la crise financière, il est probable que les financiers appliquent des critères plus rigoureux à l'acceptation des demandes d'emprunt. Il est clair que ceci peut affecter la demande et l'accès aux emprunts bancaires pour les organisations SCC à l'avenir.

Renforcer l'effet du mécanisme de garantie SCC

Les résultats de l'étude soulignent que le problème de l'accès au financement dans les SCC est multidimensionnel. Il est important de réduire le risque de financement pour les banques par le mécanisme de garantie par un tiers. Mais pour renforcer l'effet de l'instrument, nous recommandons que le mécanisme de garantie SCC soit inscrit dans un « écosystème » de mesures plus vaste visant à stimuler le financement des SCC.
Le nouveau programme « Europe Créative » complètera le mécanisme de garantie par un programme de renforcement des capacités pour consolider les compétences et la connaissance du secteur principalement auprès des pourvoyeurs de fonds, même si les résultats de l'étude montrent qu'un renforcement des capacités est désirable également dans le chef des organisation des SCC. Pour cette dernière raison, nous recommandons aux décideurs Européens de s'accorder sur la manière d'étendre ce programme de renforcement des capacités également aux bénéficiaires potentiels du mécanisme de garantie.
Par ailleurs, ils montrent aussi que les besoins de financement et la combinaison de financements sont très diversifiés dans les SCC. Les emprunts bancaires ne sont qu'un aspect de la gamme d'instruments de financement permettant de financer les SCC.

[4] *La structure SCC au niveau national peut varier en termes de spécialisation (ex. production audiovisuelle supérieure à la moyenne) de sorte qu'une certaine déviation peut être observée.*

C'est pourquoi nous recommandons aussi la promotion d'un cadre (juridique) qui permette le cofinancement et une collaboration plus étroite entre les banques, le financement public-privé, les fournisseurs de microcrédits, les business angels et le capital-risque.

Managementzusammenfassung

Kontext und Ansatz

In verschiedenen wichtigen europäischen Schlüsseldokumenten wurde der wesentliche Beitrag der Kultur- und Kreativbranchen zur gesellschaftlichen Entwicklung anerkannt. Mit nahezu einer Million Unternehmen machen die Kultur- und Kreativbranchen (KKB) etwa 4,5 % aller Wirtschaftsunternehmen aus[5]. Der Sektor beschäftigt mehr als 3,2 Millionen Menschen, hauptsächlich in sehr kleinen Firmen, und bietet vielen Selbstständigen Arbeit. Allerdings betonen verschiedene Studien über die Kultur- und Kreativbranchen, dass der Zugang zu Finanzmitteln derzeit eines der größten Hindernisse für ihre Weiterentwicklung ist. Deshalb plant die Europäische Kommission im Rahmen des neuen Programms „Kreatives Europa", einen branchenspezifischen Bürgschaftsfonds für den Zeitraum 2014–2020 einzuführen, um somit insbesondere die Gewährung von Darlehen an KKB-Organisationen durch Finanzinstitute in ganz Europa zu stimulieren.

Zur angemessenen Entwicklung und Positionierung dieses neuen Finanzinstruments, ist ein genaues Verständnis von Angebot und Nachfrage nach Bankdarlehen in KKB notwendig. Darüber hinaus ist unter Berücksichtigung der großen Vielfalt in diesem Sektor ein guter Einblick in die wahrgenommenen Barrieren zum Zugang externer Finanzmittel unentbehrlich. Bessere Informationen über das Problem des Zugangs zu Finanzierungen in den KKB gewährleisten eine fundierte branchenspezifische Einschätzung der Finanzierungslücke. Zu diesem Zweck wurden in der ersten Hälfte des Jahres 2013 KKB-Organisationen und in diesem Sektor aktive Finanzinstitute befragt.
Zur Abschätzung des Finanzierungsdefizits innerhalb der Kultur- und Kreativbranchen, wurden Informationen aus verschiedenen Interviews und einer großen Online-Umfrage mit den Ergebnissen einer Analyse von Sekundärdaten kombiniert

Ein kritisches Element von Datenerfassung und -analyse ist eine klare Abgrenzung der KKB. Im Laufe der Jahre wurde das Konzept der „Kultur- und Kreativindustrien" ausführlich diskutiert. Eine einheitliche internationale Arbeitsdefinition liegt jedoch noch nicht vor. Allerdings hat kürzlich ein Netz europäischer Statistiksysteme (ESSnet-Culture) eine Leitlinie zur Harmonisierung statistischer Daten über die KKB auf europäischer Ebene veröffentlicht. Die ESSnet-Culture-Leitlinie war die Grundlage für die Abgrenzung der KKB in dieser Studie.

Zugang zu Finanzierung im Kultur- und Kreativsektor: mehr als die typischen KMU-Probleme

Auf Basis der Analyse von Sekundärdaten findet die Studie keine Belege dafür, dass Kultur- und Kreativindustrien in Europa im Allgemeinen hinsichtlich Rentabilität und finanzieller Gesundheit gegenüber anderen Branchen (signifikant) schlechter abschneiden würden. Doch viele Quellen weisen auf bestehende Barrieren beim Zugang zu Finanzmitteln für – im Wesentlichen (sehr) kleine – KKB-Unternehmen hin. Generell stehen KMU vor größeren Herausforderungen als Großunternehmen, um an eine externe Finanzierung zu gelangen. Das liegt vor allem an Problemen die aus

[5] *Ausgenommen Finanz- und Versicherungsaktivitäten, in Bezug auf die Anzahl der Unternehmen*

asymmetrischen Information resultieren Die Schwierigkeit des Zugangs zu Finanzmitteln wird durch die besonderen Merkmale von KKB-Unternehmen noch verstärkt. Dabei geht es um folgende Punkte:

- Spezifische Charakteristik der KKB-Aktivitäten, z.B. Mangel an materiellen Vermögenswerten, Abhängigkeit von immateriellen Vermögenswerten, hohe Unsicherheit hinsichtlich der Marktnachfrage
- Charakteristik der Unternehmen und Unternehmer innerhalb der KKB, z.B. (wahrgenommener) Mangel an unternehmerischen Fähigkeiten, Abhängigkeit von öffentlichen Investitionsprogrammen
- Besondere Marktbedingungen, z.B. Größe des Markts, Mangel an guten Marktinformationen, Druck auf bestehende Geschäftsmodelle

Das Problem des Zugangs zu Finanzierungen hängt eng mit der Tatsache zusammen, dass die KKB in Europa unter einem Mangel an mittelgroßen Firmen leiden (das Phänomen der „fehlenden Mitte"). Kleine KKB-Unternehmen haben Schwierigkeiten, zu mittelgroßen Firmen heranzuwachsen. Ein guter Zugang zu Bankdarlehen ist entscheidend für KKB-Unternehmen mit Wachstumspotenzial.

In der Studie wird der Einfluss der sektorspezifischen Merkmale auf das Problem des Zugangs zu Finanzierung im Kultur- und Kreativsektor sowohl durch die KKB-Unternehmen (Online-Umfrage) als auch durch die Finanziers (Interviews) bestätigt.

Finanzierungsbedarf von KKB-Unternehmen

Konzentriert man sich auf die Finanzstruktur von KKB-Unternehmen, sind einige Elemente besonders typisch für Kultur- und Kreativbranchen:

- Eigene Einkünfte und Regierungssubventionen spielen eine wichtige Rolle bei der Finanzierung von Kultur- und Kreativunternehmen, aber sie sind in den meisten Unternehmen nur Teil einer Kombination verschiedener Finanzquellen. Neben Bankdarlehen werden auch informelle Finanzquellen genutzt, wie beispielsweise Darlehen von Privaten und Organisationen und Crowdfunding. Angesichts der Neuheit und der Risiken innerhalb des Sektors, spielen auch Private-Equity-Investitionen eine Rolle in etlichen speziellen Unterbranchen.
- Die Inanspruchnahme kurzfristiger Dahrlehen zur Finanzierung des Unternehmens liegt in vielen KKB Unterbranchen über dem Durchschnitt. Laut den Umfrageergebnissen betreffen die meisten Darlehensverwendungen die Deckung von Finanzierungslücken (Überbrückung der Wartezeit auf andere Mittel wie zum Beispiel Subventionen) und die (kurzfristige) Vorfinanzierung von Projekten. An Zwischenfinanzierungen und langfristigen Finanzierungen scheint es in KKB-Unternehmen zu fehlen. Kurzfristige Finanzierung lässt sich einfacher finden, allerdings öfters zu höheren Kosten. Für langfristige Finanzierungen fordern Finanzinstitute normalerweise Vermögenswerte als Sicherheit, was für viele KKB-Unternehmen schwer erfüllbar ist. Langfristige Finanzierung ist jedoch entscheidend für die Förderung einer langfristigen Geschäftsplanung und eines stabilen Geschäftswachstums.

Auf der Grundlage der Ergebnisse der Online-Umfrage beschreiben die folgenden Erkenntnisse die Bedürfnisse von Kultur- und Kreativunternehmen und die Hindernisse, die sich ihnen stellen, wenn es um die Bewerbung um externe Finanzmittel, speziell um Bankdarlehen geht.

- In der Branche gibt es eine große Mutlosigkeit, was die Bewerbung hinsichtlich externer Finanzierung betrifft. Die am häufigsten zitierten Hindernisse sind die (wahrgenommene) Komplexität einer Bewerbung um externe Finanzmittel, der erforderliche Zeitaufwand und ein Mangel an genügend Vermögenswerten, die das Unternehmen als Sicherheit anbieten kann. Dazu gesellt sich die Tatsache, dass viele der Unternehmen, die keine externe Finanzmittel beantragt haben, keinen Geschäftsplan vorlegen können. Hier zeigt sich, dass es vielen KKB-Unternehmen an den nötigen Managementkompetenzen fehlt, wordurch sie keinen soliden Geschäftsplan verfassen und keine aussagekräftigen Finanzunterlagen erstellen können. Dabei wird ein guter Geschäfts-/Finanzplan von Banken bei der Bewerbung um ein Darlehen am häufigsten gefordert.
- Bankdarlehen dienen hauptsächlich kurzfristigen und projektbezogenen Finanzierungen. Nur eine Minderheit der Bankdarlehensanträge betrifft die Finanzierung von Konzernaktivitäten (z.B. Management, Investitionen in materielle Vermögenswerte, Erwerb von Urheberrechten).
- Mit Ausnahme der Produktion von audiovisuellen Projekten haben Mikrokredite (Darlehen von weniger als 25.000 €) bei allen anderen Aktivitäten einen beträchtlichen Anteil an Darlehensverwendungen. Diese Erkenntnis hat großen Einfluss auf die Art von Finanziers, die in dieser Branche tätig sind.
- Mehr als die Hälfte der beantragten Darlehen wurden in Höhe von mindestens 75 % des beantragten Betrags gewährt. Um das Darlehensrisiko teilweise zu decken, musste die Mehrheit der Antragsteller besondere Anforderungen des Finanziers erfüllen. Am häufigsten gefragt wird ein Geschäfts- und/oder Finanzplan. Private Vermögenswerte als Sicherheit wurden von mehr als einem Drittel der Antragsteller gefordert und die Unterzeichnung einer persönlichen Bürgschaftserklärung von beinahe der Hälfte. Beide Anforderungen scheinen für viele der Befragten sehr schwer erfüllbar zu sein.

KKB-Unternehmen finanzieren

Aus dem Blickwinkel der Banken (der Finanziers) scheint es, dass besonders das Geschäftsmodell vieler KKB-Unternehmen das Hauptproblem bezüglich der Finanzierung dieser Unternehmen ist.. Häufig, aber nicht immer, passen die KKB-Geschäftsmodelle nicht zu den herkömmlichen Finanzierungsprodukten von Universalbanken, da es keine zugrunde liegende Sicherheit in Form von materiellen Vermögenswerten gibt, um das Finanzierungsrisiko abzudecken. Aufgrund mangelnder Kenntnisse darüber, wie der Wert von immateriellen Vermögenswerten (z.B. Copyright, Lizenzen) zu bewerten ist, zögern Banken um sie als Sicherheit zu nutzen. Die geringe Marktgröße (kleine Darlehensbeträge) hindert sie zudem daran, dieses Spezialwissen aufzubauen. Im Gegensatz dazu sehen sich Finanzinstitute, die in den KKB aktiv sind, die Geschäftspläne und Managementteams von KKB-Unternehmen die Bankdarlehen beantragen genauer an und prüfen deren Qualität.,. Allerdings scheint für Finanzinstitute ein Mangel an guten geschäftlichen und managementspezifischen Fähigkeiten ein bedeutendes Hindernis für die Gewährung eines Darlehens an KKB-Unternehmen zu sein.

Bewertung der Finanzlücken bei KKB

Abhängig von den verschiedenen Szenarien schätzen wir, dass die gesamte Finanzierungslücke in den KKB im Laufe eines Zeitraums von sieben Jahren zwischen 8 Milliarden Euro (vorrausgesetzt nur durchschnittlich 30 % der Geschäftspläne von KKB-Unternehmen sind aus Sicht der Finanziers ausreichend solide) und 13,4 Milliarden Euro beträgt (vorrausgesetzt durchschnittlich 50 % der Geschäftspläne von KKB-Unternehmen sind aus Sicht der Finanziers ausreichend solide). Der größte Teil dieser Finanzierungslücke wird von der Finanzierungslücke bei „Anderen KKB" bestimmt, d.h. den bildenden Künsten, darstellenden Künsten, Musik, Büchern, Design und Kunsthandwerk, Architektur und Werbung. Obgleich die durchschnittliche Darlehenssumme beträchtlich niedriger als der durchschnittliche Darlehensbetrag in den anderen Unterbranchen (audiovisuelle Künste, Kulturerbe und Bildung) ist, gibt es in dieser Unterbranche die bei Weitem größte Zahl von Unternehmen.

In der Analyse berücksichtigen wir keine potenziellen Unterschiede im Umfang des Marktversagens zwischen Regionen oder Ländern. Die Umfrageergebnisse gestatten uns nicht, hierüber eine zuverlässige Analyse auf Länderebene zu erstellen.. Angenommen, dass sich der Grad des Marktversagens bei der Betrachtung nach Ländern nicht signifikant ändert, entspricht die Verteilung der Finanzierungslücke mehr oder weniger[6] der geografischen Verteilung der KKB (siehe Figur 9 in Kapitel 3).

Außerdem bleiben die zukünftigen Auswirkungen der Finanz- und Wirtschaftskrise unberücksichtigt. Die Umfrageergebnisse liefern Informationen über frühere Erfahrungen von KKB-Unternehmen in Bezug auf externen Finanzierungsbedarf und mögliche Hindernisse. Allerdings ist in etlichen Ländern die wichtigste Quelle für externe KKB-Finanzierungen, die Subventionen, bereits beeinträchtigt. Darüber hinaus wird aufgrund der Finanzkrise erwartet, dass Finanziers strengere Kriterien anwenden, wenn sie Darlehensanträge prüfen. Es ist offensichtlich, dass die Nachfrage nach und der Zugang zu Bankdarlehen für KKB-Unternehmen in Zukunft davon beeinflusst werden könnten.

Erhöhung der Wirksamkeit des KKB-Bürgschaftsfonds

Die Studienergebnisse unterstreichen, dass das Problem des Zugangs zu Finanzmitteln in den KKB mehrdimensional ist. Das Finanzierungsrisiko für Banken mithilfe des Mechanismus von Bürgschaften durch Dritte zu senken, ist wichtig. Um aber den Effekt des Instruments zu erhöhen, empfehlen wir, den KKB-Bürgschaftsfonds in ein größeres „Ökosystem" von Maßnahmen zur Stimulierung der KKB-Finanzierung einzubetten.

Das neue Programm „Kreatives Europa" ergänzt den Bürgschaftsfonds um ein Programm zur Kapazitätserweiterung, mit dem die Kenntnisse von Kompetenzen und dem Sektor insbesondere bei Finanziers verstärkt werden sollen. Aber die Ergebnisse der Studie unterstreichen auch die Bedeutung der Kapazitätserweiterung bei den KKB-Unternehmen. Wir empfehlen EU Entscheidungsträgern nachzudenken um eine Möglichkeit zu finden das Programm zur Kapazitätserweiterung auch auf potenzielle Begünstigte des Bürgschaftsfonds auszuweiten.

[6] *Die KKB-Struktur auf Länderebene kann sich hinsichtlich der Spezialisierung unterscheiden, z.B. durch einen überdurchschnittlichen Anteil an audiovisuellen Produktionen, woraus sich möglicherweise gewisse Abweichungen ergeben.*

Die Ergebnisse der Studie zeigen auch, dass sowohl der Finanzierungsbedarf als auch die richtige Finanzierungsstruktur der KKB sehr unterschiedlich sind. Bankdarlehen sind nur Teil einer Palette von Finanzierungsinstrumenten, um KKB zu finanzieren. Deshalb empfehlen wir ebenfalls die Förderung eines (rechtlichen) Rahmens, der Chancen für eine Kofinanzierung und eine engere Zusammenarbeit zwischen Banken, öffentlich-privaten Finanziers, Anbietern von Mikrokrediten, Business Angels und den Venture-Kapitalgebern bietet.

1. Introduction

1.1 Context: a new policy framework to support CCS

Since the beginning of this century (worldwide) policy attention for the cultural and creative sectors (CCS) has grown exponentially. Numerous research studies[7] at global, EU, national, regional and local level have found that the CCS are of considerable size and more importantly, that they often show an above average growth rate in terms of employment and turnover. This positive trend has also been observed in Europe. The European Competitiveness Report 2010 (Chapter 5) stated that in the EU the creative industries account for 3.0 % of total employment (2008) and 3.3 % of GDP (2006). The number of employees in the creative industries in the EU-27 was 6.7 million in 2008. In terms of exports, creative goods account for 4.3 % of the EU-27's external exports. Between 2000 and 2007, employment in the creative industries grew by an average of 3.5 % per annum, compared to 1 % in the overall EU-27 economy.[8]

The positive economic development of the CCS also has caught the attention of European policy makers. The increasing recognition of the role and (economic) value of well-developed cultural and creative sectors in Europe has been reflected in various recent EC high level policy documents that explicitly refer to the CCS as an engine for economic growth: the Europe 2020 Strategy[9], Innovation Union[10], A Digital Agenda for Europe[11], An Industrial Policy for the Globalisation Era[12], European Agenda for Culture in a globalizing world[13].

In 2010 the European Commission published the first ever Green Paper on Cultural and Creative Industries called "Unlocking the potential of cultural and creative industries". [14] The starting point of the Green Paper is the belief that well-developed CCS in Europe indeed can contribute to societal development beyond the traditional values attributed to culture. At the same time the Green Paper highlights a number of barriers that currently prevent the CCS from using its full potential to contribute to societal development as envisioned in the different EC high level policy documents. The Green Paper explicitly calls upon policy makers at all levels and across policy departments to develop a more integrated and strategic approach to support the CCS: "*at a time when some of our international partners already largely tap into the multifaceted resources of CCIs (in particular the USA and Canada), the EU still has to develop a strategic approach to make its strong and attractive cultural assets the basis of a powerful creative economy and a cohesive society*".[15] With the publication of the Green Paper the European Commission provided an important framework for further policy action to support the CCS - not only at EU level, but also at national and regional level.

[7] *E.g. UNCTAD (2008); KEA (2006); European Competitiveness Report (2010) - Chapter 5; DMCS (2001); Maenhout et al. (2006)*
[8] *European Competitiveness Report (2010), p.166 and further*
[9] *COM(2010)2020*
[10] *COM(2010)546 final*
[11] *COM(2010)245*
[12] *COM(2010)614*
[13] *COM(2007)242*
[14] *COM(2010)183*
[15] *COM(2010)183, p.4*

1.1.1 Creative Europe

With the current EU Culture, MEDIA and MEDIA Mundus Programmes coming to an end in 2014, the European Commission has taken the opportunity to translate the aforementioned shift into a more integrated policy approach to support the CCS. On 23 November 2011 the European Commission (DG EAC) presented to the European Council and European Parliament a proposal to integrate all three programmes into one single programme - called 'Creative Europe' - as of 2014. This integrated programme would include strands for Culture and Media, but also a transversal strand and a financial instrument specifically targeted to the CCS. In light of the changing vision on the role of CCS in Europe and the new policy framework that is in place since the adoption of the current programmes (namely 'Europe 2020'), it is argued that the proposed 'Creative Europe' programme has the ability to create 'a strategic effect on the CCS that goes beyond the benefits of the current programmes'[16].

1.1.2 A CCS Guarantee Facility to improve access to finance

In various studies on the CCS access to finance has been highlighted as a core barrier to growth for many cultural and creative companies.[17] Also the EC Green Paper on Cultural and Creative Industries identifies the problem of access to finance as one of the main issues preventing the CCS from using their full potential to support growth in Europe.

In order to improve access to finance for the CCS, the European Commission has proposed to set up a financial instrument specifically targeting SMEs in the cultural and creative sectors as part of the new Creative Europe Programme. This instrument would take the form of a **guarantee facility that shares the credit risk related to loans made to the CCS by European lending institutions**.

As part of the ex-ante Impact Assessment for the new financial instrument (CCS Guarantee Facility)[18], an estimate has been made of the financial gap that exists due to barriers to access of finance in the CCS. This financial gap is estimated at € 2.8 billion to € 4.8 billion in terms of bank loans. However, the estimate is based on both aggregated and outdated information about the CCS and their financing needs due to a lack of more specific information. The current estimation of the financial gap (€ 2.8 billion to € 4.8 billion) is mainly built on parameters that hold for SMEs in general, due to a lack of CCS specific information. The estimation thus assumes that CCS SMEs largely have similar financing needs as SMEs in other sectors and face similar problems in accessing finance. The current estimation also ignores the large diversity of companies operating under the umbrella "cultural and creative industries", potentially having diverse financing needs.

Existing studies on access to finance and financing needs in the cultural and creative industries[19] do stress that SMEs in the CCS face difficulties in accessing finance above and beyond the difficulties that also SMEs in other sectors face. Moreover, it can be intuitively presumed that the average financing needs in e.g. the audiovisual sector are substantially different from those in e.g. performing arts or advertising. Also the

[16] *SEC(2011)1399 final, p.21*
[17] *E.g. Bates, J. & Rivers, O. (2007); DCMS (2008); HKU (2010)*
[18] *SEC(2011)1399 final – Part III*
[19] *E.g. KEA (2010), HKU (2010), EU Green Paper (2010)*

type of activity or development stage of the company influences the financing needs. This diversity in financing needs is confirmed in a number of studies on the subject.[20]

A more accurate estimate of the financing gap is important for effective policy making and to correctly evaluate possible modalities of the CCS GF. Further data collection is needed to refine the estimation and to better reflect the specificities of the different sub-sectors of the CCS and the different countries covered by the Creative Europe Programme.

1.2 Aim of the study

The aim of the study is to provide European policy makers with as good information as possible on the different parameters needed for a more accurate, sector specific estimation of the financing gap for the CCS.

These parameters include among other:

- recent data on the number of SMEs operating in the European CCS, subdivided by relevant sub-sector and country;
- data on the % of CCS enterprises having their application for bank loans rejected or only partly granted, as well as the % of CCI enterprises not applying because of possible rejection;
- data on the % of CCS enterprises not having received a bank loan due to market failure to correctly assess the risks attached to granting loans to CCS enterprises;
- data on the average loan amount that CCS enterprises seek, per relevant sub-sector and country.

The results of the study will support the European Commission in refining the estimation of the financing gap that has been reported in the Impact Assessment[21]. The study does not evaluate the Creative Europe Programme as such, nor the proposal for the new financial instrument.

1.3 Approach and methodology

1.3.1 Research approach

The information that is needed to refine the financing gap estimate is diverse and scattered:

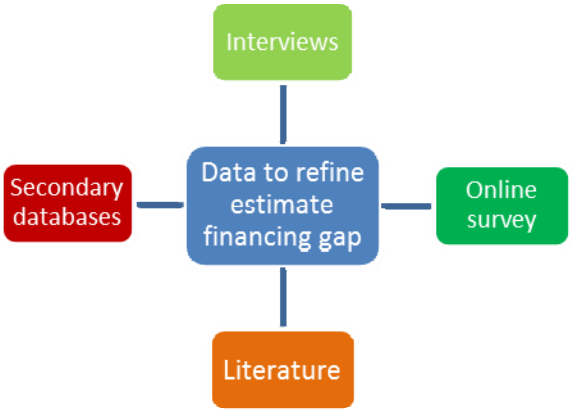
- For indicators about the sector structure and performance, secondary information sources such as Eurostat or Bureau Van Dijk (Amadeus) are relevant;
- For information about the specific financing needs of CCS companies and their problems related to access to finance, relevant sources are literature, sector organizations and direct information from companies active in the CCS;

[20] *E.g. IDEA Consult (2012), Clayton & Mason (2006)*
[21] *SEC(2011)1399 final, p. 128-129*

- For information about the investment activities of financial institutes in the CCS, relevant sources are literature, platform organizations and direct information from financial institutes.

To gather all information, both quantitative and qualitative methods have been used.

Figure 1: Research approach



Source: IDEA Consult

The literature study served to refine and broaden the knowledge base of the research team with the latest developments in the different relevant fields (delineation and structure of CCS, access to finance for CCS, banking).

In parallel with the literature review also a number of exploratory discussions have been conducted with sector experts[22]. These discussions served two objectives:

- to take stock of other relevant information and insights that might be available apart from that reported in the literature;
- to provide input for the drafting of the online survey and create engagement in the roll-out of the online survey (see further).

The literature review and exploratory discussions provided the research team with the basis for the focused data collection on the different parameters needed to calculate the financing gap. As this data collection relates to different types of information (i.e. information on sector structure, financing needs and problems CCS companies, investment behavior financial institutes), they call for different methods of data collection:

- Recent information about the CCS structure and performance has been collected making use of secondary data sources such as Eurostat and Amadeus.
- To obtain specific information about the financing needs and problems of CCS companies one might opt for a consultation of relevant sector organizations. However, previous work by IDEA Consult (2012) and the exploratory consultations provided strong indications that specific (quantifiable) information about the financing needs and problems of CCS companies is limited at the level of representative sector organizations. Therefore we adopted a two-stage method to collect the relevant information. Starting from the literature review and the

[22] *Exploratory consultations have taken place with P. Callens (CultuurInvest), J. Heinsius (Cultuur-Ondernemen and member ECIA (CI-factor)), Overlegplatform Creatieve Industrie Vlaanderen, I. Guardans (CUMEDIAE) and members of the CCI platform (group of more than 40 organizations at EU level representing a wide range of cultural and creative sectors).*

exploratory interviews we set up an open online survey to directly survey European CCS organizations about their financing needs and problems of access to finance. This survey has been distributed as widely as possible throughout Europe with the engagement of relevant sector organizations and network platforms. We refer to paragraph 1.3.3 for a more elaborate description of the organization of the online survey. Given the limited time and resources of the project, our aim was not to extract 'statistically representative' information from this online survey. The aim was to gather useful indicative information on the financing needs of CCS companies in different sub-sectors throughout Europe. This information provides the basis for additional discussions with relevant sector representatives to refine and validate our insights on the subject.

- Whereas the combination of an online survey and interviews was relevant to collect CCS specific financing information, the use of an online survey was unsuitable to collect information on the financiers' side due to problems of confidentiality. Therefore we gathered relevant insights on the lending activities of the financial institutes in the CCS mainly through semi-structured in-depth interviews with relevant European financial organizations, in close collaboration with the European Investment Fund.

1.3.2 Managing the diversity of the CCS

To make an as accurate as possible estimate of the financing gap for CCS, the data collection and analysis ideally includes all cultural and creative sectors[23], and covers all member countries of the current MEDIA and Culture Programmes (i.e. EU 27, Croatia, Iceland, Liechtenstein, Norway, Switzerland), at the same time taking into account the large diversity underlying both dimensions. The concept 'cultural and creative sectors' draws together activities that are highly capital-intensive (e.g. film production, radio and television) with activities that are highly labour-intensive (e.g. crafts and design, visual arts). Moreover, across Europe CCS organizations operate in a different policy framework.

Ideally, the following four dimensions would be taken into account to fully reflect the great diversity in the CCS in Europe:

- Sub-sector differences
- Within value chain differences
- Differences in development stage
- Country differences

It is clear that within the limits of this project, priorities had to be set with respect to the efforts put into finding "as recent, accurate and detailed information as possible to evaluate and refine the estimation of the financing gap".

Evaluating the different dimensions, especially the first two dimensions deserve special attention to refine the estimation of the financing gap. It is assumed that the largest differences in financing needs and problems of access to finance can be found at the level of the sub-sectors and the specific activities of companies within the value

[23] *We refer to chapter 3 for an in-depth discussion on the delineation of the CCS. In terms of sector coverage, although the study covers all cultural and creative industries, the Terms of Reference stated that the main focus should be on the non-audiovisual sectors as especially the film industry has already been substantially covered by a study on the role of banks in film financing (Peacefulfish, 2009).*

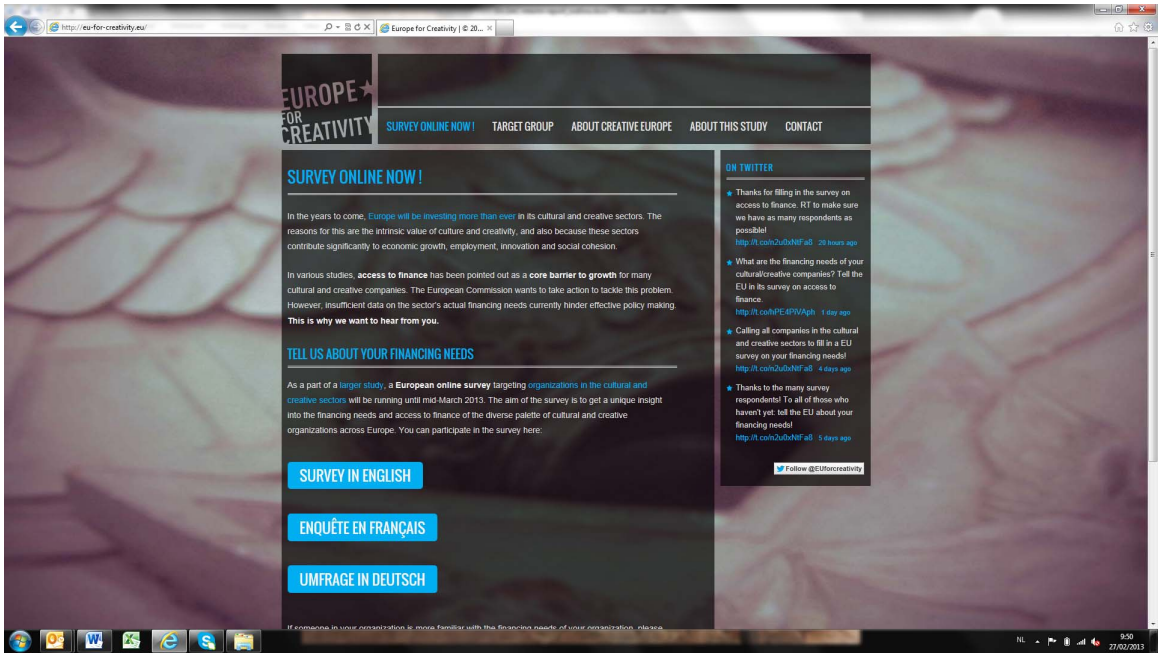
chain, rather than at the level of the geographic location. Therefore, the analysis pays specific attention to capturing these differences. Nevertheless, we are well aware that the financial and legal framework in which CCS organizations operate differs significantly across EU countries and thus that country differences with respect to financing needs and problems of access to finance cannot be fully neglected in the analysis.

1.3.3 Managing participation in the online survey

Communication platform

Whereas with a closed online survey you start from a set of email contacts to which invitations (and reminders) can be sent to promote participation in the survey, such a database of email contacts of CCS organizations on a European scale is non-existent. Therefore, an alternative approach was needed to reach the large and fragmented group of CCS organizations that operate across Europe. We opted for the set-up of a specific project website www.eu-for-creativity.eu, with an own logo and communication style. The website was used as central platform to communicate about (prior to the survey launch) and host an open online survey.

Figure 2: Project website www.eu-for-creativity.eu



Once the website was online, the main challenge was to communicate as broadly as possible about the survey through "mass communication" and trigger potential respondents to visit the website and fill out the survey.

Outreach through joint efforts

Whereas the group of CCS organizations across Europe (i.e. our target group for the survey) is diverse and diffuse and as such hard to reach, Europe is rich of intermediary organizations that do have (direct) lines of communication with (parts of) the target group.

To spread the word about the survey, we explicitly focused on mobilizing this broad network of intermediary organizations to communicate about the survey to their

contacts (via newsletters, direct mailings, blogs, etc). To support the intermediary organizations in their communication about the survey, and at the same time to guarantee the accuracy of the content of the messages, short sample texts were provided by us, that included the goal of the survey and a convincing message to participate in the survey + link to the website. Mailing messages were provided in English. Additionally, a short 'teaser' text to include in newsletters was provided in 21 European languages via our website.

Apart from the 'indirect' approach to reach the group of potential respondents, also social media (twitter@euforcreativity, blogs, linkedin) have been used to communicate about the survey in different fora.

1.4 Outline of the report

The remainder of this report will focus on the following aspects:

- Chapter 2 will focus on the delineation of the cultural and creative sectors that has been used in the context of this study. Starting from existing literature and combining this with the purpose of this study, we present a definition that is both pragmatic and meaningful in the context of this study.
- Chapter 3 presents an up-to-date sector portrait of the CCS in Europe, based on secondary data.
- Chapter 4 provides a summary overview of existing literature that focuses on the underlying problems of access to finance for SMEs in the cultural and creative sectors.
- Chapter 5 specifically focuses on the perspective of CCS organizations, their financing needs (more in general) and their (problems of) access to bank loans. Results from the online survey are presented and discussed.
- Chapter 6 analyses the perspective of the financial intermediaries investing (or not) in the CCS based on the different interviews that have been conducted.
- Chapter 7 presents an estimation of the financing gap in CCS, based on the information from the previous chapters.
- Chapter 8 concludes the report.

2. Delineation of the Cultural and creative sector

2.1 The concept of 'cultural and creative sectors'

A clear definition of the CCS is the basis for the data collection and analysis that we will conduct. Such **definition starts with a commonly agreed understanding of the concept** 'cultural and creative sectors: What type of activities are part of cultural and creative sectors? What distinguishes these activities from other activities?

Since the introduction of the concept of creative industries in 1997 by the British government[24], numerous discussions have been held on the concept.[25] Apart from discussions on the positive/negative consequences of using the concept (which is out of the scope of this study)[26], it is a difficult concept to define since all sectors to some extent include economic as well as cultural/creative elements. Although some activities unquestionably belong to the group of 'cultural and creative sectors' (e.g. performing arts), for other activities the answer is more ambiguous (e.g. computer programming). This ambiguous situation has led to a divergence in national and international approaches to delineate the CCS to date. To date there is neither a consensus on the terminology to be used (creative industries, cultural industries, cultural and creative sectors…), nor a standard definition. Over the years a variety of terminologies have been used by different countries/institutions, such as:

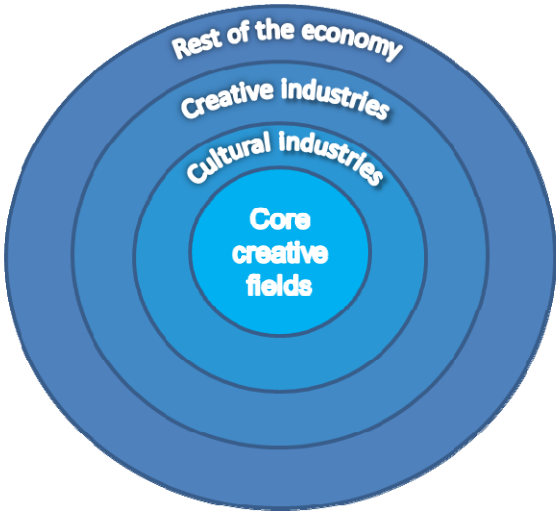
- The **creative industries** comprise activities 'at the crossroads between arts, business and technology' and produce 'symbolic products with a heavy reliance on intellectual property' (UNCTAD, 2004, p. 4).
- **Creative industries** 'have their origins in individual creativity, skill and talent and have a potential for wealth and job creation through the generation and exploitation of intellectual property' (UK Department of Culture, Media and Sport (DCMS), 1998).
- **Creative industries** link creative content to job and wealth creation; cultural industries are not first and foremost defined by their business value (Cunningham, 2001)
- **Cultural activities** correspond 'to those activities, goods and services, which at the time they are considered as a specific attribute, use or purpose, embody or convey cultural expressions, irrespective of the commercial value they may have' (UNESCO).

At the European level especially the term 'cultural and creative industries' (and more recently 'cultural and creative sectors') has been used in policy debates, as it was felt that the term 'creative industries' fell short to correctly reflect the European vision on the role of culture and creativity in the economic and social development of Europe (Flew, 2012). The study on 'The economy of Culture in Europe' (KEA, 2006) (see also paragraph 2.3.1), commissioned by the European Commission, adopted a model for

[24] *With the establishment of a Creative Industries Task Force (CITF), as a central activity of its Department of Culture, Media and Sport (DCMS).*
[25] *E.g. Hesmondalgh (2002); Hartley (2005); Maenhout et al. (2006); Flew (2012)*
[26] *Critique such as 'it tends to a "one size fits all" policy and fails to identify the underlying heterogeneity' (e.g. Pratt, 2005; Galloway and Dunlop, 2007), but also 'it allowed a strengthening of copyright protection' and 'it shifted policy focus away from regulation over distribution of cultural goods towards a supply-side, artist-centred notion of 'creativity' as the primary driver of cultural policy' (e.g. Garnham, 2005)*

understanding the sector that was based on the 'concentric circles' model developed by Throsby (2001) and consistently applied the term 'cultural and creative industries'.

Figure 3: Concentric circles model



Source: Throsby (2001)

The Throsby model places the arts at the centre on the basis of their original and copyrightable form, extending outwards to what are termed core cultural industries whose outputs are exclusively cultural, to the creative industries, classified as having a mix of creative and other inputs and whose outputs are not primarily cultural.

This conceptual approach has been continued with the EC Green Paper on Cultural and Creative Industries (2010)[27]. The Green Paper defines the concept as follows:

*"**Cultural industries**" are those industries producing and distributing goods or services which at the time they are developed are considered to have a specific attribute, use or purpose which embodies or conveys cultural expressions, irrespective of the commercial value they may have. Besides the traditional arts sectors (performing arts, visual arts, cultural heritage – including the public sector), they include film, DVD and video, television and radio, video games, new media, music, books and press. This concept is defined in relation to cultural expressions in the context of the 2005 UNESCO Convention on the protection and promotion of the diversity of cultural expressions.*

*"**Creative industries**" are those industries which use culture as an input and have a cultural dimension, although their outputs are mainly functional. They include architecture and design, which integrate creative elements into wider processes, as well as subsectors such as graphic design, fashion design or advertising.*

The concept of 'cultural and creative industries' (recently also termed 'cultural and creative sectors') as defined in the Green Paper is also the starting point for the delineation of the CCS in this study.

[27] *COM(2010)183*

2.2 Additional requirements of a good definition

A clear definition not only requires a common understanding of the concept of 'cultural and creative sectors'. It should also **provide a pragmatic framework of analysis**. The characteristics of such "pragmatic framework" might differ depending on the questions posed in the study. Specifically for this study the definition directly serves two purposes:

1. Defining the target group for the online survey;
2. Providing the framework to draw up the sector portrait of the CCS based on secondary data analysis.

Both purposes make different requirements for a "pragmatic framework of analysis" and thus a clear definition:

- For the online survey, a good definition should allow us to delineate the target group that we want to reach (and clearly exclude the ones that we do not want to reach). Moreover, the definition **should allow us to distinguish economic activities with different financing needs**. It is clear that the above concept of 'cultural and creative industries' is insufficiently detailed for this purpose. Although the concept does include a list of sectors that belong to the CCS (which provides us a good framework to exclude all other sectors), the sector level is too aggregated to define 'homogeneous' groups in terms of financing needs. E.g. the music industry includes individual singer/songwriters, music bands, orchestras, music recording companies, etc. The financing needs as well as the problems of access to finance might differentiate depending on the specific activities of organizations within the value chain.
- For the secondary data collection, the discussion about a good definition should not so much be led by the need to capture the diversity in financing needs in the CCS, but rather by the reality of official statistical sector classifications. As sector level data in European and national statistical systems are gathered along the lines of official statistical sector classifications (e.g. NACE Rev.2), secondary data collection on the CCS requires that we can **translate the concept into a relevant group of sector codes**. This list of sector codes will be the basis for the sector data collection. The sector classification used will be the NACE Rev. 2.

Ideally, the NACE classification is such that 1) we can make a direct link between the sectors listed in the concept and specific NACE codes and 2) we can distinguish the activities with different financing needs. Unfortunately, the current NACE classification allows none of the two and therefore compromises vis-à-vis the ideal situation are required to come to a workable and pragmatic definition.

2.3 What can we learn from previous studies?

In the extensive literature on cultural and creative industries, in particular the numerous mapping studies and statistical framework studies that have been conducted over the last decade provide relevant information on workable defintions. It goes beyond the scope of this study to make a full literature study of mapping studies that have been published so far. **Building further on work that has already been done at the European/global level**, mainly the following studies provide key information for us to come to a workable definition.

2.3.1 "The economics of culture in Europe", KEA (2006)

In 2006, the KEA study on "The economics of culture in Europe" was the first to collect harmonized data on the CCS across Europe based on a clearly defined set of sub-sectors (with corresponding NACE codes). As pointed out in section 2.1, the study categorizes the cultural and creative sectors into different "circles" along the lines of the following definitions:

The "**cultural sector**" consists of the following two circles:

- **Core art field** i.e. non-industrial sectors producing non-reproducible goods and services aimed at being "consumed" on the spot (a concert, an art fair, an exhibition). It includes visual arts including paintings, sculpture, craft, photography; the arts and antique markets; performing arts including opera, orchestra, theatre, dance, circus; and heritage including museums, heritage sites, archaeological sites, libraries and archives.
- **Cultural industries** (circle 1) i.e. industrial sectors producing cultural products aimed at mass reproduction, mass-dissemination and exports (for example, a book, a film, a sound recording). It includes film and video, video-games, broadcasting, music, book and press publishing.

In the "**creative sector**", culture becomes a "creative" input in the production of non-cultural goods. It includes activities such as design (fashion design, interior design, and product design), architecture, and advertising. Creativity is understood in the study as the use of cultural resources as an intermediate consumption in the production process of non-cultural sectors, and thereby as a source of innovation. Apart from '**creative industries and activities**' (circle 2), the creative sector also includes '**related industries**' (circle 3) such as MP3 player manufacturers or the mobile industry that are dependent on production from the previous circles.

Figure 4: delineation of cultural and creative industries according to KEA

CIRCLES	SECTORS	SUB- SECTORS	CHARACTERISTICS
CORE ARTS FIELD	Visual arts	Crafts Paintings – Sculpture – Photography	• Non industrial activities. • Output are prototypes and "potentially copyrighted works" (i.e. these works have a high density of creation that would be eligible to copyright but they are however not systematically copyrighted, as it is the case for most craft works, some performing arts productions and visual arts, etc).
	Performing arts	Theatre - Dance – Circus - Festivals.	
	Heritage	Museums – Libraries - Archaeological sites - Archives.	
CIRCLE 1: CULTURAL INDUSTRIES	Film and Video		• Industrial activities aimed at massive reproduction. • Outputs are based on copyright.
	Television and radio		
	Video games		
	Music	Recorded music market – Live music performances – revenues of collecting societies in the music sector	
	Books and press	Book publishing - Magazine and press publishing	
CIRCLE 2: CREATIVE INDUSTRIES AND ACTIVITIES	Design	Fashion design, graphic design, interior design, product design	• Activities are not necessarily industrial, and may be prototypes. • Although outputs are based on copyright, they may include other intellectual property inputs (trademark for instance). • The use of creativity (creative skills and creative people originating in the arts field and in the field of cultural industries) is essential to the performances of these non cultural sectors.
	Architecture		
	Advertising		
CIRCLE 3: RELATED INDUSTRIES	PC manufacturers, MP3 player manufacturers, mobile industry, etc…		• This category is loose and impossible to circumscribe on the basis of clear criteria. It involves many other economic sectors that are dependent on the previous "circles", such as the ICT sector.

: "the cultural sector"
: "the creative sector"

Source: KEA (2006)

Comparing the above delineation with the concept of "cultural and creative industries" from the Green Paper, we find that the list of sectors almost one-on-one fits with the core arts field + circle 1 + circle 2 from the KEA study. But the KEA study went beyond the conceptual delineation and linked the sectors also to NACE codes, thus providing us with a good basis for the secondary data collection.

However, since the publication of KEA's study the NACE classification has been revised. While the KEA study still made use of the NACE Rev.1 classification, since 2008 there is a new NACE Rev.2 classification in place that contains a number of changes that also affect the CCS. Apart from the changes in the sector classification system, the KEA study is also less appropriate in light of the online survey as it does not take into account different players (with different financing needs) within the value chain of the different (sub-) sectors.

2.3.2 "European Competitiveness report", WIFO (2010)

The most recent study that contains data on the CCS at the European level is the European Competitiveness Report 2010 (Chapter 5). This study differentiates between 'cultural industries' and 'creative industries'. Cultural industries are considered as an 'adjunct' of the creative sectors and vice versa. The scope of analysis in the European Competitiveness Report is limited to creative industries only.

Table 1: Definition of the creative industries used in the European Competitiveness Report 2010

Table 5.1: Definition of the creative industries (according to NACE Rev. 2)

	NACE Rev. 2	Description	Proportion of code taken
Information services	J58	Publishing activities (publishing of books, periodicals and software publishing), motion pictures, video and television programme production	1.00
		Sound recording and music publishing activities	1.00
	J60	Programming and broadcasting activities	1.00
	J62	Computer programming, consultancy and related activities	1.00
Business services	M711	Architectural and engineering activities and related technical consultancy	0.25
	M731	Advertising	1.00
	M741	Specialised design activities	1.00
	M742	Photographic activities	0.25
	M743	Translation and interpretation activities	1.00
Art and entertainment	R90	Creative, arts and entertainment activities	1.00

Source: Söndermann (2009), Wilkinson (2007), p. 33.

Source: WIFO (2010)

While the KEA study still made use of the NACE Rev.1 classification, the European Competitiveness report 2010 makes use of the new NACE Rev.2 classification. NACE Rev.2 introduces a more elaborate list of cultural activities, thus offering better coverage of the cultural field.

However in light of our study, the definition used in the European Competitiveness Report does show a number of deficiencies:

- As the European Competitiveness Report 2010 is limited to creative industries only, it excludes different 'cultural industries' listed in the EU Green Paper concept of CCS
- Similar to the KEA study, the European Competitiveness Report 2010 does not take into account different players within the value chain of specific (sub-)sectors.

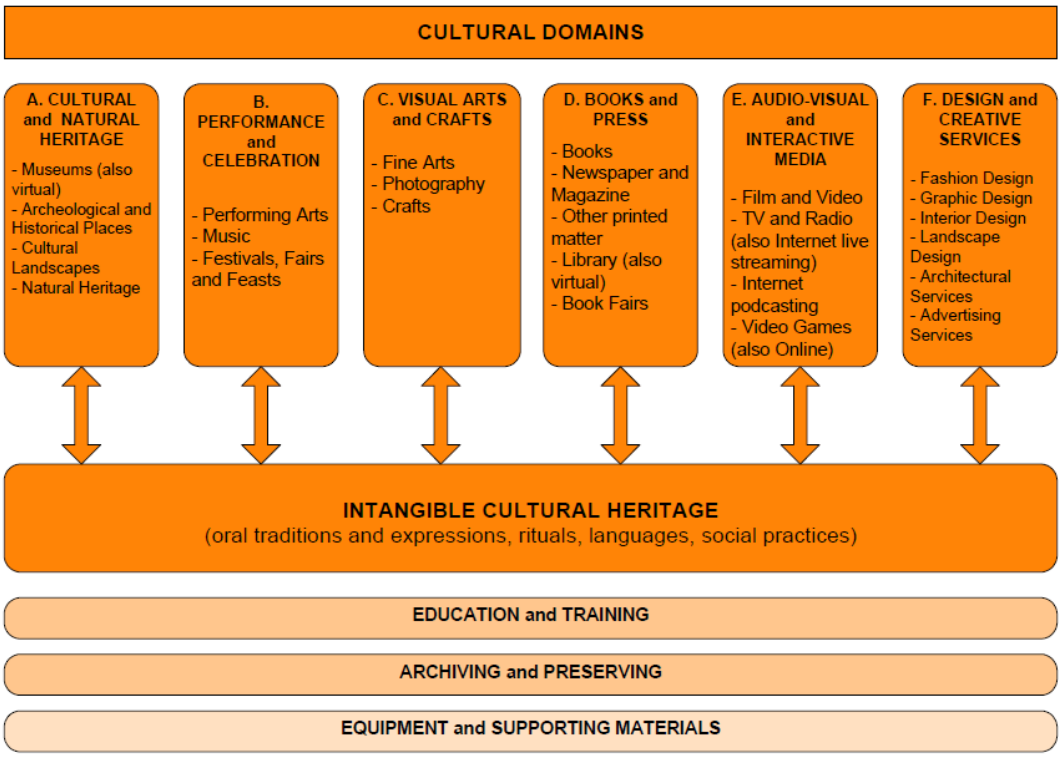
2.3.3 The UNESCO Framework for Cultural Statistics (2009)

Based on the 1986 Framework for Cultural Statistics, in 2009 UNESCO revised its Framework for cultural statistics taking into account new concepts that have emerged since 1986 in the field of culture, including those related to new technologies – which have drastically transformed culture and the way it is accessed, and evolving cultural practices and policies.

In the work it was noted that any attempt to generate statistically meaningful and policy relevant data for these sectors confronts the breath question (which sectors are included in the definition?) and the depth question (what are the range of activities that need to be undertaken to produce a cultural output and what are the relationships between these activities?).

In the 2009 framework UNESCO distinguishes six cultural domains as well as four transversal domains, as illustrated in Figure 5.

Figure 5: UNESCO's cultural domains



Source: UNESCO (2009)

Furthermore, to capture the process of value creation within and across these domains, UNESCO developed the concept of the 'culture cycle' that includes the following activities:

1 **Creation**: the origination and authoring of ideas and content;
2 **Production**: the making of cultural works, whether as one-off productions (e.g. crafts, paintings, sculptures) or as mass reproducible cultural forms (e.g.

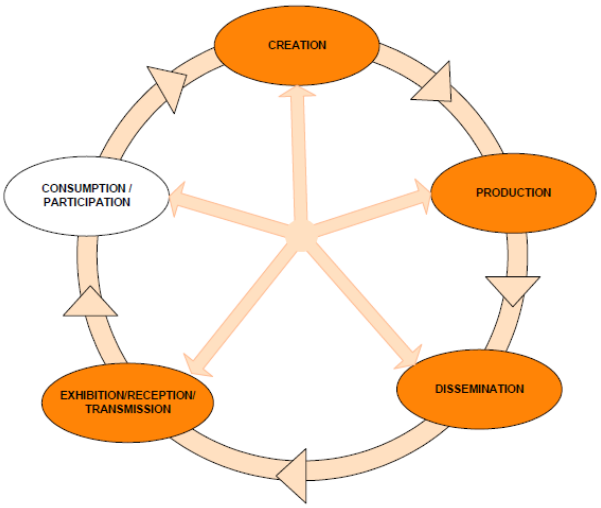
books, movies, TV programmes), as well as the manufacture of goods required for the production of cultural works;

3 **Dissemination**: the distribution of cultural products to consumer and exhibitors;

4 **Exhibition/reception**: provisions of live and/or unmediated experiences to audiences through granting or selling restricted access to consume/participate in often time-based cultural activities (e.g. play, concerts, museum and gallery exhibitions, festivals);

5 **Consumption/participation**: the activities of audiences and participants in consuming cultural products and taking part in cultural activities and experiences.

Figure 6: The culture cycle



Source: UNESCO (2009)

UNESCO consciously chose a network form instead of a linear presentation of the culture cycle to draw attention to the interconnections across these activities.

Although UNESCO distinghuishes six seemingly separate cultural domains, as well as five different activities in the culture cycle, it is recognized that the digital technology leads to cultural industries that were previously separate due to analogue systems of production (films, TV, photography and printing), now having converged in a digital format where, in many cases, they are no longer distinguishable. Digital technology has drastically changed the mode of production and dissemination of cultural productions.
Despite the fact that the UNESCO Framework does not make use of the European NACE classification for statistics, the study does provide interesting frameworks to categorize the cultural and creative industries, which are especially useful for the survey.

2.3.4 ESSnet-Culture: European Statistical System Network on Culture (2012)

In 2009 a network of European Statistical Systems (ESSnet-Culture) was set up at Eurostat to further coordinate the harmonization of statistics on the CCS at the

European level.[28] This has led to the publication of a guideline for the EU and Member States to collect data on culture in a harmonized manner.[29] The statistical framework defines the cultural domains that have been selected, and takes into account the various aspects of culture (economic, social, and aspects related to audience, consumption and financing).

The decision to include or exclude some cultural activities in/from the framework for cultural statistics caused restrictions. The ESSnet-Culture framework adopted a minimal but solid and realistic approach, based on common standards and the existence of common classifications among which the economic one predominates, as it is the most commonly used. The ESSnet-Culture framework rests on two important characteristics:

- It does not prioritize any cultural domain: one domain is not more central than another. This is different from the KEA study and the European Competitiveness Report 2010, where there is a clear distinction between cultural and creative industries. This distinction can also be found in the EU Green Paper on CCS.
- The representation of this new framework is based on the articulation of sequenced functions that put artistic creation at the core of the framework: the creation is in fact the first feature at the root of cultural activities, and even the domain of heritage is no exception because its activities are dependent upon previous creations. This also differs from both the KEA study and the European Competitiveness Report 2010 where there is no distinction made between different functions in the value chains of sectors.

The ESSnet-Culture framework offers a clear delineation of ***cultural domains*** that are recognizable for all European countries. The main factor on which the delineation is based, is the type of cultural product or service that is created through the value chain. They are defined as follows:

"A cultural domain consists of a set of practices, activities or cultural products centered on a group of expressions recognized as artistic ones."

The 10 cultural domains identified in the study are Heritage, Archives, Libraries, Book & press, Visual arts, Performing arts, Audiovisual & multimedia, Architecture, Advertising and Arts crafts.
In addition to the cultural domains, the ESS-net study also defines a set of **functions** within the different cultural domains that correspond to the different stages of the creative value chain (cfr. the UNESCO 'culture cycle' model):

- Creation
- Production/Publishing
- Dissemination/Trade
- Preservation
- Education
- Management/Regulation

[28] *http://ec.europa.eu/culture/our-policy-development/doc1577_en.htm*
[29] *Bina, V. et al. (2012), "European Statistical System Network on Culture – final report"*

The functions used for the framework are sequenced functions, but they do not aim at representing the whole economic cycle. The ESSnet-Culture framework adopts both an economic and a practical approach, with the final objective to produce sound cultural data. Functions are crossed with domains so as to define cultural activities. The interdisciplinary activities of education (that enables creation and is sensitive to cultural activities) and administration as well as the financing activities are support activities linked to all sectorial domains. The participative side (social participation and cultural practices) represents the final aim for any cultural content. Based on the selected cultural domains and functions within the domains and based on the differentiating factor of creativity and artistic creation[30], ESSnet-Culture comes to the following groups that they consider as a part of the cultural and creative sectors.

Table 2: Cultural domains and functions according to ESSnet-Culture

Cultural domains	Functions
Heritage	1. Activities of **production** for the upkeep of collections for museums and the recognition of the historical feature of places (monuments, sites or buildings). 2. The **preservation** activities are vital for the heritage, whose goal is to preserve for transfer and dissemination.
Archives	1. The activities of collecting documents for the selection of documents and the constitution of collections 2. The preventive activities of conservation for the preservation of documents (digitization) 3. The activities of disseminating archival material (archives centers or online); The activities of Archives thus transcend the sole functions of preservation: the process of selecting documents for the constitution of archives is vital, just like the function of making them available to public is. Digitization and online access enhance heritage value by facilitating access to documents while avoiding their deterioration.
Libraries	1. The activities of acquisition and organization of collections in order to preserve and disseminate information and knowledge; 2. The activities of lending documents and promoting reading; 3. The interdisciplinary activities of education (training for librarians) and administration as well as the financing activities are the support activities linked to all sectorial domains
Book & Press	1. On the one hand, activities related to artistic and literary books and periodicals creation. Creation activities in a broad sense include the activities of translation. Only the creation of the written part is included in that domain, even if the composition of a book also implies visual creations: these will be integrated at the crossing of Creation with Visual arts domain (physical book) or Creation with Audiovisual domain (ebook with multimedia parts). 2. On the other hand, the activities of production and publishing of books and periodicals, as well as their distribution (trade, whether physical or online); the activities of news agencies (gathering of information and writing of articles to provide the press with content) are also part of the primary sectorial activities for measuring the Book and Press domain. 3. Other activities are connected to Books and press: activities of preservation (included digitization and restoring); activities of disseminating (thematic exhibitions, galleries, promoting).

[30] *which means that elements in the value chain of certain cultural domains where reproduction or wide scale distribution is an important characteristic and elements in the value chain of a cultural domain that have a pure functional role, are excluded*

Visual Arts	1. Creation – the process of creating works of visual arts; 2. Production – the production of printed reproductions of works of visual arts, the production of sculpture casts etc.; 3. Dissemination /trading – distribution, exhibition and trade in works of visual arts; e.g. activities of art galleries and artotheques; 4. Preservation – preservation, protection, conservation and restoration (including digitization) of works of visual arts; 5. Education – this includes any type of education/training (which enables creation or sensitizes to visual arts); 6. Management/regulation – management and regulation activities that relate to visual arts. Creation, production and dissemination/trading are the primary activities used to measure the domain of Visual Arts. *Design is included in the framework principally as a service. Trade in unique design objects is included but trade in manufactured designed objects is not. The framework of ESSnet- Culture excludes manufacturing activities. In addition to economic matters, the ESSnet-Culture framework looks into employment, financing and cultural practices/participation related to the visual arts.*
Performing Arts	1. On the one hand, activities related to the **creation** of performing arts. Creation activities in a broad sense includes covers, remakes and education within the following main artistic genres: music (from classical to rave music, through lyrical, rock, jazz, pop, world etc.) dance, drama, circus, cabaret, combined arts and other live shows (street shows, one man show etc.). *N.B.: only the creation of the performance (theatre, musical pieces etc.) is included in that domain, even if its representation also implies other creations (e.g. music videos, these will belong to the Audiovisual domain).* It is important here to note the strong cross-domain linkages between Performing arts and the Audiovisual domains, principally through the use of digital forms of data storage of Performing arts, which obviously depends on the cycle performing arts can go through. In the ESSnet-Culture definition the electronic or digital version of performing arts is not included in the Performing arts section but included in the Audiovisual. 2. On the other hand, the **production** activities of performing arts (producing a show for stage, performing in theatres, on podia, festivals etc.), of live shows as well as the support activities for producing live shows (stage-set design, promoting activities, technical and administrative support); and the activities for operating live shows halls. 3. The **education**, **preservation** and **management** of the information about live performances (dance schools etc., preservation by restoring musical instruments or when recording a live performance, administration and protection by copyrights).
Audiovisual and Multimedia	1. **Creation** - the process of creating audiovisual works; 2. **Production** - For radio, television and film, this includes production and postproduction activities. For video, multimedia and sound recording, this includes editing and publishing; 3. **Creation and production** are the primary activities used to measure the Audiovisual domain; 4. **Dissemination/trading** - this includes broadcasting, distribution, projection, exhibition and trade; 5. **Preservation** - this includes preserving, protecting, restoring and digitizing content;
Architecture	For architecture, the identified functions of the ESSnet-Culture framework that are considered relevant are the function of **creation**, of **dissemination** (exhibitions), of **preservation** as well as the interdisciplinary activities of **education and administration**.

Advertising	1. Activities of **creation** of original works; 2. Activities of **disseminating** these works (mainly exhibitions).
Arts crafts	1. The **creation** function is the main function of art crafts and the whole organization of art crafts originate from creation. The artistic creation may relate to individual artisans or small size structures that follow an artistic conduct (just like other independent artists, writers, visual artists, dancers etc.). It may also be constructed around contemporary and public spaces (art crafts for customizing interior design, for architecture, for public equipment etc.). And it has also its 'raison d'être' within heritage and preservation, for example by creating stained glass windows for the restoring of a church, or with the handicrafts workshops of museums to restore heritage furniture etc. 2. The function of **production** is closely linked with the function of creation, the creator being quite often the same actor. In that sense, creation in art crafts and new artistic creation with digital forms have similar structures and mix the sequences of creation, production and dissemination.

Source: ESSnet-Culture (2012)

The following activities are excluded from the ESSnet-Culture framework:

- general system software or applications software activities
- information activities (telecommunications)
- leisure activities (games, entertainment activities, gambling, etc.) and tourism
- natural reserves, zoos or botanical gardens
- (mass) manufacture of ornamental products (ceramics, jewelry etc.)

The exclusion of these areas is in line with most international studies on the cultural and creative industries.

Linking the above groups of activities to the activities in the NACE Rev.2 classification, the ESSnet-Culture study also provides an overview of relevant NACE codes that (more or less[31]) correspond with the above groups. According to the ESSnet-culture framework, the NACE Rev. 2 contains cultural activities mainly in the following NACE-classes (at 4 digit-level):

Table 3: ESSnet-Culture delineation of cultural activities in NACE classifications

NACE Rev.2 classes		
Section G: Wholesale and retail trade: repair of motor vehicles, motorcycles, personal and household goods		
47.61	Retail sale of books in specialised stores	Mainly
47.62	Retail sale of newspapers and stationary in specialised stores	Mainly
47.63	Retail sale of music and video recording in specialised stores	Mainly
Section J: Information and Communication		
58.11	Book publishing	Fully
58.13	Publishing of newspapers	Fully

[31] *The NACE classification does not allow covering all cultural domains exhaustively. Some cultural activities cannot be identified and measured. Either they are included in or hidden under a class at a higher level or they are distributed between several classes. Some cultural activities are not classified at all.*

58.14	Publishing of journals and periodicals	Fully
58.21	Publishing of computer games	Fully
59.11	Motion picture, video and television programme production activities	Fully
59.12	Motion picture, video and television programme post-production activities	Fully
59.13	Motion picture, video and television programme distribution activities	Fully
59.14	Motion picture projection activities	Fully
59.20	Sound recording and music publishing	Fully
60.10	Radio broadcasting	Fully
60.20	Television programming and broadcasting activities	Fully
63.91	News agency activities	Fully
Section M: Professional, scientific and technical activities		
71.11	Architectural activities	Fully
73.11	Advertising agencies	Mainly
74.10	Specialised design activities	Fully
74.20	Photographic activities	Mainly
74.30	Translation and interpretation activities	Mainly
Section N: Administrative and support activities		
77.22	Renting of video tapes and disks	Mainly
Section P: Education		
85.52	Cultural education	Fully
Section R: Arts, entertainment and recreation		
90.01	Performing arts	Fully
90.02	Support activities to performing arts	Fully
90.03	Artistic creation	Fully
90.04	Operation of arts facilities	Fully
91.01	Libraries and archives activities	Fully
91.02	Museums activities	Fully
91.03	Operation of historical sites and buildings and similar visitor attractions	Fully

Of these 29 4-digit NACE classes, ESSnet-Culture considers 22 classes to be "fully" part of cultural activities, while another 7 classes "mainly" include cultural activities (see last column of Table 3). ESSnet-Culture also identifies a number of 4-digit NACE classes of whom only a minority of the activities are culture related. ESSnet-Culture proposes to not take into account these activities in statistics on culture.

The ESSnet-Culture study provides a very detailed and pragmatic framework to defining the cultural and creative sectors in Europe. It combines useful insights on the different sub-sectors and the functions in the value chain with pragmatic guidelines for sector analyses using the NACE classification.

2.4 Towards a meaningful definition of CCS for analytical purposes

From the above discussion, it is clear that especially the definition of ESSnet-Culture provides a good framework to translate the concept of 'cultural and creative industries' as defined in the EU Green Paper on CCS into a more pragmatic definition for analytical purposes:

- In this framework, the main links in the value chain where creativity or processing and distribution plays an essential role, are included. Links where the creative input has a smaller or no role, are not included in this definition;
- The framework provides a direct link between the sectors listed in the concept and the current NACE Rev.2 classification (see Table 3);
- The framework is sufficiently detailed to allow us to distinguish activities with potentially different financing needs.

2.4.1 Secondary data analysis

The list of NACE codes published in the ESSnet-Culture report (see Table 3) will be the basis for the secondary data analysis in chapter 3. The 22 4-digit NACE codes that are considered to be 'fully' part of the CCS, are 100% included in the analysis. The 7 4-digit NACE codes that are considered to be 'mainly' part of the CCS, are included in the analysis only for 50%. Those 4-digit NACE classes of whom only a minority of the activities are culture related according to ESSnet-Culture, are left out from the statistical analysis. We thus present a rather conservative estimation of the economic importance of the sector in this report, since some parts of the CCS are not incluced in the analysis[32].

The 29 NACE classes can be clustered in a number of categories representing either specific functions in the value chain or (parts of) sub-sectors (Table 4 and Table 5). Whereas the 29 NACE classes can be uniquely attributed to specific value chain functions, they cannot all be uniquely attributed to specific subsectors (e.g. artistic creation). In chapter 3 we will especially make use of the categorization into value chain functions.

[32] *Consequently, the list of NACE codes in Table 3 is incomplete to use as working definition in the framework of the CCS guarantee facility. See also the recommendations in chapter 8.*

Table 4: Defining value chain functions in NACE Rev.2

FUNCTIONS	NACE2008	NACE2008 description
Creation (CREA)	71.11	architectural activities
	74.10	specialised design activities
	90.03	artistic creation
	73.11	advertising agencies (50%)
	74.20	photographic activities (50%)
Production/publishing (PROD)	58.11	book publishing
	58.13	publishing of newspapers
	58.14	publishing of journals and periodicals
	58.21	publishing of computer games
	59.11	motion picture, video and television programme production
	59.12	motion picture, video and television programme post-
	59.20	sound recording and music publishing activities
	63.91	news agency activities
	90.01	performing arts
	90.02	support activities to performing arts
Presentation (PRET)	59.14	motion picture projection activities
	60.10	radio broadcasting
	60.20	television programming and broadcasting activities
	90.04	operation of arts facilities
	74.30	translation and interpretation activities (50%)
Trade (TRAD)	59.13	motion picture, video and television programme distribution
	47.61	retail sale of books in specialised stores (50%)
	47.62	retail sale of newspapers and stationery in specialised stores
	47.63	retail sale of music and video recordings in specialised stores
	77.22	renting of video tapes and disks (50%)
Preservation (PREV)	91.01	library and archives activities
	91.02	museums activities
	91.03	operation of historical sites and buildings and similar visitor
Education (EDUC)	85.52	cultural education

Table 5: Defining CCS sector clusters in NACE Rev.2

SECTOR CLUSTER	NACE2008	NACE2008 description
Heritage, archives, libraries	90.03	artistic creation
	91.01	library and archives activities
	91.02	museums activities
	91.03	operation of historical sites and buildings and similar visitor
Book and press	47.61	retail sale of books in specialised stores
	47.62	retail sale of newspapers and stationery in specialised stores
	58.11	book publishing
	58.13	publishing of newspapers
	58.14	publishing of journals and periodicals
	63.91	news agency activities
	74.30	translation and interpretation activities (50%)
	90.03	artistic creation

Visual arts	74.20	photographic activities (50%)
	90.03	artistic creation
Performing arts	90.01	performing arts
	90.02	support activities to performing arts
	90.03	artistic creation
	90.04	operation of arts facilities
Design	74.10	specialised design activities
Audiovisual and multimedia	47.63	retail sale of music and video recordings in specialised stores
	58.21	publishing of computer games
	59.11	motion picture, video and television programme production
	59.12	motion picture, video and television programme post-
	59.13	motion picture, video and television programme distribution
	59.14	motion picture projection activities
	60.10	radio broadcasting
	60.20	television programming and broadcasting activities
	77.22	renting of video tapes and disks (50%)
	90.03	artistic creation
Architecture	71.11	architectural activities
Advertising	73.11	advertising agencies (50%)
Arts crafts	90.03	Artistic creation
Music	47.63	retail sale of music and video recordings in specialised stores
	59.20	sound recording and music publishing activities
	90.03	artistic creation

2.4.2 Online survey

For the online survey, the choice of the final set of categories to use in the questionnaire was influenced by the following two considerations:

- The categories should be such that respondents can easily identify themselves with one of the categories when filling out the survey;
- The categories should allow us to analyse the financing needs of different groups within the CCS in a meaningful way.

Taking these considerations into account, the categorization of the CCS which was used in the **online survey** slightly deviates from the ESSnet-Culture categorization.

A first deviation relates to design, which is not mentioned as a separate domain in the ESSnet-Culture framework. This is rather different from other international studies. Also the EU Green Paper and the KEA study explicitly mention the design sector as one of the CCS sub-sectors. An explanation for the different approach in the ESSnet-Culture framework is the focus on 'artistic creation'. Applying this focus to design, ESSnet-Culture does include design in the framework principally as a service. Design is regarded as a specific service within other creative sectors. The creative link in these sectors is included in the sub-sector of the visual arts. All manufacturing activities of designed objects are excluded. Although we recognize the ambigue meaning of design and the relevance of the above discussion, for the online survey the final choice was made to list 'design' as a separate sub-sector and not as part of the visual arts, mainly led by the aforementioned 'ease of identification' consideration.

The second deviation relates to the definition of the different functions within the cultural domains. Although the ESSnet-Culture framework does define six different functions within one cultural domain (cfr. paragraph 2.3.4), it was felt that (again from an 'ease of identification' perspective) more accurate descriptions per cultural

domain were needed. Therefore, the final set of categories shows a number of deviations from the 'standard' six functions. Moreover, a number of functions have been reclustered (e.g. education, preservation).

Taking into account the boundaries set by ESSnet-culture and the EC Green Paper, we finally came to the following categorization for the online survey:

Table 6: Defining the CCS for the online survey

Cultural and Creative Activities	**Heritage, archives & museums**	Presentation or dissemination, excl. commercial trade Commercial trade and rental Preservation Management of (private) collection or heritage
	Music	Creation Recording and publishing Production of live performances Presentation Commercial trade and rental Management
	Performing arts, excl. music performance	Creation Production of stage shows Presentation Management
	Visual Arts	Creation Productions/Publishing Dissemination/Trade Preservation
	Audiovisual & Multimedia	Creation Production and publishing Presentation and dissemination Commercial trade and rental Management
	Book & Press	Creation Publishing Presentation and dissemination Commercial trade Management
	Advertising	Creation
	Architecture	Creation Presentation and dissemination
	Design & arts crafts	Creation Non-industrial handmade production Presentation and dissemination Commercial trade
	Education in and/or research on arts, culture or creativity	

3. The CCS in Europe: A sector portrait

Although several recent European policy documents[33] describe the cultural and creative sector in Europe as an engine for growth, recent quantitative data on the sector have been lacking. The most comprehensive work making a quantitative analysis of the CCS in Europe already dates from 2006 (KEA, 2006), based on data from 2003.

Although it goes beyond the scope of this project to make a full analysis of the 'economy of culture', this chapter presents a number of economic indicators of the CCS based on the delineation discussed in the previous chapter. Both structural indicators (number of companies, employment, turnover, added value, added value as a percentage of turnover, turnover per employee and apparent labour productivity) and financial and operational performance indicators (return on shareholders' funds, EBIT margin, profit margin, current ratio, solvency ratio) are presented.

3.1 Methodological notes

For the ***structural indicators*** official Eurostat Structural Business Statistics (SBS) data have been used as primary data source. The SBS database is particularly useful when calculating (sector and country) aggregates, as the data are calculated based on administrative sources. But a major disadvantage of SBS is the fact that it only focuses on industry, trade and services. Consequently, for an important part of the CCS sectors[34] no data are available in the SBS database. For those subsectors, the Amadeus database (Bureau Van Dijk) has been used as best alternative. This database contains firm level data of approximately 19 million companies in Europe, based on published national annual accounts. We do note that since companies are not always obliged to publish all fields of the national annual accounts (depending on thresholds), sector and/or country aggregates based on Amadeus data tend to underestimate the real structural indicators (absolute figures) and thus should be considered as a lower boundary.

For the ***financial and operational performance indicators*** Amadeus has been chosen as primary data source, since this type of information is not well represented in the SBS. As the financial and operational performance indicators are by nature relative indicators, the disadvantage of Amadeus of not having information for each individual company is smaller.

The data presented in this chapter are from 2010. For some countries (like Italy and Greece) data for 2010 were unavailable for specific indicators. In this case we have used the data of the latest available year (2009 and in a few cases 2008) in order to provide statistics for as many sectors and countries as possible.
For the definition of the value chain functions used in the analysis, we refer to Table 4 in paragraph 2.4.1.

[33] *such as the EU Green paper on CCS (2010), Policy Handbook of the EU Open method of Coordination Expert Group on Cultural and Creative Industries (2012), EU Communication on "Promoting cultural and creative sectors for growth and jobs in the EU" (2012)*
[34] *Sections P and R in Table 3*

3.2 Key figures of the European CCS

The EU27 CCS employed approximately 3.2 million people in almost 1 million companies all over Europe in 2010. Total turnover amounted to 402 billion €, generating a total value added of 153 billion €. The CCS represents approximately 4.4% of the total number of companies and 2.2% of employees in the total European business economy (excluding financial and insurance activities), thus pointing to a below average company size. The CCS represents 1.7% of turnover and 2.5% of added value of the total business economy, indicating that CCS organizations in general perform relatively better on the generation of added value. This is also reflected in the per employee indicators.

Table 7 summarizes the aggregate values for the structural indicators and operational and financial indicators for the CCS in total, as well as for the different functional groups active in the value chain (creation, production/publishing, presentation, trade, preservation and education), in comparison with the total business economy. In the next paragraphs we discuss the different indicators in more detail.

Table 7: Key figures for the EU27 CCS

Function	**Aggregate all CCS**	***% of business economy***	**CREA**	**PROD**	**PRET**	**TRADE**	**PREV**	**EDUC**
Structural Indicators			**Share within CCS aggregates**					
# enterprises	**955,844**	*4.4%*	64.7%	20.1%	6.3%	7.9%	0.6%	0.5%
# employees	**3.17 million**	*2.2%*	31.8%	41.1%	16.2%	7.4%	2.5%	1.0%
turnover	**402.2 billion €**	*1.7%*	28.7%	41.6%	19.8%	8.9%	0.8%	0.2%
Added value at factor costs	**152.9 billion €**	*2.5%*	31.6%	41.5%	20.6%	5.9%	0.4%	0.0%
Per employee indicators	**Average all CSS**	***Average business economy***	**CREA**	**PROD**	**PRET**	**TRADE**	**PREV**	**EDUC**
Turnover per person employed (1,000€)	130.8	*178.7*	116.3	163.3	130.0	180.0	56.3	31.7
Value added per person employed (1,000€)	50.6	*44.8*	48.5	56.2	56.9	52.1	37.0	21.1
Operational and financial performance	**Average all CSS**	***Average business economy*** [35]	**CREA**	**PROD**	**PRET**	**TRADE**	**PREV**	**EDUC**
Return on shareholders funds %	14.3	16.0	17.6	11.0	18.4	4.9	7.0	5.1
EBIT margin %	6.9	6.1	7.9	6.3	9.0	2.1	6.1	3.2
Profit margin %	5.7	4.0	6.7	5.4	7.7	0.4	5.5	2.4
Current ratio	3.5	3.6	3.5	3.5	4.0	2.9	6.2	4.9
Solvency ratio	37.9	35.3	37.8	38.9	42.0	28.2	48.4	48.1

CREA: creation function; PROD: production/publishing function; PRET: presentation function; PREV: preservation function; EDUC: education function

Source: Eurostat SBS and own calculations based on Amadeus, 2010

[35] *Based on Amadeus data of approx. 5 million companies in NACE 10 to 82, excluding financial and insurance services (NACE 64-66)*

3.3 Number of enterprises and self-employed

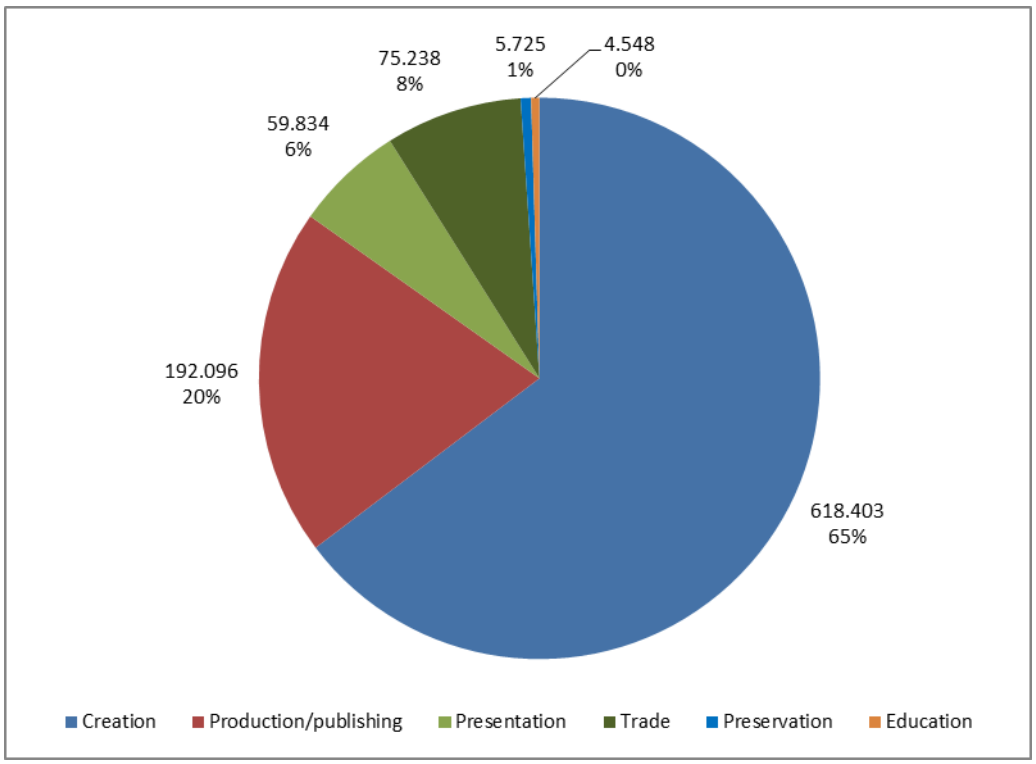
In 2010 955,844 enterprises were active in the CCS, representing 4.4% of the company population in the total business economy. The sector has a disproportionately high amount of (very) small and medium sized enterprises (SMEs) (CBI, 2011). About half of all enterprises in the sector employ one to three people[36]. At the other end of the spectrum, only one to four per cent of all firms employ more than 50 persons[37] (HKU, 2010; CBI, 2010). However, this small fraction of firms does generate around 50% of their respective subsector's total turnover[38] (HKU, 2010).

Apart from the enterprises, many self-employed people are working in the CCS in Europe. Based on data in the national accounts of 2009 520,500 self-employed persons work in the section 90-92 "Creative, arts and entertainment activities", which includes libraries, archives, museums and other cultural activities; gambling and betting activities. The number of self-employed people in other trade or services sectors cannot be estimated easily because of the high level of aggregation of the national accounts (mostly an aggregation of NACE codes at 2 digit level).

3.3.1 Distribution per function

Almost two out of three companies (65%) is active in creation, and another 20% is active in production/publishing. Companies active in preservation and education are rare in the Amadeus database.

Figure 7: Number of enterprises per CCS function in EU27, 2010

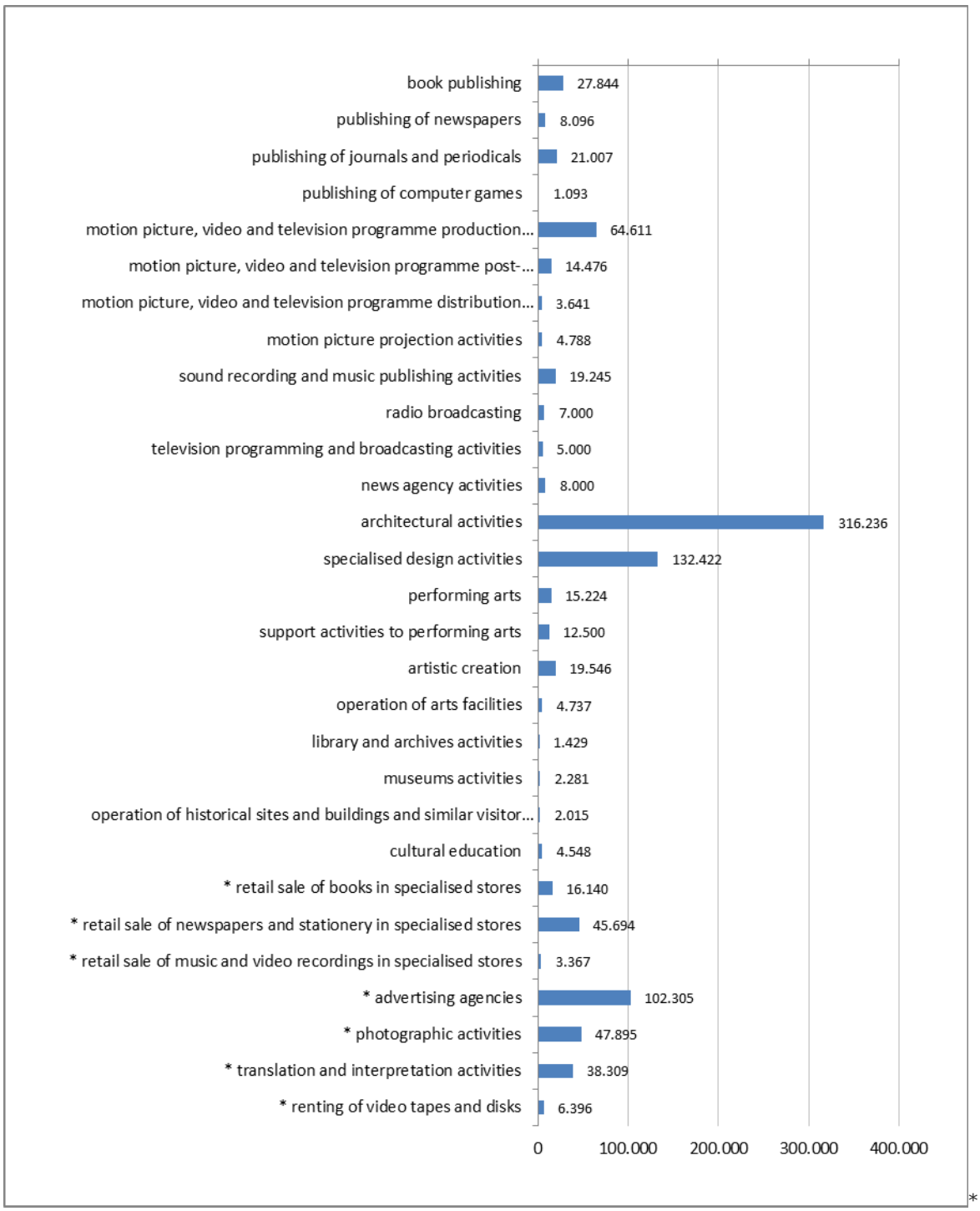


Source: Eurostat SBS and own calculations based on Amadeus, 2010

[36] *From 45% in Radio & Television, and Design to 70% in Music.*
[37] *From 1% in Advertising to 4% in Radio & Television*
[38] *From 40% in Performing Arts to 95% in Visual Arts*

Zooming in on the various subsectors at NACE 4-digit level, there is especially a high concentration of companies in three subsectors: architectural activities, specialized design activities and advertising agencies (representing 89% of total number of CCS enterprises in creation). However, companies active in architecture and specialized design activities employ on average only very few employees, as is reflected in a much lower share in employment and turnover (cfr. paragraphs 0 and 0). Advertising agencies on the other hand are comparatively more important in terms of employment and the creation of turnover.

Figure 8: Number of enterprises per CCS sectors EU27, 2010



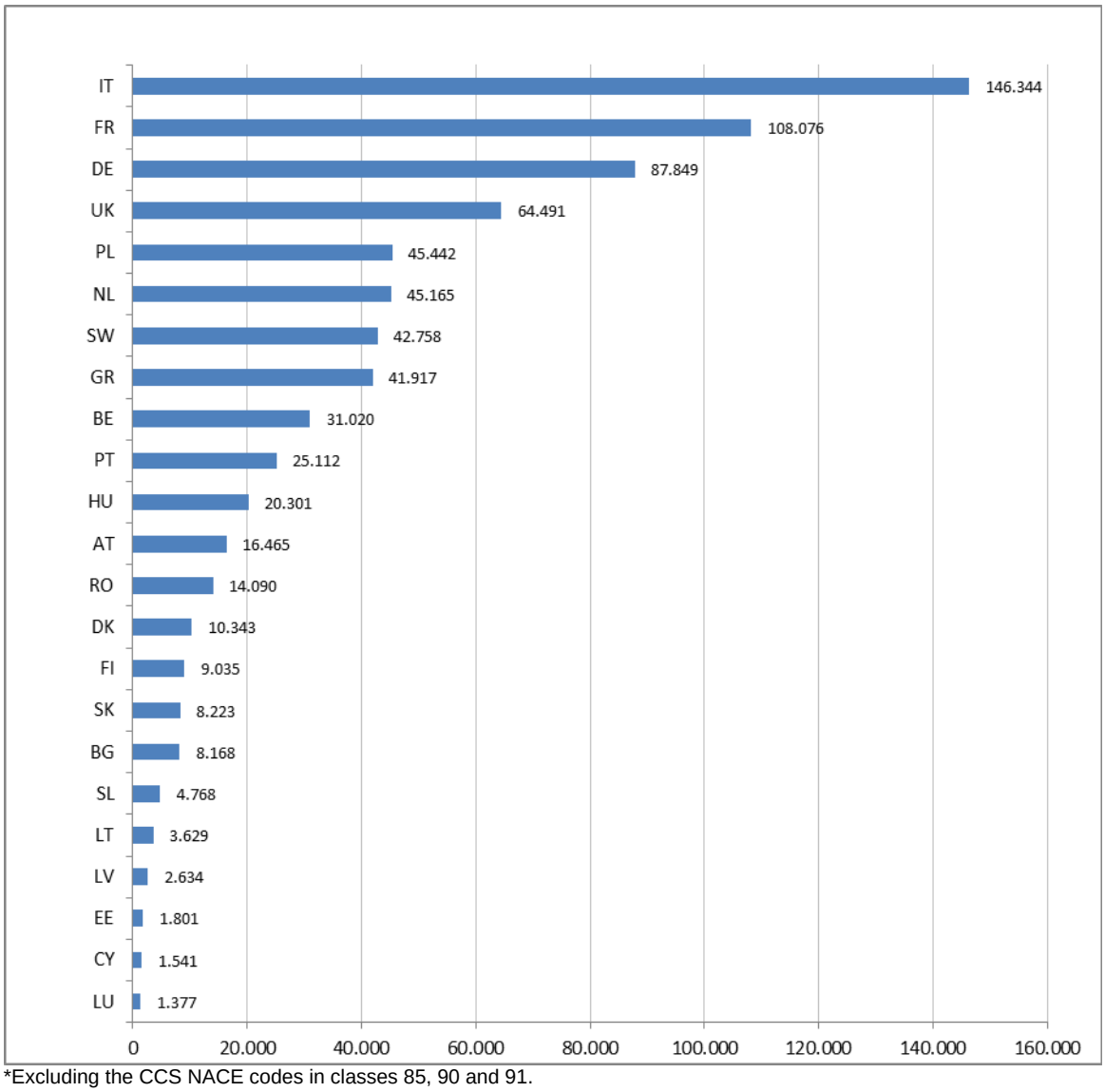
* i.e. sectors for which only 50% of total # of companies are considered as CCS

Source: Eurostat SBS and own calculations based on Amadeus, 2010

3.3.2 Geographical distribution

The European CCS is largely concentrated in four Member States: Italy, France, Germany and the UK[39]. They account for 43% of the industry. Especially Italian companies are highly represented, mainly in architectural activities and specialized design activities.

Figure 9: Number of enterprises in selected CCS clusters per EU member state**, 2010*



*Excluding the CCS NACE codes in classes 85, 90 and 91.

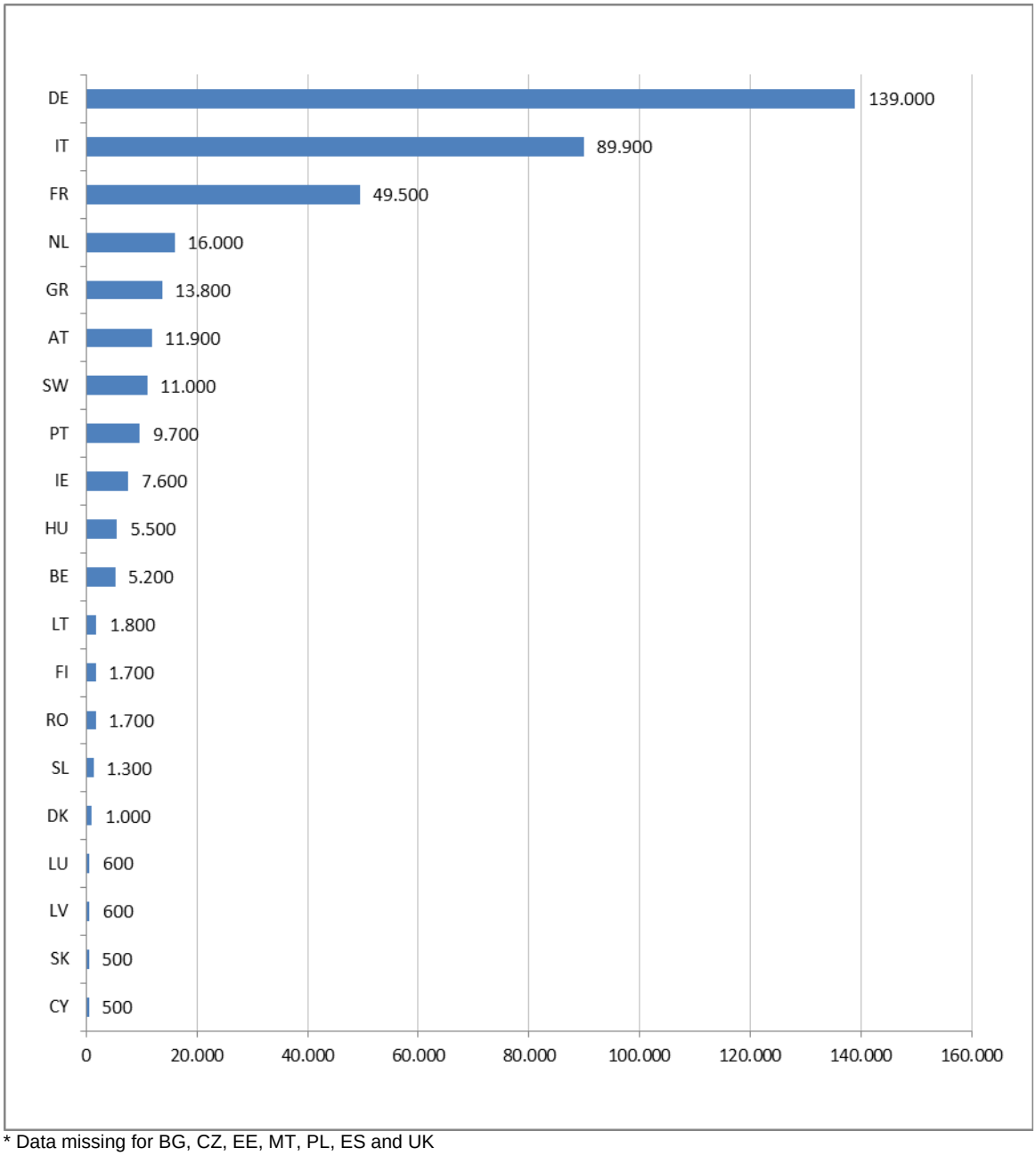
**Data missing for CZ, IE, MT and ES

Source: Eurostat SBS and own calculations based on Amadeus, 2010

[39] *We note that data for Spain are missing, which might influence the top 4.*

The distribution of self-employed persons in creative, arts and entertainment activities is more in line with the size of the countries. 27% of self-employed persons have Germany as their home base followed by Italy and France with respectively 17% and 10% of the total number of self-employed persons in creative, arts and entertainment activities. Please note that the number of enterprises and/or self-employed persons is not available for all countries, among which the large Member States Spain, UK and Poland.

Figure 10: Number of self-employed persons in NACE 90-92 per EU member state, 2009*



* Data missing for BG, CZ, EE, MT, PL, ES and UK

Source: Eurostat National accounts, 2009

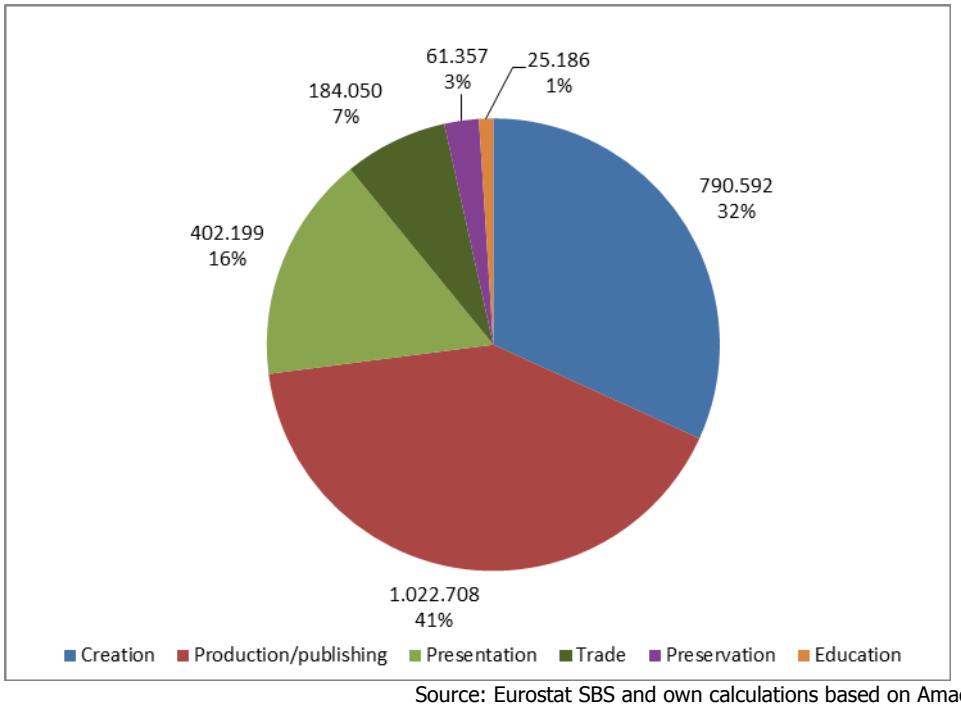
3.4 Employment

Based on SBS, Amadeus and the 2009 national accounts we estimate that the EU CCS employs at least 3.17 million persons (2010)[40].

3.4.1 Distribution per function

Most employees in the EU CCS are active in production/publishing, followed by creation and presentation. This is in contrast with the distribution of the number of companies over the different functions, indicating that the average company size in creation is smaller. Note that this distribution is only based on the number of employees available in SBS and Amadeus, not taking into account the large number of employees from the national accounts (for Nace90->92) since the distribution of employees within 90→92 is unknown.

Figure 11: Number of employees in CCS functions in EU27, 2010

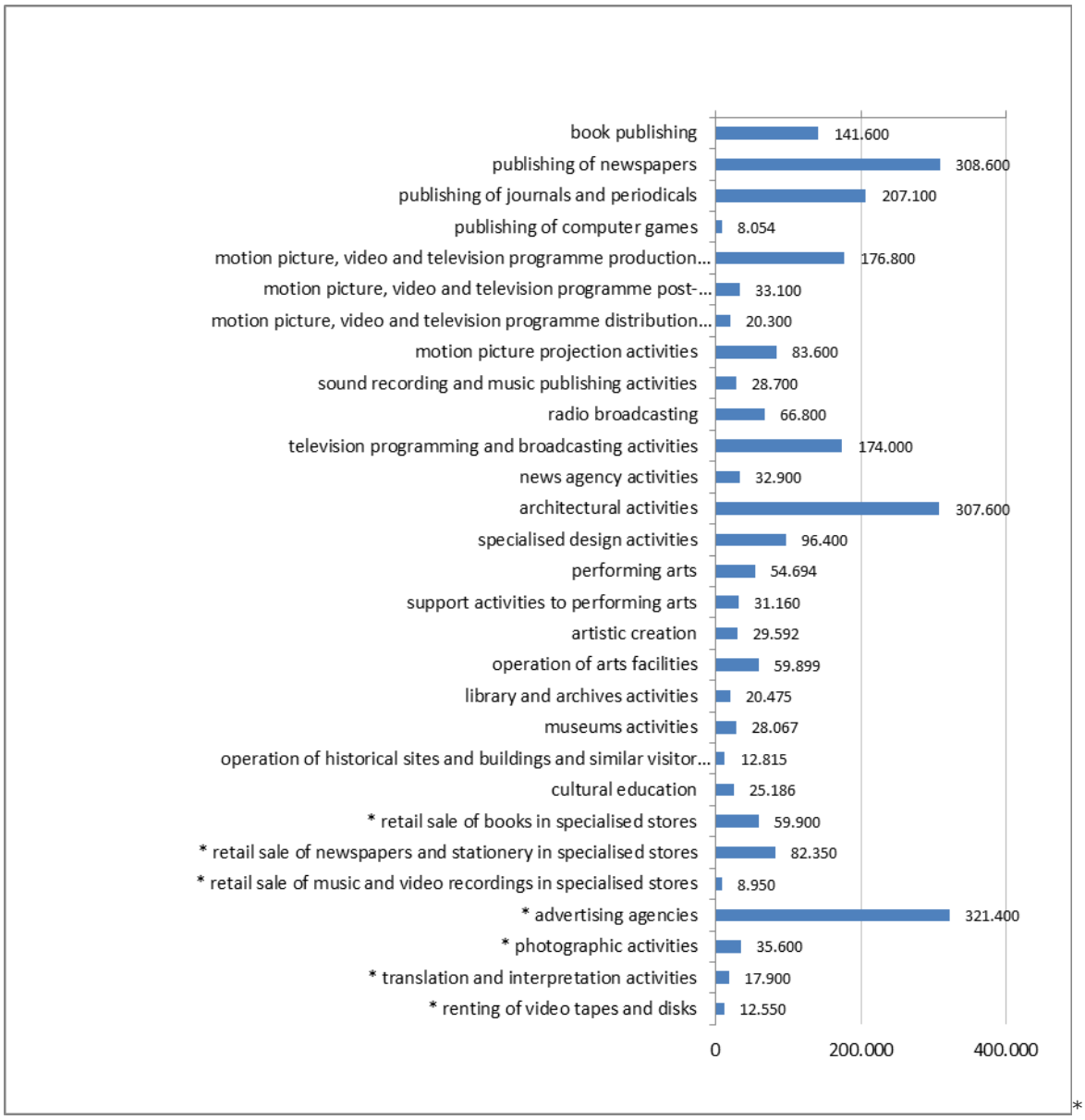


Source: Eurostat SBS and own calculations based on Amadeus, 2010

[40] *According to SBS there are an estimated 2.25 million people working in those sectors from NACE 47 to 85 that are part from the CCS definition used in this study. In NACE 90 and 91.3 -> 91.3 we estimated, based on the distribution of employees in Amadeus, that an additional 923,000 were also part of the CCS. We therefore estimate that the total number of employees in the CCS in the EU27 in 2010 amounts to 3.17 million*

Zooming in on the different subsectors, there are 6 sectors that employ 60% of employees (advertising agencies, publishing of newspapers; architectural activities; publishing of journals and periodicals; motion picture, video and television program production activities; television programming and broadcasting activities). All these subsectors are equally important in terms of creation of turnover and added value (cfr. paragraph 3.5). The sector of motion picture, video and television programme distribution activities is small in terms of employment, but is much more important in terms of turnover and added value creation.

Figure 12: Number of employees in CCS sectors in EU27, 2010



* i.e. sectors for which only 50% of total # of companies are considered as CCS

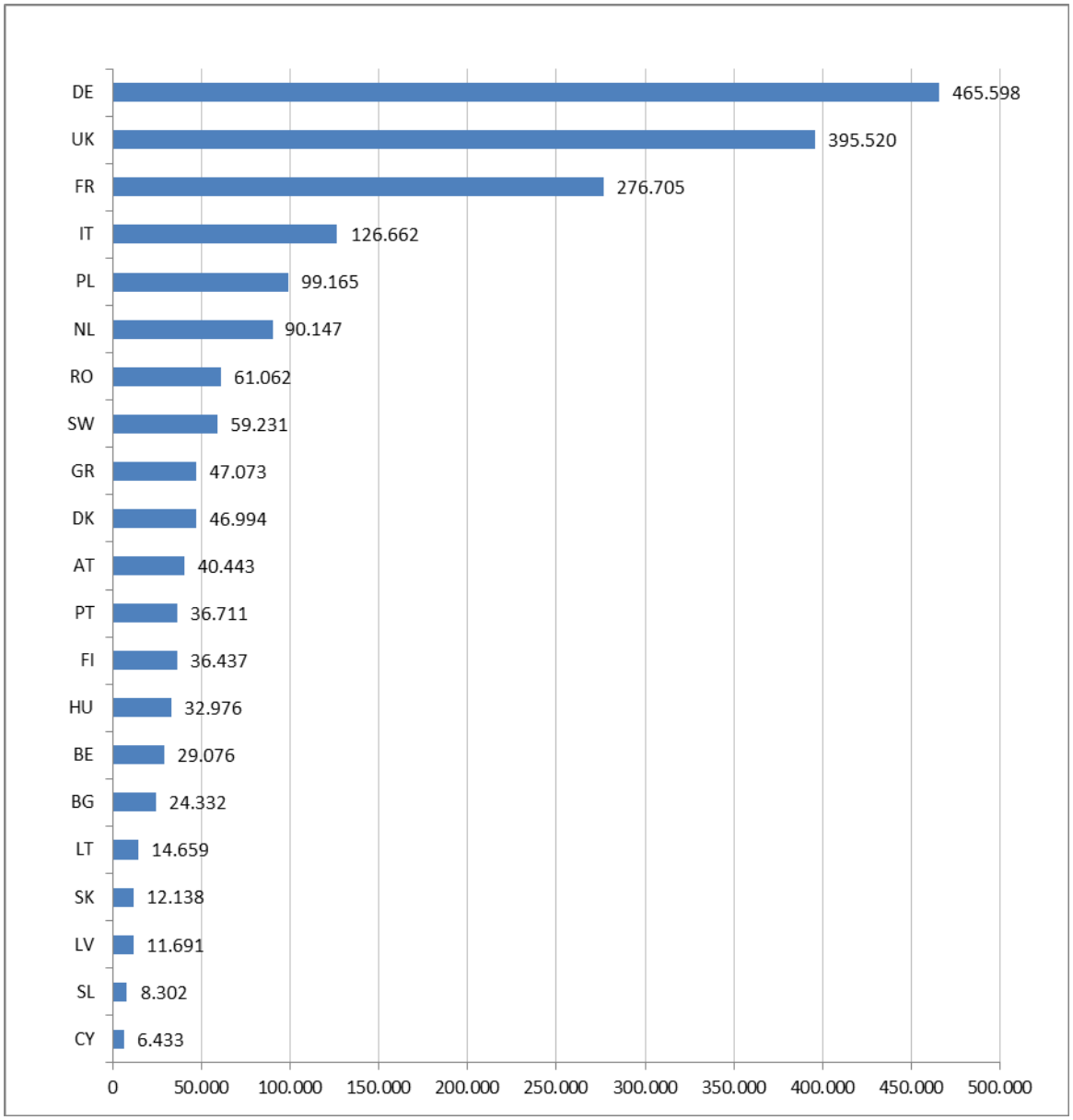
Source: Eurostat SBS and own calculations based on Amadeus, 2010

3.4.2 Geographical distribution

Figure 13 presents the geographical distribution of CCS employment in the EU. For a number of countries (ES, IE, LU and EE) data were missing for several subsectors. These countries were therefore excluded from the graph below.

The large EU member states UK, DE, FR and IT are responsible for two third of employment. In Eastern Europe especially Poland and Romania have an important pool of CCS employees.

Figure 13: Number of employees per EU member state, 2010*



* Data missing for ES, IE, LU and EE.

Source: Eurostat SBS and own calculations based on Amadeus, 2010

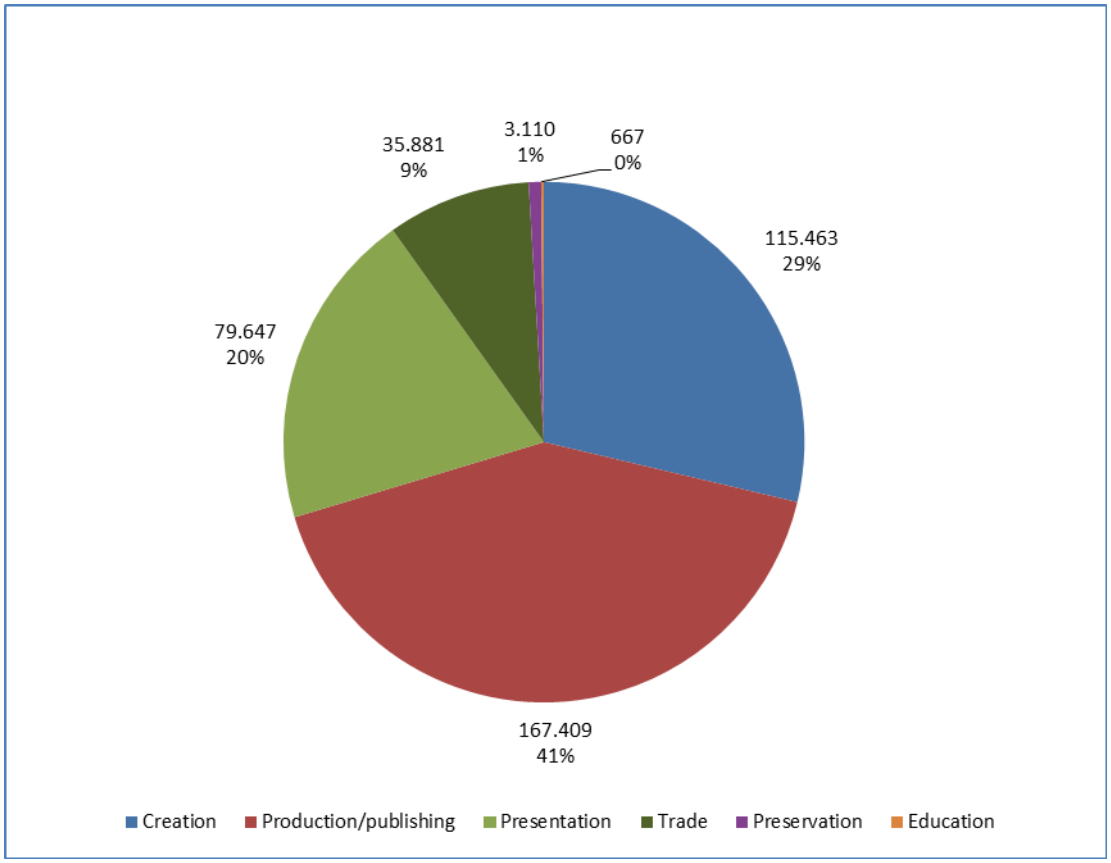
3.5 Turnover and added value

The almost 1 million companies in CCS generated a total turnover of 402.2 billion € in 2010 and 153.7 billion € of added value (38% of turnover).

3.5.1 Distribution per function

Contrary to the dominant share of creation in the total number of CCS companies, the relative share of companies active in creation in the total turnover of the CCS is much lower. 65 % of CCS companies generated only 29% of total turnover in 2010, indicating that CCS organizations active in creation are typically small in size (in terms of turnover). Companies active in production/publishing on the other hand generated 41% of total CCS turnover with only 20% of the companies, indicating that they are typically larger in size. The same holds for companies active in presentation: representing only 6% of the total number of CCS companies, they do generate 20% of turnover.

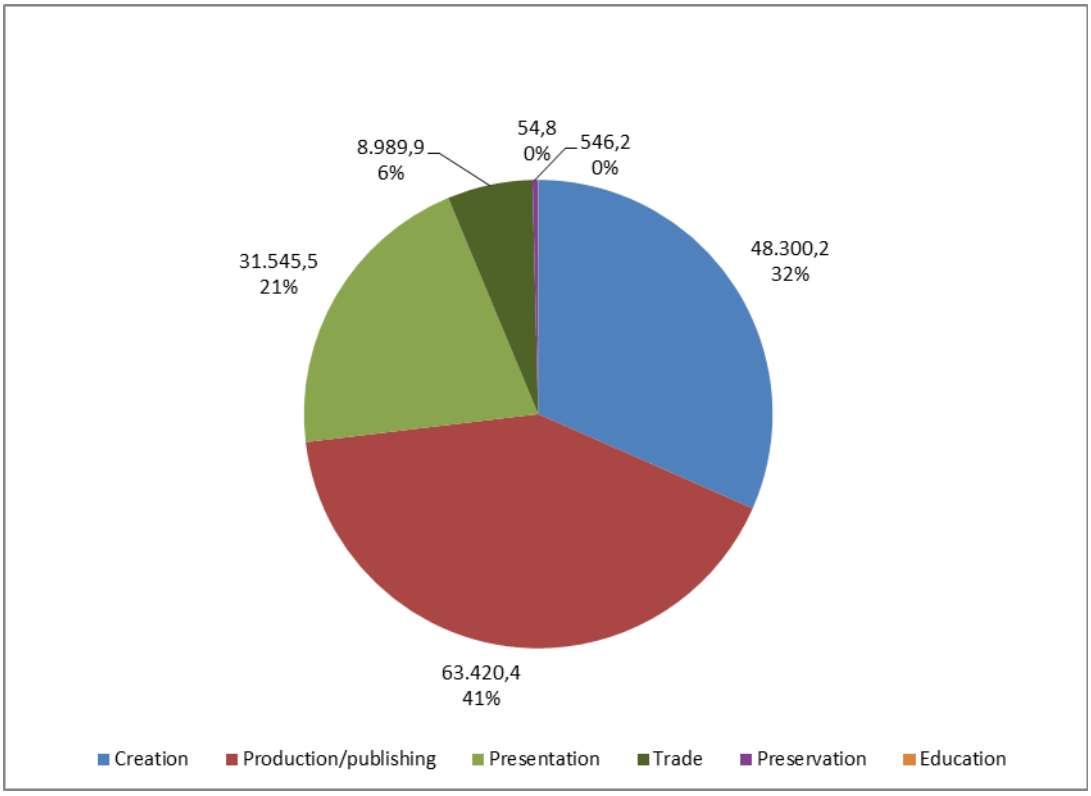
Figure 14: Turnover in CCS functions in EU27, 2010 (in mio €)



Source: Eurostat SBS and own calculations based on Amadeus, 2010

The distribution of the added value over the different functions largely follows the same pattern as the distribution of turnover. The production/publishing and presentation functions again are more important in terms of added value generation than in the number of companies.

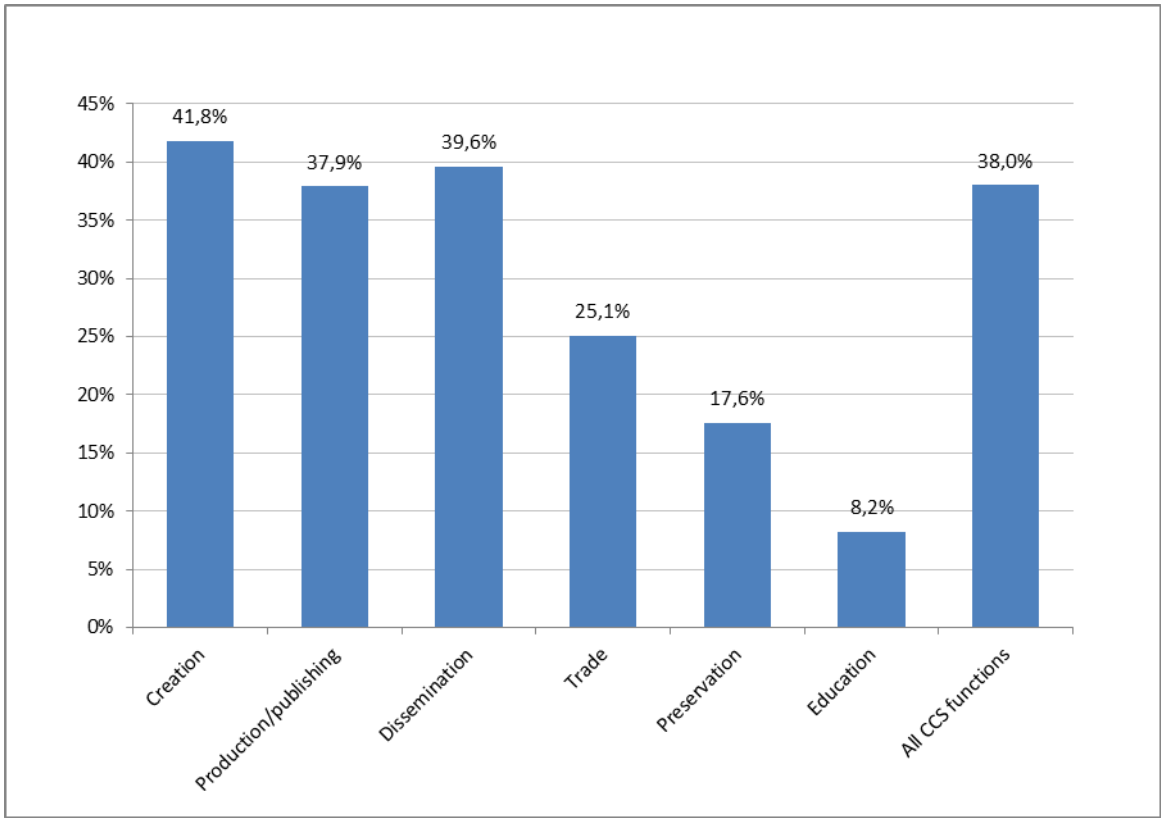
Figure 15: Added value in CCS clusters in EU27, 2010 (in mio €)



Source: Eurostat SBS and own calculations based on Amadeus, 2010

In order to assess the ability to generate added value, the share of added value as a percentage of turnover has been plotted in the following graph. On average 38% of turnover remains as added value, but there are large differences between functions. The creation, production/publishing and dissemination cluster show the highest added value/turnover ratio (ranging between 38% and 42%). For companies active in trade however, the share of added value as a percentage of turnover equals only 25%. Finally, organizations active in preservation and education also underperform in terms of creation of added value with shares of only 18% and 8%. This might be explained by the fact that organizations in these functions are often not market-driven, and thus whose activities are not focused on creating financial added value.

Figure 16: Added value as % of turnover in CCS functions in EU27, 2010

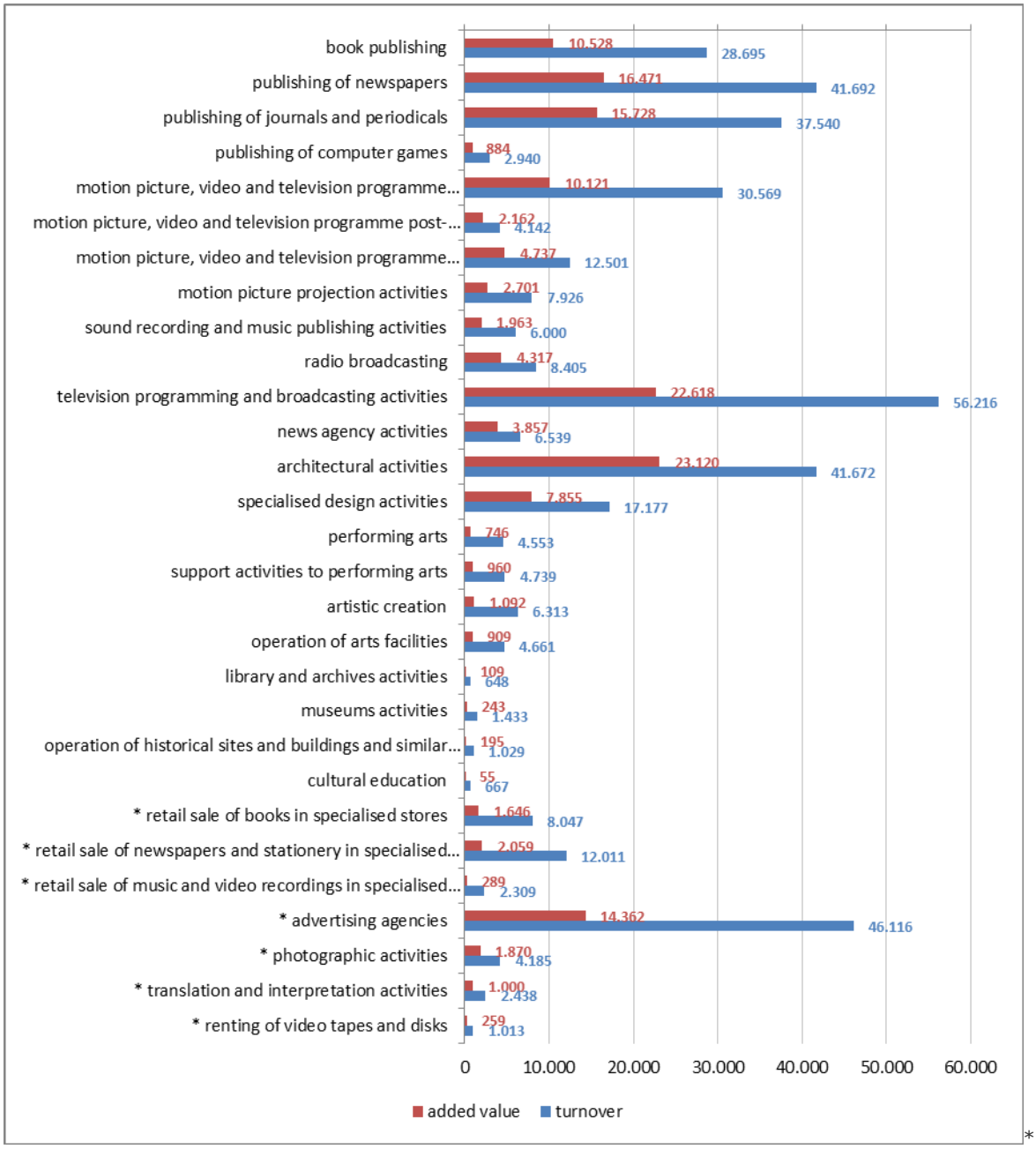


Source: Eurostat SBS and own calculations based on Amadeus, 2010

Zooming in on the various CCS subsectors at NACE 4-digit level, the top 5 sectors (television programming and broadcasting activities; advertising agencies; publishing of newspapers; architectural activities and publishing of journals and periodicals) generate 56 % of total turnover and 60% of total added value. The sector of television programming and broadcasting activities is most important in terms of turnover. However, the added value/turnover ratio of 40% is lower than the ratio of the sector of architectural activities (55%), so that this last subsector remains at the top in terms of creation of added value. Other subsectors with high added value/turnover ratios are news agency activities (59%), motion picture, video and television programme post-production activities (52%) and radio broadcasting (51%).

All sectors from NACE 90 to 91 (performing arts, artistic creation, performing arts, …) as well as the retail sales sectors (of books, newspapers and music/videos) show significantly lower added value/turnover ratios.

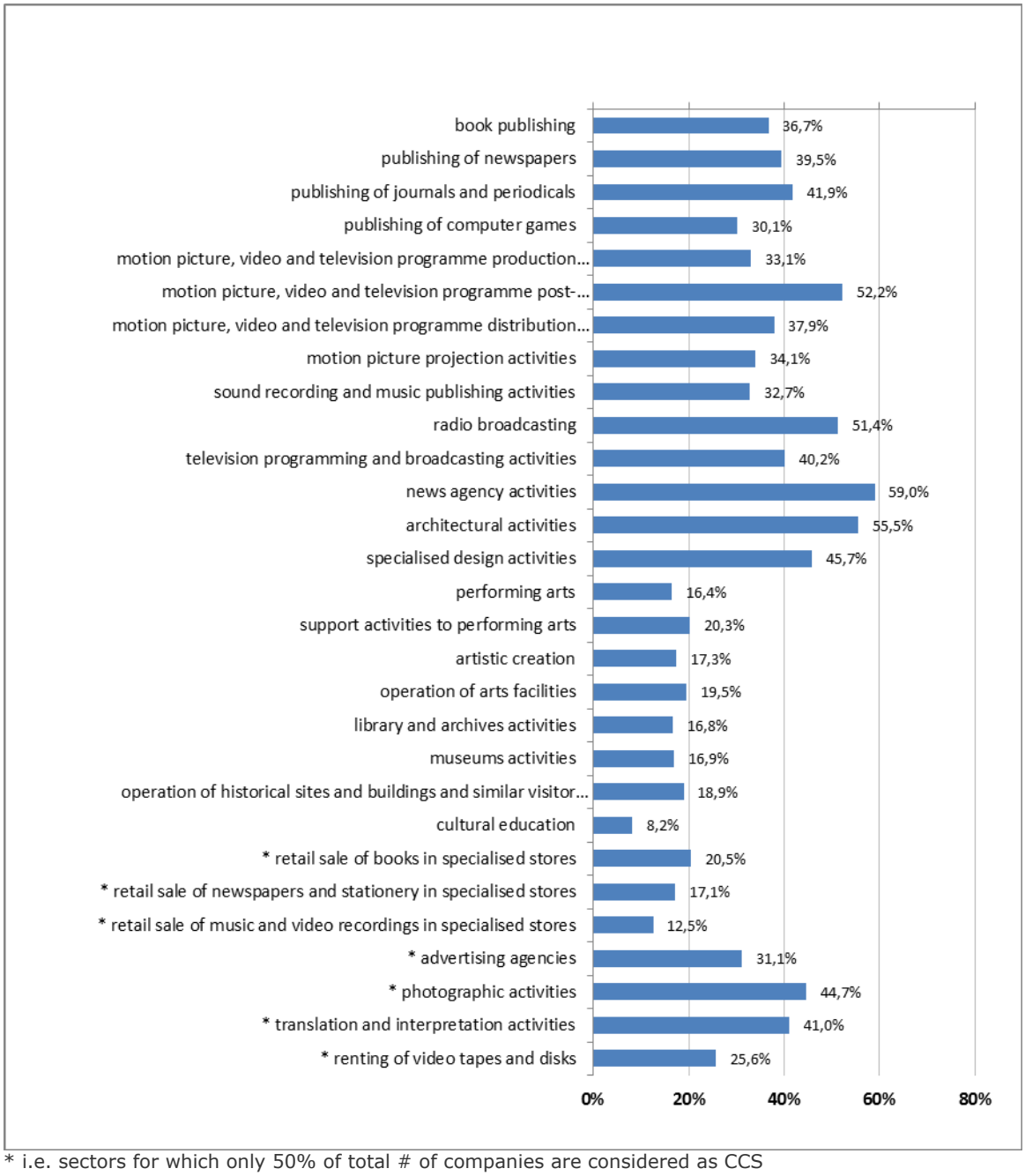
Figure 17: Turnover and added value in CCS sectors in EU27, 2010 (in mio €)



* i.e. sectors for which only 50% of total # of companies are considered as CCS

Source: Eurostat SBS and own calculations based on Amadeus, 2010

Figure 18: Added value as % of turnover in CCS sectors in EU27, 2010



* i.e. sectors for which only 50% of total # of companies are considered as CCS

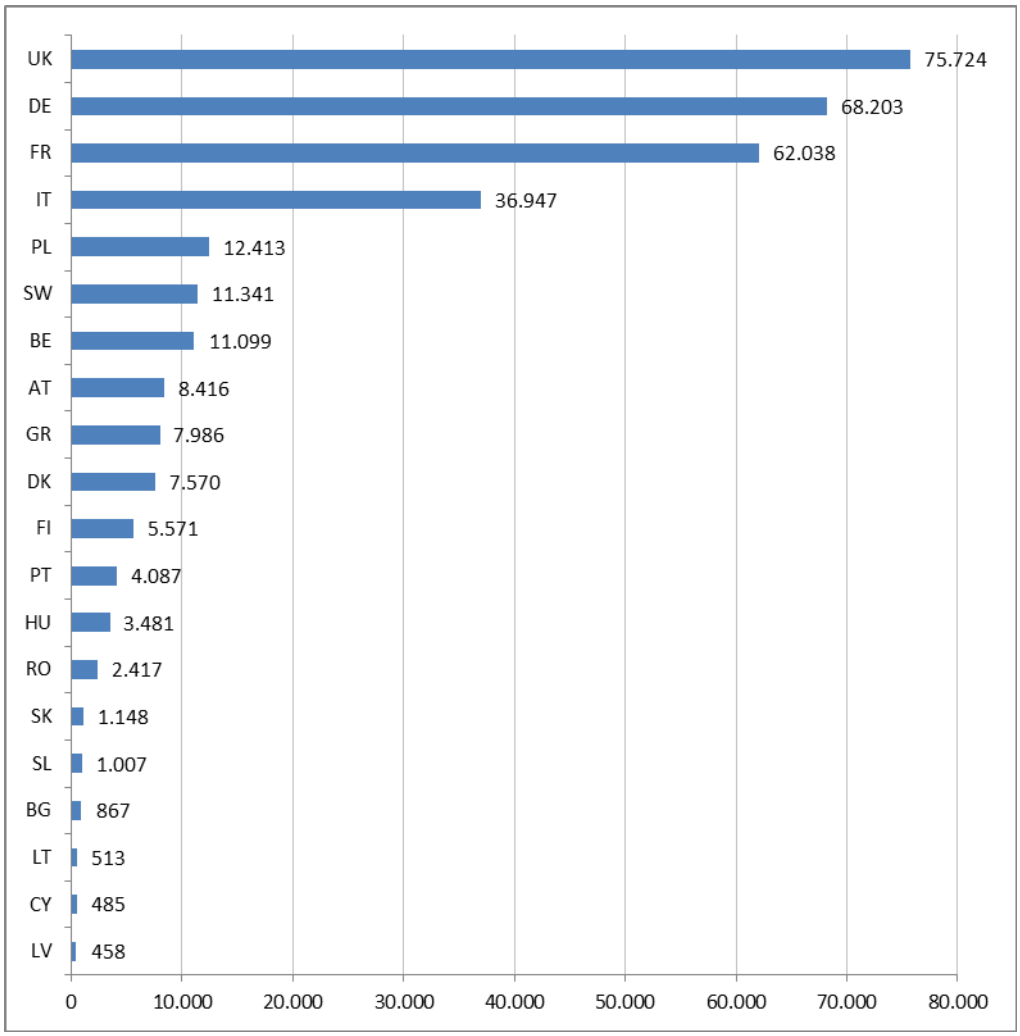
Source: Eurostat SBS and own calculations based on Amadeus, 2010

3.5.2 Geographical distribution

In the following graph we present the distribution of turnover and added value for selected EU-countries. For a number of Member States (ES, NL, IE, LU and EE) data were missing for several subsectors. Therefore they have been excluded from the graph below. For these Member States lower boundaries of turnover and added value have been given below the graphs.

The large EU27 Member States (UK, DE, FR and IT) account for 60% of turnover and 64% of added value. Italy, which hosts by far the largest number of CCS companies, only ranks 4th in terms of turnover and added value, indicating that Italian companies tend to be rather small on average. Most Eastern European countries (for which data is available) contribute only minimally to total turnover and added value in the CCS. The exception is Poland, which is part of the top 5 (not taking into account Spain due to lack of data).

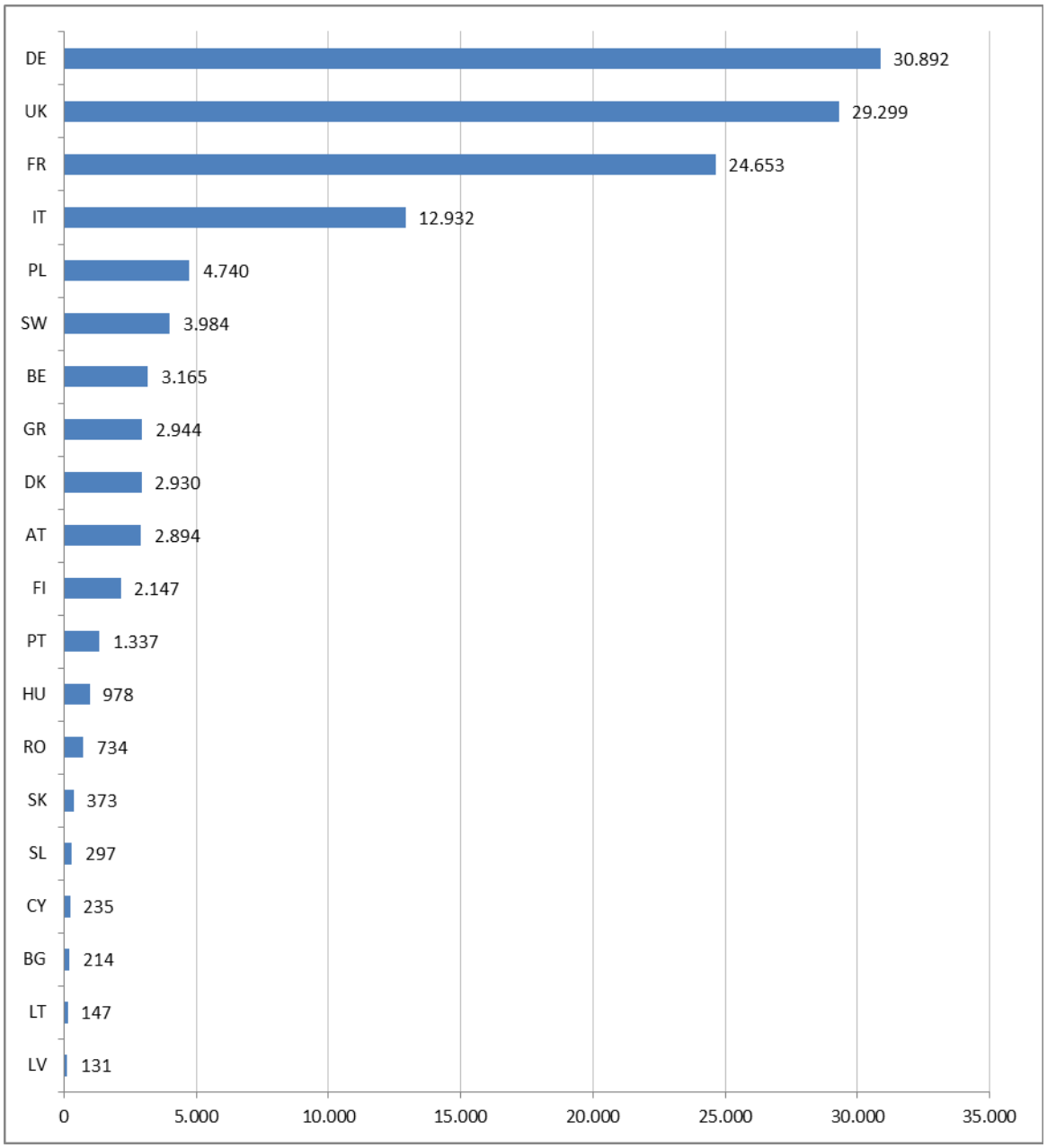
Figure 19: Turnover per EU member state, 2010 (in mio €)*



*Data missing for CZ, EE, IE, LU, MT, NL and ES. The minimum total turnover for the countries for which we only had partial information in 2010 was: Spain: 15.5 billion €, The Netherlands: 4.7 billion €; Ireland: 1.6 billion €; Luxembourg: 0.4 billion €; Estonia: 0.3 billion €.

Source: Eurostat SBS and own calculations based on Amadeus, 2010

Figure 20: Added value per EU member state, 2010 (in mio €)*



*Data missing for CZ, EE, IE, LU, MT, NL and ES. The minimum total added value for the countries for which we only had partial information in 2010 was: Spain: 6.6 billion €, the Netherlands: 1.9 billion €; Ireland: 0.7 billion €; Luxembourg: 0.2 billion €; Estonia: 0.1 billion €.

Source: Eurostat SBS and own calculations based on Amadeus, 2010

3.5.3 Turnover and added value per person employed

In this paragraph we relate turnover and added value to the number of employees. These relative indicators give an indication of the performance of companies in the various functions and subsectors[41]. This analysis will be complemented with an analysis of operational and financial performance indicators in paragraph 3.7.

The turnover per employee in CCS is on average € 130,800. This is significantly lower than the average turnover per employee in the total business economy (excluding financial and insurance activities) (€ 178,700). The value added per person employed on the other hand is above the average for the total business economy (€ 50,600 for CCS versus € 44,800 for total business economy). Figure 21 provides information on the turnover and added value per employee in the various CCS functions. Although the differences in turnover per employee between functions seem to be substantial, differences in added value per employee (apparent labour productivity) are rather limited. Enterprises active in presentation in general show the highest added value per employee, although it is ranked only 3rd if we look at turnover per employee. Enterprises active in trade on the other hand generate a large turnover per employee on average, but their activities generate comparatively low levels of added value. Enterprises active in creation finally underperform on both indicators vis-à-vis other CCS subsectors. Nevertheless, compared to the total business economy also in creation the average added value per employee is higher.

Figure 21: Turnover and added value per employee in various CCS functions and total business economy, 2010 (in 1,000 €)

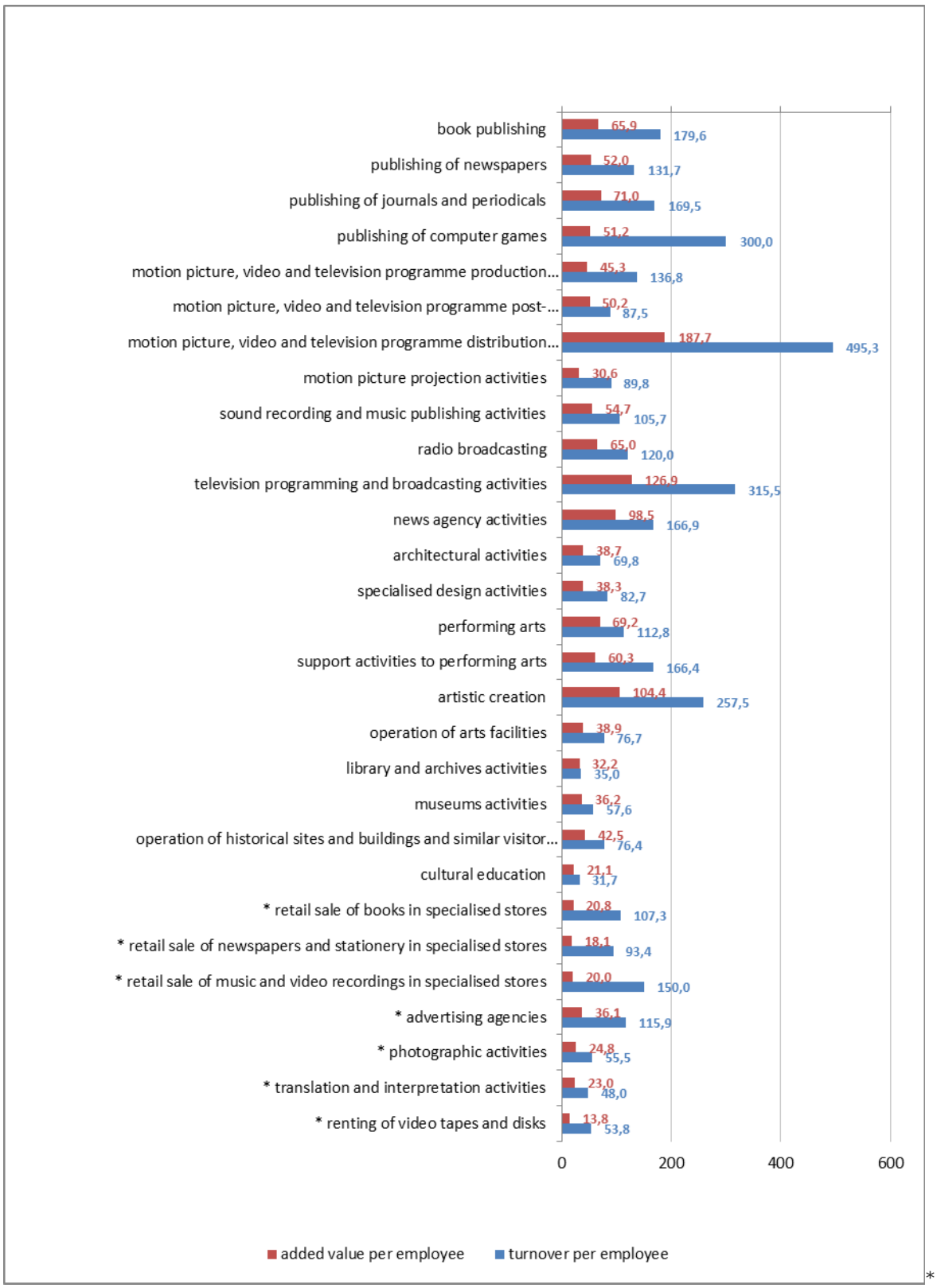
Source: Eurostat SBS and own calculations based on Amadeus, 2010

[41] *Because of differences in wage and price levels between countries within in the EU27, no analysis will be given at country level.*

Zooming in on the different NACE 4-digit subsectors, the differences in turnover per employee as well as in added value per employee can vary considerably. Some subsectors are characterized by (very) high levels of turnover per employee combined with high levels of added value per employee. The sectors of motion picture, video and television programme distribution activities, the sector of television programming and broadcasting activities and the sector of the publishing of computer games are a few examples.

But not each of these sectors are high performers when calculating the ratio between added value per employee and the turnover per employee. The sector of the publishing of computer games for example scores particularly bad on this indicator. Sectors that show a good performance on this relative indicator are the sector of performing arts, news agencies and motion picture, video and television programme post-production activities. The retail sales sectors perform relatively well on turnover per employee but they do not perform well in terms of apparent labour productivity, indicating that their activities generate low levels of added value.

Figure 22: Turnover and added value per employee in CCS sectors, 2010 (in 1000€)



* i.e. sectors for which only 50% of total # of companies are considered as CCS

Source: Eurostat SBS and own calculations based on Amadeus, 2010

3.6 Profitability

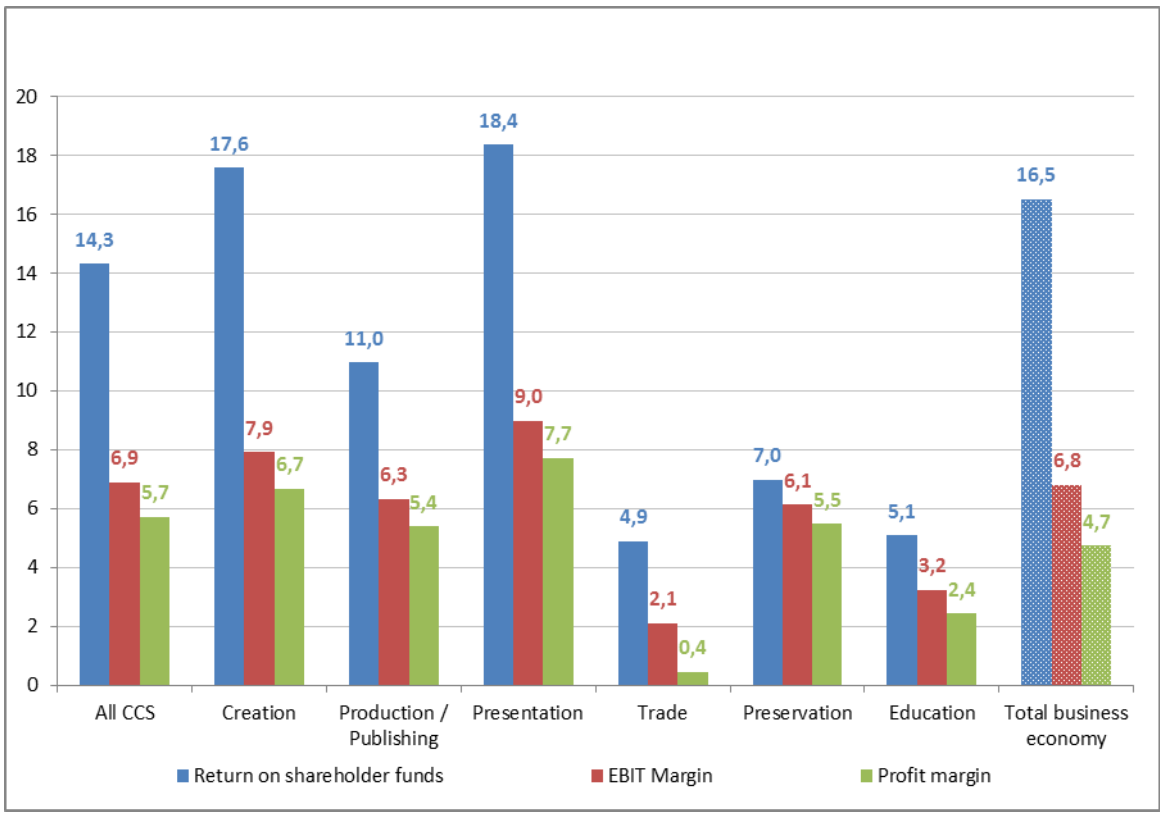
In this section we discuss three profitability indicators, each one viewed from a slightly different angle (investor's view or company's view): return on shareholders' funds, EBIT margin and profit margin. The **Return on Shareholders' Funds (ROSF) ratio**[42] has historically been used by industry investors as a measure of the profit for the period which is available to the owner's stake in a business. The Return on Shareholders' Funds ratio is therefore a measure of profitability from the standpoint of the shareholder. It indicates whether or not a company is generating adequate profits in relation to the resources invested in it by shareholders. The **EBIT margin**[43] is a profitability measure that is useful when comparing multiple companies, especially within a given industry, and also helps to evaluate how a company has grown over time. The EBIT margin is another measure that investors use to assess a company's financial health. The EBIT margin shows the percentage of each euro of sales revenue that is left once all expenses have been deducted, excluding net interest and income tax expenses. The **profit margin** relates the operational profit to the total of operating revenues and also includes financial profit/loss (whereas EBIT only includes operating loss/profit).

3.6.1 Differences across CCS function

Figure 23 provides an overview of the three profitability ratios for the different CCS functions, as well as for the CCS in total and the total business economy (excluding financial and insurance activities). CCS enterprises in general show a lower return on shareholder funds compared to the total business economy, but have a higher EBIT and profit margin. But focusing on the different functions across the CCS value chain, we find considerable differences. Enterprises active in creation and presentation on average are doing particularly well with respect to the return on shareholders' funds. They also perform well in terms of EBIT margin and profit margin. Enterprises active in preservation and education on average have a return on shareholders' funds that is less than half the average level in the total business economy. Enterprises active in trade are performing worst on all three profitability indicators.

[42] *Formula = (P/L before Tax & Extr. Items / shareholder funds) * 100.*
[43] *Formula = (Operating Profit or loss / Operating Revenue) * 100.*

Figure 23: Average profitability ratios per CCS function, 2010 (in %)

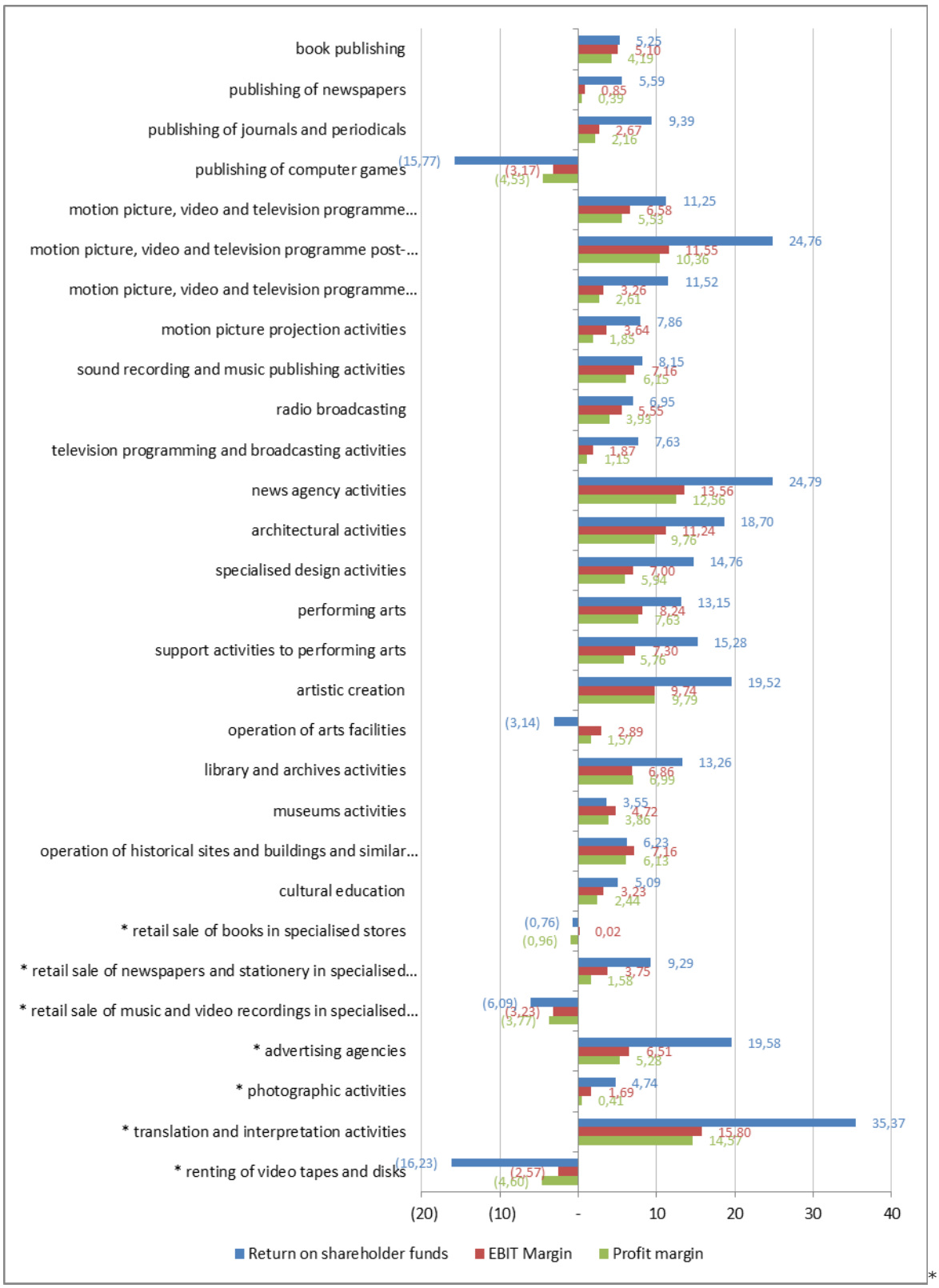


Source: Own calculations based on Amadeus, 2010

At the more detailed NACE 4-digit level three sectors outperform on all operational indicators: translation and interpretation activities; news agency activities and motion picture, video and television programme post-production activities. These three sectors also performed well on the indicator measuring the ability to create added value from operational activities (added value per employee/ turnover per employee). The sectors of architectural activities, advertising agencies and artistic creation are equally strong performers on operational and financial profitability, equally in combination with relatively strong performance on the creation of added value.

Companies in the publishing of computer games show (strongly) negative profitability ratios in 2010. At first sight this is rather remarkable, considering the high interest from (equity) investors in the sector (cfr Peacefulfish, 2012). However, equity investors' interest is influenced by expectations about future earnings, whereas the profitability ratios presented here are based on historical data for 2010. The rise of new (gaming) devices such as iPad next to the more traditional gaming consoles such as wii has put pressure on the computer games industry to rethink business models. Other sectors that perform poorly on EBIT margin and profit margin are all retail sales sectors (with the exception of the retail sale of newspapers and stationery), the publishing of newspapers and television programming and broadcasting activities, having margins below 2%, sometimes even negative.

Figure 24: Average profitability ratios per CCS sectors, 2010



*

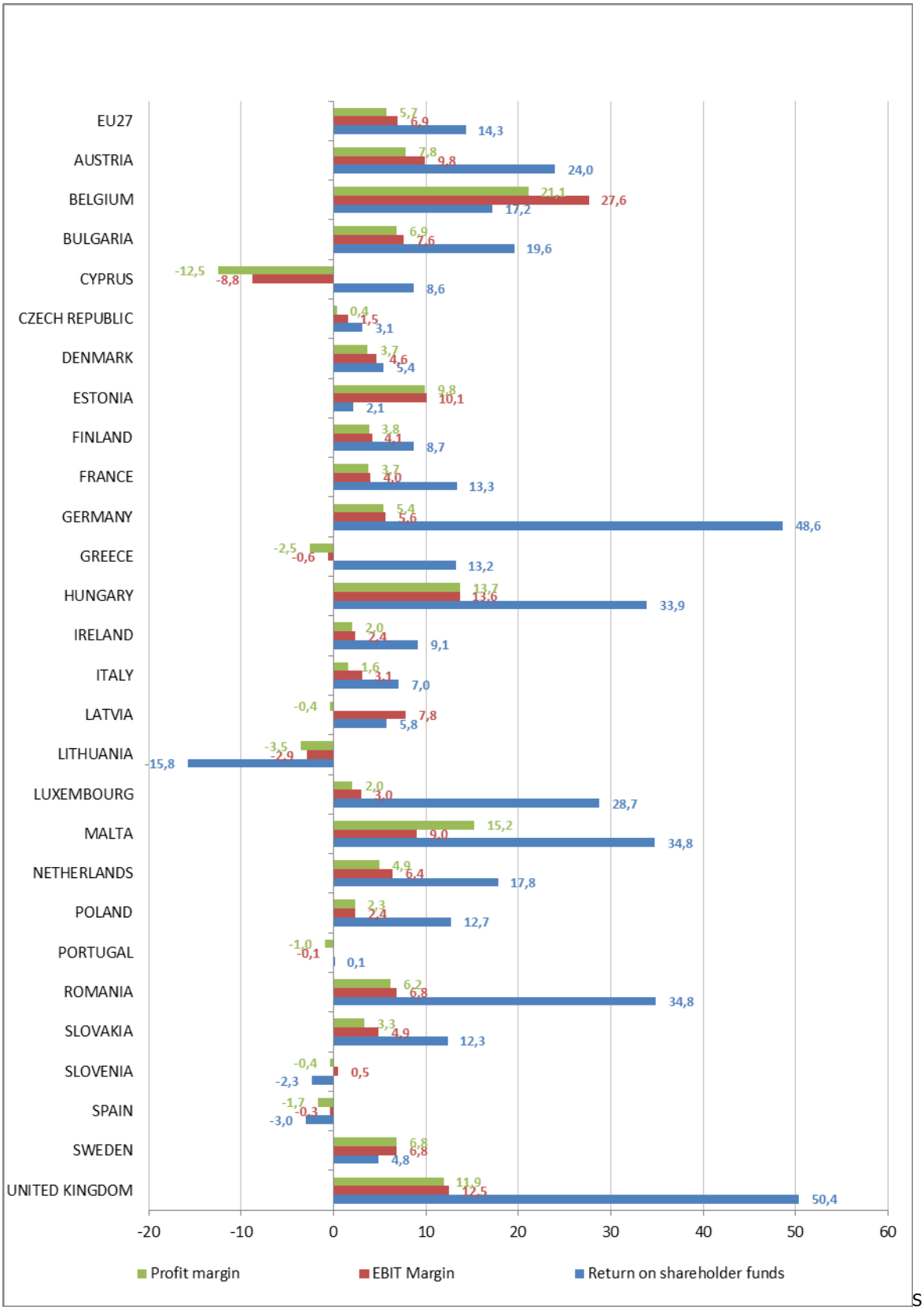
* i.e. sectors for which only 50% of total # of companies are considered as CCS

Source: Own calculations based on Amadeus, 2010

3.6.2 Differences across countries

Germany and the United Kingdom were the two major countries in terms of turnover and added value creation in the EU CCS in 2010. They are also strong performers in terms of return on shareholders' funds. But for operational and financial profit companies in the UK outperform their German peers, having profit margins that are more than twice as high. Profit margins in the other three large member states (France, Italy and Poland) are at lower levels. CCS companies in Belgium have very high levels of operational and financial profit. CCS companies in Cyprus, Lithuania, Portugal, Spain and Slovenia were on average neither operational nor financially profitable. It is clear that the performance at the country level is influenced by the structure of the CCS (relative importance of different subsectors or functional clusters).

Figure 25: Average profitability ratios for all CCS per country, 2010 (in %)



Source: Own calculations based on Amadeus, 2010

3.7 Financial health

In this section we discuss two indicators to evaluate the financial viability of companies both from a short term perspective (current ratio) and from a long term perspective (solvency ratio).

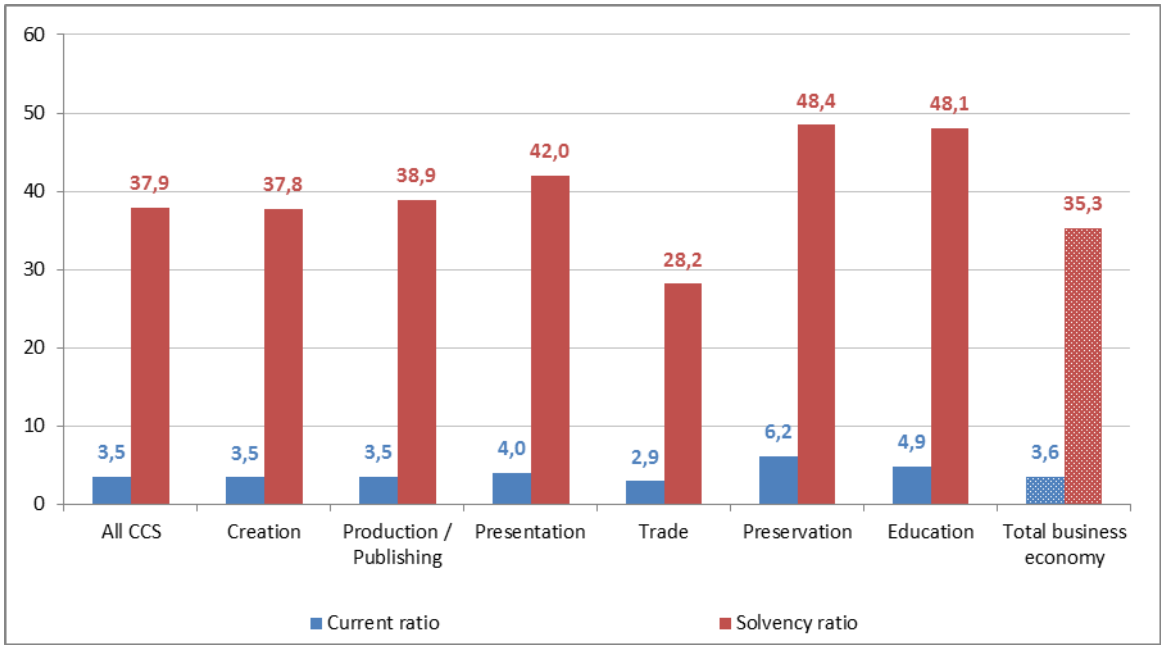
The **current ratio**[44] or working capital ratio measures whether or not a firm has sufficient resources to pay its debts over the next 12 months. It compares a firm's current assets to its current liabilities. Low values for the current or quick ratios (values less than 1) indicate that a firm may have difficulty meeting current obligations; companies with values above 2 are considered to be in healthy conditions. The **solvency ratio**[45] assesses a company's ability to meet its long-term obligations and thereby remain solvent and avoid bankruptcy. It provides a measure of how likely a company will be able to continue meeting its debt obligations. Generally speaking, the lower a company's solvency ratio is, the higher the probability that the company will default on its debt obligations. Acceptable solvency ratios will vary from industry to industry. As a general rule of thumb a solvency ratio above 30% is considered financially healthy in cultural and creative sectors. However, in those subsectors with a high level of pre-financing, a healthy solvency ratio is considered to be above 40%.[46]

3.7.1 Differences across CCS function

Figure 26 provides an overview of the financial health situation in the different CCS functions as well as in the total business economy. Considering the aforementioned thresholds, enterprises active in all CCS functions can be considered to be in rather healthy financial conditions in the short run, having a current ratio that is well above 2. Apart from trade all other subsectors have a current ratio that is in line (or above) the current ratio in the total business economy. Evaluating the longer term financial situation, we find that - with the exception of trade – all CCS functions have a solvency ratio that is above 30% in 2010, and above the average in the total business economy. Taking into account the importance of pre-financing in the CCS however, especially the creation and production part of the value chain show less favorable results. Current ratios and solvency ratios are particularly high in preservation and education, sectors in which a large proportion of financing comes from shareholders' funds, as will be illustrated in paragraph 3.8.

[44] *Formula= current assets / current liabilities.*
[45] *Formula = (shareholder funds / total assets) * 100.*
[46] *Financial expert interview*

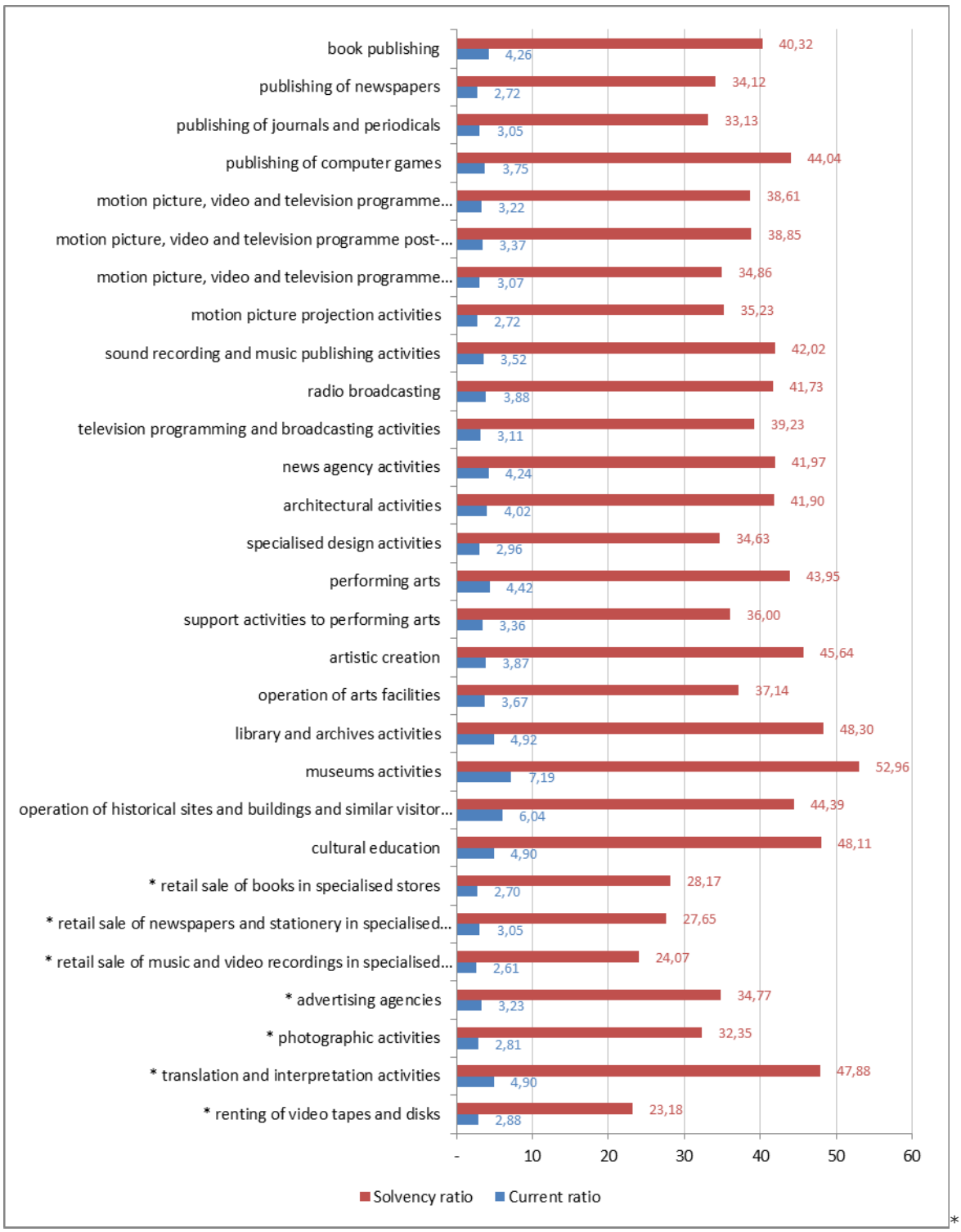
Figure 26: Average financial ratios, 2010



Source: Own calculations based on Amadeus, 2010

Focusing on the NACE 4-digit sector level, most subsectors show a rather healthy short term and long term financial position. Sectors experiencing low operational and financial profits in 2010 like the publishing of computer games still show acceptable current and solvency ratios in 2010. In line with the profitability margins, again the retail sectors are performing worse with solvency ratios under 30%. Also specialized design activities and audiovisual production activities, where pre-finance often plays a very important role, show less strong solvency ratios.

Figure 27: Average financial ratios per CCS sectors, 2010



*

i.e. sectors for which only 50% of total # of companies are considered as CCS

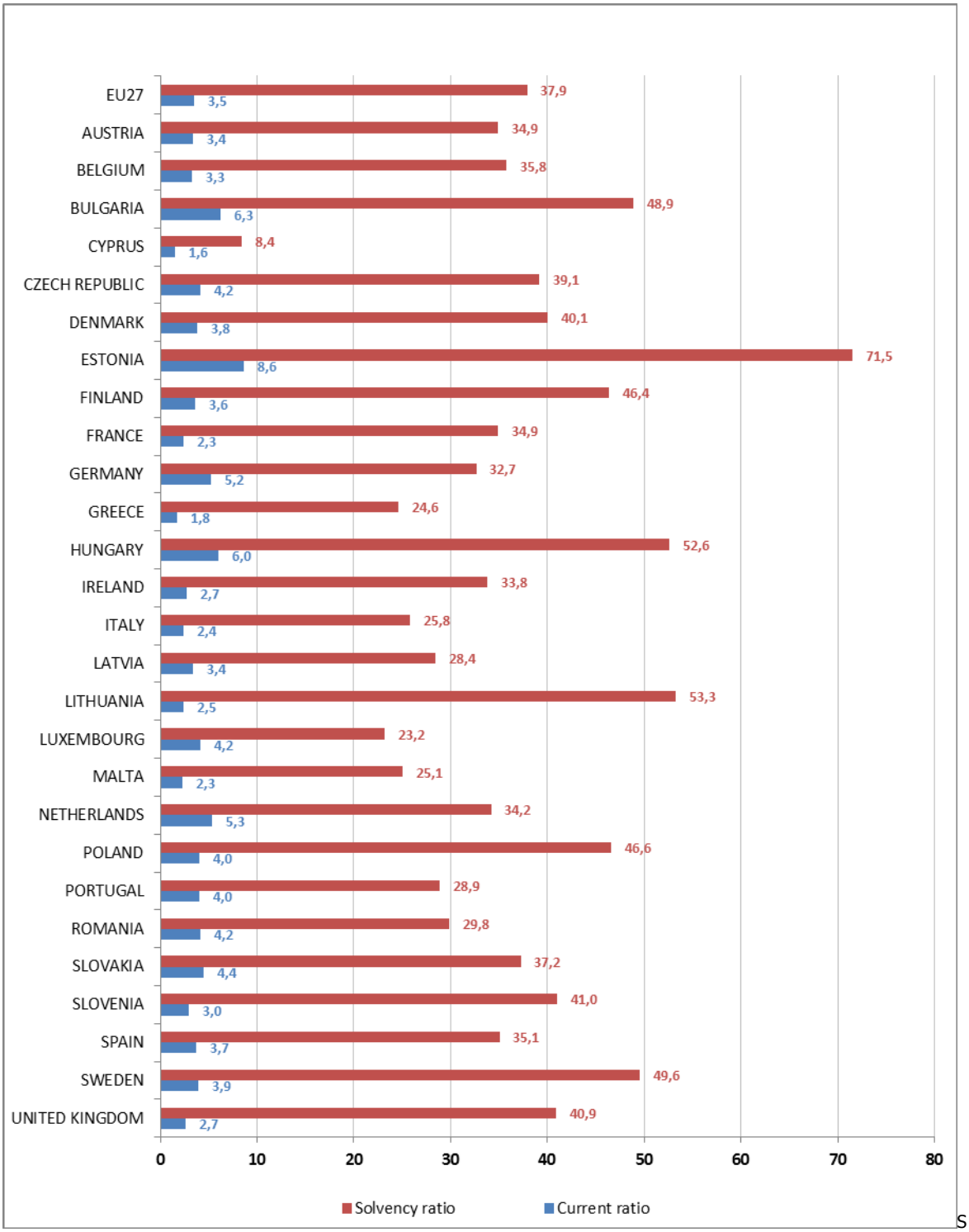
Source: Own calculations based on Amadeus, 2010

3.7.2 Differences across countries

With the exception of enterprises from Cyprus and Greece, CCS companies in all European countries on average are in healthy financial conditions in the short term. In the longer term, also CCS companies from Italy, Latvia, Luxemburg, Malta, Portugal and Romania show difficulties to meet long-term financial obligations.

We do note that data at the country level should be interpreted with caution, since they mask the diversity of the CCS in the specific countries, which influences the profitability ratios.

Figure 28: Average financial ratios for all CCS per country, 2010 (in %)



Source: Own calculations based on Amadeus, 2010

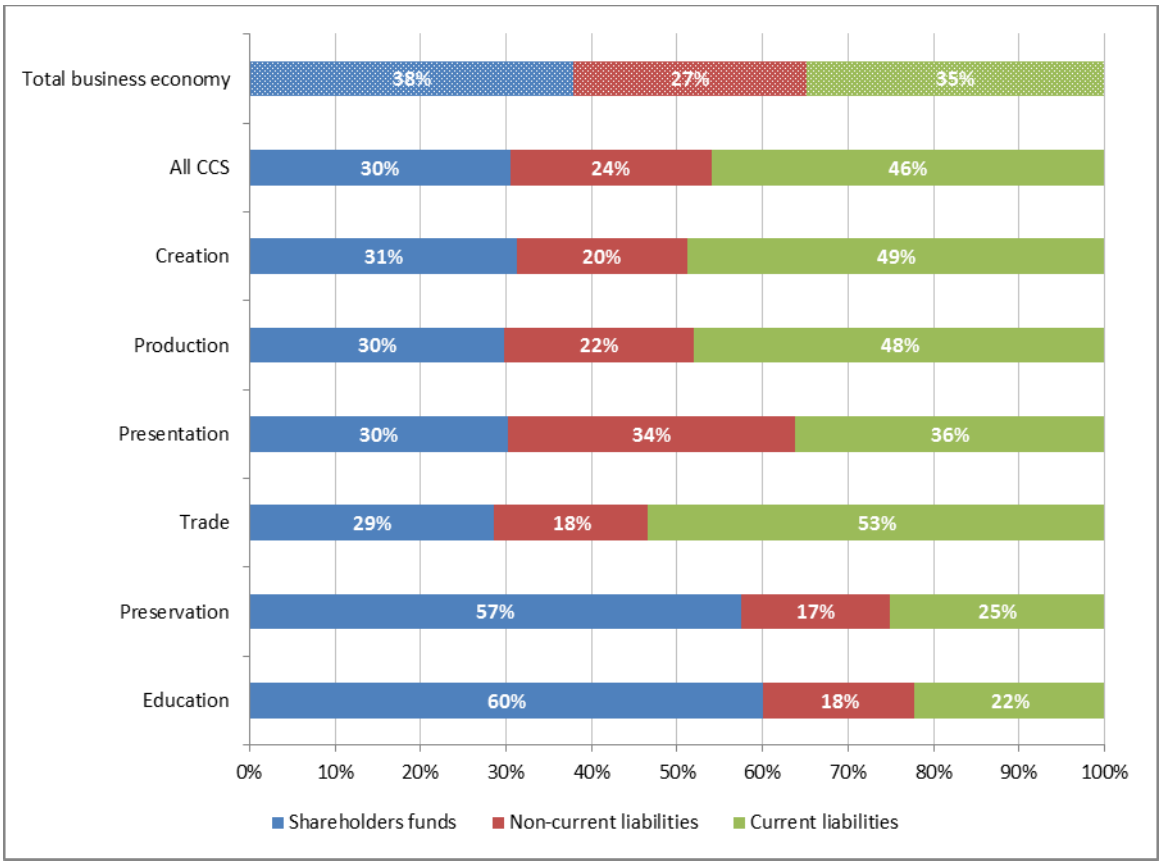
3.8 Access to finance

To get an overview of the different types of finance that CCS companies use, we discuss the distribution of shareholders' funds (which includes also subsidies), non-current liabilities (debts which are due in more than 1 year) and current liabilities (debts which are due and payable within 1 year) based on the annual accounts of 2010.

3.8.1 Differences across CCS function

As Figure 29 illustrates, companies active in the cultural and creative industries in general rely more on current liabilities and less on shareholder funds. Especially organizations in creation, production, presentation or trade strongly rely current liabilities for their financing needs. Organizations active in preservation and education on the other hand mainly rely on shareholders' funds. The significantly different financing structure in preservation and education can be explained by the fact that public shareholders (and thus subsidies) play a more important role in the funding of these subsectors.

Figure 29: Distribution of shareholders' funds and liabilities per CCS function

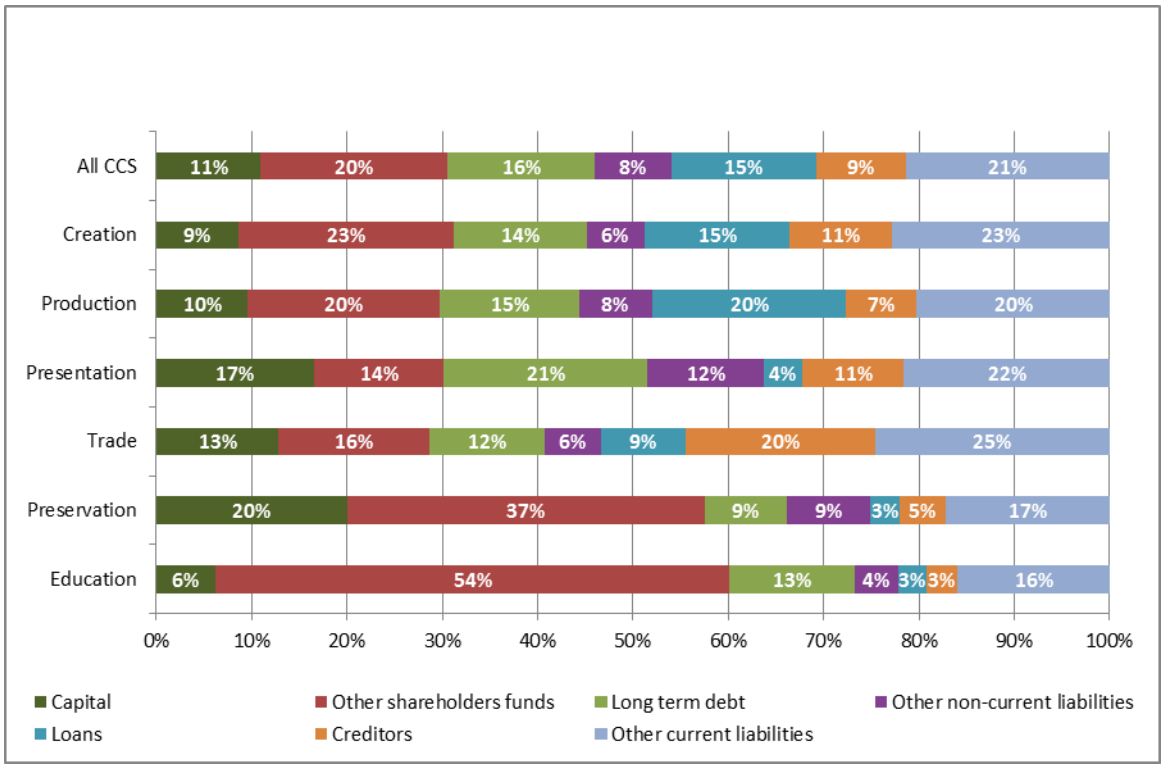


Source: Own calculations based on Amadeus, 2010

The large proportion of current liabilities in especially creation, production and trade highlights the importance of short term financing in those functions. On the one hand, this short term finance is used to bridge the period of waiting for other funds (such as e.g. subsidies) (gap financing). On the other hand, short term finance is easier to attract. For long term finance financial institutes normally require assets as collateral (which is difficult for many CCS organizations, see further). Short term finance therefore is used more often, despite the higher costs attached to it. The frequent use of short term finance is also confirmed by the respondents in the online survey (see chapter 5).

Zooming in on the various components of the liability side of the balance sheet, the importance of other shareholders' funds in the overall shareholders' funds but also in the total financing of the CCS companies becomes more visible. Other shareholders' funds are composed of for instance reserves, accumulated profit/losses and investment grants. Other shareholders' funds account for between 14% (for the presentation cluster) to up to 54% (for education) of shareholders' funds and liabilities.

Figure 30: Disaggregation of shareholders' funds and liabilities per CCS functional cluster, 2010

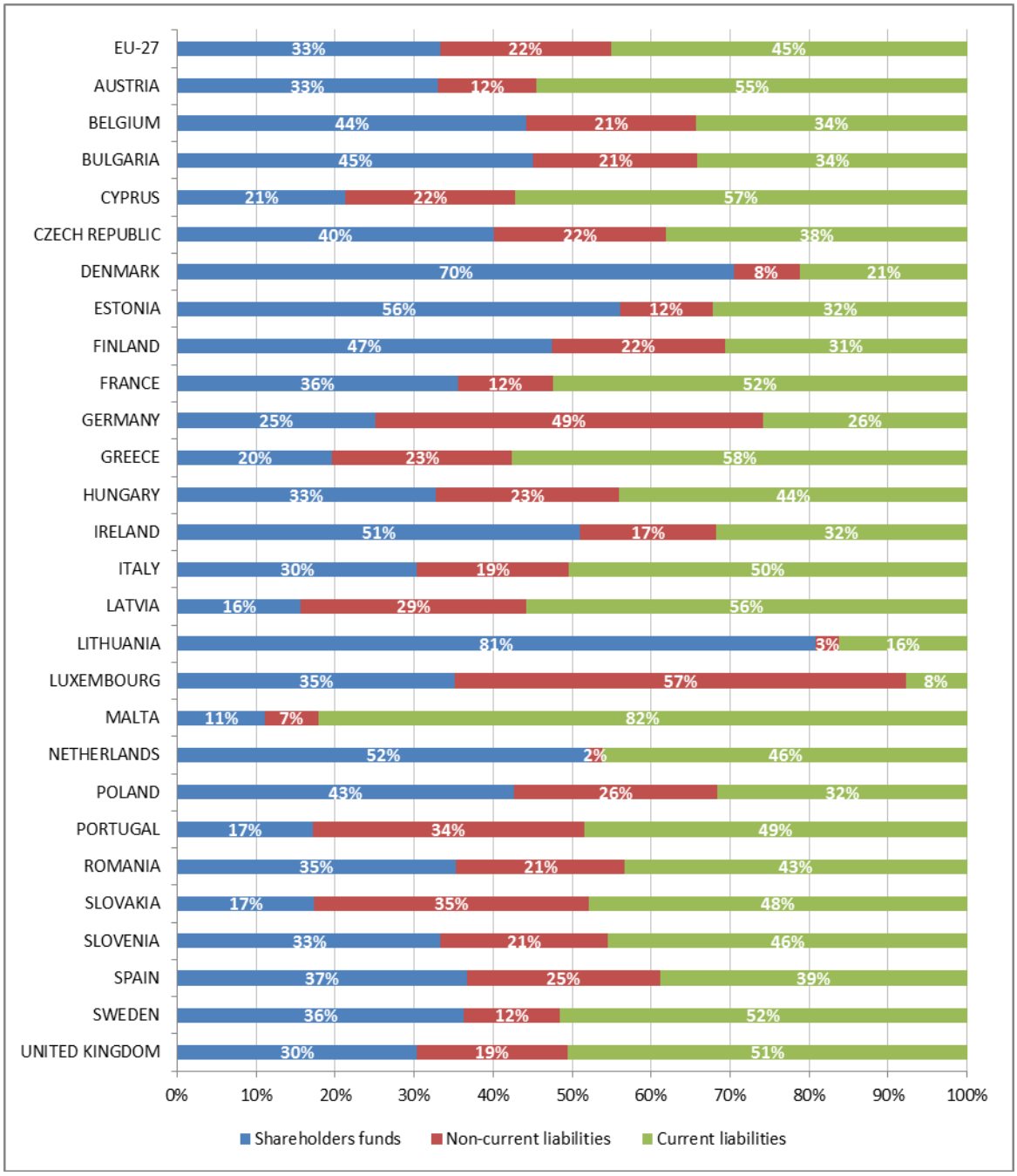


Source: Own calculations based on Amadeus, 2010

3.8.2 Differences across countries

In a large number of countries companies from CCS mainly rely on current liabilities. However there are also a number of Northern European countries (like Finland, Denmark, Estonia, Lithuania) and Western European countries like the Netherlands, Ireland and Belgium where shareholders' funds are the most important financing source. This is influenced by on the one hand the structure of the CCS in the different countries and on the other hand by the different role of governments in this sector across countries.

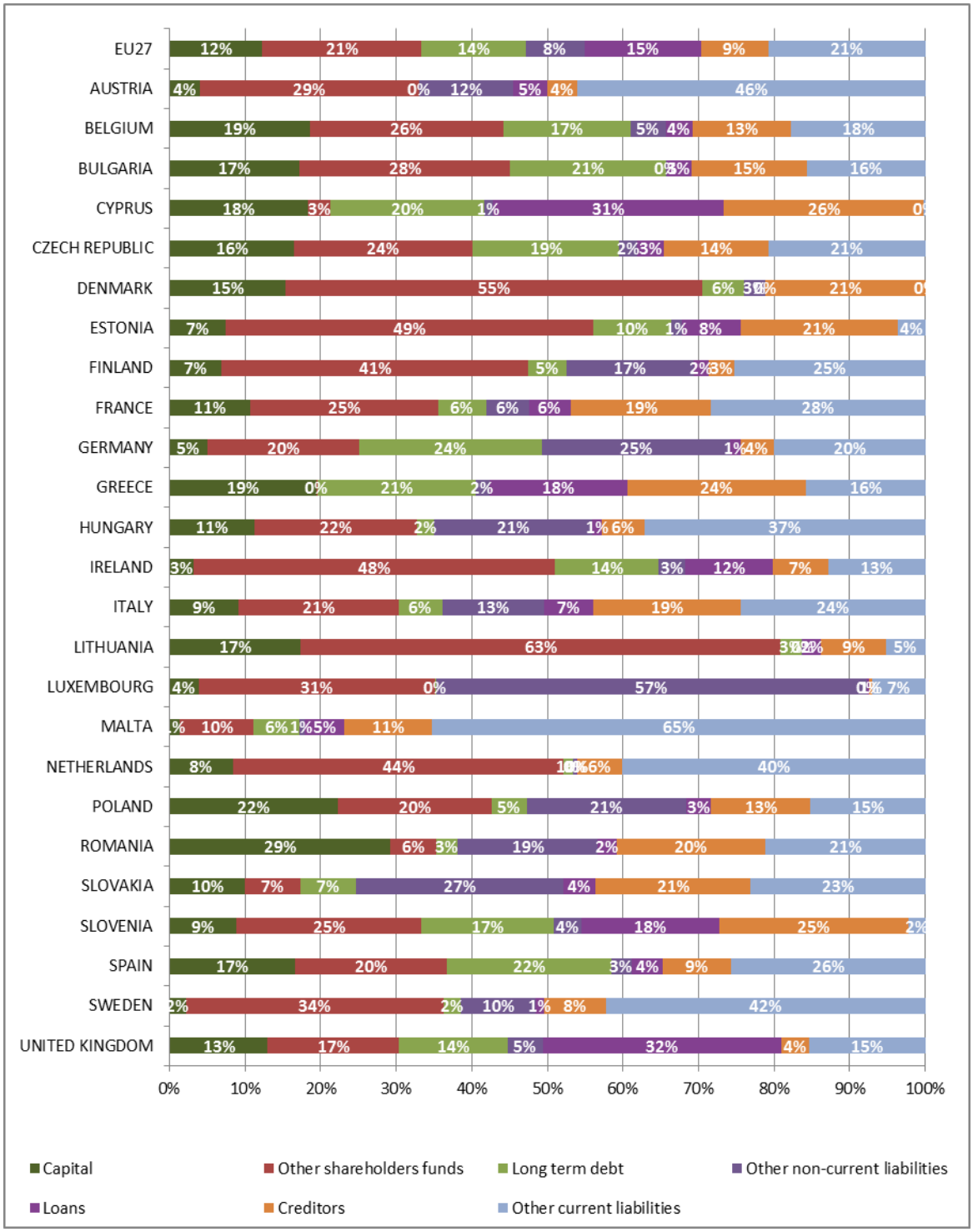
Figure 31: Distribution of shareholders 'funds and liabilities per country, 2010



Source: Own calculations based on Amadeus, 2010

A more detailed analysis of the distribution of shareholders' funds shows that capital in most countries is of minor importance compared to other shareholders' funds.

Figure 32: Detailed distribution of shareholders' funds and liabilities in all CCS per country, 2010



Source: Own calculations based on Amadeus, 2010

3.9 Synthesis

Based on the analysis of Eurostat and Amadeus data, we can conclude that the cultural and creative industries in Europe in general do not (significantly) underperform in terms of profitability and financial health. Although turnover per person employed is below the average for the total business economy, value added per person employed is above average. Average EBIT margin and profit margin in CCS organizations are in line with those in the total business economy, as are current ratio and solvency ratio. Especially the latter ratios are important indicators for financial institutes that lend money to organizations, since their main concern is to be repaid. The results do highlight two specific characteristics in the cultural and creative industries (that we will also see reflected in the results from the online survey):

- Government subsidies play an important role in the cultural and creative industries, especially in preservation and education;
- There is an above average use of short term finance in many CCS subsectors to finance businesses.

4. SMEs in CCS and access to finance

Access to external finance is a key determinant for economic growth and sustainable development. It allows firms, irrespective of type of activity or size, to seize entrepreneurial opportunities and to grow when financial services, designed according to their needs[47], are available. Without access to external finance, firms cannot realize their full growth potential. Also to "unlock the potential of CCS" the importance of access to finance has been stressed.[48] Access to finance is essential for the cultural and creative industries to further strengthen their role as engine of economic growth, innovation and job creation in Europe.

However, there is an abundant literature that point to existing barriers to access to finance for firms and organizations in the CCS, in particular SMEs. SMEs in general face more challenges than large companies to attract external finance. Specific sector characteristics only exacerbate the problem of access to finance for SMEs in the cultural and creative industries.

4.1 Barriers to access to finance for SMEs

The most prominent restriction of access to finance for a firm in general is the information asymmetry that exists between the firm and the market. The firm is better informed than the market about its situation and profitability. However, the firm cannot perfectly convey this information to the market. This **asymmetry of information** between players creates uncertainty on the part of the market and it is thus hesitant to supply funds to the firm (Williamson, 1975; Tooth, 2010). It is commonly believed that this effect is accentuated with smaller firms, making them more credit constrained than larger firms (Egeln et al., 1997; Levenson and Willard, 2000).

A first reason for why the asymmetric information is larger with SMEs is that often, as a rule, larger firms have better accounting records, and have to obey strict regulation required to publicly list one's company. Companies who are independently owned face more credit constraints (Schiantarelli & Sembenelli, 2000). Also, smaller firms may be more reluctant to be fully open about their ownership structure and strategic goals. Furthermore, monitoring costs, having a strong fixed cost component, weigh more heavily on smaller scale projects (Beck et al., 2006; Bruns and Fletcher, 2008).

As a general rule, relationship banking can solve credit constrains caused by asymmetric information (Binks and Ennew, 1996; Cressy, 2002; Petersen and Rajan, 1994). The paradox here is that large firms (who, as a rule, have an elaborate credit history) are generally dealt with on a relationship basis, while small firms (who lack an elaborate credit history) are assessed on the basis of their quantitative financial data (St. Pierre and Bahri, 2001).

The factors listed above worsen the access to finance for SMEs in general. But the problem of asymmetric information is of even greater importance for small start-up firms (Aghion et al., 2007; Beck et al., 2006). Younger firms have a limited credit

[47] *which change along the development cycle – see chapter 5*
[48] *COM(2010) 183*

history. This restricted credit history makes it difficult for banks to predict the future probabilities of repayment of a granted loan (Canton et al, 2012).

SMEs themselves are of course aware of their restricted access to finance. This awareness may change behaviour. For example, young firms, as borrowers, are likely to be discouraged from applying for a loan. This discouragement comes from their perception that external finance is difficult to access and thus may give up trying to get financed all together (Aghion et al., 2007; Beck et al., 2006). **Discouragement is fostered in situations of asymmetric information**. In particular, due to the asymmetric information problem it is hypothesized that banks are unable to correctly assess the relative quality of borrowers, which may further cause discouragement among potential borrowers (Kon & Storey, 2003). The perception on loan access is worst for micro-firms (Canton et al, 2012).

Market conditions also influence borrower discouragement and the access to finance of SMEs. For example, the entry of foreign banks, while increasing competition, can be conducive for the access to finance for SMEs. As foreign banks compete with domestic banks for large client, this may urge the domestic banks to concentrate their business more on SMEs (World Bank, 2008). A concentrated banking sector with fewer lenders on the other hand, may result in larger borrower discouragement as there are less alternative sources of finance, although empirical results in this matter are inconclusive (Canton, 2012).

4.2 SMEs in CCS and barriers to access to finance

In addition to the aforementioned barriers to access to finance for SMEs in general, several studies point to specific characteristics of SMEs in the CCS that reinforce the problem of access to finance. These characteristics can be clustered in three different groups:

- intrinsic characteristics of CCS activities
- characteristics of firms and entrepreneurs within the CCS
- specific market conditions

4.2.1 Intrinsic characteristics of the cultural and creative sectors

A key characteristic of CCS firms is that they strongly **depend on intangible assets** such as copyright, licences and royalties. A problem with having an abundance of intangible assets is that banks often have difficulty recognising their economic value (Keuper et al., 2008; CBI, 2011). Banks have even more difficulty appraising intangible assets such as novelty, talent, soft innovation, and creativity, while they constitute the main assets owned by CCS firms (KEA, 2010). An alternative source of external finance could be innovation funds, as many firms are involved in soft innovation. However, soft innovation is (still) not likewise recognised as R&D than scientific, technological or applied research initiatives are. This mostly leaves CCS firms ineligible for innovation funding schemes, although in recent years soft innovation is higher on the public agendas of both individual member states (e.g. UK) and the EU (see e.g. Innovation Union Communication)[49].

[49] *See SEC(2010) 1161*

In addition to the difficulty to correctly appraise intangible assets such as intellectual property rights, creative talent and novelty, **market demand for CCS products and services often is highly uncertain**. Whenever a CCS firm creates a new product or service, the market's reaction is uncertain (what Caves (2000) calls the "*nobody knows*" characteristic of CCS goods and services[50]) and thus also the intangible asset's value is uncertain. In that sense, Caves points out that the problem of interaction between CCS firms and financial intermediaries is not so much asymmetric information, but rather the fact that one has to deal with "symmetrical ignorance". As banks assess the financial risk of lending money according to the ability of the borrower to repay, this is an important barrier to access loans. Burrows and Ussher (2011) do argue that this characteristic is especially relevant for the group of organizations and businesses that is engaged in bringing a constant stream of new and unpredictable creative products to the market. However, there is also a group of CCS organizations for whom revenues and growth trajectories are less unpredictable (e.g. museums, theatre venues).

Finally, the **value** generated by new intangible assets in the CCS **may span over very long periods of time**, with the temporal factor increasing the uncertainty of the value, which makes it difficult to value it in current prices.

These uncertainties create risk for financial institutions, making CCS firms a risky business for banks (CBI, 2011). Of course this problem is not unique to CCS firms. There are many similarities with highly innovative activities in other sectors. What does make it unique is that CCS organizations often are micro-sized enterprises and lack a certain share of tangible assets in their company, and thus **cannot counter the riskiness of their intangible assets with other collateral**.

4.2.2 Characteristics of CCS organizations and entrepreneurs

CCS entrepreneurs are often more content-driven than commercially oriented (HKU, 2010). **Lack of business skills** and financial support (KEA, 2010) may hinder their capacity to develop high quality business plans or cash flow projections, which are central elements in the evaluation of loan requests (Burrows and Ussher, 2011). CCS firms' business plans often do not show revenue generated turnover nor provide assurance of their ability to repay a loan, resulting in an "not investor ready" evaluation. Often, CCS entrepreneurs find it difficult to understand the criteria and conditions upon which a bank loan is granted (CBI, 2010). The lack of business skills also renders some CCS owners unable to understand the conditions for eligibility in public investment schemes (HKU, 2010).

Roughly, entrepreneurs in CCS can be divided into two categories. One is motivated by his or her creative process while the other may be more motivated by commercial objectives (Fraser, 2011; HKU, 2010). It may be that the entrepreneur's approach to **business growth is organic and not a goal** on its own (KEA, 2010). CCS businesses are often built on personal talent and CCS entrepreneurs regularly **lack commercial ambitions and a long term 'corporate' vision** (KEA, 2010; HKU, 2010). Many CCS firms' ambitions for future development are primarily project-led rather than strategically oriented; the entrepreneur does not evaluate long term strategic market opportunities (KEA, 2010). In a 2006 poll in the UK among CCS

[50] *Named after Hollywood observer William Goldman's quote about the motion picture industry: "Nobody knows anything", referring to the fact that although producers and executives know a great deal about what has succeeded commercially in the past and constantly seek to extrapolate that knowledge to new projects, their ability to predict at an early stage the commercial success of a new project is almost nonexistent.*

SMEs, only 37 of 296 firms tried to raise finance for the business itself rather than for an individual project (i.e. 12.5%) (Clayton & Mason, 2006). However, in the case of project finance it is more difficult to raise a collateral necessary to secure a loan or credit, which poses an additional obstacle to access finance. Or as a bank pointed out in BIS and DCMS (2011): "*banks don't fund people to paint pictures which they will then sell at a later date*".

Just like many banks perceive the sector as being risky and unprofitable (see also Burrows and Ussher, 2011), so do the entrepreneurs themselves often **believe their skills cannot sustain a profitable business** (UNCTAD, 2010). Even when banks have decided that they want to supply funds to a CCS firm, entrepreneurs sometimes cut off the deal in the last negotiation stages. The entrepreneurs are generally **nervous about signing** such a contract, fearing loss of control of their company (HKU, 2010) due to the terms of the offer (Fraser, 2011). Also, the owners are hesitant to share in their profits (HKU, 2010). Finally, CCS owners have been found to be ex ante **discouraged borrowers**. There seems to be some foundation for the discouragement. Indeed, CCS businesses in software, publishing, video, film and photography and radio and TV seem more likely to get their finance request rejected, but this may be caused by the risk profile of these businesses, rather than *unwillingness* per se of lending institutions, with relative differences compared to non-CCS of about 5 to 12% (Fraser, 2011).

In some subsectors such as heritage, television, museums and performing arts, public funding is a very important source of income. Many CCS organizations in these subsectors **depend greatly on public investment schemes** (KEA, 2010). However, it is commonly understood that a too singular dependence on any type of finance makes for a risky financial position. On top of that, public investments are not a very reliable source of income. If public policy were to change, or budget cuts are made, this source of income stands the risk of falling away. This is especially relevant in the current situation of budgetary cuts at different government levels.

4.2.3 Market conditions

Many products and services that CCS firms sell relate to a specific cultural context. This cultural context differs significantly across Europe due to the **culturally and linguistically fragmented market**. Therefore, CCS firms have remained essentially regional or national (KEA, 2010). This fragmentation decreases market access opportunities (and thus growth opportunities), and increases distribution and marketing costs. In particular the cultural sector is most hampered by this fragmentation. Cultural products are often made for a specific (local) market, and may therefore be hard to sell outside that target group (KEA, 2010).

Although the term 'creative industries' already exists since 1998, good **market intelligence is still lacking** partly due to a lack of a harmonized concept of 'cultural and creative sectors' and a lack of harmonized data collection (see also chapter 2). The sector has an image of being unprofitable (UNCTAD, 2010; KEA, 2006; Burrows and Ussher, 2011), but good quantitative information to confirm or counter this argument is still lacking[51]. Insufficient information is available on the growth potential of CCS firms, the potential of new business models and the economic importance of the sector (KEA, 2010; Tooth, 2010). The aforementioned market fragmentation not

[51] *In this context, the analysis in chapter 3 as well as the information from the interviews with investors (see further, chapter 6) is very important to put things into perspective. The data in chapter 3 do not confirm the oversimplified image of an unprofitable sector.*

only limits opportunities for growth for CCS organizations, but also discourages financial intermediaries to build up specific CCS market intelligence, as the **market is considered to be too small**.

A great challenge that CCS firms had to face in recent years is the digital shift. Much cultural and creative content is now distributed online, raising IP protection problems. While the digital shift supplies producers of cultural and creative products with diversified channels through which it can reach the public, it also poses a great threat (KEA, 2006). The **digital shift challenges existing business models** through which CCS firms monetise their content (KEA, 2006). A well-known example is the piracy of music and film. Over the past five years, the music industry has lost 50% in turnover worldwide. CCS firms have to find new ways of protecting their copyrighted work to stop piracy, while also developing a mechanism of licensing the right to use their copyrighted work in a digital environment. Examples are the iTunes store and Spotify respectively. The loss of turnover in the music industry only further increases the risk from the point of view of the funds provider.

4.3 The 'missing middle' phenomenon

The problem of access to finance in the CCS is closely linked to the fact that the cultural and creative sectors in Europe suffer from a **lack of middle-sized firms** (HKU, 2010). The absence of such firms indicates the substantial difficulty that small enterprises have with growing into medium-sized firms (HKU, 2010). It is quite easy to start up a business in the CCS, as they typically do not require much capital. However, developing the start-up into a medium-sized business requires securing working capital to cover operational expenditures and maturing short term debts. But to acquire such working capital, banks like to see an adequate business strategy. Such a strategy is difficult to develop for many start-ups in the CCS, due to their lack of management skills (KEA, 2010).

Besides the missing middle phenomenon being a result of poor access to finance, it is also the cause. Empirical research suggests that larger firms have less difficulty in accessing finance. It follows that, as the sector is characterised by many small firms, the sector suffers from restrained access to finance. Clayton and Mason (2006) argue that since the CCS already has so many small firms, **policy should be focussed more towards solving the missing middle by investing in existing firms that have the potential to grow**. Such an investment may offer a better return than helping even more small firms enter the market (Clayton & Mason, 2006).

5. Financing needs of CCS organizations

5.1 The financial growth cycle of SMEs

Throughout the business life cycle SMEs may draw on different sources and types of finance. As Berger and Udell (1998) indicate small businesses have a financial growth cycle, in which financial needs and options change as the business grows, gains further experience and becomes informationally more transparent. This financial growth cycle is illustrated in Figure 33.[52] The following paragraphs discuss some of the different financial sources and their role in the financial growth cycle of a firm.

For very small firms with no collateral and no track record (left hand side of the figure), initial insider finance[53], trade credit[54], angel finance[55] and nowadays also crowdfunding, are the most common financial sources. This is due to the fact that start-up companies are the most informationally "opaque" and therefore have the most difficulty in obtaining external finance. Also microcredits can be used at this stage of a company's lifecycle.

- Initial insider finance is often vital at the very early stages of a company's development, when the entrepreneurs are still developing their product or business concept and when the firms assets are mostly intangible. Insider funding is mostly a necessary condition to gain access to external finance, as it reduces moral hazard/adverse selection problems.
- Throughout the start-up stage, entrepreneurs develop a formal business plan, which can be used as a "sales" document to obtain angel finance. Angels often invest in multiple rounds, at different stages, as the companies they are investing in move through the early stages of financial growth.
- Crowdfunding is a rather new method to fund projects by individuals using the social web. After its successful implementation in the field of nonprofit cultural and social projects in recent years, it is now innovating the domain of start-up financing (Röther and Wenzlaff, 2011). It is defined as follows:"*crowdfunding involves an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights*." (Belleflamme et al., 2010) Being able to raise finance through crowdfunding, can be seen as a signal that there is a market for that product/project. In turn, this can convince other external financiers like banks to also invest in the product.
- Microcredits are defined by the European Commission as "loans of up to €25,000 for business initiatives, from any institution whose purpose includes lending

[52] *The financial growth cycle as shown in Figure 33 gives a generalized overview of which sources of finance become important at different points in the financial growth cycle: the points in the cycle at which different types of funding begin/end are only indicative.*
[53] *Initial insider finance is defined as funds provided by the start-up entrepreneurs, family and friends before/at the start of the company's launch.*
[54] *Trade credit is very important to small business finance, but can be quite expensive. It can provide a "cushion" during credit crises, when financial institutions are less willing to provide finance. Trade credit remains important throughout a firm's life cycle.*
[55] *Angel finance is a form of direct external finance, where individuals invest directly in small companies through an equity contract. Angel finance differs from most other categories of external finance in that the angel market is not intermediated.*

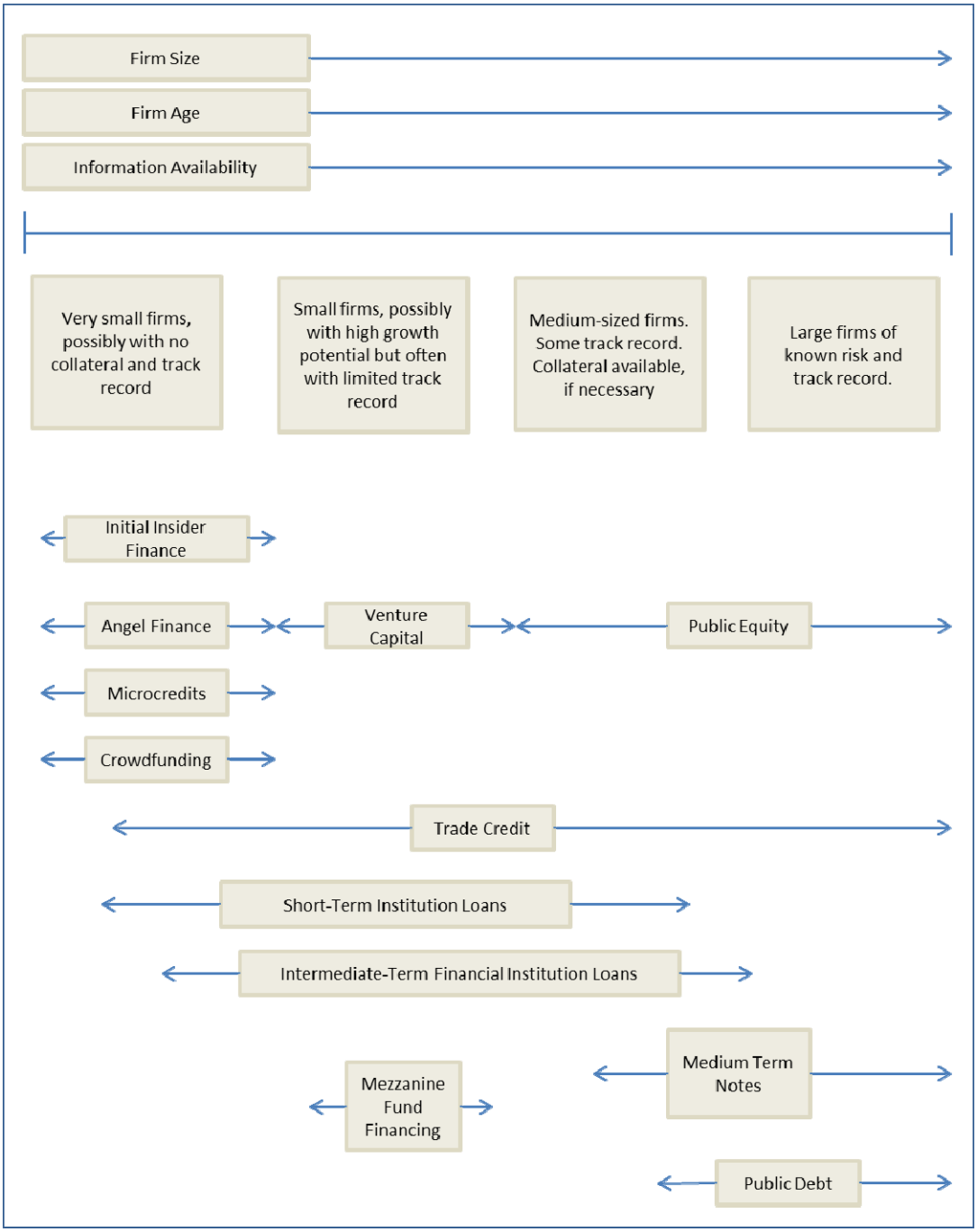
smaller amounts to businesses [56]." Microcredits can bridge the gap between initial insider finance and sizable external finance, as a first successful microcredit is a way of getting credit history references. Where a micro-enterprise gave evidence of its capacity to pay back its first loan, depending on its needs, the second loan may be awarded more easily, with eventual changes in the interest rate, for a longer maturity, or for a larger amount[57].

As firms grow, they gain access to external finance on the equity side (venture capital) and on the debt size (banks, …). Eventually, if the company continues to grow, it may gain access to public equity and debt markets.

- On the equity side, ventural capital[58] typically comes after angel finance: once a concept/product has been successfully tested, venture capitalists will finance the full-scale marketing and production. Venture capitalists often invest in companies that have already received angel finance - these two types of funding are often complementary. Also mezzanine venture capital[59] can come at this stage in the growth cycle.
- Typically, bank or commercial company lending will be made available to businesses when their balance sheets show substantial tangible business assets that might be used as collateral (for the difference between "collateral" and "guarantee", see Box 1). At this point, other external equity finance, such as angel or venture capital, can play an important role in "opening up" the access to bank lending, especially when the amount of external finance needed is relatively large in comparison to the amount of insider finance. As moral hazard problems can arise, the presence of angel/venture capital can serve as a "reassurance" for banks.

[56] *European Commission, 2010, "GAINING SCALE IN MICROCREDIT: Can banks make it happen?" , A report on two workshops organised by the Directorate-General for Enterprise and Industry*
[57] *European Commission, 2003, "Microcredit for small businesses and business creation: bridging a market gap".*
[58] *"Venture capitalists perform the quintessential functions of financial intermediaries, taking funds from one group of investors and redeploying those funds by investing in informationally opaque issuers" (Berger & Udell, 1998), p 17*
[59] *Mezzanine finance is a collective term for hybrid forms of finance: it has features of both debt and equity. There are various types of mezzanine finance, each having its own unique characteristics. The most common forms of mezzanine finance include the subordinated loan, participating loan, silent participation, profit participation and convertible bonds; the structuring possibilities are almost endless. Providers of mezzanine finance have claims that are subordinated to senior lenders and possess priority over equity investors.*

Figure 33: Financial growth cycle of small businesses



Source: Adapted from Berger and Udell (1998)

The above described financial growth cycle highlights an important difference in the interests of the key external finance providers: investors on the one hand and creditors on the other hand (Demos[60], 2011):

- Venture capitalists and business angels are investors / equity holders who are attracted to high-risk, high-reward opportunities as they are **concerned about the likelihood of making a good return on their investment**. This is because the investor is "first in, last out": after the creditors are paid back, all remaining earnings go to the investor. So the investor will prefer an approach that has the highest earnings award, even if it carries a higher risk. Therefore, typically (as mentioned above), venture capital / business angel investors will seek to invest (early stage) in "growth businesses".
- In contrast, creditors / banks are **concerned about loan risk: they want their money back**. A creditor is "last in, first out": he is paid back first, but only for the loan amount and agreed interest rate. So, a creditor will prefer an approach which has the lowest risk, even if it carries a lower earnings award.

When looking at external sources of financing used by SMEs (irrespective of sector of activity), according to SAFE[61] in 2011 75% of EU SMEs used at least one source of debt financing in the past six months. The most widely used instruments were bank overdrafts (40%), leasing/hire purchase/factoring (36%), trade credit (32%) and bank loans (30%). Equity financing on the other hand, was used by less than one in ten SMEs (7%) in the last six months. Its use was more likely by larger businesses (11% of those with 250+ employees) and SMEs owned by venture firms (14%). Gazelles[62] were also slightly more likely (12%) than SMEs overall to have used equity financing.

Given the wide use of debt financing by SMEs, the **European Commission's actions to improve access to finance for SMEs in the CCS are primarily focused on improving access to debt finance.** The new European CCS guarantee facility will be oriented towards financial intermediaries / public-private organisations that act as creditors. The **aim of the CCS guarantee facility is to lower the barriers for creditors to provide loans to CCS organisations** by lowering the loan risk.

Box 1: Collateral and guarantees

"*Collateral and guarantees are tools that allow financial institutions to offer credit on favorable terms to small businesses whose information opacity might otherwise result in either credit rationing or the extension of credit only on unfavorable terms.* " (Berger and Udell, 1998).

- There are two different types of **collateral:** inside and outside collateral. Inside collateral refers to assets owned by the firms, whereas outside collateral involves assets owned outside the firm, mostly assets held by the company's owners.
- **A guarantee** gives the lender general recourse against the assets of the party issuing the guarantee for if the company fails to repay the loan. A guarantee is similar to outside collateral, but differs in two important ways. First, a guarantee is a broader claim than a pledge of collateral, since the liability is not limited to specific assets. Secondly, a guarantee is a weaker claim than a pledge of collateral, since a guarantee cannot prevent the company's assets from being sold or consumed.

[60] *Demos, 2011, "The lazy assumption that the creative industries are inherently risky is harming Britain' path to growth,…", "Risky Business" by Helen Burrows and Kitty Ussher.*
[61] *SAFE – Survey on the Access to Finance of Small and Medium-sized Enterprises, conducted across 38 countries in Europe in 2009 and 2011. See European Commission (2011), "SMEs' access to finance, survey 2011 – analytical report"*
[62] *i.e. firms < 5yrs old who have grown at more than 20% per annum*

5.2 CCS SME financing

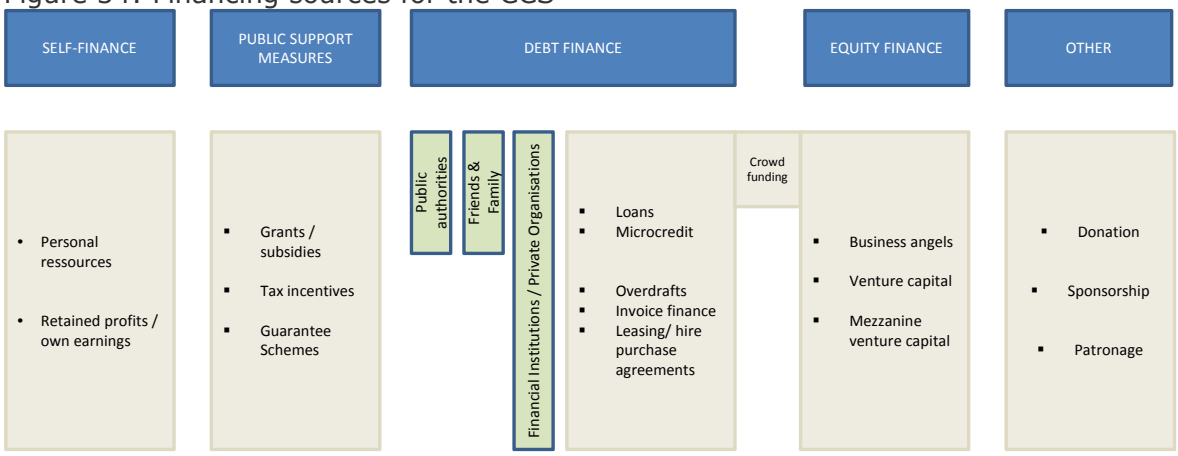
5.2.1 Financing sources for the CCS

Although the financial life cycle discussed in the previous paragraph is as relevant for CCS SMEs as it is for non-CCS SMEs, it does miss one important source of funding which is very important for many CCS organizations: public and private grants.

Public support is very important for the CCS: it can come through direct subsidies, tax incentives, public guarantee schemes, loans by public authorities,…. Public grants are an essential financing source especially for the cultural sector. Also tax incentives in the CCS have become a rather widespread tool in the EU as a form of indirect public subsidy. According to sector experts, tax exemptions for companies in the CCS are the most relevant way to access finance for CCS SMEs (HKU, 2010). Likewise, public guarantee schemes aim at stimulating investment in CCS companies by sharing the risk of investors (KEA, 2010).

Figure 34 gives a schematic overview of the financing sources generally available to CCS SMEs and the key players supplying these finances.

Figure 34: Financing sources for the CCS



Source: adapted from KEA (2010)

As discussed in the previous section, the financing needs and difficulties in access to finance vary significantly along the different stages of the business development cycle. This is not different for CCS enterprises. For example, a cultural entrepreneur with an idea requires funding for prototype development to develop a marketable product. However, perhaps it is business guidance rather than financial support that may yield the most benefit in this stage of business growth, while medium to large enterprises mostly require debt or equity finance. Based on the schematic overview of CCS firm growth below, Table 8 summarizes the basic characteristics of each of the stages of business growth in the picture above[63]. In the CCS many one-person businesses can be found, but currently only very few develop into medium to large organizations (the "missing middle" phenomenon, see paragraph 4.3).

[63] *Primarily based on an interview with CCS investment expert Marc Noyons, Production Value, and other sector specialists.*

Figure 35: An intuitive schematic overview of CCS business growth

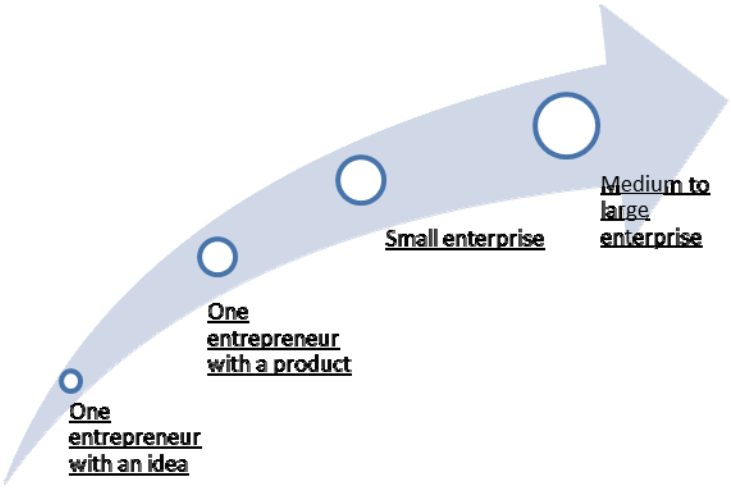


Table 8: Basic characteristics in each stage of business growth

	One entrepreneur without product	One entrepreneur with product	Small enterprise	Medium to large enterprise
Business model	Business model based on an idea	Business model based on a prototype	Business model based on 1 product or service	Based on 1 or more products and services
Product	A product is yet to be developed	Prototype has been developed but a 'production line' needs to be developed	Seeks to extend range of products/services	Seeks to extend and maintain competitive position in market
Collateral	Only personal collateral is available	Only personal collateral is available, and possibly intellectual property rights of prototype	Some collateral and track-record is available	Collateral and track record available
Finance	Requires seed money[64] and business guidance	Requires micro credit and business guidance	Requires microcredit, project-based financing and working capital	Requires debt, equity or project based financing

[64] *Finance for initial market research & operations*

5.2.2 Quantitative evidence on the financing of CCS SMEs

Although quantitative information on the financing of CCS SMEs is scarce, a number of recent studies do provide survey evidence about the financing sources used, most important obstacles to access finance, financial rejection and discouragement rates in the CCS. Below, we discuss the main results from five different studies that conducted surveys with CCS organizations: HKU (2010) [65], Clayton & Mason (2006) [66], KEA (2010) [67], BIS & DCMS (2010) [68] and IDEA Consult (2012) [69]. An overview of these studies and their results is given in Table 9. The results of these studies can serve as a reference point in the discussion of our own survey results later on.

We note that 4 out of these 5 surveys have 300 or more survey respondents, which should allow us to make reliable deductions about the topics surveyed. The KEA survey has only 45 respondents, which is too little to draw sound conclusions. However, the KEA survey was set up to check the study's results obtained via desk-research and interviews and it confirmed the general results of the study. We will therefore use the KEA survey results in combination with the results described in the study, and will not focus on the specific numbers that come out of the survey but rather describe the general trends. Each of the surveys has a different geographical or subsectoral coverage; this is clearly denoted at the top of Table 9.

In the following paragraphs we discuss the use of self-financing, public support measures, debt finance and equity finance in the CCS. We will not discuss the use of other financial instruments, such as sponsorship, donations, patronage, as the studies discussed in Table 9 do not include data on these financing sources.

[65] *HKU, 2010, "The entrepreneurial dimension of the Cultural and Creative Industries", Hogeschool voor de Kunsten, Utrecht*
[66] *Clayton L. and H Mason, 2006, "The financing of UK Creative Industries SMEs"*
[67] *KEA, 2010, "Promoting investment in the Cultural and Creative Sector: financing needs, trends and opportunities", report prepared for ECCE Innovation – Nantes Métropole*
[68] *Department for Business Innovation and Skills (BIS) & Department for Culture, Media and Sport (DCMS), 2011, "Access to finance for Creative Industry Businesses", report prepared by Dr Stuart Fraser of Warwick Business School*
[69] *IDEA Consult (2012), "Study on the financing needs and use of additional financing instruments in the arts", study commissioned by the Flemish regional agency Arts & Heritage*

Table 9: Overview of survey results on financing in CCS

Study	HKU (2010)	Clayton & Mason (2006)	KEA (2010)	BIS & DCMS (2010)	Idea Consult (2012)
Survey setup					
# respondents	670 partial responses, 370 full responses - 78%: profit organisations	635 SMEs	45 SMEs	435 SMEs in Creative Sector (called CIB – Creative Industry Businesses - hereafter) versus 6.725 SMEs in non-Creative sectors (called non-CIB herafter) (Source data for the study: UK Survey of SME Finances).	531 self-employed 296 organisations : All SMEs - 85% non-profit organisations - 15% profit organisations Below, we discuss the results for the organisations !
Country coverage	EU27	UK	Cities and areas of Nantes, Birmingham, Eindhoven, Cardiff, Stuttgart, Dublin and Aachen	UK	Flanders
Time	02/2010 – 04/2010	2003-2006	01/2010 – 04/2010	Longitudinal data: 2004, 2005, 2008, 2009	2012
CCS sectors coverage		- Design, - Film & TV production, - Media, - Games, - Creative services, - Music	- Design (37.7% of respondents) - 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%)	"Content sectors": - Software Computer Games and Electronic Publishing (134 observations) - Music and the Visual Performing Arts (97), - Publishing (35); Video, Film and Photography (13); Radio and TV (8) (the latter 3 = "Other Creative Content") "Service sectors": - Advertising (36) - Architecture (109)	"Arts sector": - Applied Arts - Arts Eduction - Audiovisual sector - Music - Visual Arts - Theatre
Survey results					
Financing sources and modalities	"What is your company's most important financing source?" (in 2007-2008) - 56%: self-financing - 20%: public loans - 12%: bank loans - Less than 5% for VC, Risk Capital, Donation, Tax	Yes/No questions on the use of the following external financing sources: numbers gives the % "YES" - 13%: Equity finance - 60%: Debt finance o 30%: Overdraft facility	61%: has never used external financing Respondents ranked the financial sources as follows - Retained profits (68% cite them as "important/very important")	Only information on external financing; For Creative Industry Businesses (CIB): - 60,2% of respondents: overdrafts - 38,2%: leasing and hire-purchase agreements	Which type of financier did you address for a loan or credit demand in the last 5 years?: - 78% of organisations: bank - 14%: friends and family - 1%: Flemish "Microcredit

	Incentive, Seed financing, Stock Market	o 18% Equipment / Financial lease o 10% Long-term bank loan o 1.5% Invoice factoring	- Personal resources (66%) - Public grants (59%) - Innovation vouchers (58%) - Tax incentives (57%) - Debt finance (55%) - Risk Capital (38%) - Guarantees (33%)	- 25,1%: term loans - 9,7% equity finance - 6%: invoice finance - Comparison to non-CIB: - 64.5%: overdrafts - 44%: leasing and hire-purchase agreements - 36,5%: term loans - 5,1% equity finance - 8,6%: invoice finance	/Cultuurinvest" - 6%: Other Loan modalities: - Amount of loan/credit: for 50% of organisations the amount of the last loan/credit demand: between €10.000 and € 50.000 - Maturity: both short and long-term loans; larger loans have a longer maturity
Main obstacles to access finance	- Main obstacles: risk aversion from financial institutions, difficulty in getting grants, slow procedures for public incentives, no bank loan guarantee (all between 10 % -15 % of respondents) - Less important: high interest rates (9%), delay in approval financial support (8%), no time to apply for grants/incentives (5%)		Lack of: - For 75% of respondents: Communication on available funds - 63%:Awareness / understanding on the investors' side - 59%: Tailor-made financing instrument for the sector - 54%: Tangible assets as guarantee - 48%: Awareness / understanding from creative businesses - 46%: Adequate accounting tools to value IP capital - 34%: Management/business skills	With regard to rejection by financiers: - Availability of collateral and a business track record is more important for access to finance for CIBs in comparison to non-CIBs - Access to finance among CIBs does not benefit from longer relationships wirth finance providers in the same way as they benefit non-CIBs With regard to discouragement by CIBs: - Even with greater assets, CIB owners still feel discouraged, in contrast to non-CIB owners who are less likely to feel discouragement in this case - Stable relationships with the financiers do not make CIB owners more positive about the outcome of their finance applications	
Finance rejection rate				For CIB: - Overdrafts: 16,8% - term loans: 11% - leasing and hire-purchase agreements : 5,4%	4% of loan /credit demands was rejected

				- invoice finance: 7,7% - equity finance : 11,9% Comparison to non-CIB: - overdrafts: 13,1% - term loans: 7,3% - leasing and hire-purchase agreements: 2,3% - invoice finance: 6,2% - equity finance: 3,8 %	
Financial dis-couragement				For CIB: - Overdrafts: 1,4% - term loans: 6,7% - leasing and hire-purchase agreements: 1,4% - equity finance: 2,3% Comparison to non-CIB: - overdrafts: 1,6% - term loans: 3% - leasing and hire-purchase agreement: 1,3 % - equity finance: 1,1 %	
Financial Planning	- 22%: no financial/economic planning (budget and updated business plan) - 53%: 1-year economic forecast - 22%: up to 3 yer forecast - 75% made own business plan; 20% used professional consultancy service	- 36%: a formal plan - 35%: some ideas written, but not formal - 29%: no business plan			
Finance needs			What do you need financial support for"?: - 30% of respondents: marketing & communication - 30%: product/service development - 28%: R&D activities		"For what type of activities did you apply for a loan? " - For loans below €15.000: Need for materials and development of artistic projects - For loans above € 15.000: Investments in real estate or

					for combinations of these investments, with the need for materials and/or the development of artistic projects
Survey results and profile characteristics					
Sector		- Use of debt finance: Film and TV, Music: less debt finance than overall sector; Design: more debt finance than overall sector - Use of a formal business plan: in Design and Film and TV: more than overall sector; in music: less formal business planning than in overall sector		- Software and "Other Creative Content" have lower overall financial demands than non-CIBs. - Only Software and Other Creative Content sectors have significantly higher rates of rejection or discouragement than non-CIBs. - Other CCS sub-sectors have statistically the same rates of rejection/discouragement as non-CIBs.	
Size		- Use of debt finance rises significantly with the size of the SME			

Use of different financing sources

Self-financing
The most important financing source for CCS SMEs is self-financing. According to the HKU survey, 56% of CCS organisations indicate that self-financing is the most important source of finance. This is corroborated by the KEA study, which indicates personal resources as the basic source of finance; followed by "retained profits". The reason for the importance of self-finance for CCS SMEs lies partly in the fact that there are quite some obstacles in the CCS to obtain external finance, e.g. the lack of tangible business assets that can serve as collateral (see Chapter 4).

Public support
Public support (direct subsidies, tax incentives, public guantee schemes, loans by public authorities) is very important for the CCS. The HKU, KEA and IDEA Consult studies all have gathered only limited data on the use of public support by CCS companies: the only conclusion we can infer from the data is that public support grants are indeed a very important source of finance for CCS SMEs.

Debt financing
The use of debt finance varies per sector. The Clayton & Mason study finds that 11.5% of the Music sector SMEs use debt finance compared to 67.1% of SME respondents in the Design sector. On the other hand, the BIS & DCMS study shows that the Software and "Other Creative Content" sector SMEs (i.e. Publishing; Video, Film & Photography; Radio & TV) have lower overall financial demands[70] than non-CCS SMEs: about 80% of non-CCS SMEs have demands for any type of finance (i.e. the debt financing instruments discussed above plus equity finance), compared to about 65% of Software / other creative content SMEs. The other CCS subsectors (music and visual performing arts, advertising, architecture) have similar financial demands compared to non-CCS SMEs. Thus, the conclusion of the two studies with regard to the use/demands of financing by the Music sector are not completely in line.

Finally, the Clayton & Mason study also shows that the use of debt finance rises significantly with SME size (measured by turnover or number of employees).

Equity financing
Equity finance can take several forms: venture capital, mezzanine capital and capital from business angels (for an explanation of these concepts, we refer to paragraph 5.1). In the CCS, equity financing is not frequently used. For UK CCS SMEs, we have data on the use of equity finance in the Clayton & Mason and BIS & DCMS studies, where respectively 13% and 9.7% of the responding SMEs had used / demanded equity finance. Non-CCS SMEs had even lower demand for equity finance: only 5.1% of non-CCS SMEs had used or applied for equity finance. For the rest of Europe, we only have data on the use of venture capital, risk capital and seed finance (HKU, 2010): for less than 5% of CCS SMEs, these types of finance were the most important source of finance.

[70] *In this case, the financial demands also include equity finance.*

However, on the supply side, there exist 62 specific equity finance schemes across Europe which are partly dedicated to the CCS. Most of them have been established only recently, and nearly half of them are dedicated to the audiovisual sectors linked to the ICT sector. Most of these venture capital funds are publicly funded and regionally based (KEA, 2010).

The use of equity financing in the CCS also varies by subsector and business size (KEA, 2010; Peacefulfish, 2012): the content sector seems to be the sector that benefits most from equity finance, and both very large businesses or start-ups with growth potential are more likely to spur the interest of venture capital funds.

Table 10 provides an overview of important barriers for the use of equity finance in the CCS.

Table 10: Reasons for low use of equity finance in CCS

From CCS businessess' side	From the financiers' side
- Little awareness of the existence of business angels - Owners are reluctant to relinquish control - Accountability towards financiers imposes financial obligations which distract the company from creative ambitions	- Concern that creative content is linked to persons rather than to the company - Return on Investment in CCS takes longer / too long (in comparison to other venture capital investments) - Piracy and technology developments make investments more insecure - Poor knowledge of the sector

Source: KEA (2010), BIS & DCMS (2012), HKU (2010)

Main obstacles to access finance

Table 11 summarizes the more general obstacles[71] to access finance in the CCS according to the studies reviewed. First of all, the BIS & DCMS studies have estimated an econometric model for the probabilities of rejection[72] on the side of financiers and discouragement[73] on the side of CCS companies. From this estimation, it is possible to deduce the determinants for rejection and discouragement and the difference in these determinants between CCS SMEs and non-CCS SMEs. Most importantly, it seems that finance providers are more risk averse towards the CCS, as the availability of collateral and a business track record is more important to access finance for CCS SMEs in comparison to non-CCS. CCS SMEs also do not benefit from longer relationships with finance providers in the same way as they benefit non-CCS SMEs. Furthermore, econometric analyses show that the higher risk aversion towards CCS SMEs is especially higher in certain sub-sectors, such as the "Other Creative Content" industries and the Software sector.

[71] *These obstacles have been cited by survey respondents as the most important obstacles to access finance.*
[72] *"Rejection" refers to the rejection by a financier of a finance application made by a company.*
[73] *"Discouragement" refers to discouraged companies who will not apply for finance because they believe they will be rejected.*

This risk aversion is also felt by CCS SMEs themselves, as they feel more quickly discouraged to apply for finance, even if they have greater assets or a stable relationship with their finance providers. Below, we discuss the specific rejection and discouragement rates for the specific financing sources we have described above.

A second important factor is the lack of awareness or understanding from both sides. Furthermore, for public sector financing, there are some specific issues raised by CCS SMEs such as the slow procedures and the lack of tailor-made financing instruments.

Table 11: Main obstacles to access finance in CCS according to survey evidence

From CCS businesses' side	From the financiers' side
- Lack of (tangible assets as) guarantee - **Discouragement**: o Even with more assets, CIB owners still feel discouraged, in contrast with non-CIB owners who are less likely to feel discouraged in this case o Stable relationships with the financiers do not make CIB owners more positive about the outcome of their finance applications	**Risk aversion** from financial institutions: - Availability of collateral and a business track record is more important for access to finance for CCS SMEs in comparison to non-CCS SMEs - Access to finance among CCS SMEs does not benefit from longer relationships with finance providers in the same way as they benefit non-CCS SMEs
- **Lack of awareness/ understanding**	- **Lack of communication on available funds** - **Lack of awareness / understanding**
- **Public sector:** difficulties in getting grants	- **Public sector:** slow procedures for public incentives, public fund shortage, lack of tailor-made financing instrument for the sector
- **Project finance rather than corporate finance**	

The lack of financial planning / management business skills is cited as least important obstacle to access finance in the KEA survey. However, between 20% - 30 % of CCS SMEs have no financial business plan according to the Clayton & Mason and HKU studies. Only 36% of UK CCS SMEs had a formal business plan (Clayton & Mason, 2006) and the forecast of these business plans is mostly focused on the short term (50% of CCS SMEs had a 1 year forecast compared to 4 % with a 5 year forecast (HKU, 2010)).

Financial rejection and discouragement rates

The BIS & DCMS study has data on both the rejection and discouragement rates for different types of financing and for both CCS and non-CCS SMEs. First, we discuss the absolute numbers. For the different types of financing sources, the *rejection rates* for CCS SMEs are the following:

- Overdrafts: 16,8%
- Term loans: 11%
- Leasing and hire-purchase agreements: 5,4%
- Invoice finance: 7,7%
- Equity finance: 11,9%

Statistical tests show that CCS SMEs are more likely to be denied an overdraft, leasing and hire-purchase agreement or equity finance compared to non-CCS SMEs. There are no significant differences in the likelihood of a loan or invoice finance rejection. This finding is consistent over the whole period of analysis (2004-2009).

The *discouragement rates* for CCS SMEs for the different types of finance are the following:

- Overdrafts: 1,4%
- Term loans: 6,7%
- Leasing and hire-purchase agreements: 1,4%
- Equity finance: 2,3%

Compared to non-CCS SMEs, CCS SMEs are more likely to feel discouraged from applying for a term loan or equity finance. There were no significant differences between CCS and non-CCS SMEs in the rate of overdraft discouragement. However, an analysis by CCS subsector shows that only Software and "Other Creative Content" sectors have significantly higher rates of rejection/discouragement than non-CCS SMEs. All the other sub-sectors have statistically the same rates of rejection/discouragement as non-CCS SMEs.

Finally, the study also looks at the impact of rejection/discouragement probabilities on the growth of CCS SMEs. The findings suggest that an average CCS SME experienced lower sales growth (2 percentage point less) relative to comparable non-CCS SMEs due to poorer access to finance. Furthermore, this impact on growth is much larger for the Software and "Other Creative Content" sectors (5.3 percentage points and 16.8 percentage points respectively), reflecting the significantly poorer access to finance experienced by companies in these sectors.

Types of financing activities that need financing

The KEA and IDEA Consult studies surveyed for which type of activities the CCS SMEs needed financial support. The two studies have different answering categories; therefore the results cannot really be compared. However, the answering categories in our survey (on the types of financing needs) are a combination of the two before mentioned studies – it is therefore useful to shortly discuss the results of these studies.
The respondents in the KEA study applied for support to finance primarily "marketing and communication activities", "product and service development" and "R&D activities". In the IDEA Consult study, the type of activities that needed financing differed depending on the amount of money the company applied for. Loans below € 15,000 were primarily used to buy materials / equipment for the artistic activities or to develop and execute an artistic project. Loans above € 15,000 were mainly used to finance investments in tangible assets / real estate or combinations of these investments with the purchase of equipment and / or the development of artistic projects.

5.3 Results from the survey on financing needs and access to finance

In February-March 2013 an online survey was organized, which was accessible via the project website www.eu-for-creativity.eu (see section 1.3). The aim of the survey was to collect information about the importance of external finance in CCS organisations in Europe, and more specifically to provide us with insights on their (lack of) **interaction with banks and sector specific public-private financing bodies to obtain loans**.

The questionnaire was structured around three sections:

- Profile of respondent
- Information on the general financial situation and use of external financing
- Information about the last bank loan application

The survey was available in the three official languages of the EU: English, French and German. We refer to annex 1 for the english version of the questionnaire.

The next paragraphs describe the results of the survey. As the analysis indicated that a number of clusters in the survey show particular characteristcs, we report survey results not only at the level of the whole sample, but also for different clusters wherever relevant.

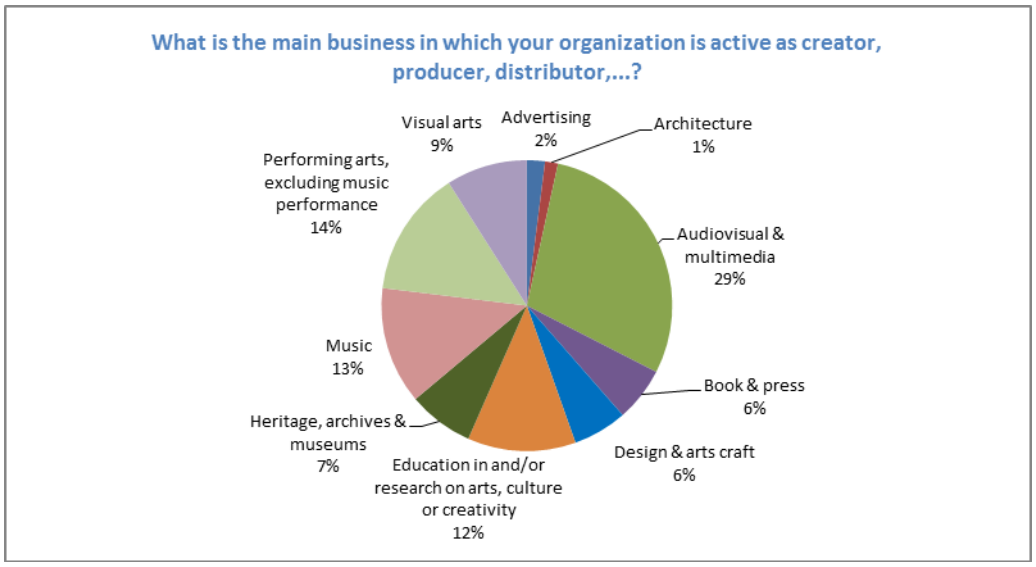
5.3.1 Characteristics of the survey respondents

A total of 3,477 respondents participated to the survey. Of this group 616 respondents appeared to not belong to the target group. They were removed from the survey. This left us with a sample of 2,861 respondents for further analysis (of whom 2,394 filled out the entire survey).

Figure 36 and Figure 37 provide an overview of the distribution of respondents across the CCS sector. They show an important representation of respondents coming from the audiovisual & multimedia sector on the one hand, as well as a large representation

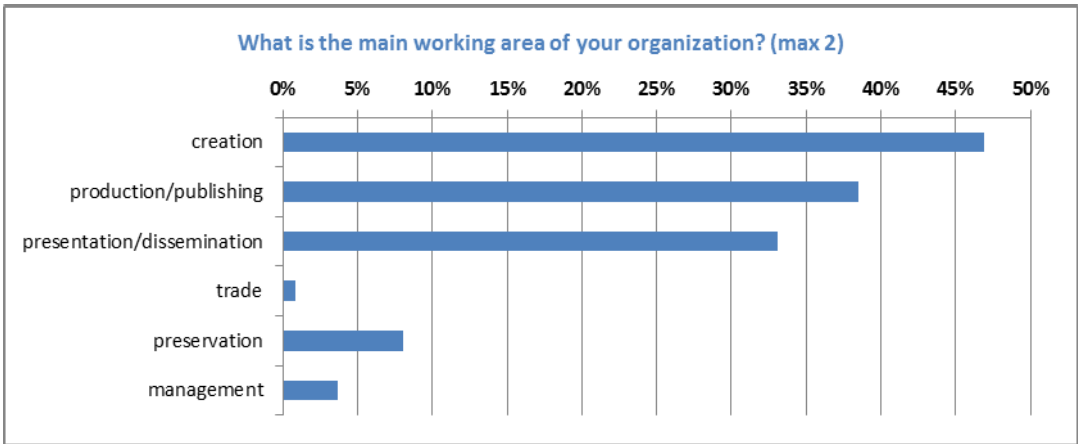
of respondents active in creation and/or production/publishing. This should be taken into account when interpreting the survey results.

Figure 36: Sector of activity



Source: Survey IDEA Consult

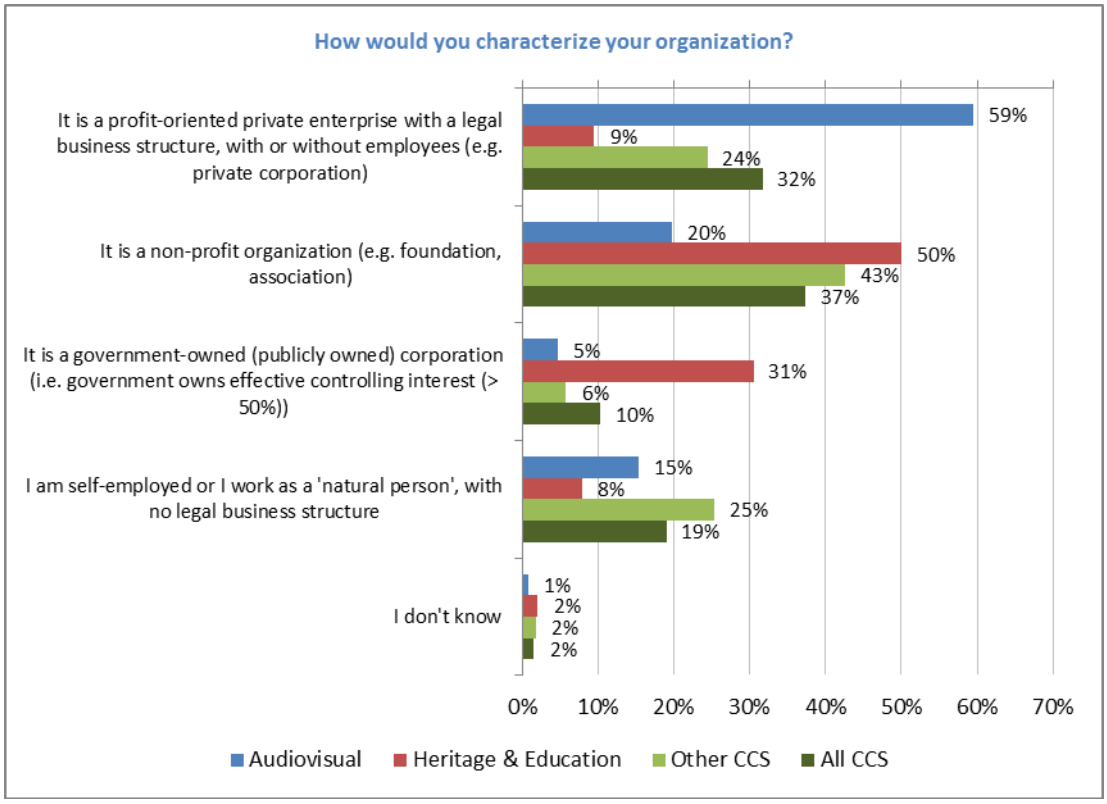
Figure 37: Main function



Source: Survey IDEA Consult

With respect to the legal business structure of the respondents (see Figure 38), the most frequently used legal business structure is that of non-profit organizations. 37% of the respondents indicated to be working in such an organization. Another one third of respondents is working in a profit-oriented enterprise. But significant differences between the different subsectors exist. In the audiovisual sector almost 60% of the respondents work in profit-oriented organizations. In Heritage & Education non-profit organizations and government-owned corporations are more frequently used business structures, whereas respondents in this subsector are less active as self-employed or natural person (only 8% versus 19% on average in CCS). Among the respondents active in the CCS excluding Audiovisual, Heritage & Education, the most popular legal business structure to organize activities is the non-profit organization (43%).

Figure 38: Legal business structure

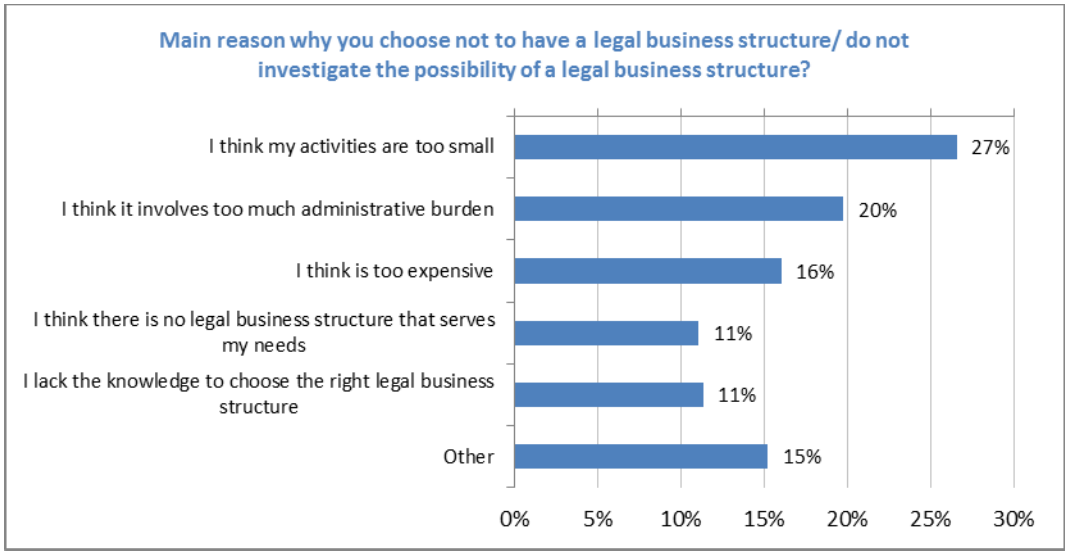


Source: Survey IDEA Consult

Around 20% of the survey respondents has no legal business structure, i.e. they are self-employed or work as a 'natural person'. For the respondents that are only active in Creation, we see that this percentage amounts to even 40%. This is in line with other studies that point to the high presence of actors in the CCS with no legal business structure (e.g. HKU, 2010; Guiette et al., 2012) and can be (partly) explained by the project-based 'career' that is characteristic for many (especially creators) active in the CCS (e.g. SMartbe, 2011; Poma and De Voldere, 2012).

Figure 39 summarizes the reasons why self-employed and natural persons in the survey choose not to have a legal business structure. The reasons most often mentioned are the size of the business and the (fear of) administrative burden.

Figure 39: Reasons for not having a legal business structure

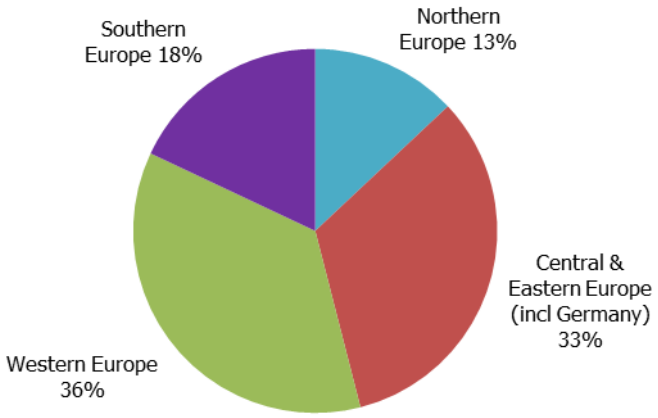


Source: Survey IDEA Consult

43% of the self-employed and natural persons in the survey are unaware of the fact that the lack of a legal business structure can have implications for their access to finance from financial intermediaries. Also in the new CCS guarantee facility this group of actors is excluded from the instrument, since banks will only be allowed to ask for business assets as collateral.

The remainder of the discussion of survey results focuses only on <u>those respondents that indicated having a legal business structure</u> (i.e. 2,163 respondents). Figure 40 provides an overview of the geographical spread of those respondents.

Figure 40: Residence of the CCS organizations in the survey

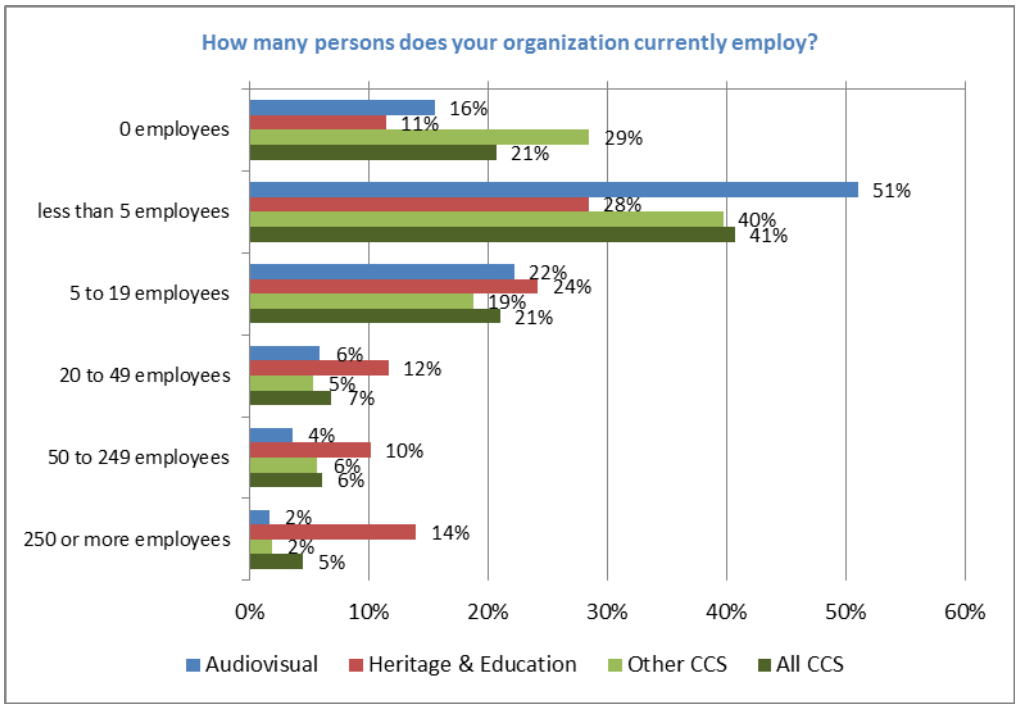


Source: Survey IDEA Consult

Over 60% of the CCS organizations in the survey have less than 5 employees (see Figure 41). One out of five respondents are one-person businesses (having no employees). This sector structure is consistent across Europe. Only in the group of organizations with more than 250 employees we find an overrepresentation of

organizations from Southern Europe and an underrepresentation of organizations from Central & Eastern Europe, excl. Germany.

Figure 41: Size of the CCS organizations in the survey



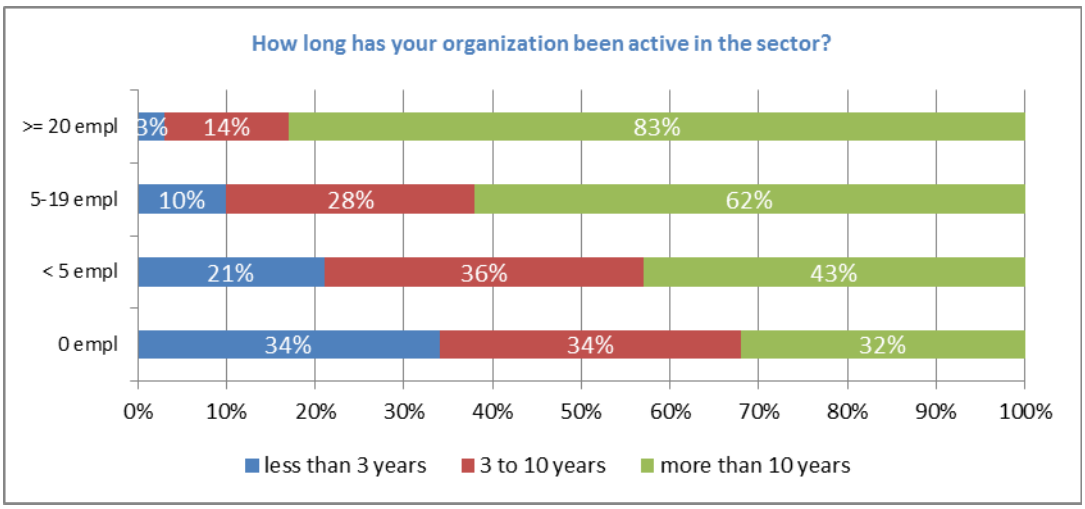
Source: Survey IDEA Consult

Looking at the different clusters that we have analysed, we find that in Audiovisual and Heritage & Education one-person businesses are significantly less represented. Excluding those two groups, we find that almost 30% of 'other CCS' organizations are 1-person businesses. Among the respondents from the Audiovisual sector over half of the organizations has 1 to 4 employees. Only in Heritage & Education there is a significant group of organizations with more than 50 employees (even 250+ employees). The survey sample thus reflects the dominant presence of micro-enterprises in the CCS, in line with our discussion in paragraph 3.3.

Over 50% of the responding organizations are active in the CCS for more than 10 years. 18% are less than 3 years active in the sector. In general, organizations coming from Central & Eastern European countries excl. Germany are younger, while German CCS organizations in the sample are relatively older.

Age is strongly related to size: the longer an organization is in business, the larger it is on average as shown in Figure 42. One third of the 1-person businesses in the sample are less than 3 years active in the sector versus only 3% of the organizations with 20 or more employees. At the other end of the spectrum 83% of the organizations with 20 or more employees are active in the sector for more than 10 years versus only one third of 1-person businesses. In line with the data on size, we find that organizations in Heritage & Education in our sample are on average older than in other CCS subsectors.

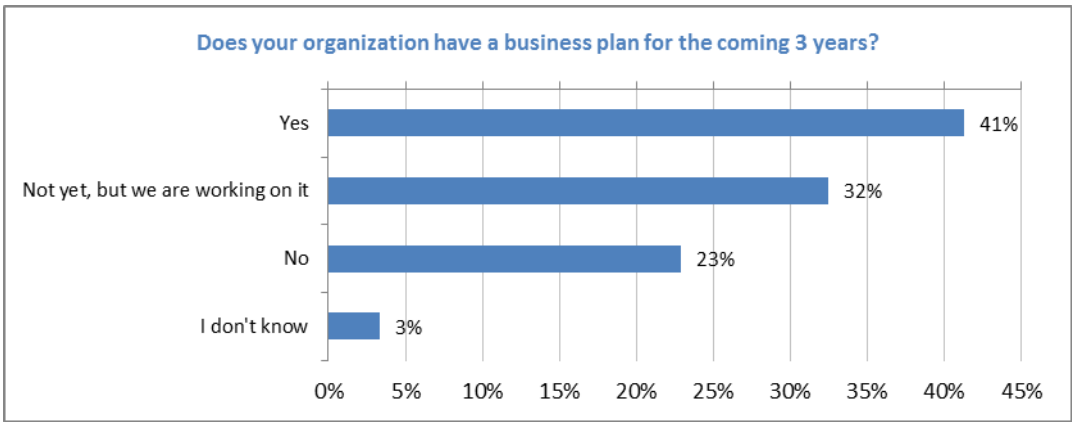
Figure 42: Age of the CCS organizations in the survey



Source: Survey IDEA Consult

Of all organizations in the sample only 41% indicates having a business plan for the coming 3 years. Nearly six out of ten organizations indicates not having a business plan at the moment, although more than half of these organizations do say that they are working on it. In Central & Eastern European countries excl. Germany less CCS organizations tend to have a business plan (only 33%), whereas in the Northern European countries organizations more frequently have a business plan for the coming three years (51% of respondents). Looking at the different subsectors, only in the audiovisual sector we observe a slightly higher percentage of organizations having a business plan (49%). The results on the availabilty of business plans are comparable to the results in Clayton & Mason (2006) where 36% of the organizations in the study had a formal business plan.

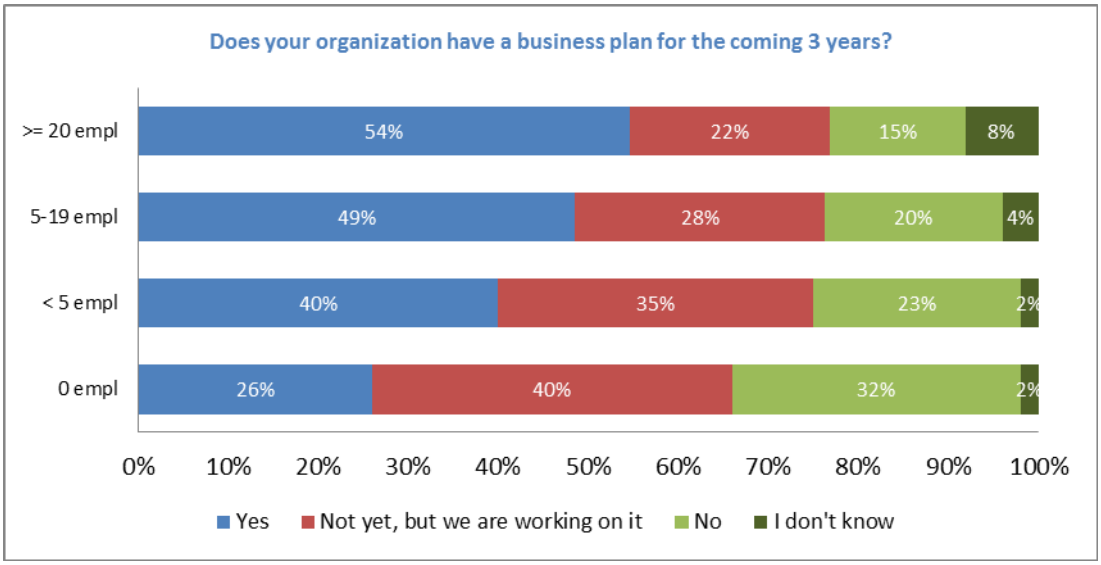
Figure 43: Availability of business plan.



Source: Survey IDEA Consult

From the survey it seems that organization size is an important factor influencing the chance of having a business plan. Whereas among the 1-person businesses only 26% has a business plan, this is the case for 54% of the organizations with 20 or more employees. Neverthless, also in this group there is a significant number of respondents that indicates not having a business plan at the moment.

Figure 44: Availability of business plan and organization size



Source: Survey IDEA Consult

The low percentage of CCS organizations with a business plan (even without any judgement about the quality of the business plan) is a major point of attention in the problem of access to finance, since Burrows and Ussher (2011) note that a (high quality) business plan and good cash flow projections traditionally are central elements in the evaluation of loan requests. This is also confirmed in the interviews with financial institutes (see Chapter 6).

5.3.2 External finance in CCS organisations

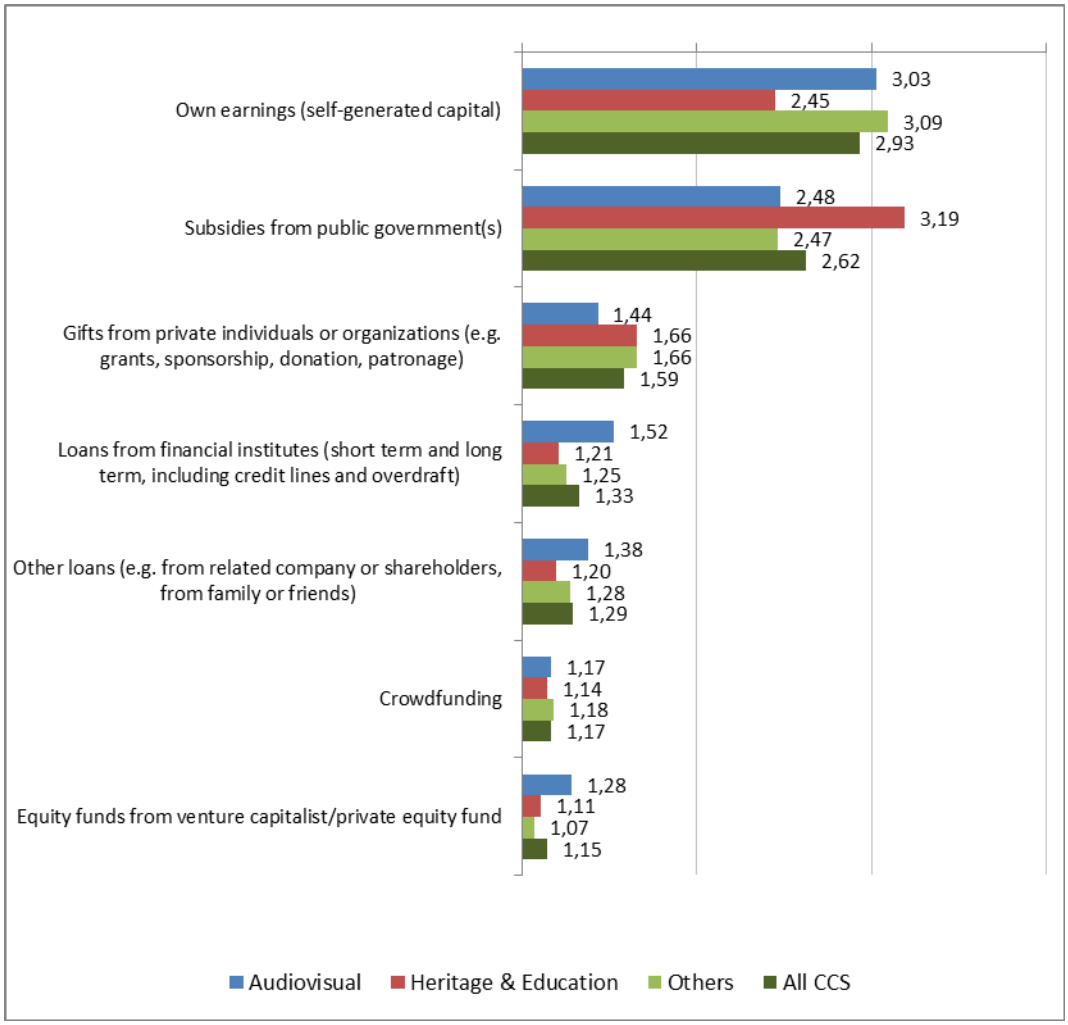
When we analyse the financing structure of the CCS organizations in the survey, we find that on average own earnings and subsidies are the two most important sources of finance, irrespective of subsector. This is in line with the findings in HKU (2010), KEA (2010) and IDEA Consult (2012). Despite the importance of self-financing and subsidies, both sources are only part of a mix of financing sources in most organizations. Only 22% of respondents indicates that own earnings make up more than 75% of their financing structure. For subsidies this is only 16%. Equity funds are part of the financing mix for only a minority of the respondents. 89% of the respondents indicates that equity funds from a venture capitalist or private equity fund are not part of the financing mix. In the audiovisual sector equity funds do seem to be used more frequently: in this subsector 19% of the respondents indicates that equity funds are part of the financing mix. The high risk of audiovisual projects (high uncertainty) in combination with high amounts involved makes this sector attractive for equity investors. The attractiveness of the audiovisual sector (especially gaming) for investors is also confirmed in Peacefulfish (2012).

With respect to the legal business structure of respondents (see Figure 38), we see that almost 60% of the respondents in the audiovisual sector are profit-oriented organizations. On the other hand, the respondents in the sample that are active in Heritage & Education are relatively more non-profit organizations and government-owned corporations; there are significantly less self-employed and natural persons active. For all other respondents the largest group consists of non-profit organizations (43%), which clearly has an impact on the financing structure. Apart from subsidies also own earnings and gifts from private inidividuals are part of the financing mix for

most organizations active in Heritage & Education. Debt finance is less frequently used than in the other clusters.

Loans from financial institutes (short term and long term, including credit lines and overdrafts) are part of the financing mix for 24% of the respondents. 76% of respondents indicate that loans from financial institutes are not a source of finance in their organization. Looking at the different subsectors, we do see that loans from financial institutes are more often part of the financing mix in organizations in the audiovisual sector. In this subsector nearly 40% of respondents indicates that loans from financial institutes are part of their financing mix. The higher use of bank loans in the audiovisual sector might be linked to the availability of specific (fiscal) instruments and support schemes in different countries to stimulate financing in the sector.

*Figure 45: Relative importance of different sources of finance in the financing structure of CCS organizations in the survey**



*: measured by a weigthed index that ranges between 1 and 5. The higher the index, the higher the importance of the source of finance in the financing structure

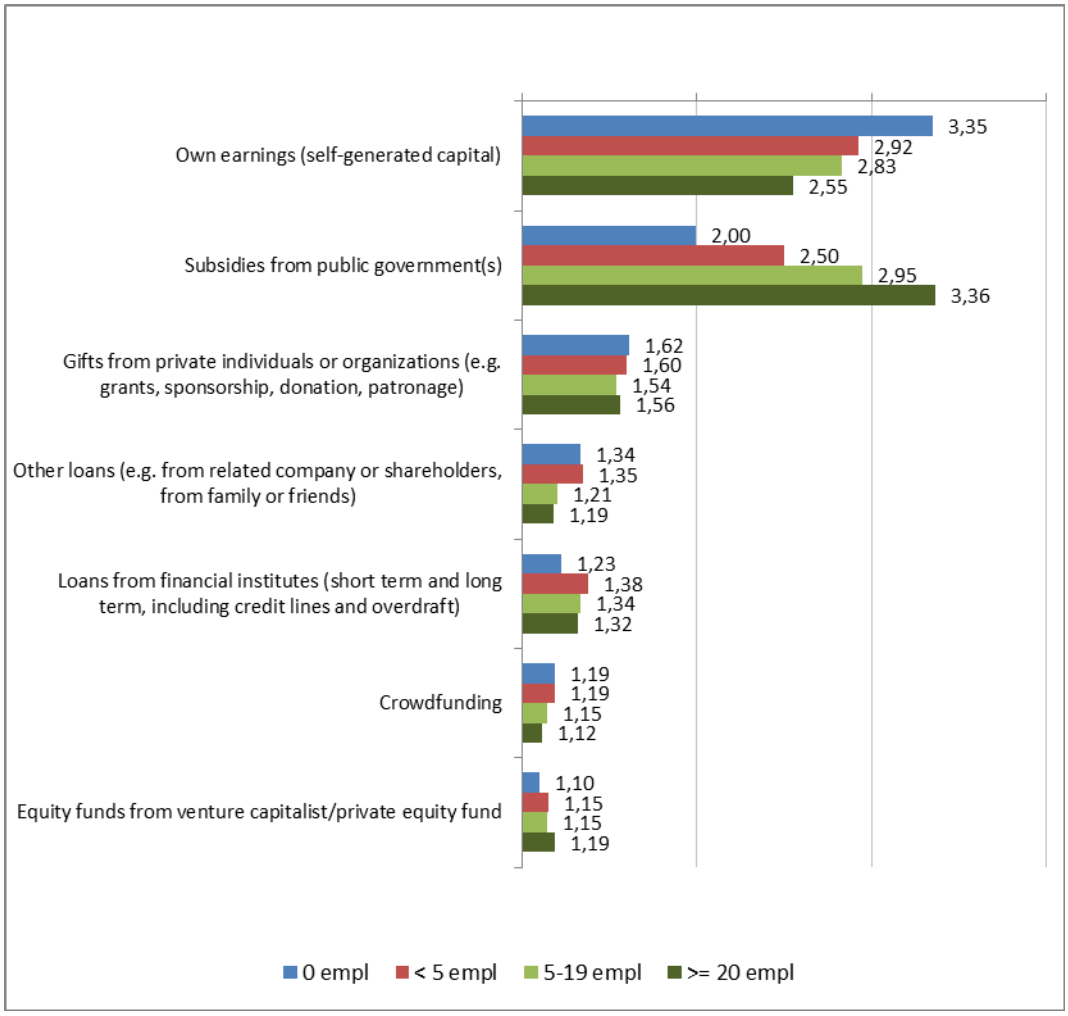
Source: Calculations based on the survey IDEA Consult

When we relate organization size to the relative importance of the different financing sources, we find that 36% of 1-person businesses finances more than 75% of the

business with own earnings versus only 13% of organizations with 20 or more employees. As mentioned in paragraph 5.1, insider funding is important for micro-sized organizations to gain access to external finance as it reduces moral hazard/adverse selection problems. 33% of the larger organizations (20+ employees) in the sample finances more than 75% of the business with subsidies from public governments versus only 7% of 1-person businesses. The group of larger organizations is dominated by organizations from Heritage & Education.

In line with the theory of the financing cycle loans from financial institutes are least often used by 1-person businesses. In this group only 15% makes use of loans to finance the business. For all other organizations this percentage ranges around 25%. More informal types of financing such as other loans (e.g. from friends or family), gifts or crowdfunding are used more often by very small organizations than by the larger organizations. These types of finance are critical for these more informationally "opaque" micro-sized organizations, as discussed in paragraph 5.1.

*Figure 46: Organization size and relative importance of different sources of finance in the financing structure of CCS organizations in the survey**

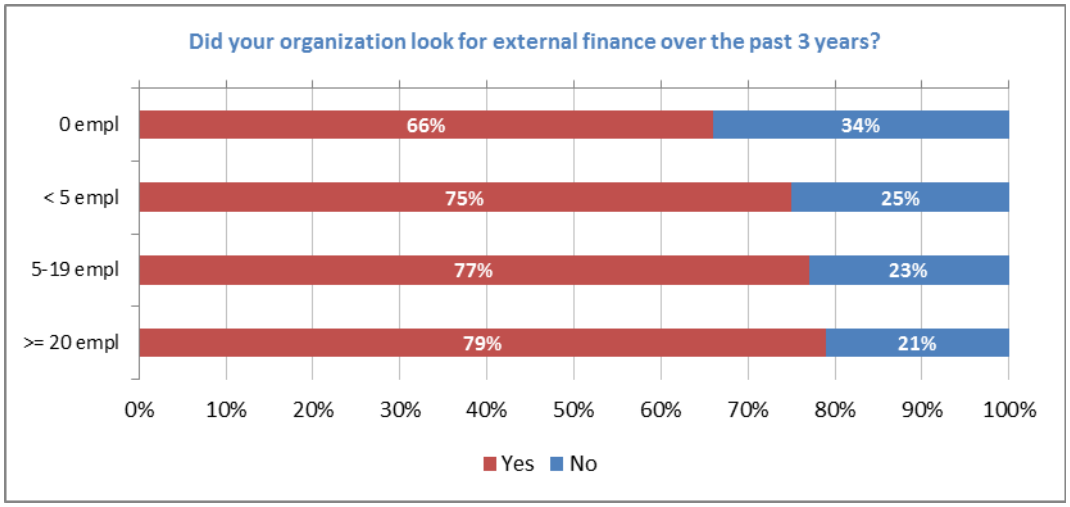


*: measured by a weigthed index that ranges between 1 and 5. The higher the index, the higher the importance of the source of finance in the financing structure

Source: Calculations based on the survey IDEA Consult

Focusing on the past 3 years, 75% of respondents indicates having looked for external financing (no significant difference between subsectors). As Figure 47 shows, organizations with employment have looked for external finance more often than 1-person businesses.

Figure 47: Organization size and the search for external finance

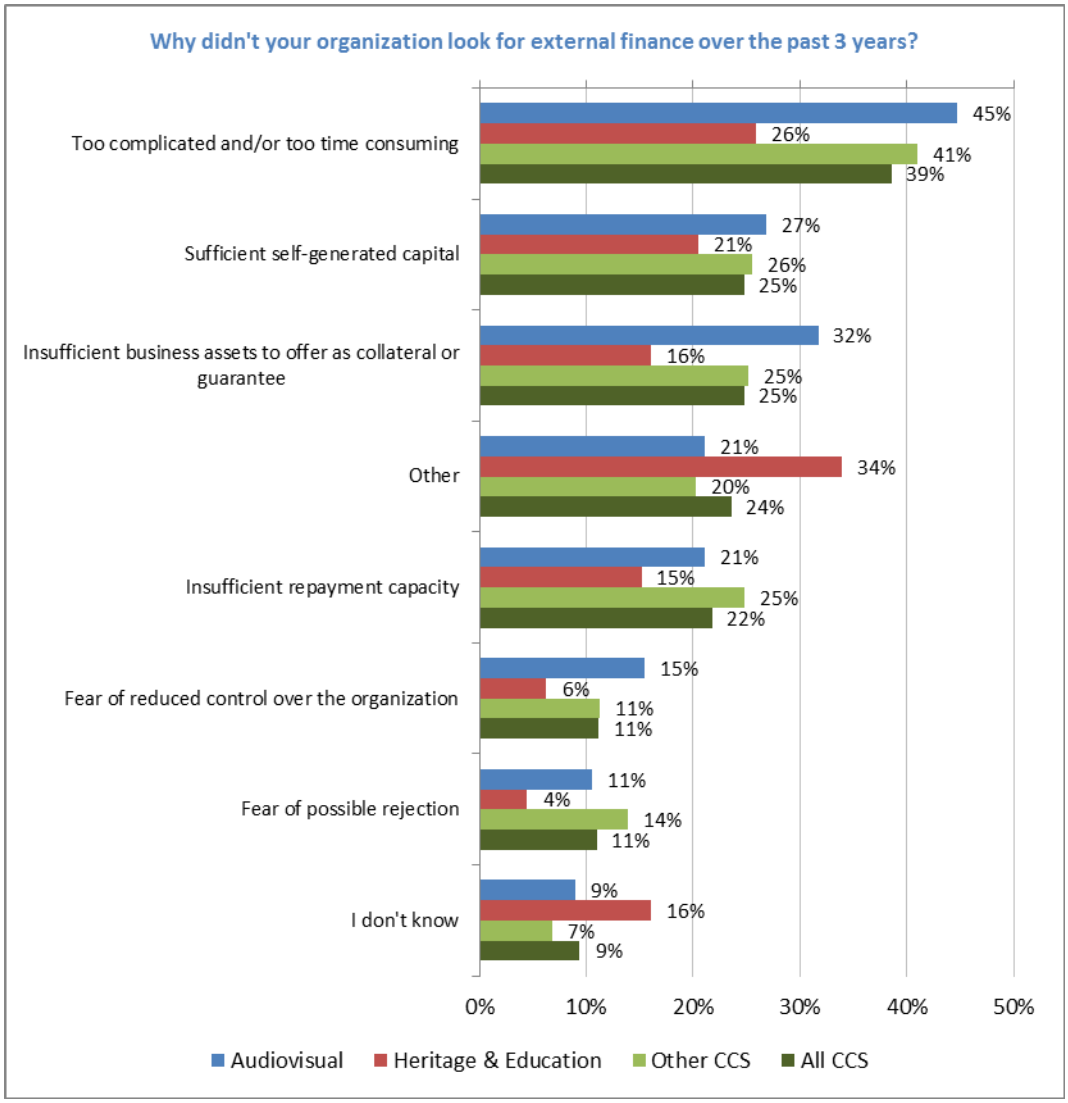


Source: Survey IDEA Consult

Analysing the reasons why respondents did not look for external finance over the past 3 years, only 25% indicated having sufficient self-generated capital. The obstacles to look for external finance cited most often are the (perceived) complexity and time investment (which can indirectly relate to a lack of business/managerial skills in the organization), insufficient business assets and insufficient repayment capacity. Especially respondents from the audiovisual sector and Other CCS show a high degree of discouragement to look for external finance. Respondents from Heritage & Education have a rather diverging profile, which can be explained by the specific ownership structure for many of them (government-owned).

Of those organizations that indicate being discouraged to look for external finance because of a (perceived) complexity and time investment or insufficient business assets, only 30% has a business plan for the coming 3 years. This is a significantly lower percentage than in the group of respondents that do look for external finance (where 44% has a business plan).

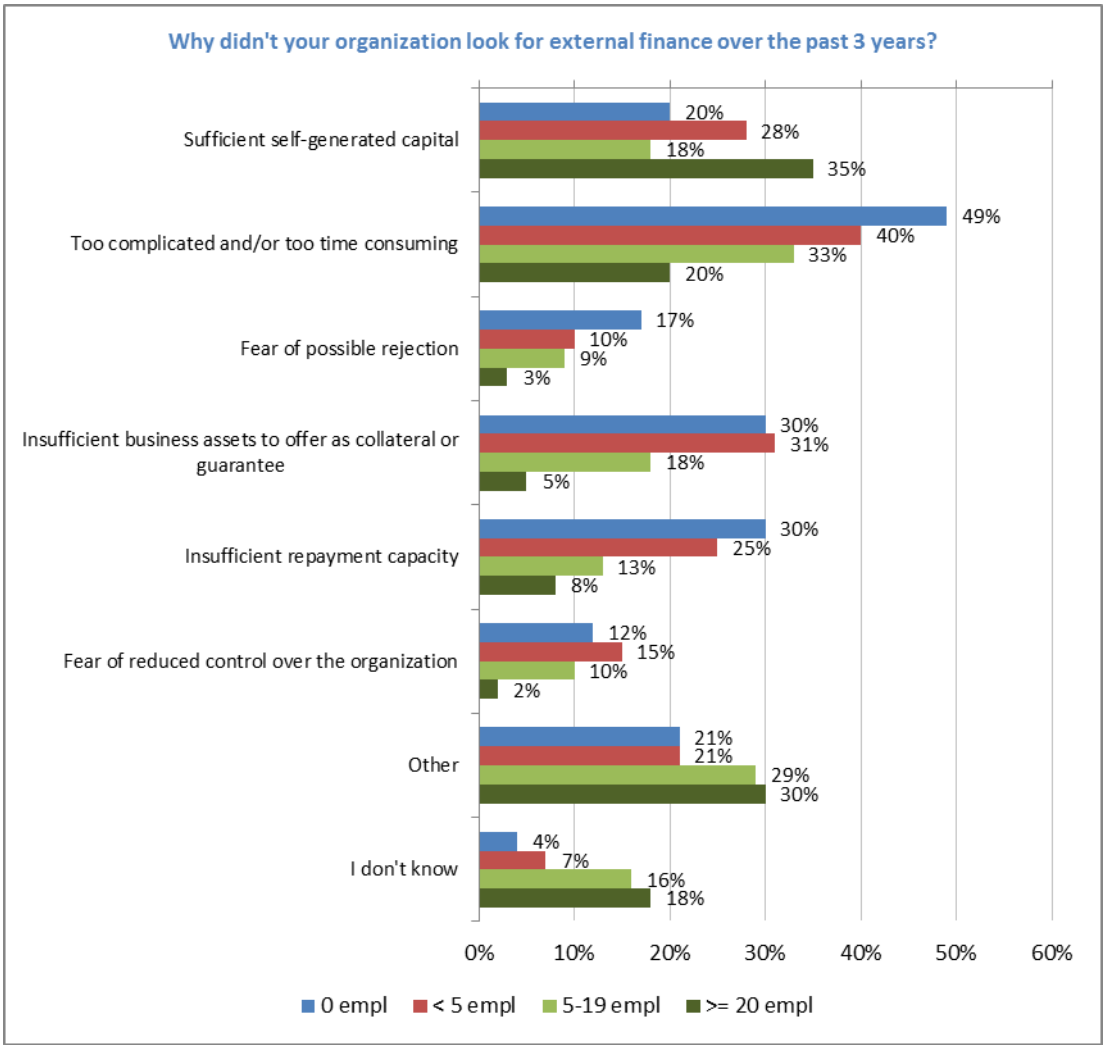
Figure 48: Reasons for not looking for external finance



Source: Survey IDEA Consult

Linking organization size to access to external finance, we find that micro-sized organizations show much stronger discouragement to look for external finance than larger organizations. Looking for external finance is especially seen as too complicated and/or too time consuming to do: 49% of 1-person businesses rate this as an obstacle versus only 20% of organizations with 20 or more employees. It reflects the limited absorptive capacity of micro-organizations due to a lack of (specialised) team members. Also fear of possible rejection, insufficient business assets to offer as collateral or guarantee and insufficient repayment capacity are rated significantly higher by very small firms than by larger firms.

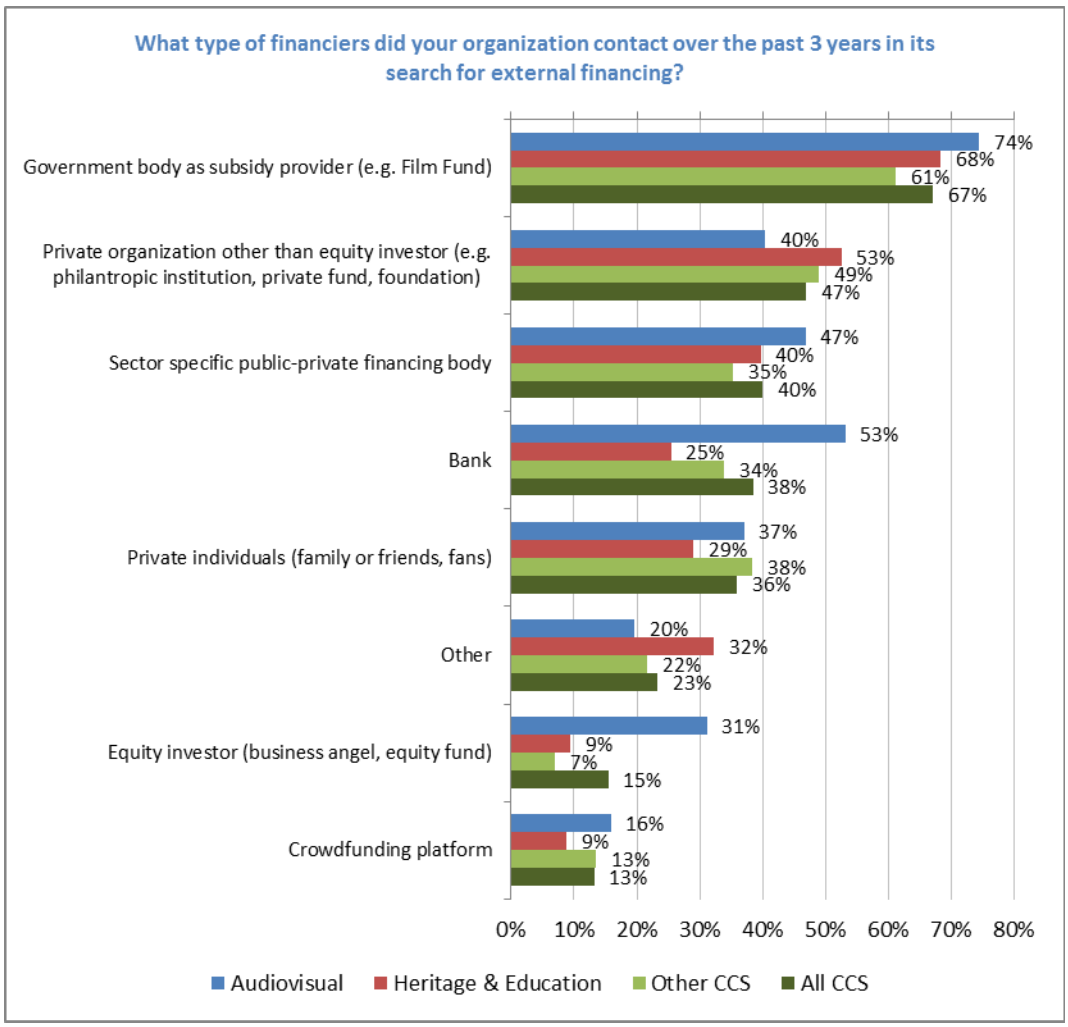
Figure 49: Organization size and reasons for not looking for external finance



Source: Survey IDEA Consult

Of those organizations that did look for external finance in the past 3 years, 67% indicated to have contacted government bodies in the role of subsidy provider (see Figure 50). It is the most frequently contacted type of external financier, irrespective of subsector or organization size. The dominant role of subsidy providers in financing is characteristic for the cultural and creative industries and in line with previous studies (HKU, 2010; KEA, 2010). The second most frequently contacted type of external financier are private organizations other than equity investors (47%). Sector specific public-private financing bodies and banks have been contacted by around 40% of the respondents that looked for external finance. This percentage does differ between the different subsectors, especially for banks. Whereas 53% of respondents in the audiovisual sector indicate that they have contacted a bank (second most frequently contacted type of financier in this subsector), this was only for 34% of the Other CCS and even 25% for Heritage & Education. Also equity investors have been contacted more frequently by respondents in the audiovisual sector than by other respondents. The results are in line with the findings on the financing mix (see Figure 45).

Figure 50: Type of external financiers contacted



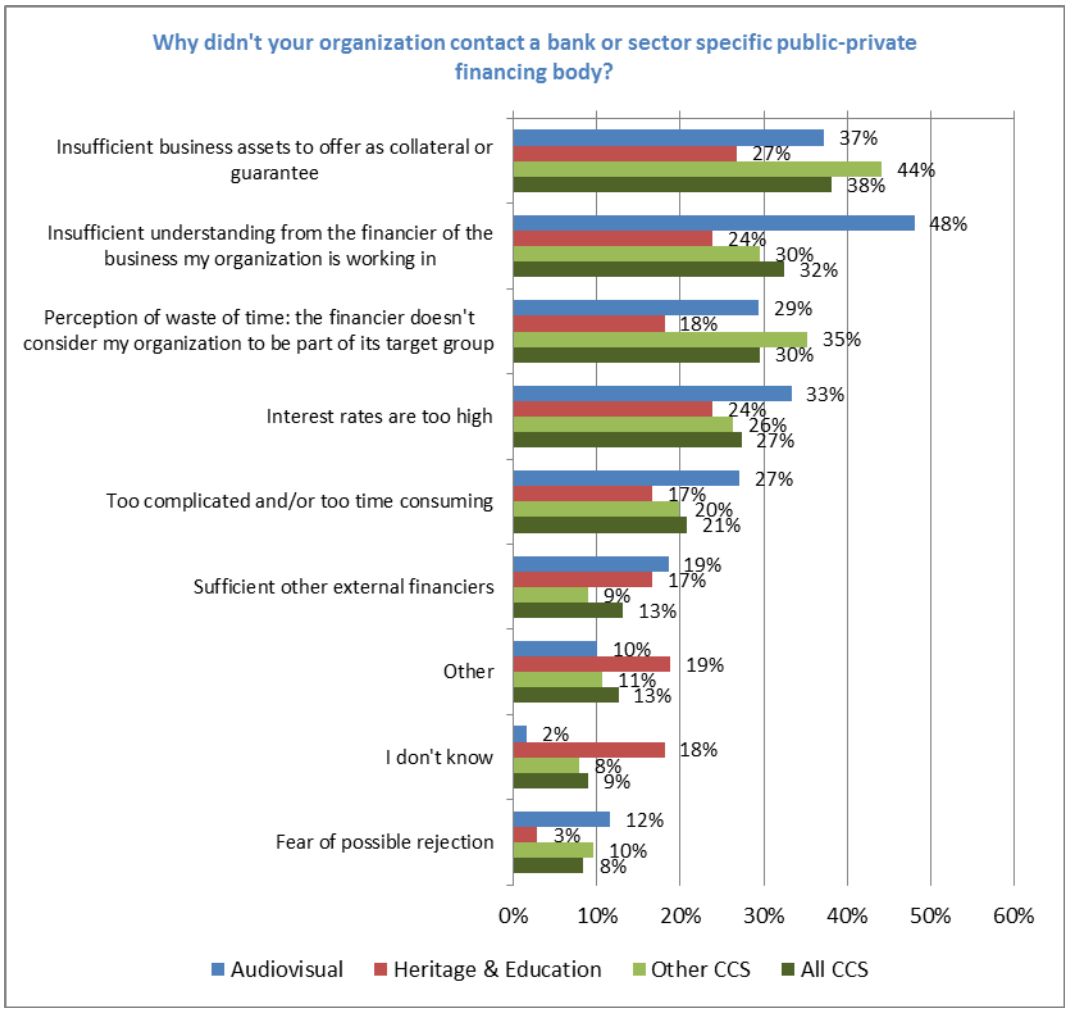
Source: Survey IDEA Consult

When we relate the types of external financiers that have been contacted to organization size, also similar to the findings on the financing mix, we find that more informal types of external financiers (such as private individuals or crowdfunding platforms) are more frequently contacted by 1-person businesses and micro-sized organizations with < 5 employees than by larger organizations. Private individuals have been contacted by 48% of the 1-person businesses, whereas this was the case for only 26% of the organizations with 20 or more employees. Banks and sector specific public-private financing bodies on the other hand, are more contacted by organizations with 5 to 19 employees than by 1-person businesses (and organizations with < 5 employees). These results are in line with the theory of the financial growth cycle (cfr paragraph 5.1).

Analysing the reasons why organizations that looked for external finance did not contact a bank or sector specific public-private financing body, we find that insufficient business assets to offer as collateral or guarantee appears to be the most important perceived obstacle to contact a bank or sector specific public-private financing body. This is especially the case for the respondents in Other CCS (excluding Audiovisual and Heritage & Education), of which 44% indicated that insufficient business assets refrained them from contacting a bank or sector specific public-private financing body. In line with existing literature, we also find that the lack of business assets is

considered to be a more important barrier to contact a bank or sector specific public-private financing body the smaller CCS organizations are.

Figure 51: Reasons to not contact a bank or sector specific public-private financing body



Source: Survey IDEA Consult

Apart from the problem of lack of business assets, the survey results also highlight the important (negative) perception in CCS organizations of the financiers' attitude towards the business they are active in. One out of three respondents has indicated that they did not contact a bank or sector specific public-private financing body because of a (perceived) lack of understanding from the financier of the CCS business. In the audiovisual sector this was (one of) the reason(s) for even half of the respondents. Also the third most frequently cited reason for not applying relates to this perception: the perception that the financier doesn't consider the organization to be part of its target group.

Of those CCS organizations that did contact a bank or sector specific public-private financing body, in the end 56.5% of this group actually applied for a loan there. This percentage was higher for organizations in the audiovisual sector. The higher use of banks and sector specific public-private financing bodies in Audiovisual could be linked to the financial and fiscal instruments that are in place in some countries and that stimulate the use of bank loans in the audiovisual sector (e.g. tax shelter system in Belgium).

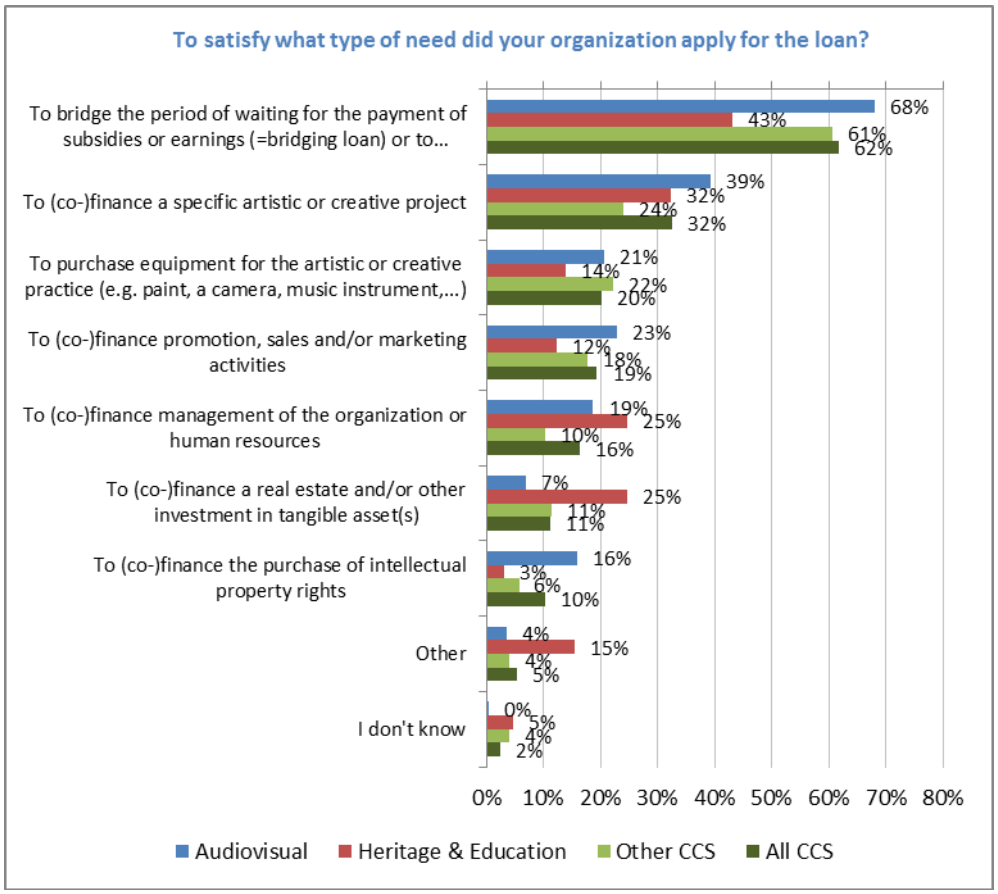
Most applications were done with a generalist bank (58% of applications). Sector specific public-private financing bodies received 21% of the respondents' last bank loan applications. Only a small part of the applications was done with sector specialist banks and SME specialist banks.

5.3.3 Past use of bank loans in CCS organisations

Purpose of bank loan

According to the survey results CCS organizations apply for bank loans primarily to bridge the period of waiting for the payment of subsidies or earning or to finance working capital (gap financing). Especially in the audiovisual and other CCS sectors, the majority of bank loan applications relate to gap financing. These results are in line with the analysis in chapter 3 and with previous studies that find that finance in the CCS is primarily short term and project-led, rather than led by a long term 'corporate' vision (e.g. Clayton & Mason, 2006; HKU, 2010; KEA, 2010). In Heritage & Education, apart from gap financing, other important reasons to apply for bank loans are to (co-)finance a specific projects (project finance), (co-)finance management or HR in the organization and to (co-)finance a real estate and/or other investment in tangible asset(s).

Figure 52: Purpose of bank loan application



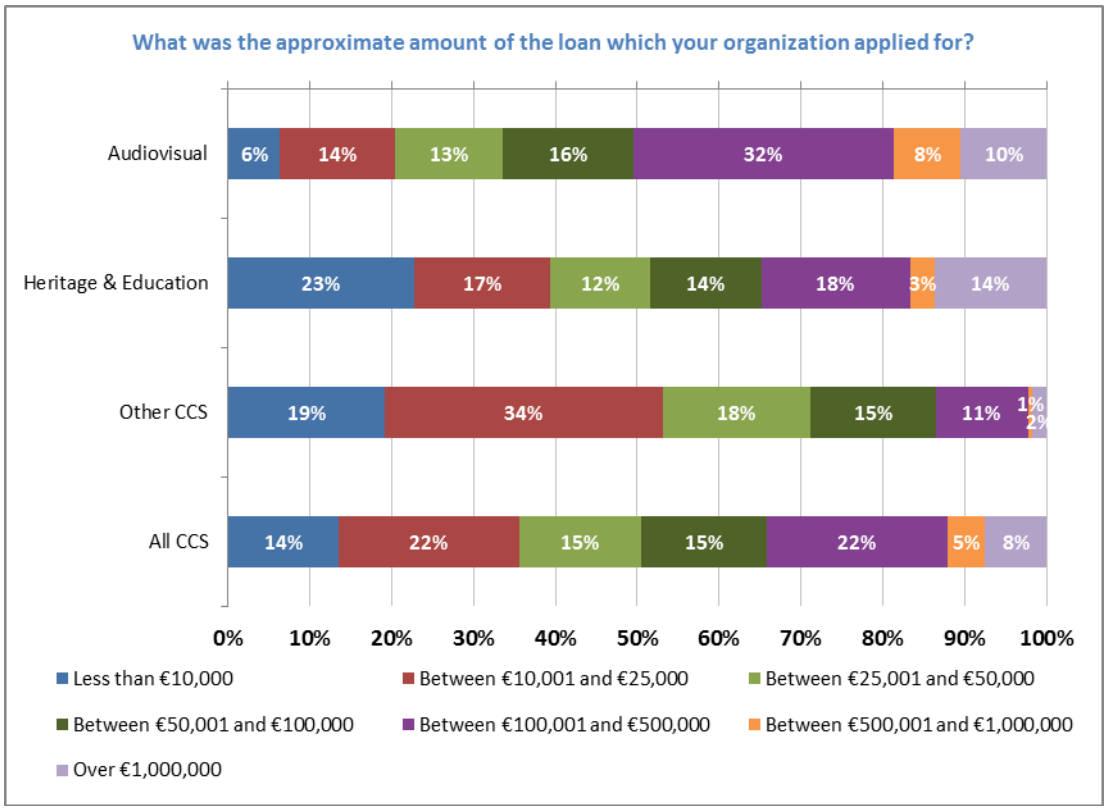
Source: Survey IDEA Consult

In the audiovisual sector bank loans are more frequently used to (co-)finance the purchase of intellectual property rights than in the other subsectors (16% of bank loan applications versus only 3% in Heritage & Education and 6% in other CCS). The presence of specific (fiscal) systems to support finance in the audiovisual sector in several European countries makes that the audiovisual sector is one of the most advanced subsectors in terms of financial services and knowledge on financing models to finance IPR through bank loans has been built up over time (e.g. Peacefulfish, 2009).

Loan amount

Analysing the loan amounts asked for, there is a significant difference in the amounts applied for by the different relevant subsectors that we consider in the analysis. In the sample, 64% of the loan applications above €1,000,000 come from the audiovisual sector. Within the audiovisual sector the large loan amounts are largely concentrated in production: 87% of the loans above €1,000,000 in audiovisual come from organizations active in production. This is not surprising as production houses play a central role in the coordination and management of audiovisual projects.

Figure 53: Loan amounts



Source: Survey IDEA Consult

The focus on larger loans is much lower in Other CCS (and Heritage & Education) than in the audiovisual sector. Whereas in the audiovisual sector half of the respondents indicated to have applied for a loan above €100,000 (and 18% above €500,000), in Other CCS this was the case for only 14% of respondents (and only 3% above €500,000). Reversely, in Other CCS over half of respondents applied for a bank loan with an amount less than €25,000 (microcredit), compared to only 20% in the audiovisual sector.

Looking at the purposes of the loans, we find that project finance involves much larger amounts in the audiovisual sector than in Other CCS. In Other CCS the large loan amounts applied for are mainly to (co-)finance real estate or management/HR.

In Heritage & Education we find both a significant group of respondents applying for (very) small loan amounts and a significant group of respondents applying for (very) large amounts. Whereas respondents indicate that the small loans will be used mainly to (co-)finance specific projects, the large amounts will be used more to (co-)finance real estate and management or HR.

Relating organization size to the loan amounts applied for, we find a positive relationship: the larger the organization, the higher the loan amounts applied for. Whereas only 20% of the 1-person businesses applied for a loan above €100,000, this was the case for 70% of the organizations with more than 20 employees. Of the 1-person businesses that did apply for loans above €100,000, more than half are active in the audiovisual sector. The others are active in design, visual arts, architecture and performing arts. All are active in creation and/or production.

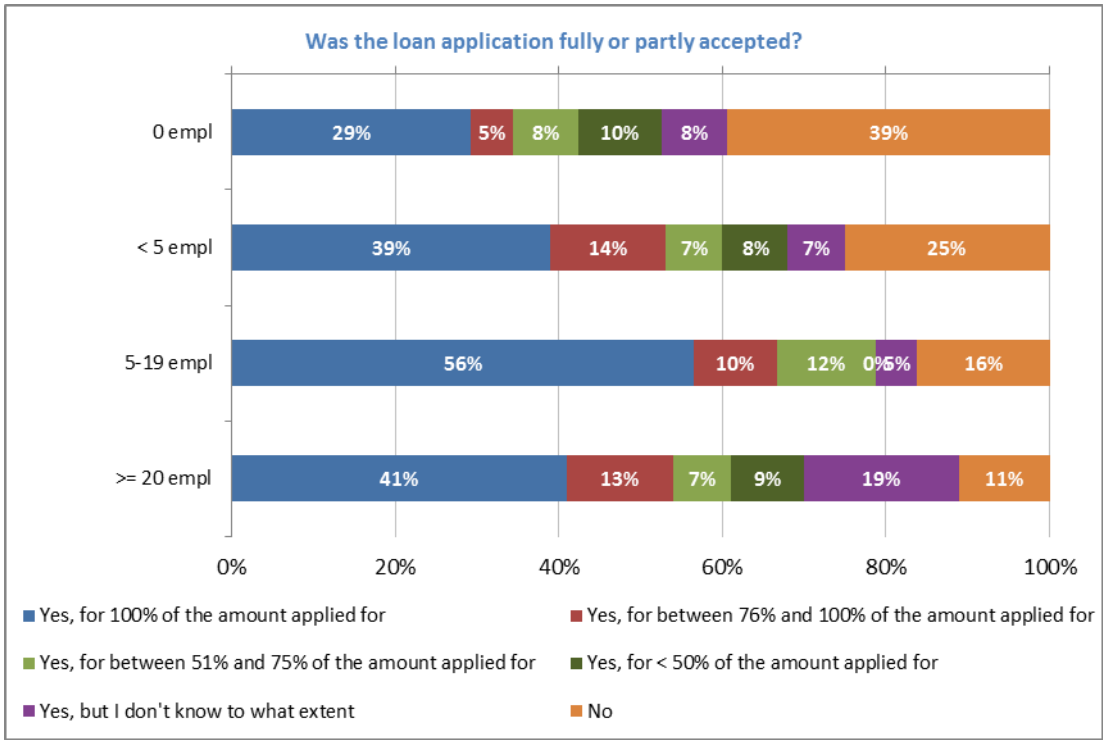
Across all sectors, we find that CCS organizations in Central & Eastern Europe apply for significantly lower amounts than CCS organizations in other countries: in the survey 76% of the loans applied for by Central or Eastern European CCS organizations involve amounts lower than €25,000, compared to 36% overall. In Germany and Southern Europe the average loan amounts are relatively higher, but this can be linked to the specific sector profile of the respondents (in Germany relatively high presence of respondents in audiovisual, in Southern Europe above average presence of organizations in heritage & education).

Success rate of application and loan requirements

Overall, 54% of the respondents that applied for a loan indicated that their loan was accepted for at least 75% of the amount applied for. For 22% of the applicants the loan application was fully rejected. The success rate does not differ significantly between the audiovisual sector and Other CCS. Only in Heritage & Education we find a lower success rate (only 39% of applications were accepted for at least 75% of the amount applied for; 30% of the applications were rejected). We do find a significantly lower success rate in Central and Eastern Europe where only 28% of the respondents indicated that their loan was accepted for at least 75% of the amount applied for. However, given the low number of respondents (#=32), this result should be interpreted with caution.

The success rate of the loan applications is positively linked to the size of the applicants: the larger the applicant, the more chance of having the application (partly) accepted. Whereas 39% of the applications of 1-person businesses were rejected, this was the case for only 11% of the applications of organizations with more than 20 employees.

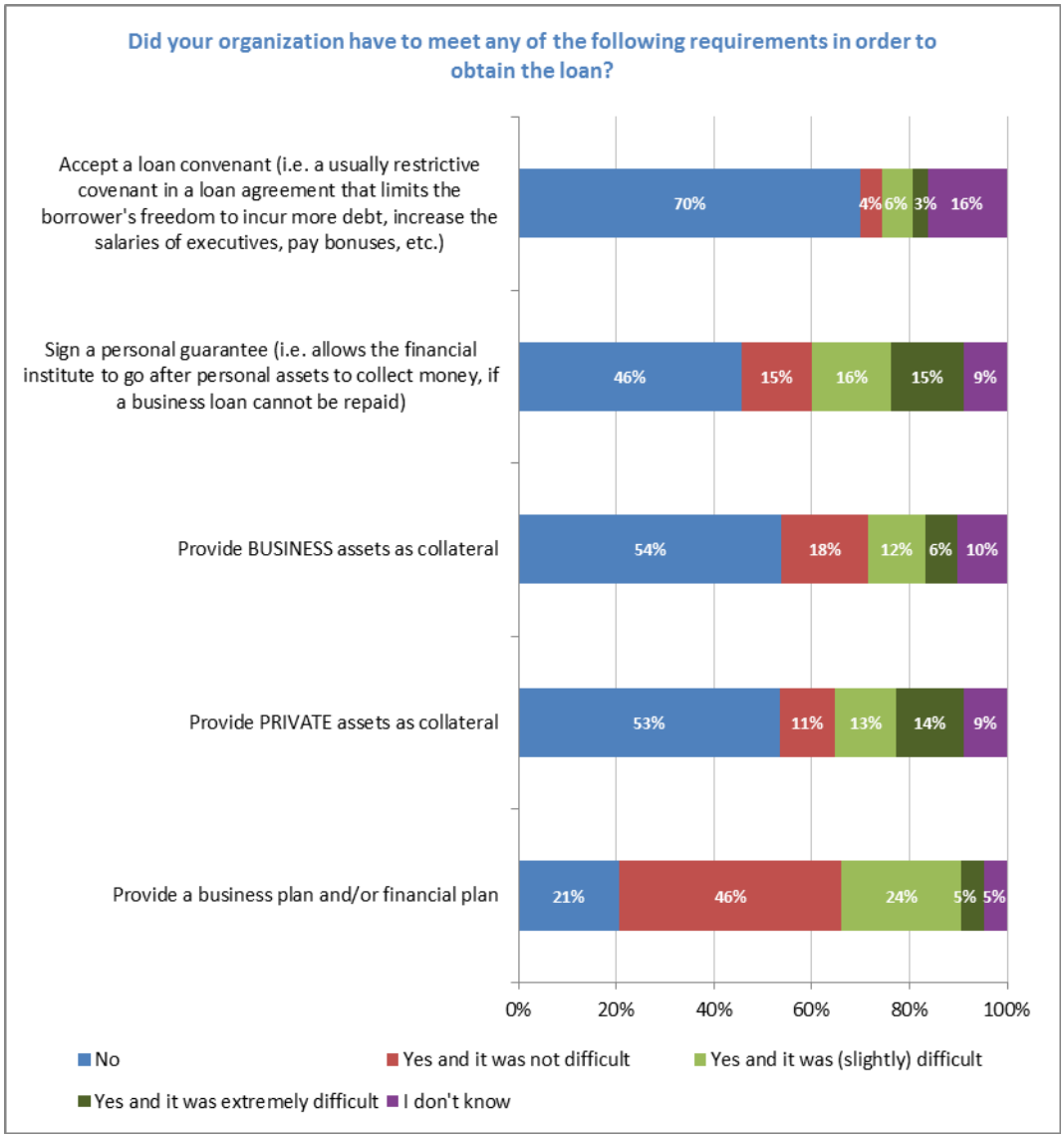
Figure 54: Success rate of application versus organization size



Source: Survey IDEA Consult

To guarantee (part of) the risk of the loan the majority of applicants had to meet at least one specific requirement set by the financier (94% of the applicants). According to the survey results, the most frequently asked requirement is a business plan and/or financial plan. 75% of the relevant respondents indicated that they had to provide a business plan and/or financial plan. This was not so difficult to meet for most of the respondents. Less than 7% of those that had to provide a business plan indicated that this was extremely difficult for them. Signing a personal guarantee was required second most frequently (46%). According to the survey results, this appeared more difficult to provide: one third of those that had to sign a personal guarantee indicated that it was very hard to provide this to the financier. Providing private assets as collateral was asked by the financier to 38% of the applicants. Similar to the personal guarantee, a significant group of respondents indicated that it was very difficult to meet this requirement.

Figure 55: Requirements to obtain a bank loan



Source: Survey IDEA Consult

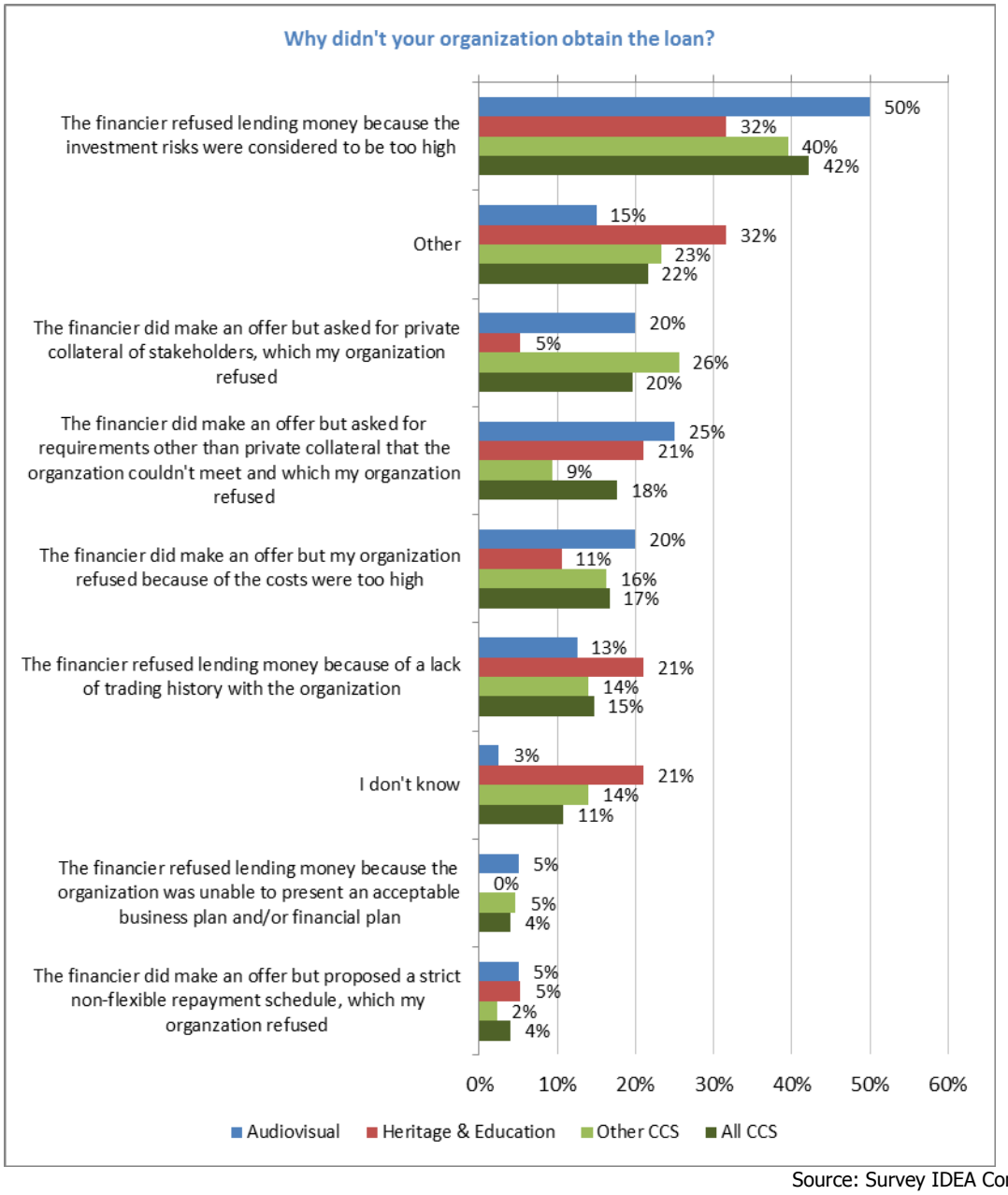
Only 6% of the respondents that obtained a loan in the past three years indicated that they did not have to meet any requirement. Looking at the profile of these loans and organizations, we find that 57% of the loans involved loan amounts less than €25,000 (i.e. microcredit) (and non above €500,000). All organizations were in business for more than 3 years, two third even more than 10 years. This confirms the importance of a trading history for access to finance.

Focusing on the different clusters, we find that organizations in the audiovisual and heritage & education sector on average have to meet higher requirements than organizations in Other CCS. This finding is in line with expectations, since organizations in the audiovisual and heritage & education sector on average demand larger average loan amounts and thus have a higher risk profile for financiers.

Of those respondents that did apply for a bank loan but whose application was rejected, 42% indicated that the financier refused lending money because the risks were overly high. One fifth (and in Other CCS one fourth) indicated that the financier did make an offer, but that they asked for private collateral which the organization refused (see Figure 56).

More than half of the respondents whose loan application was rejected indicated that the rejection had a negative impact on the growth of their organization. 38% of the relevant respondents choose to downsize their plans; 20% had to cancel their plans.

Figure 56: Reasons for rejection of bank loan application

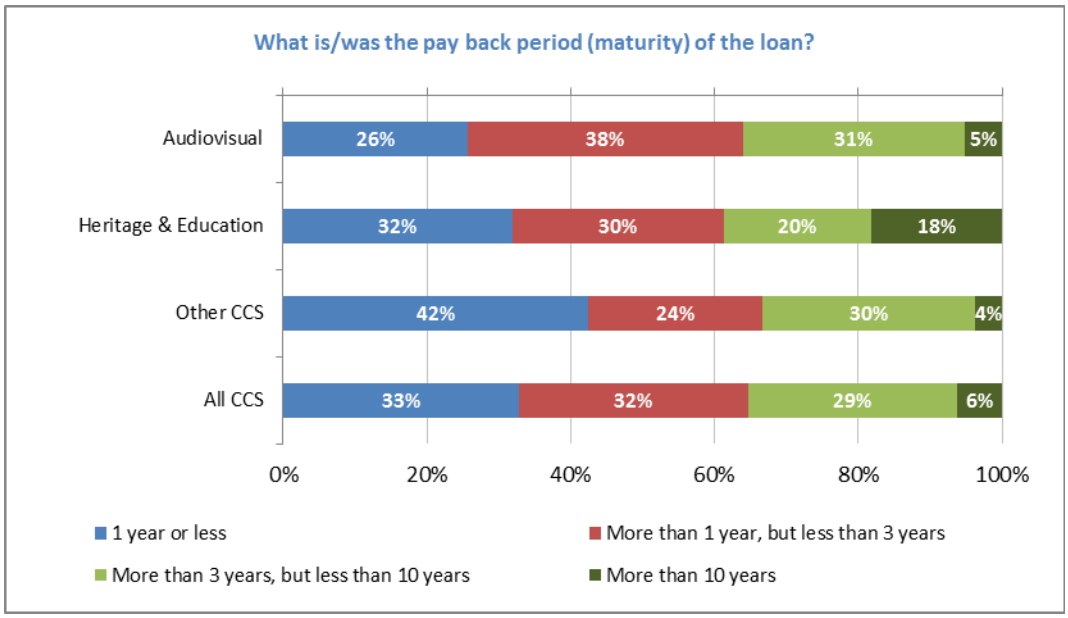


Source: Survey IDEA Consult

Repayment conditions

One third of the loans that have been granted in our sample were short term loans (maturity of 1 year or less). Another third of the loans have a maturity between one and three years. Only 6% of the loans have a maturity of more than 10 years. Looking at the different clusters we find that short term loans are more frequently used in other CCS, whereas the long term loans with a maturity of more than 10 years are more often used in Heritage & Education. The more frequent use of short term loans in the Other CCS relate to the smaller loan amounts, but also to the purposes of the loans applied for: the majority of the loans related to gap financing (mainly short term) and pre-financing of projects. Short term loans are also more easily granted when business assets are scarce. Although business assets are often scarce in the audiovisual sector as well, we find a more than average use of loans with a maturity of more than 1 year but less than 3 years, rather than the very short term loans. This can be explained by the fact that the 1 to 3 years maturity better corresponds to the average duration of an audiovisual project. Moreover, the presence of specific (fiscal) systems to support finance in the audiovisual sector have an influence on the role that collateral plays in granting loans.

Figure 57: Maturity of bank loans

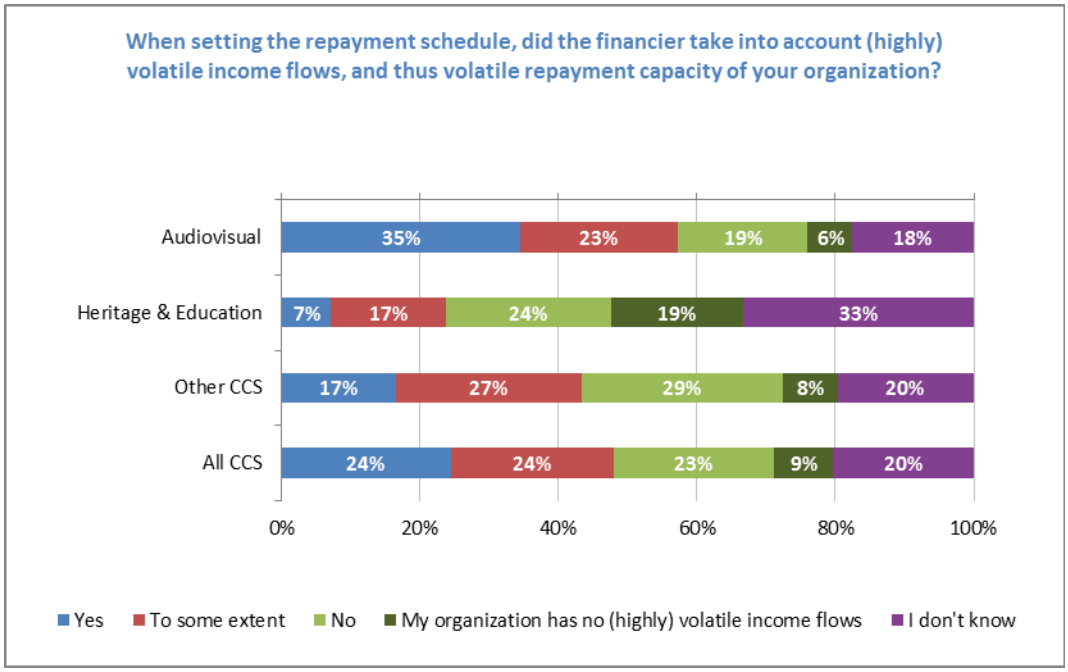


Source: Survey IDEA Consult

Asking about the interest rates, 65% of respondents estimate that the interest rate of their loan is lower or comparable to the interest rate of similar loans in other sectors. 17% of the respondents think that the interest rate of their loan is higher than the interest rate of similar loans in other sectors. 18% have no opinion.

In general, about one fourth of the relevant respondents indicate that the financier took into account their volatile income flows when setting the repayment schedule for the loan. Not surprisingly, the use of such flexible repayment schedules appears to be used significantly more in the audiovisual sector than in Heritage & Education (where the need for flexible repayment schedules is smaller). In the Other CCS - where we find a similar percentage of organizations with volatile income flows as in the audiovisual sector – according to the survey results financiers seem to be more reluctant to use flexible repayment schedules.

Figure 58: Volatile income flows and repayment schedule



Source: Survey IDEA Consult

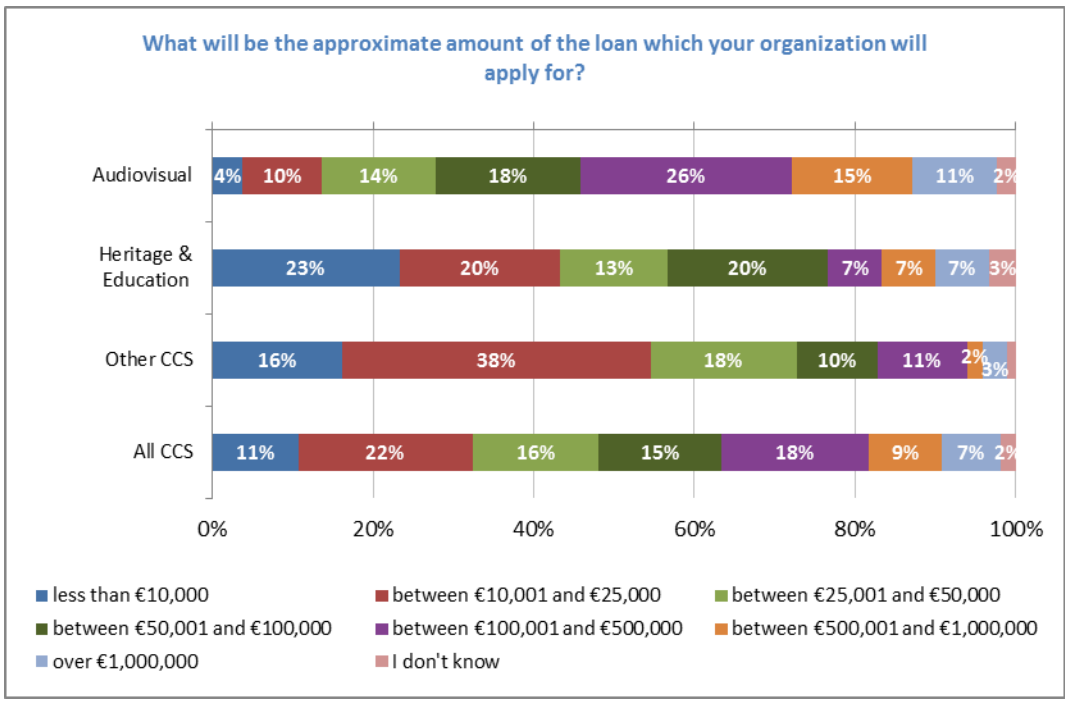
5.3.4 Future use of bank loans

A final part of the survey focused on the demand for bank loans by CCS organizations in the next 6 months.

According to the survey, around 15% of the CCS organizations in the sample confirmed that they would apply for a bank loan in the coming 6 months. 62% indicated that they would not apply for a bank loan while 24% of the respondents did not know yet.

Of those respondents that would apply for a bank loan in the coming 6 months, we asked about the approximate loan amount that they would apply for. Similar to the results in Figure 53, organizations in the audiovisual sector will need significantly larger amounts than organizations in the Other CCS cluster.

Figure 59: Future loan amounts



Source: Survey IDEA Consult

5.4 Synthesis of findings

Based on the results from the online survey, the following findings characterise the financing (needs) of cultural and creative organizations:

- Own earnings and subsidies are the most important sources of finance in the CCS, but are only part of a mix of financing sources in most organizations;
- There is a large discouragement in the sector to apply for external finance. The most frequently cited barriers in this respect are the (perceived) complexity to apply for external finance, the required time investment and a lack of sufficient business assets to offer as collateral. Combining this with the fact that many of the organizations that did not apply for external finance have no business plan, points to a lack of managerial skills in many CCS organizations to draft a solid business plan and prepare a financial dossier. Nevertheless a good business plan/financial plan is the most frequently asked for requirement by banks when applying for a loan;
- Bank loans are mainly applied for for short term and project-led financing. Only a minority of the bank loan applications are meant to finance corporate activities (e.g. management, investments in tangible assets, purchase of IPR);
- With the exception of audiovisual production, in all other activities micro-credits (loan amounts below €25,000) take up an important part of the loan applications. This finding has important implications for the type of financiers that are involved in the sector.

6. Financing CCS organizations

Often missing in the debate on access to finance, is the thoughts (and figures) of investors active and not active in financing CCS. Therefore, this chapter focuses on those financial institutions that provide debt finance to CCS organizations: banks and public or not-for-profit institutions.

This section reports on results from an interview based research into difficulties met by investors, or perceived difficulties, when investing in CCS. Through semi-structured interviews with banks and other financial service providers, knowledge was grouped of the *perceived* and *factual* barriers in access to bank loans. Hence, the focus here is bank loans. We start with a short typology of the financial institutions active in CCS debt finance and their products.

6.1 Financial institutions and CCS debt finance

6.1.1 Types of financial institutions

Private institutions

Private institutions that supply finance to CCS SMEs are often financial by nature (KEA, 2010). Private banks, investment banks, business banks and corporate banks may all supply loans and microcredit to CCS SMEs that they consider credit worthy. Banks that have CCS in their portfolio may be banks for which the CCS fits very well with their mission statement, such as Triodos Bank, or generalist banks such as BNP Paribas Fortis and Bank Leumi who consider the sector being profitable and have developed business activities that enable them to cater to this sector. Venture/mezzanine capital often comes from funds founded for exactly that purpose. Even though such funds are often publicly funded, some private initiatives are also active in Europe (KEA, 2010). Business angel investments come from so-called Business Angels. They are rich risk-taking individuals who are willing to invest their money and business expertise in promising start-ups. They often invest in their 'own' sector, and their decisions to invest are often based on a personal appeal to a promising project. Such business angels often operate in a network (Fraser, 2011). CCS firms may put a request for investment to the network, hoping a member will be willing to invest (KEA, 2010).

Public and not-for-profit institutions

Public institutions mainly concern bodies of government. These governmental bodies can be European wide, national or regional. Commissions, ministries or provinces can supply grants, sponsorships, donations, or set up tax incentive schemes to stimulate private investment.

Governments can also set up public financial intermediaries, such as public banks, to offer guarantees, loans and microcredit (CBI, 2011). They may also set up a venture/mezzanine capital fund, to supply equity finance. In this way, the government can directly improve or indirectly stimulate the access to finance for CCS SMEs (KEA, 2010).

There have also been private initiatives to set up sector specific financing intermediaries that also provide guarantees, loans and microcredit. An example is the Dutch Cultuur-ondernemen which provides financing specific for CCS.

Although the origin of these financial intermediaries may differ, their 'raison d'être' (providing finance to SMEs), their non-profit characteristics and lending activities (among which guarantees and microcredit) are rather similar, and therefore they are referred to here as public not-for-profit institutions.

Characteristics of the financial institutions interviewed

For this study financial experts from 13 different financial institutions were interviewed (interviews of approximately one hour each). We refer to annex for the full list of interviewees and a description of the financial institutions. Throughout the chapter we distinguish between active banks providing loans to the CCS, non-active banks and public or not-for-profit institutions.

6.1.2 Products offered

There is a clear distinction between general banks and public or not-for-profit institutions in the portfolio of offered products for CCS organizations.

Typically, general banks do not have a specific *corporate focus* on investing in CCS. Nevertheless, general banks may be active in the sector, but often because a group of individual employees have built up knowledge of the sector over the years and have a considerable circle of clients. Indeed, in most general banks there is at least one person who has a portfolio of CCS businesses. The size of loans depends on the CCS subsector and the type of bank. The film and television industry has notably higher loan sizes with averages between €1.5 million and €10 million. For the other sectors, loans are noticeably smaller with averages between €30,000 and €70,000. This trend is more or less in line with our findings in the survey.

Public or not-for-profit institutions generally focus on funding and guiding SMEs, sometimes with particular credit programs available for CCS SMEs. The primary financial products are microcredits and guarantee facilities. The average microcredit funding is between €3,500 and €4,000 with a maximum amount between €10,000 and €25,000, depending on the specific lending institution. The guarantee facilities are designed for applications larger than these maximum amounts and on average guarantee loans with a value of between €40,000 and €400,000. However, for the larger loans, the guarantee facility mostly covers only a part of the full loan, in a stepped fashion: the larger the loan, the smaller the share of the guarantee facility.

In line with the results from the online survey, interviewed banks supplied a number of different loans, most notably gap financing (where future revenue is secured with a contract between seller and buyer and the bank supplies working capital) and project financing (in which a project itself is funded, rather than general credit to a lender based on balance sheets or collateral). The provision of start-up capital to CCS was uncommon among the active banks interviewed for this study and only provided by public or not-for-profit institutions.

6.2 Providing finance to CCS enterprises: rationale and barriers

6.2.1 Reasons to (not) get involved in the CCS market

Since the global economic crisis of 2007, the influence that risk assessment divisions have on the decision making process within banks has increased. Where account managers may have had a larger say in lending decisions in the past, this mandate is, in many cases, now with the risk departments. In many of the interviews conducted, the individual account managers indicate that while from the perspective of the risk department the CCS is a high-risk sector, they themselves do not perceive this sector as more risky than any other SME sector. One of the interviewees indicated that their CCS investment unit was the most profitable unit in terms of income to headcount of the team. All interviewees indicate that **detailed knowledge of the sector by a specialist team is a prerequisite** for any bank's involvement in the sector. This is in line with the finding in Peacefulfish (2012) that financiers mostly have a strong preference for only a limited number of subsectors where they have built up strong market intelligence. A lack of market intelligence on other subsectors limits their investment choices.

Besides general profitability, supported by low default rates (see further), there are several other reasons to invest in CCS:

- Some banks strongly believe in its potential in order to achieve both social and economic growth;
- The enabling role of CCS for innovation, also in traditional sectors;
- The CCS are a growth sector and banks want to keep up with economic growth developments and some banks want to be a leader in this change (e.g. the shift to CCS follow the market);
- Some CCS subsectors are very 'business like' and represent a large financial volume, notably the audiovisual industry, and are therefore interesting clients for banks;
- From a marketing perspective, investing in CCS can provide positive exposure for banks;
- Some banks may specifically target 'philanthropic' investors who wish to invest in CCS and design their image and CCS portfolio accordingly.

More often than not, the CCS sector is not specifically targeted (or avoided) by banks. CCS can still be part of a bank's portfolio, but as a part of a larger SME portfolio which happens to include CCS SMEs, rather than as the result of a specific targeting strategy towards the sector.

As described above, being active in the sector is often not an outspoken policy of general banks, but rather the result of individual initiative. There are several barriers that cause banks to refrain from exploring CCS markets when no individual initiatives are being undertaken. In the literature we find several reasons not to provide finance to the CCS (these are ranked by the interview candidates further below) such as:

- Assets, mostly property rights, are intangible which makes it difficult to provide collateral for finance (CBI, 2011);

- The perception that the cultural and creative sectors are highly risky (high default risk) and not profitable[74];
- The financial demand of CCS businesses is often not substantial enough to be interesting for financial intermediaries due to the large fixed costs of loans[75];
- CCS have relatively low demand for bank loans, and rely mostly on alternative sources of finance;
- There is often a lack of reliable data in CCS businesses which is necessary to get credit funding[76] and;
- CCS businesses often lack the business and management skills necessary and have a lack of understanding of financial sources (KEA, 2010; Tooth, 2010).

Additional reasons for not investing in the CCS mentioned in the interviews are:

- Traditional bank products such as debt financing and equity financing do not match very well with the financing needs of CCS organizations, that often need microcredit, start-up capital, working capital and project based finance;
- Project based financing requires specialist knowledge of legal structures which is often not at hand in general banks;
- Being active in the sector also requires specialist knowledge of other elements in the sector such as competitiveness, market shares and trends;
- For public institutions, the main reason not to get involved in the CCS (as a specifically targeted subgroup of SMEs) is that their general mandate (as assigned by government) does not include CCS specifically.

6.2.2 Are CCS really different from other SMEs from a financial institution's perspective?

Crucial parameters for acceptance of a loan request

In general, financial institutions use a number of parameters to evaluate loan requests. All interviewees mentioned that CCS loan requests are judged according to exactly the same standards as requests from other businesses. The main parameters that financial institutions consider for a positive loan advice when dealing with requests from CCS sector are:

- Reasons to invest
- Return on investment
- Loss given default
- Judging an application
- Cash-flow valuation
- Check if cash-flow valuation guarantees interest payments and loan payments

[74] *http://ec.europa.eu/culture/creative-europe/documents/faq-financial-instrument.pdf*
[75] *http://ec.europa.eu/culture/creative-europe/documents/faq-financial-instrument.pdf*
[76] *http://ec.europa.eu/culture/creative-europe/documents/faq-financial-instrument.pdf*

- Track record of applicant
- Collateral
- Private equity
- Feasibility of business case

The future cash-flow valuation is difficult for the CCS since the success of a cultural or creative project is hard to estimate beforehand. Furthermore, IPR valuation is difficult. As a result, banks seek alternative solutions to secure the debt. This often involves the use of collateral and contracts that guarantee a return on investment from the perspective of the bank. In some instances, this collateral can be in the form of personal guarantees, tangible assets such as a music instrument or real estate, contracts that guarantee that a product that is still under development is already purchased by a third party or a guarantee of future subsidies. In some instances IPR transferrals to the bank (i.e. ownership in case of default) are involved, but this requires specialist knowledge on the valuation of IPR. Peacefulfish (2009) provides an overview of a number of specific financing models that are used by banks across Europe to finance film production.

Public or not-for-profit institutions evaluate loan applications primarily on the basis of the business opportunity rather than looking at the collateral an applicant can offer. A good business opportunity involves:

- A plan that explicitly details how return on investment is achieved;
- The business plan should fit with the general activities and trends of the creative and cultural subsector of the applicant;
- Entrepreneurial spirit of the applicant.

Nevertheless, also in public or not-for-profit institutions a credit check is always performed, as well as an analysis of the track-record of the individual applicant.

The need for specialized knowledge

Generally, interviewees mention that there are no other requirements for loans in the CCS compared to other (SME) sector. While all interviewees indicated that detailed knowledge of the sector is a prerequisite for any involvement in the sector, it has been mentioned repeatedly that the prerequisite of specialized knowledge is certainly not unique for the CCS, as successful investments in, for example, the bio-energy start-up market is equally complex. Successful investments in SMEs - whether CCS or other - require knowledge of the particular sector in which the investment takes place. For the CCS, specific knowledge is required on the following topics:

- Specialist legal knowledge, related to debt secured by contracts, which is often a core feature of project based financing, but not a traditional service that banks are familiar with (see also Peacefulfish, 2009; Keuper et al., 2008);
- Specialist up-to-date knowledge on key individuals, projects and developments in the sector (this differs from other SME sectors, as often in CCS, the *individual artist* is a key factor in a project's success);
- Specialist knowledge on risk assessment based on experience in the sector;
- Specialist knowledge on cash-flow projection as there is often no average market data available.

Such specialized knowledge is needed for financiers to look beyond traditional financial services and think about more innovative financing solutions.

Default and rejection rates

Table 12 provides an overview of the appreciation by different interviewees of the default rates and rejection rates for CCS compared to SMEs in general. We describe the relationship in ordinal terms as specific values are generally unavailable/confidential.

Table 12: Default and rejection rate – comparing CCS SMEs with SMEs in general

Organisation	Default rate of CCS vs SME	Rejection rate of CCS vs SME
Anonymous	≈	≈
Anonymous	N/A	N/A
Anonymous	≈	N/A
Anonymous	N/A	N/A
Anonymous	+	N/A
Anonymous	-	N/A
Anonymous	N/A	N/A
Anonymous	≈	≈

+ = Higher, - = lower, ≈ = similar, N/A = not available

Source: interviews

Active banks

Default rates

In many instances, the default rates were 0%, while figures of 5% and 17% have also been mentioned. Banks that are active in the sector reported that default rates for loans to CCS were not higher than for SMEs in general. For one bank the default rate was higher for CCS SMEs than for SMEs in general, but only about 2%[77].

Rejection rates

The low default rates may well be caused by a stepped selection procedure for loan requests. The banks indicated rejection rates between 40 and 90% at the first application of a loan, with various reasons underlying the rejection (see below). There is no indication that this is higher than rejection rates for requests from other SMEs, but there is not sufficient information to formally reject that hypothesis. Contrarily to the first selection process, banks report very low rejection rates for the projects they selected to present to the credit committees, with rejection rates between 0 and 10%. Banks all indicated that CCS SMEs are not required to meet additional quality standards, compared to other SMEs.

Reasons for rejection

The interviewees mentioned several reasons for rejections of CCS loan applications. The two categories mentioned most frequently were the lack of collateral or (private) equity and poor business plans included in the application. The table below provides a complete list of reasons for rejection as mentioned in the interviews.

[77] *Analysis was based on a comparable sample of SMEs and CCS-based SMEs by comparing similar loan sizes.*

Table 13: Reasons for rejection of CCS loan applications by active banks

Reasons for rejection active banks
Lack of collateral or (private) equity
Poor business plan (e.g. cash-flow perspective)
Lack of a track record
Lack of professionalism in dealing with a commercial bank
Profitability of project
Bad image of applicant
Applicant seems to desire subsidy/sponsoring rather than a bank loan

Source: Interviews

Public or not-for-profit institutions

Default rates

The microcredit facilities of public or not-for-profit institutions report default rates between 2 and 12%.

Rejection rates

Microcredit rejection rates range between 10 and 66%.

Reasons for rejection

The lending institutes that provide microcredit have a different take on reasons for rejection. For these organizations, which are not-for-profit, issues such as a lack of (private) equity are less relevant as 1) their 'raison d'être' is to provide a stimulus to the CCS sector and 2) the size of the loans is much smaller. Key reasons for rejection by these institutes are indicated in Table 14.

Table 14: Reasons for rejection of CCS loan applications by public and not-for-profit institutions

Reasons for rejection by public or not for profit institutions
Lack of trust in entrepreneur/artist
Requests for further evidence are ignored
Poor business case
Faulty financial planning

Source: interviews

6.2.3 Ranking barriers to finance

The literature describes several barriers for SMEs to access finance (see section 4.2). We presented these barriers to the interviewees and asked to grade each barrier. A barrier was graded '5' if it contributed a lot to the financing gap for CCS organizations, and '1' if it was considered hardly relevant, or not typical of loans to the CCS sector (i.e. when it might be relevant but not more so than for other SMEs). We used this grading to rank the statements below in terms of importance.

Active and non-active banks

Table 15: Assessment of barriers to finance CCS organizations by active banks

	Average grade*	Rank** (1=most important)
1. Assets, mostly property rights, are intangible which makes it difficult to provide collateral for finance	4,3	1
2. The cultural and creative sectors are highly risky (high default risk) and not profitable	2,7	6
3. The financial demand of CCS businesses is often not substantial enough to be interesting for financial intermediaries due to the large fixed costs of loans	3,4	4
4. CCS have relatively low demand for bank loans, and rely mostly on alternative sources of finance	2,9	5
5. There is often a lack of reliable data in CCS businesses which is necessary to get credit funding	3,7	3
6. CCS businesses often lack the business and management skills necessary and have a lack of understanding of financial sources	3.8	2

* Higher values of averages indicate more important barriers

** Rank=1 indicates the most important barrier; rank=6 indicates the least important barrier

Source: own calculations based on interviews

The following table includes the ranking of statements of non-active banks in the sector. The ranking includes the opinion of two professionals specialised in CCS on how they think banks perceive the CCS sector.

Table 16: Assessment of barriers to finance CCS organizations by non-active banks

	Average grade*	Rank** (1=most important)
1. Assets, mostly property rights, are intangible which makes it difficult to provide collateral for finance	4,8	1
2. The cultural and creative sectors are highly risky (high default risk) and not profitable	3,2	5
3. The financial demand of CCS businesses is often not substantial enough to be interesting for financial intermediaries due to the large fixed costs of loans	3,6	2
4. CCS have relatively low demand for bank loans, and rely mostly on alternative sources of finance	3,4	3
5. There is often a lack of reliable data in CCS businesses which is necessary to get credit funding	3,3	4
6. CCS businesses often lack the business and management skills necessary and have a lack of	3,1	6

	Average grade*	Rank** (1=most important)
understanding of financial sources		

* Higher values of averages and ranks indicate larger problems

** Rank=1 indicates the most important barrier; rank=6 indicates the least important barrier

Source: own calculations based on interviews

The most notable differences and similarities between active and non-active banks are the following:

- Both active and non-active banks consider the **intangible nature of property rights** the most important barrier for access to finance of CCS organizations (statement 1). Many of the interviewees were active investors in the film sector, where the intangible nature of the product value is also an issue. They indicate that they have found (complex) ways of project finance to overcome these issues via several legal structures;
- Non-active banks indicate that barriers to finance CCS organizations are also linked to a **lack of 'market' for bank loans** in CCS. The second largest barrier for non-active banks to get involved in financing CCS is the size of the financial demand and the third is a low demand for bank loans. Active banks rank these barriers lower.
- While non-active banks seem to consider a lack of business skills as the least relevant in the set of statements, active banks who deal with the sector indicate that a **lack of business skills** is the second largest barrier in access to finance (statement 6). Also in Peacefulfish (2012) both investors and lenders indicate that a lack of skilled teams and good quality business plans are important challenges for investing in/lending to the sector.

Public or not-for-profit institutions

Table 17 presents the average grade and rank that the public or not-for-profit institutions gave when assessing the difficulties faced when their organisations provides loans.

Table 17: Assessment of barriers to finance CCS SMEs by public and not-for-profit institutions established specifically for the CCS sector

	Average grade*	Rank** (1=most important)
1. Assets, mostly property rights, are intangible which makes it difficult to provide collateral for finance	3,0	3
2. The cultural and creative sectors are highly risky (high default risk) and not profitable	2,0	5
3. The financial demand of CCS businesses is often not substantial enough to be interesting for financial intermediaries due to the large fixed costs of loans	1,0	6

	Average grade*	Rank** (1=most important)
4. CCS have relatively low demand for bank loans, and rely mostly on alternative sources of finance	3,5	1
5. There is often a lack of reliable data in CCS businesses which is necessary to get credit funding	3,3	2
6. CCS businesses often lack the business and management skills necessary and have a lack of understanding of financial sources	3,0	3

* Higher values of averages and ranks indicate larger problems

** Rank=1 indicates the most important barrier; rank=6 indicates the least important barrier

Source: own calculations based on interviews

The ranking of statements between public / not-for-profit institutions and active banks were rather similar, with the main differences and similarities being:

- The intangible nature of assets/products is not as large a problem for public institutions (statement 1), which is in line with the earlier observation that loan evaluations at public institutions are not related to the issue of valuing intangibles;
- The rank, but more importantly the average grade of statement 3 was much lower for the public / not-for-profit institutions, indicating that the small size of the average loan amounts is not an issue for these institutions, while it is an issue for active banks. This is explained by the fact that public / not-for-profit institutions often provide microcredit and are focussed on SMEs in general, while this is not the case for active banks;
- The low demands for bank loans and the lack of reliable data in CCS businesses are the most important barriers to finance of public or not-for profit institutions (statements 4 and 5). Public and not-for profit institutions 'compete' with grants. The lack of business sector data hinders their ability to adequately judge business plans. The latter has also been pointed out by Tooth (2010) and Peacefulfish (2012) as a core element determining investor/lender willingness.

6.3 Synthesis of findings

The literature mentions several barriers for access to finance by SMEs. During the interviews, active and non-active banks alike mentioned that the largest barrier to finance is that assets, in the form of property rights, are intangible which makes it difficult to provide collateral for finance. Banks that target the CCS sector specifically, have found ways to finance these products, but this heavily depends on sector specific knowledge. Indeed, banks themselves mention that there is a barrier for banks to get involved in the CCS sector, which is primarily a lack of sector specific knowledge which requires an investment from the side of the banks to overcome. This, however, is not specific to the CCS sector, as investing in, for example, a new type of solar cells, or the purchase of additional livelihood stock, also requires rather specific sector knowledge. Specific knowledge of the sector is required for calculating cash flow valuations and assessing business plans. Another issue is that banks cannot easily 'sell' their traditional products to some CCS sector businesses, since some of these

businesses have different financing needs. Again, this forms a barrier for banks, which need to develop financial products that are more tailored to the CCS.

The ranking of statements indicated that active banks in the sector and non-active banks feel that the perceived high (default) risk in the sector is not seen as an important barrier to provide access to finance. This is supported by the (scarce) information retrieved here on default rates in the sector, which according to the interviewees were comparable to those in other SME sectors.

From the perspective of the banks (the financiers), there is no indication that being a CCS sector business *per se*, rather than being any other sort of SME, is a key barrier in access to finance. It seems to be **the business model that is the main problem in getting access to finance**, since often, but not always, CCS business models do not match with the traditional financial products offered by general banks as there is no underlying collateral. Banks may still choose to get involved. For example, funding a film is possible, but this requires difficult contractual agreements with producers, distributors, casting agencies and Special Purpose Vehicles (i.e. temporary legal business entities). Financing these kinds of projects only seems to be rewarding when associated with large financial volumes.

There are also CCS SMEs that require less complex types of funding such as gap financing or working capital (which is at least not complex in nature). Indeed, the crucial element seems to be the complexity of the financial service that has to be provided by the bank, combined with the financial volume of the project/profit, that determines whether or not banks (or rather, individual employees) access the market. This line of reasoning is summarized in Figure 60 below.

Figure 60: Summarizing findings on financing activities in CCS

	High complexity business models	Low complexity business models
High financial volume	• **++ Interesting for general banks** due to the potential profitability associated with the financial volume, despite lack of traditional collateral • **Financing request does not match with traditional financial services** of a bank • Often oriented on the **development of an intangible product**, rather than the production of a tangible product • Requires specialist knowledge • Example loan: project based financing • Typical project: film financing	• **+++ Interesting for general banks** due to available collateral and the potential profitability associated with the financial volume • **Financial request matches with traditional financial services** of a general bank • Oriented on the **production of a product** or tangible assets • Example loan: debt financing • Typical project: expanding a museum
Low financial volume	• **- - financially interesting** for general banks due to lack of collateral and track record • **Financing request does not match with traditional financial services** of a bank and requires specialist knowledge • Oriented on the **development of an intangible product**, rather than the production of a product • Example loans: micro-credit and seed money • Typical project: research into development of a clothing prototype	• **-/+ Interesting for general banks** due to available collateral • **Financing request may or may not match with traditional financial services** of a general bank • Oriented on the **production of a product** or tangible assets • Example loan: pre-financing / working capital • Typical project: providing an architect with 'working money'

Specific product types may become successful and high volume when provided with funding and business training, but shall remain 'high complexity business models'

Some low complexity business models may grow into the high financial volume sector

Some individuals/SME's that are oriented on the development of and idea/product may grow into production based companies, when provided with funding and business training

7. Assessing the financing gap for CCS

In this chapter, we assess the financing gap for CCS. The logical framework that has been used in the ex-ante Impact Assessment for the CCS Guarantee Facility[78] is the starting point for the assessment. However, a number of refinements have been added to this logical framework. The data that we have presented in Chapter 3 (the sector portrait of CCS), Chapter 5 (results from the online survey) and Chapter 6 (interviews with financiers), will be used to refine the estimate of the financing gap. Since the new CCS guarantee facility will cover a period of 7 years (2014-2020), the financing gap will be estimated for this period.

7.1 Logical framework

The following approach has been used to compute the financing gap, taking into account the data we have available from the online survey and statistical analysis:

1 In general, the financing gap for the CCS over a period of 7 years can be defined as:

$$
\begin{gathered}
[\textit{Number of companies in the sector} \\
\times \\
(\textit{\% share of companies in the sector that did not apply for a bank loan because of} \\
\textit{insufficient business collateral, even though they had a solid business plan} \\
+ \\
\textit{\% share of companies in the sector that did apply for a bank loan, but whose} \\
\textit{bank loan was rejected or only partly granted, even though they had a solid business plan})] \\
\\
\times \\
[\textit{Average loan amount in the sector} \\
\times \\
(\textit{7 years/Average loan maturity in the sector})]
\end{gathered}
$$

2 Based on the literature study and the analysis of survey results, we have identified **5 distinct clusters of CCS subsectors/functions** that show significantly different financing needs and therefore show differences in (one of) the parameters of the financing gap:

- Heritage & Education (H & E)
- Audiovisual – Production houses (AV – Prod.)
- Audiovisual – Presentation & Dissemination (AV – Pres.)
- Audiovisual – Other (AV – Other)
- Other CCS

[78] *SEC(2011)1399 final - Part III*

We have made the distinction between these 5 clusters based on the following arguments:

a) The survey results show that average loan amounts are substantially different in each of these subsectors (see also section 5.3.3). We have computed these average loan amounts on the basis of the survey results, and as such they are of course only indicative for the effective loan amounts in the subsectors.

b) The audiovisual sector – and in particular audiovisual production – has some very specific characteristics that make the financing needs and relationship with financiers also specific. Project-specific business structures are being used, often with very few business assets, no trading history, but with substantial financial needs. This has also led to the development of specific financial instruments by (specialized) banks and other types of financiers, further spurred by specific (fiscal) policy instruments towards the sector in different countries (see Peacefulfish, 2009; Tooth, 2010).

c) Specifically, for the Heritage & Education subsector, the role of business collateral and the importance of a business plan in the loan application procedure could be different than in the other subsectors, as 31% of the Heritage & Education organizations are government-owned (see Chapter 5). The anchoring of these organizations in the government sector could therefore influence the other components that we use to compute the financing gap, namely: (a) the number of companies that did not apply for a bank loan due to insufficient collateral or (b) the number of companies that did apply, but whose loan was only partly accepted or rejected, even though they had a solid business plan. As one third of the organizations in Heritage & Education are government-owned, we would expect that these (relative) numbers are lower in Heritage & Education, in comparison to the other subsectors (which is confirmed by the data - see further).

For each of these clusters the financing gap is calculated according to the aforementioned specifications. The estimated total financing gap for the CCS is equal to the sum of the financing gaps for each of these 5 clusters.

We do note that THE 'average' organization does not exist in such a diverse sector as the CCS. By differentiating between the 5 aforementioned clusters, we have made part of the diversity explicit. However, that doesn't mean that within each of these clusters we find a homogeneous group of actors with homogeneous financing needs. By working with different clusters we only diminish the diversity within the group (i.e. the distance from any organization in that cluster to the cluster's (statistical) average organization).

3 In order to compute the **different components of the financing gap**, we have used data from the online survey and from the sector analysis in Chapter 3. Here we describe the data sources we have drawn on to calculate the different components of the financing gap:

a) The basis of our calculations are ***the number of companies in each subsector***, which have been calculated on the basis of the SBS statistics and Amadeus computations that are shown in Figure 8. For the Audiovisual – Production subsector, we have used the study from Peacefulfish (2009) to compute the number of movie production houses active in Europe in 2009 (see annexes Peacefulfish (2009), based on Kemps). For a detailed overview of the

NACE codes that we have used to calculate the number of companies in each CCS subsector, we refer to Table 5.

b) ***The % share of companies in the subsector that did not apply for a bank loan because of insufficient collateral and that had a solid business plan.*** The percentage share of companies in the subsector that did not apply for a bank loan because of insufficient collateral is calculated using the scheme depicted in Figure 61. By adding the number of companies that have indicated that they have *not*

- looked for external finance
- contacted a bank / sector-specific financing body
- applied for a bank loan

because of insufficient collateral (see yellow lettering in the figure), we are able to compute the number of companies that have indicated that they have not applied for a bank loan due to insufficient collateral. We have put this number in relation to the total number of companies in the subsector that have indicated they have a legal structure (see utmost left-hand of Figure 61).

But not all is market failure. To correct for this, we look at whether or not the companies have a business plan. We consider having a business plan for the next 3 years to be a minimal requirement for banks to provide a loan. However, not each business plan is of sufficient quality for a financier to accept a loan application (and thus not all rejections can be considered as market failure).

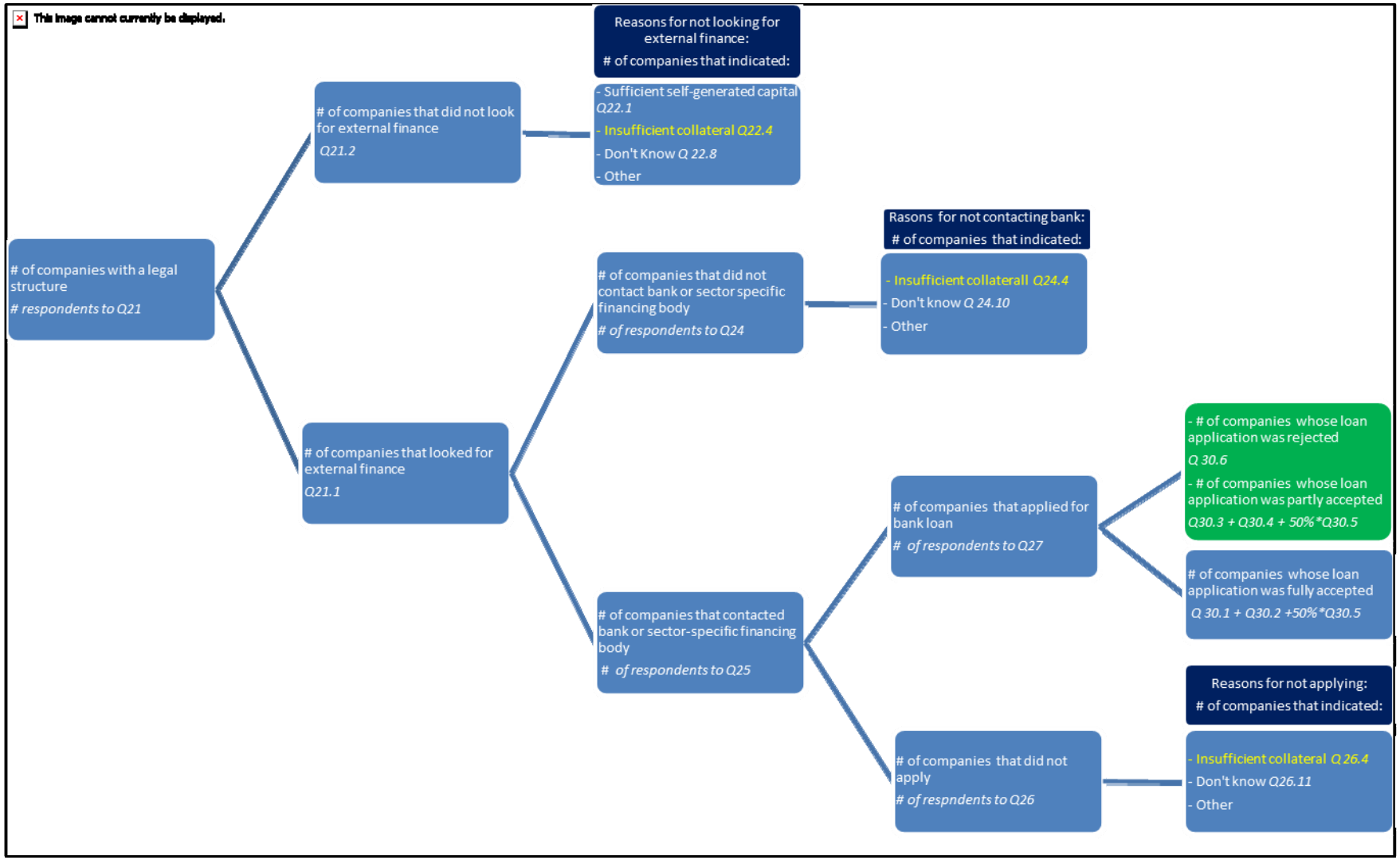
To estimate the market failure, we assume that only part of all business plans can be considered solid by a bank, i.e. they are of sufficient quality to consider any further. To make an estimation of what the average percentage is of 'solid' business plans in the total group of business plans, we found no specific relevant information in the literature. Based on limited input from interviewees, we hypothesize that only around 40% of all business plans of CCS organizations that look for external finance can be considered 'solid'. However, due to a lack of good quality information about this we incorporate variation in this percentage and calculate the financing gap in three different scenarios, in which this percentage varies from 30% to 50%.

c) The % share of companies in the subsector that did apply for a bank loan but whose bank loan was rejected or only partly granted, even though they had a solid business plan. The percentage share of companies in the subsector that applied for a bank loan, but whose loan application was rejected or only partly accepted is highlighted in green in Figure 61. Again, we have put this number in relation to the total number of companies in the subsector that have indicated having a legal structure (see utmost left-hand of Figure 61). These companies also had to indicate whether or not they had a business plan. Using this supplementary data, and again assuming that only part (ranging from 30% to 50%, see above) of all business plans is solid, we can compute the percentage share of companies in the subsector that had a solid business plan but whose loan application was only partly accepted or completely rejected.

d) The ***average loan amount*** is calculated by using survey data (Question 29 of the survey). An overview of the different average loan amounts for each subsector in the calculation of the financing gap is given in Table 18.

e) The ***average loan maturity*** is calculated by using survey data (Question 31 of the survey). An overview of the different average loan maturities per subsector is given in Table 18.

Figure 61: Survey framework for computation of components (b) and (c)



Source: Survey IDEA Consult

7.2 Financing gap in CCS

Table 18 shows the results of the computations that we have described above, for the three different scenarios. We discuss the results for the different components in the following paragraphs.

1 Total number of companies (A)

The first component in Table 18 has been calculated on the basis of the SBS statistics and Amadeus computations that are shown in Figure 8. As indicated in the previous section, the SBS and Amadeus data have been complemented with information from Peacefulfish (2009).

2 Role of collateral (B) (see also Figure 62)

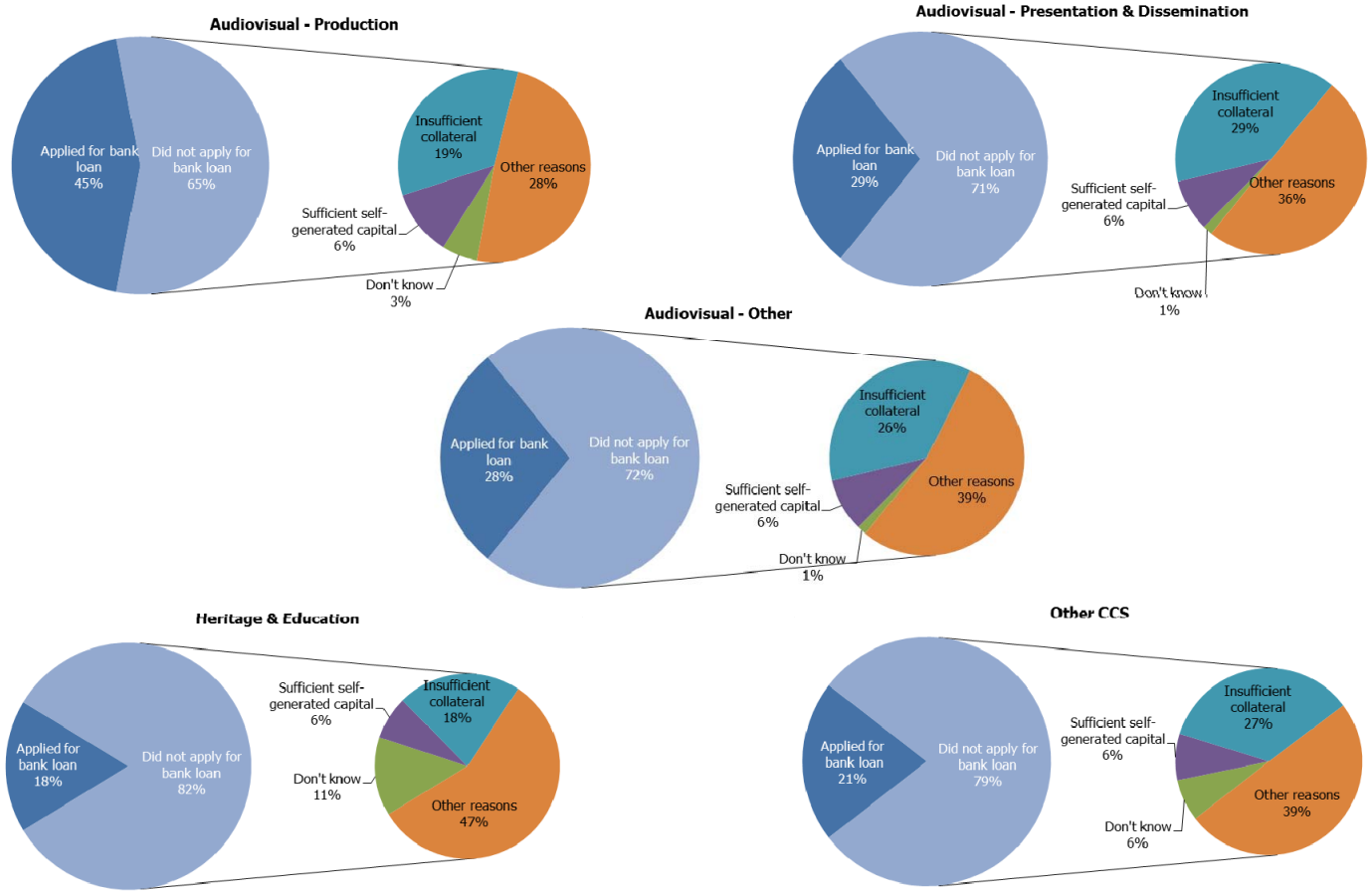
The survey results show that about one out of five organizations in the AV – Prod and H & E subsectors do not apply for a bank loan due to a lack in collateral. In the other CCS subsectors, the lack of collateral plays a larger role: more than one out of four organizations indicated that the lack of collateral impeded them from applying for a bank loan. In the AV – Pres subsector, nearly 30% of organizations did not apply for a bank loan because of insufficient collateral.
In

Table 9, which gives an overview of other surveys in CCS, the KEA survey shows that 54% of respondents indicated a lack of collateral as an obstacle to access finance.

3 Loan rejection / acceptance rates (B)

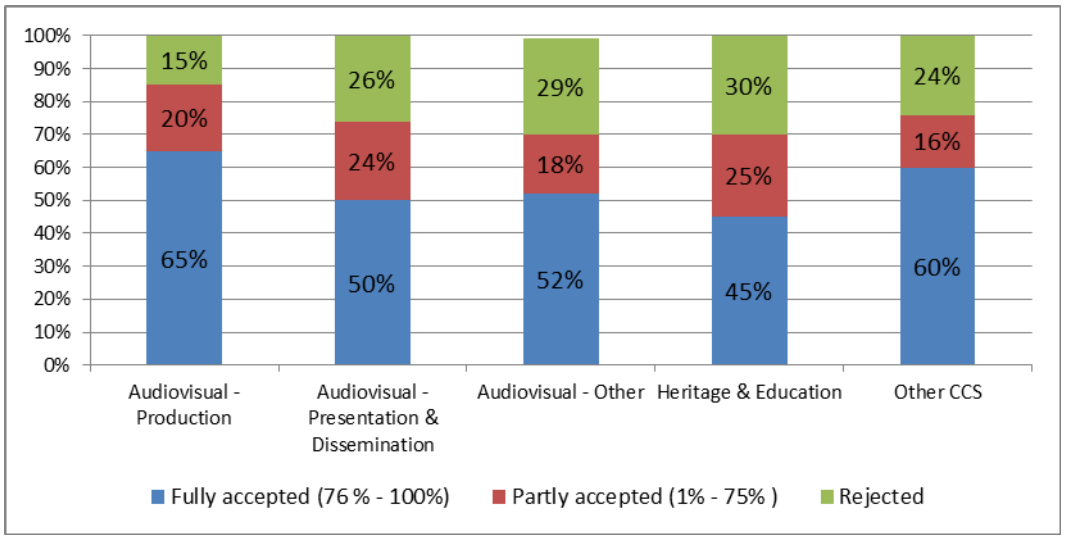
The share of organizations that applied for a bank loan is displayed in Figure 62. The loan rejection and acceptance rates have been examined in relation to the total percentage share of companies that applied for a bank loan. Figure 63 gives an overview of the acceptance and rejection rates for those organizations that actually applied for a bank loan. The percentages are calculated in relation to all organizations in the subsector that have a legal structure.

Figure 62: Bank loan application behaviour in CCS (1)



Source: Survey IDEA Consult

Figure 63: Acceptance and rejection rates for those organizations that applied for a bank loan



Source: Survey IDEA Consult

a) In the **AV – Prod** subsector 45% of the organizations applied for a bank loan, which is the highest percentage of the five clusters in the analysis. 15% of the loan applications was rejected. Relating this percentage to the total sample of AV – Prod. organizations in the survey, this represents 7% of all AV – Prod. Organizations. Another 20% of the loan application was only partly accepted[79], which equals 9% of the total sample in this subsector. For 65% of those organizations that applied for a bank loan, the loan application was fully accepted[80].

b) For the **AV – Pres and AV - Other** subsectors, we note that less than 1 in 3 organizations applied for a bank loan, which is a significantly lower percentage than in AV – Prod. but still higher than in H& E and in Other CCS. **In AV – Pres** 26% of those organizations that applied for a bank loan, found their most recent loan application rejected (or 7 % of the total survey sample for this subsector); a similar proportion of organizations found their loan application only partly accepted. Half of the organizations in the sector that applied for a loan had their loan application accepted. In **AV – Other**, 47% of all organizations that applied for a loan, had their application rejected or only partly accepted (which corresponds to 13% of the survey sample in this subsector); 52% had their application fully accepted. We thus find that in the AV – Pres and AV - Other subsectors, loan acceptance rates (in relation to those that applied for a loan) were at least 10 percentage points lower than in AV – Prod. Loan rejection rates (relative to the number of organizations that applied for a loan) were nearly 10 percentage points higher than in AV – Prod.

c) For **H & E,** the proportion of organizations that applied for a loan is less than 1 in 5 and the lowest of all CCS subsectors. Moreover, also the acceptance rate is quite low: only 45% of organizations in H&E that applied for a loan had their loan application accepted for at least 75%. For another 30% of these organizations, their application was rejected. Relative to the total number of H & E organizations in our survey, the proportion of organizations that found their loan application rejected, was quite low (only 4%), but this is due to the fact

[79] *Partly accepted: i.e. loan accepted for 75% or less of the amount requested.*
[80] *Fully accepted i.e. loan accepted for 76% - 100% of the amount requested.*

that only 18% of organizations applied for a loan. As indicated in Chapter 5, a possible explanation for the low use of loans can be the higher presence of government-owned corporations in the subsector.

d) Finally, in **Other CCS**, 21% of organizations in the survey applied for a bank loan: of these organizations, 60% had their loan application accepted for at least 75%; 16% had their loan application only partly accepted and for 24% of the organizations, the application was fully rejected. The loan acceptance rate is in line with that in AV – Prod and higher than in all other CCS subsectors that we distinguish here. The rejection rate is similar to that in AV – Pres and nearly 10 percentage points higher than in AV – Prod.

We can compare these numbers to the European Commission's analytical study on SMEs' access to finance[81] (2011). In 2011, 20% of organizations applied for a bank loan/credit line/bank overdraft. In Other CCS, a similar proportion of organizations applied to a bank loan, whereas in the AV subsectors this proportion was higher. In 2011, 70% of the EU SME's that had applied for a bank loan (or a bank overdraft/ credit line in the last 6 months[82] [83], got their application fully accepted (for 75 % - 100% of the loan application amount). About 10% of these organizations' loan application was rejected and between 10% - 13% of the organizations that applied for a bank loan/overdraft or credit line had their application only partly accepted. In comparison to our CCS survey results, the acceptance rates for SMEs in general are about 10 to 20 percentage points higher than in the CCS survey and the rejection rates are 5 to 15 percentage points lower.

A second point of comparison is the BIS & DCMS survey (see Table 9) which contains information on rejection rates for creative industry business, that are present in the subsectors which fall under AV and "Other CCS" in this study: in the BIS/DCMS study, 17% of overdrafts applications and 11% of term loan applications were rejected, which is lower than the rejection rates that we find in our survey.

4 Availability of a solid business plan (C)

In order to compute the financing gap, we should not take into account all CCS organizations that did not apply or had their loan rejected but only those where we can assume market failure. As indicated in the previous paragraph, we consider having a solid business plan as a minimal requirement for banks to provide a loan. CCS organizations that did not apply/contact a bank due to lack of collateral or had their loan application rejected but do not have a business plan, cannot be considered a 'not getting access to finance due to market failure'.

To judge the quality of business plans however, there is no information available from the survey. As discussed in paragraph 7.1 we therefore work with three different scenarios with each scenario assuming a different quality success rate (30%-40%-50%). In each of these scenarios we have computed the proportion of organizations that had a solid business plan but (a) found their loan application rejected/partly accepted or (b) did not apply due to a lack of collateral.

[81] *European Commission, DG Entreprise & Industry, 2011, "SMEs' Access to finance, Survey 2011, Analytical Report", p 23, p 25, p 29.*
[82] *In the IDEA Consult survey, "bank loans" also included credit lines and overdrafts.*
[83] *In our survey, the questions related to the most recent loan application (including credit line and overdraft) at a bank / sector-specific financing institution, whereas the EC survey referred to all similar applications in the last 6 months. This could explain for a part why the "acceptance" rate is higher in the EC study than in the IDEA Consult survey.*

In the survey, about 46% of organizations in AV – Prod., AV –Pres. and H & E that did not apply due to a lack in collateral or that did apply, but whose loan application was rejected/partly accepted had a business plan. If we assume that only 50% of these business plans are solid (in scenario 3), this implies that 23 % of organizations in these sectors had a "solid" business plan. In AV – Other and Other CCS, these numbers are lower: in scenario 3 respectively 19% and 17% of the organizations in (B) is estimated to have a solid business plan.

In the literature (see Table 9) the HKU study mentions that 53% of organizations in their survey have a 1-year forecast (business plan) and 22% have a 3-year forecast. In the Clayton & Mason survey, 36% of organizations (SMEs) had a formal business plan. The results in our survey are in line with these findings.

5 Proportion of organizations affected by market failure (D)

We have defined organizations that are affected by market failure, as those that had a good business plan, but (a) found their loan application rejected/partly accepted or (b) did not apply due to a lack of collateral. Expressed as a percentage of all organizations in the subsector with a legal structure, we find that 10% of organizations in AV – Pres were affected by market failure (the highest percentage of the 5 CCS subsectors) compared to 8% in AV – Prod, 7% in AV – other and 6% in Other CCS and H & E.

6 Average loan amount (F)

The average loan amounts we have calculated cover a very wide spectrum of loan amounts, ranging from less than € 10,000 to over € 1,000,000. These average loan amounts are therefore only indicative. We note that the highest average loan amounts can be found in AV – Prod, which is in line with expectations (€ 378,804). Other CCS organizations are characterized by the lowest average loan amount: € 88,672. In H & E and AV – Pres the average loan amounts range between € 290,000 and € 300,000. Finally, in AV – Other, the organizations in the survey applied for an average loan amount of around € 150,000. The large diversity in average loan amounts between each of the five clusters is one of the main reasons why we have chosen to calculate the financing gap for each of these 5 CCS subsectors separately.

7 Average loan maturity (G)

To calculate the financing gap over a 7-year period, we relate the average loan amount to the average duration of the loan based on the information from the survey on loan maturity. We find that loans in Other CCS on average have the shortest maturity (on average 3.4 years), whereas loans in H & E show the longest maturity (on average 4.2 years).

8 Average loan amount needed over a period of 7 years (H) = (F) * (7/(G))

To come to an estimate of the average loan amount needed over a 7 year period, we divide the average loan amount by the average loan maturity and multiply this by 7.

9 Total financing gap over a 7-year period (I)

Multiplying (A), (D) and (H) we come to an estimate of the financing gap for each of the five clusters in the analysis. The total CCS financing gap is the sum of these five amounts.

Table 18: Computation of the financing gap in CCS (1) - three scenarios

SCENARIO 1 30% of those that look for external finance and have a business plan, have a SOLID business plan					
	Audiovisual – Production ***N=384***	**Audiovisual - Presentation & Dissemination** ***N=168***	**Audiovisual – Other** ***N=89***	**Heritage & Education** ***N=427***	**Other CCS** ***N=933***
(A) : Total number of SMEs	**5.542**	**20.429**	**84.401**	**10.273**	**879.355**
(B) : Total % of SMEs that: • **did not apply to a bank loan due to insufficient collateral** • **did apply, but whose loan application was rejected / only partly granted**	**34%**	**43%**	**39%**	**26%**	**35%**
% of companies that did not apply to bank loan due to lack in collateral	19%	29%	26%	18%	27%
% of companies whose loan application was rejected	7%	7%	8%	4%	5%
% of companies whose loan application was partly accepted	9%	7%	5%	4%	3%
(C) : % of (B) with a solid business plan [1]	**14%**	**15%**	**11%**	**14%**	**10%**
(D) = (B) * (C) : % of companies that had a solid business plan, but that • **did not apply to a bank loan due to insufficient collateral** • **that did apply, but whose loan application was rejected / only partly granted**	**5%**	**6%**	**4%**	**4%**	**4%**
(E) = (A) * (D) : Total number of SMEs affected by market failure	**258**	**1.266**	**3.776**	**367**	**31.839**
(F) : Average loan amounts	**€ 378.803,68**	**€ 289.270,83**	**€ 153.020,83**	**€ 300.643,94**	**€ 88.672,32**
(G) : Average loan maturity (years)	**3,6**	**3,7**	**3,8**	**4,2**	**3,4**
(H) = (F) * (7/(G)) : Average loan amount needed over a period of 7 years	**€ 738.977,67**	**€ 547.717,73**	**€ 280.145,83**	**€ 506.001,82**	**€ 184.950,84**

(I) = (E) * (H): Financing gap over a 7-year period	**€ 190.775.360**	**€ 693.309.173**	**€ 1.057.747.619**	**€ 185.676.214**	**€ 5.888.597.051**
Total Financing gap in CCS over a 7-year period	**€ 8.016.105.419**				

SCENARIO 2

40% of those that look for external finance and have a business plan, have a SOLID business plan

	Audiovisual – Production *N=384*	**Audiovisual - Presentation & Dissemination** *N=168*	**Audiovisual – Other** *N=89*	**Heritage & Education** *N=427*	**Other CCS** *N=933*
(A) : Total number of SMEs	5.542	20.429	84.401	10.273	879.355
(B) : Total % of SMEs that: • **did not apply to a bank loan due to insufficient collateral** • **did apply, but whose loan application was rejected / only partly granted**	34%	43%	39%	26%	35%
% of companies that did not apply to bank loan due to lack in collateral	19%	29%	26%	18%	27%
% of companies whose loan application was rejected	7%	7%	8%	4%	5%
% of companies whose loan application was partly accepted	9%	7%	5%	4%	3%
(C) : % of (B) with a solid business plan [1]	18%	19%	15%	18%	14%
(D) = (B) * (C) : % of companies that had a solid business plan, but that • **did not apply to a bank loan due to insufficient collateral** • **that did apply, but whose loan application was rejected / only partly granted**	6%	8%	6%	5%	5%
(E) = (A) * (D) : Total number of SMEs affected by market failure	344	1.688	5.034	489	42.452
(F) : Average loan amounts	€ 378.803,68	€ 289.270,83	€ 153.020,83	€ 300.643,94	€ 88.672,32

(G) : Average loan maturity (years)	3,6	3,7	3,8	4,2	3,4
(H) = (F) * (7/(G)) : Average loan amount needed over a period of 7 years	€ 738.977,67	€ 547.717,73	€ 280.145,83	€ 506.001,82	€ 184.950,84
(I) = (E) * (H): Financing gap over a 7-year period	€ 254.367.147	€ 924.412.230	€ 1.410.330.159	€ 247.568.286	€ 7.851.462.735
Total Financing gap in CCS over a 7-year period	**€ 10.688.140.559**				

SCENARIO 3

50% of those that look for external finance and have a business plan, have a SOLID business plan

	Audiovisual – Production *N=384*	**Audiovisual - Presentation & Dissemination** *N=168*	**Audiovisual – Other** *N=89*	**Heritage & Education** *N=427*	**Other CCS** *N=933*
(A) : Total number of SMEs	**5.542**	**20.429**	**84.401**	**10.273**	**879.355**
(B) : Total % of SMEs that: • **did not apply to a bank loan due to insufficient collateral** • **did apply, but whose loan application was rejected / only partly granted**	**34%**	**43%**	**39%**	**26%**	**35%**
% of companies that did not apply to bank loan due to lack in collateral	19%	29%	26%	18%	27%
% of companies whose loan application was rejected	7%	7%	8%	4%	5%
% of companies whose loan application was partly accepted	9%	7%	5%	4%	3%
(C) : % of (B) with a solid business plan [1]	**23%**	**24%**	**19%**	**23%**	**17%**
(D) = (B) * (C) : % of companies that had a solid business plan, but that • **did not apply to a bank loan due to insufficient collateral** • **that did apply, but whose loan application was rejected / only partly granted**	**8%**	**10%**	**7%**	**6%**	**6%**

(E) = (A) * (D) : Total number of SMEs affected by market failure	**430**	**2.110**	**6.293**	**612**	**53.065**
(F) : Average loan amounts	**€ 378.803,68**	**€ 289.270,83**	**€ 153.020,83**	**€ 300.643,94**	**€ 88.672,32**
(G) : Average loan maturity (years)	**3,6**	**3,7**	**3,8**	**4,2**	**3,4**
(H) = (F) * (7/(G)) : Average loan amount needed over a period of 7 years	**€ 738.977,67**	**€ 547.717,73**	**€ 280.145,83**	**€ 506.001,82**	**€ 184.950,84**
(I) = (E) * (H): Financing gap over a 7-year period	**€ 317.958.934**	**€ 1.155.515.288**	**€ 1.762.912.699**	**€ 309.460.357**	**€ 9.814.328.419**
Total Financing gap in CCS over a 7-year period	**€ 13.360.175.699**				

(1) "N" refers to the number of organizations in our survey, within the specific subsector, that have a legal structure.

(2) We define that the loan application is "partly accepted" if it is accepted, but for less than 76%.The loan application is "fully accepted", if it is accepted for between 76% - 100% or if it is fully (100%) accepted.

(3) Assumption: 50% of all business plans is solid.

Source: Survey IDEA Consult, Eurostat

Depending on the different scenarios, we estimate that the total financing gap in the CCS over a 7-year period ranges from € 8 billion (when on average only 30% of the business plans of CCS organizations is sufficiently solid for financiers) to € 13.4 billion (when on average 50% of the business plans of CCS organizations is sufficiently solid for financiers). The largest part of this financing gap is determined by the financing gap in Other CCS. Although the average loan amount is substantially lower than the average loan amount in the other subsectors, this subsector contains by far the largest number of organizations.

In the analysis we do not take into account potential differences in the level of market failure between regions or countries. The survey results do not allow us to make any reliable analysis on this at the country level. Assuming that the level of market failure does not differ significantly across countries, the geographical distribution of the financing gap is more or less[84] in line with the geographical distribution of the CCS (see Figure 9 in Chapter 3).

Additionally, we do not take into account the future impact of the financial and economic crisis. The survey results provide input on past experiences of CCS organizations with respect to external financing needs and possible barriers. However, in a number of countries the most important source of external finance in CCS – subsidies – have already been affected. Moreover, due to the financial crisis it is expected that financiers adopt stricter criteria while screening loan applications. It is clear that this may affect demand for and access to bank loans for CCS organizations in the future.

[84] *The CCS structure at the country level can differ in terms of specialization (e.g. more than average proportion of audiovisual production) and therefore there might be some deviation.*

8. Conclusions and recommendations

8.1 An atypical SME market to finance

With an overwhelming proportion of SMEs in the sector – particularly very small organizations - the problem of access to finance in the cultural and creative sectors is to some extent similar to the challenge of attracting external finance faced by SMEs more generally. However, both existing literature and the results from this study (survey results, interviews) confirm that (a combination of) **specific sector characteristics make the problem of access to finance in the cultural and creative sectors more complex**.

An important barrier for financiers investing in the sector is the difficulty of adequately assessing the future cash-flow valuation for many CCS organizations and thus the financial risk involved. Traditionally, banks try to counter this risk with collateral (mostly tangible assets) or guarantees. But most CCS organizations possess only very limited tangible business assets which can be offered as collateral. On the other hand, banks are very reluctant to use the intangible assets which CCS organizations usually tend to have (such as copyright, licences) as collateral. This is mainly due to a lack of knowledge about how to assess their economic value. The problem of **lack of collateral** and the intangible nature of assets as barriers to accessing finance in the CCS have been confirmed in the survey and the interviews with financiers.

The above mentioned problem of access to finance prevents banks, in particular, from providing longer term financing to CCS organizations, unless they find alternative ways to counter the risk. One way to do so is through a stricter screening of both business plans and the skills of the management team. Due to the lack of tangible assets, good quality business plans and/or belief in a good quality team often have a higher weight than in other sectors when assesing the financing risk in the sector. However, in the interviews with active financiers a **lack of business and managerial skills** has been assessed as an important barrier to finance for CCS organizations. Focusing on the survey results, we also find that only around 40% of the survey respondents has a business plan for the next 3 years (irrespective of its quality).

It is clear that a thorough screening of new applications requires time and resources from the financiers. It is only interesting for banks to invest in building up market intelligence internally when the market and average loan amounts are sufficiently large. But from the survey we find that for most of the CCS subsectors, average loan amounts are relatively small and even at the level of microcredits (i.e. below € 25,000) for a significant part of the sector. Moreover, the CCS covers a heterogeneous group of organizations with different business models and financing needs, some of them very complex. This fragmentation increases the barriers for financial institutes to invest in building up specialized market intelligence. The **lack of market volume** has also been identified as an issue by the interviewees.

In addition to the aforementioned argument, developing good market intelligence is also hindered by a **lack of uniform sector definition**. The CCS is a hybrid sector, i.e. a sector that includes diverse sub-sectors and does not appear in any official data sources as such. Moreover, the concept of 'cultural and creative sectors' is not commonly understood across Europe and different definitions apply in different Member States. As a consequence, uniform market monitoring information is currently

lacking. The concept 'cultural and creative sectors' is also lacking in most internal information systems of financial banks, thus impeding good market monitoring.

The oft-cited argument that CCS organizations would be unprofitable compared to other sectors and, as such, would prevent financiers from being active in the CCS has not been confirmed in this study. Both in the secondary data analysis on the financial situation of the sector and in the interviews we find no supporting evidence for this argument.

8.2 A diverse financing mix, but insufficient to support growth

The combination of the above-mentioned barriers makes banks reluctant to provide finance to the sector, when they can insufficiently counter the risks involved. Specifically, intermediate and longer term financing to CCS organizations appear to be lacking. There is an above average use of short term finance in many CCS subsectors to finance businesses. However, longer term finance is critical for organizations to support longer term business planning and stable business growth.

Our survey - as well as other studies - show that many CCS organizations consider other types of finance aside from bank loans. Subsidies play a very important role, but informal financing such as loans from private individuals or organizations and crowdfunding are also being used. Due to the high level of novelty (and risk) equity investors are also active in the CCS, although mainly concentrated in specific subsectors.

But according to financial growth cycle theory, **short term and intermediate term loans remain critical instruments to support growth in the sector**, complementary to other financing instruments being used by CCS organizations. Both informal financiers and equity investors cover only part of the financing needs in the CCS. Moreover, subsidies in general do not serve (primarily) to leverage organization growth. Especially in the group of firms with limited track records and collateral, the promotion of more intermediate term loans through the CCS guarantee facility can boost growth into more professional medium-sized CCS organizations.

Although the "missing middle" problem in the CCS (i.e. lack of middle-sized firms) is not exclusively linked to the problem of access to bank loans, it is clear that financial institutions providing loans do play an important role to support CCS organizations in developing into medium-sized organizations.

According to our estimate, there is a financing gap in the CCS due to lack of collateral, combined with a lack of managerial skills, which ranges from €8 billion to €13.3 billion. The largest part of this financing gap is determined by the financing gap in CCS sectors other than the Audiovisual and Heritage & Education Sector. Due to insufficient data, the analysis does not take into account potential differences in the level of market failure between regions or countries. Assuming that the level of market failure does not differ significantly across countries, the geographical distribution of the financing gap is expected to be more or less in line with the geographical distribution of the CCS as described in Chapter 3 of this report.

The estimate of the financing gap does not take into account the potential future impact of the financial and economic crisis. However, in a number of countries the most important source of external finance in CCS – subsidies – have already been affected and in different interviews with financiers it was mentioned that stricter

criteria now generally apply for screening loan applications since the crisis began. It is clear that this may affect the financing gap.

8.3 Leveraging the effect of the CCS guarantee facility

The CCS guarantee facility in the new Creative Europe programme will allow financiers to counter (part) of the financing risks via a third party guarantee mechanism and thus lower the barrier for financiers to become active in the sector. As such, establishing the CCS guarantee facility is very valuable tool to stimulate bank financing in the CCS.

But the study results have highlighted that the **problem of access to finance in the CCS is multidimensional** and not only relates to the financing risk as such. Lowering the financing risk for banks is critical and a third party guarantee mechanism can be effective in this respect. But addressing the problem of access to finance in the cultural and creative industries should not be restricted to only lowering the financing risk for banks in individual bank loans.

8.3.1 Invest in capacity building

The new Creative Europe programme rightly plans to supplement the guarantee facility with a capacity building programme. To maximally leverage the effect of the guarantee facility, capacity building efforts should focus on both CCS organizations and financiers.

Capacity building on the CCS side

Since financial institutions only fund potentially economically viable opportunities, any organization seeking finance needs to be able to demonstrate its credit worthiness. As stressed in paragraph 8.1, capacity building on managerial and entrepreneurial skills in CCS organizations will help them to improve their access to finance by presenting stronger loan applications to financiers. Moreover, it will lead to better informed strategic decision-making in CCS organizations (e.g. on the potential role of external finance) and stronger teams. Capacity building on managerial and entrepreneurial skills will not only strengthen CCS organizations that are more economically growth oriented, but is as valuable for (subsidized) organizations without an economic drive to grow, in order to support their ambitions and strategic goals.

Previous work by the European Creative Industry Alliance (ECIA) highlights that numerous investment readiness schemes are operational throughout Europe, either dedicated CCS or more generic business support schemes. Although most investment readiness schemes focus only on attracting investment and not bank finance, it is recommendated that further efforts are made to build on the work and experience of the ECIA in this topic when developing the capacity building programme.

We note that capacity building needs in the CCS clearly go beyond mere knowledge acquisition (e.g. on business plan writing, accounting and finance) and acquiring specific competences (e.g. strategic thinking). Increasing entrepreneurial skills has as much to do with fostering entrepreneurial attitudes. Studies on entrepreneurial learning show that stimulating a more entrepreneurial mind-set is complex and **requires the involvement of many different actors**. Not only does formal education play an important role, but local and regional intermediary (sector-specific)

organizations also have an important function, as offering a stimulating framework and tools for informal learning and the space to gain hands-on entrepreneurial experience.
While Member States are responsible for ensuring a framework that sufficiently embeds "entrepreneurship" into education, which is supported by regional/local (CCS specific) intermediary organizations, the European Commission can:

- facilitate the exchange of good practice across Member States. The Open Method of Coordination platforms seem useful in this context;
- support Member States in developing integrated strategies and setting up specific actions.

With the publication of the Entrepreneurship 2020 Action Plan, the European Commission has stressed the importance of entrepreneurial skills and has formulated actions to stimulate entrepreneurship at large. When setting up the capacity building programme for the CCS organizations in the framework of the CCS guarantee facility, the European Commission and the EIF should maximally tap into existing knowledge and expertise on the topic that is available in the European institutions and the Member States, and **align sector-specific supporting actions with more general actions**.

Capacity building on the financiers' side

On the financier side, the interviewees have stressed the importance of good market intelligence and better knowledge in order to assess the financial value of intangible assets. Additionally, when dealing with CCS organizations with high complexity business models which have financing requests that do not match well with traditional bank services, specialized knowledge is needed about innovative financing models. But highly complex business models only apply to a portion of CCS organizations; many more CCS organizations are characterized by less complex business models.

At the European level, it is recommended that a **CCS financiers' observatory** on CCS market information (more generic and on specific sub-sectors) is developed, including data on market performance, etc. The delineation of the CCS presented in this study could be the basis for further data collection. The observatory could also include case studies on done deals, business success stories, etc. It could be supplemented with an (online) CCS financiers' platform/community for peer-to-peer exchange of sector intelligence and experiences. In this context, we recommend that the work which has already been done at C-I-factor and the Howtogrow.eu online platform are used to their maximum advantage.

8.3.2 Beware of overly restrictive target group definitions

A clear delineation of the CCS is not only important for the collection of uniform market information, but also for defining the target group for the CCS guarantee facility. Ideally, the official NACE classification provides a clear framework for both statistical purposes and for the bank loan providers in the CCS guarantee facility to define their target group. However, the discussion in chapter 2 has made clear that using the NACE classification as a basis for delineating the cultural and creative industries has a number of shortcomings. Some 4-digit NACE categories are too broad and include non-CCS activities, while some CCS activities are part of non-CCS sectors at 4-digit level. Therefore, the list of 4-digit NACE categories used in chapter 3 for the sector portrait is too restrictive to use as a basis for the delineation of the target

group. We recommend that a more open delineation is used when defining the target group to ensure that relevant actors are not excluded.

Being aware that a uniform, transparent and pragmatic process is needed for both potential applicants and financiers in the CCS guarantee facility, at this stage we recommend a two-step approach:

- ESSnet-Culture has identified a list of economic activities (with corresponding NACE codes) that are 'totally', 'mainly' and only 'partly' cultural. In the sector portrait we restrict the analysis to those activities that are totally and mainly cultural and thus exclude a number of CCS activities. When defining the target group for the guarantee instrument, we recommend that in a first step the NACE codes from all totally, mainly AND partly cultural activities are included.
- In a second stage the first two questions from the online survey can be used to further refine the target group.

However, we note that CCS organizations are increasingly becoming more multidisciplinary and hybrid. There are important linkages with other sectors (e.g. software development, tourism) and these linkages are also reflected in CCS organizations' activities. By setting strict boundaries, excluding relevant actors is inevitable. Any procedure to delineate the target group should be tested carefully during the market testing phase.

8.3.3 Promote bank loans as part of a broader range of instruments

The results of the study show that both financing needs and the right financing mix in the CCS are very diverse. **Bank loans play an important role, but are part of a broader range of instruments** which financially support the further development of the cultural and creative sectors across Europe:

- The survey results highlight that, next to traditional banks, microcredit financiers (that focus on loan amounts below €25,000) also have an important role to play in improving access to finance. Over one third of the respondents in the survey indicated that their last loan application related to a loan amount of less than €25,000.
- The results also stress the important role that subsidies play in the financing mix of many CCS organizations.

To further leverage the effect of the guarantee facility, we therefore recommend the promotion of a framework which supports growing businesses, provides opportunities for co-financing and stimulates horizontal (between different providers of financial instruments) and vertical (between local, regional and European level) knowledge exchange and interaction:

- The actors in microcredit provision, VC, subsidies, crowdfunding, bank loan etc currently operate in very different networks. Closer interaction and better knowledge exchange should be stimulated, allowing better coaching of CCS organizations throughout the financial growth cycle and identifying good financing opportunities in the sector more effectively. It is recommended that the afore-mentioned observatory is extended with an online database of known financial institutions active in CCS to promote connectivity and **horizontal knowledge sharing**.

- Although the CCS guarantee facility instrument will be managed by the EIF at the European level, the successful implementation critically depends on co-ordinated action at both local/regional and European level. **Vertical knowledge sharing** across and within Member States to evaluate coherence of relevant instruments and to identify potential gaps is important. At the European level, the Open Method of Coordination is a useful platform for exchange of knowledge and practices between Member States.
- Access to the CCS guarantee facility instrument should not be restricted to traditional (generalist) banks. **Microfinance providers and public-private institutions are important** players as well in the provision of loans to CCS organizations. In this context, it is recommended that stakeholders learn from the knowledge and expertise of the **European Microfinance Network** (EMN) during the further development of the instrument.
- Further knowledge building on the **potential role of newer forms of finance** such as crowdfunding to lower investment barriers for traditional financiers, seems worthwhile. A suitable regulatory framework should be in place that not only encourages new investors in the CCS with more innovative financing instruments (e.g. crowdfunding), but also allows for the combination of different sources of finance in a transparant manner.
- In many CCS organizations subsidies play an important role in financing their activities. However, **criteria used to grant subsidies** are not always supportive for longer term organizational thinking nor the development of growth oriented CCS organizations. The provision of subsidies often stimulates CCS organizations to work from project to project. Moreover, many CCS organizations struggle finding a good structure that allows combining both non-profit and profit oriented activities. The (unintended) impact that criteria used for granting subsidies has on the behaviour of CCS organizations in the financial market requires careful attention and further research.

By **embedding the CCS guarantee facility into a broad 'ecosystem' of measures to stimulate the development of more economically viable CCS organizations and finance in the CCS**, the leverage effect of the instrument will be strengthened significantly. Consequently, it can be expected that the impact of the guarantee facility will be greater in regions and countries where such ecosystems of complementary actors and govenrment initiatives are more developed. At the European level, a key role should be played in fostering the exchange of good practice and experience between Member States with a view to improving policy making in the afore-mentioned fields and strengthening the ecosystem.

ANNEXES

Annex 1: Questionnaire for the online survey

Q1

What is the MAIN business in which your organization is active as creator, producer, distributor,...?

Select the most important business, if your organisation is active in more than one of the following businesses

- Heritage, archives & museums → Q2
- Music (all genres: classic, pop, rock, world, jazz, hiphop, ...) → Q3
- Performing arts, excluding music performance (theatre, opera, musical, music theatre, dance, circus, cabaret, comedy, ...) → Q4
- Visual arts (painting, sculpture, photography, drawing, engraving,...) → Q5
- Audiovisual & multimedia (motion picture, television and radio, video, gaming,...) → Q6
- Book & press (all genres, including specialized press) → Q7
- Advertising → Q8
- Architecture (interior, landscape,...) → Q9
- Design & arts craft: (fashion, object, industrial, graphic,...) design & handicraft (furniture, lighting, jewellery, pottery, glass making,...), → Q10
- Education in and/or research on arts, culture or creativity → Q11
- None of the above → EXIT

Q2

What is (are) the main working area(s) of your organization? (in Heritage, archives & museums)

Select maximum 2 working areas

- Presentation or dissemination (including supporting activities), excluding commercial trade: visitor services, exhibition design, organization of exhibitions, ...
- Commercial trade & rental: wholesale and retail, including e-tail, organization of commercial fairs, auctions
- Preservation

→ Q11

- Management of (private) collection or heritage
- None of the above → EXIT

Q3 **What is (are) the main working area(s) of your organization? (in Music)**

Select maximum 2 working areas

- Creation: songwriter, composer, musician, orchestra, band,...
- Recording and publishing: music recording company, label, recording studio, producer
- Production of live performances, including supporting activities (lighting & sound,...)
- Presentation: operation of a venue, organization of music festivals or events
- Commercial trade & rental: wholesale and retail, including e-tail

→ Q11

- Management: booking agents, artist management,...
- None of the above

→ EXIT

Q4 **What is (are) the main working area(s) of your organization? (in Performing arts, excl. music performance)**

Select maximum 2 working areas

- Creation: director, choreographer, playwright, theatre company, dance company, performing artist (actor, dancer,...), ...
- Production of stage shows in venues or at festivals,... including supporting activities (stage-set design, lighting & sound crew, make-up...)
- Presentation: operation of venues, organization of performing arts festivals or events

→ Q11

- Management: booking agents, artist management,...
- None of the above

→ EXIT

Q5 **What is (are) the main working area(s) of your organization? (in Visual arts)**

Select maximum 2 working areas

- Creation of original work: sculptor, painter, cartoonist, engraver, etcher,...
- (Re)production of works of visual arts, including supporting activities (studio, residence,...)
- Presentation: organization of visual arts exhibitions and supporting activities
- Commercial trade & rental: gallery, commercial fair, artotheque, auction, ...
- Preservation: restoration and retouching services, including digitization

→ Q11

- Management: artist management
- None of the above

→ EXIT

Q6 **What is (are) the main working area(s) of your organization? (in Audiovisual & multimedia)**

Select maximum 2 working areas

- Creation: director, actor, screen writer, composer, game developer,...
- Production and publishing, including supporting activities: producer, production company, sound and light crew, camera, postproduction, editing, publishing of games...
- Presentation and dissemination: cinema, organization of audiovisual & multimedia festivals or events, television and radio broadcasting,...
- Commercial trade & rental: wholesale, retail including e-tail, rental, organization of commercial fairs, auctions, ...

→ Q11

- Management: artist management, casting agency,...
- None of the above

→ EXIT

Q7 **What is (are) the main working area(s) of your organization? (in Book & press, including specialized press)**

Select maximum 2 working areas

- Creation: author, translator, illustrator, journalist, editor,...
- Publishing: publishing of books, newspapers, journals, periodicals,...
- Presentation and dissemination: organization of book festivals or events, library
- Commercial trade: wholesale and retail including e-tail, commercial fair, auction, ...

→ Q11

- Management: artist management
- None of the above → EXIT

Q8 **What is the main working area of your organization? (in Advertising)**

- Creation: advertising design and concept development (art director, copywriter, illustrator,...) → Q11
- Other → EXIT

Q9 **What is the main working area of your organization? (in Architecture)**

- Creation: architect, architect office → Q11
- Presentation & dissemination: organization of architecture exhibitions or events → Q11
- Other → EXIT

Q10 **What is (are) the main working area(s) of your organization? (in Design & arts crafts)**

Select maximum 2 working areas

- Creation: designer, design company
- Non-industrial handmade production, including supporting activities (e.g. production studio,...)
- Presentation & dissemination: organization of design & arts crafts exhibitions or events
- Commercial trade: wholesale & retail, including e-tail, organization of commercial fairs, auctions,...

→ Q11

- None of the above

→ EXIT

Q11 **How would you characterize your organization?**

- It is a profit-oriented private enterprise with a legal business structure, with or without employees (e.g. private corporation)
- It is a non-profit organization (e.g. foundation, association)
- It is a government-owned (publicly owned) corporation (i.e. government owns effective controlling interest (> 50%))

→ Q12

- I am self-employed or I work as a 'natural person', with no legal business structure

→ Q15

- I don't know

→ EXIT

Q12 What is the country of residence of your organization?

- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Iceland
- Ireland
- Italy
- Latvia
- Liechtenstein
- Lithuania
- Luxembourg
- Malta
- Netherlands
- Norway
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom
- Other

→ Q13

→ EXIT

Q13 **How many persons (headcount)* does your organization currently employ in full time or part time?**

(*excluding the owner, excluding unpaid workers)

- 0 employees
- less than 5 employees
- 5 to 19 employees
- 20 to 49 employees
- 50 to 249 employees
- 250 or more employees

Q14

Q14 **How long has your organization been active in the sector?**

- less than 3 years
- 3 to 10 years
- more than 10 years

Q19

Q15 **Do you know that many financial intermediaries require that you have a legal business structure before they provide access to finance?**

- Yes → Q16
- No → Q17

Q16 **What is the main reason why you choose not to have a legal business structure?**

multiple answers possible

- I think my activities are too small
- I think is too expensive
- I think it involves too much administrative burden
- I think there is no legal business structure that serves my needs
- I lack the knowledge to choose the right legal business structure
- Other
- I don't know

Q18

Q17 **Would you consider investigating the possibilities now that you know about the importance of a legal structure?**

multiple answers possible

- Yes
- No, I think that my activities are too small
- No, I think that it is too expensive
- No, I think that it involves too much administrative burden
- No, I think that there is no legal business structure that serves my needs
- No, I lack the knowledge to further investigate this
- No, for other reasons than the above
- I don't know

Q18

Q18 **What type of advisor would help you most to evaluate the (dis)advantages of having a legal business structure?**

Select your top 2 and rank in order of importance (1=most important, 2=second most important)

	Ranking
A general advisor, offering general orientation (e.g. general advisor at sector association or trade union)	
A specialized advisor (e.g. legal advisor, fiscal advisor)	
Colleagues providing peer-to-peer advice (exchange of practices)	
I don't need any advice	
I don't know	

➔ END OF SURVEY

Q19 **Does your organization have a business plan for the coming 3 years?**

- Yes
- No
- Not yet, but we are working on it
- I don't know

Q20

Q20 **Estimate the relative share of the following sources of finance in your organization's financing structure**

	0%	1 - 25%	26 - 50%	51 - 75%	> 75%
Own earnings (self-generated capital)					
Loans from financial institutes (short term and long term, including credit lines and overdraft)					
Other loans (e.g. from related company or shareholders, from family or friends)					
Subsidies from public government(s)					
Gifts from private individuals or organizations (e.g. grants, sponsorship, donation, patronage)					
Equity funds from venture capitalist/private equity fund					
Crowdfunding					

➔ Q21

Q21 **Did your organization look for external finance* over the past 3 years? (*bank loan, equity finance, subsidy, loan from friends or family,...)**

- Yes ➔ Q23
- No ➔ Q22

Q22 **Why didn't your organization look for external finance over the past 3 years?**

multiple answers possible

- Sufficient self-generated capital
- Too complicated and/or too time consuming
- Fear of possible rejection
- Insufficient business assets to offer as collateral or guarantee
- Insufficient repayment capacity
- Fear of reduced control over the organization
- Other
- I don't know

Q38

Q23 **What type of financiers did your organization CONTACT* over the past 3 years in its search for external financing? (*even if your organization did not apply for finance in the end)**

multiple answers possible

- Bank → Q25
- Sector specific public-private financing body → Q25
- Equity investor (business angel, equity fund)
- Private organization other than equity investor (e.g. philantropic institution, private fund, foundation)
- Private individuals (family or friends, fans)
- Crowdfunding platform
- Government body as subsidy provider (e.g. Film Fund)
- Other
- None
- I don't know

Q24

Q24 **Why didn't your organization contact a bank or sector specific public-private financing body?**

multiple answers possible

- Sufficient other external financiers
- Fear of possible rejection
- Too complicated and/or too time consuming
- Insufficient business assets to offer as collateral or guarantee
- Insufficient repayment capacity in the short term
- Interest rates are too high
- Insufficient understanding from the financier of the business my organization is working in
- Perception of waste of time: the financier doesn't consider my organization to be part of its target group
- Other, please specify .....
- I don't know

Q38

Q25 **Did your organization actually APPLY for a loan (including credit lines and overdraft) at one of the following financial institutions over the past three years?**

	Yes	No	I don't know
bank			
sector specific public-private financing body			
	➔ Q27	➔ Q26	➔ Q38

Q26 **Why didn't your organization apply for such a loan over the past 3 years?**

multiple answers possible

- Sufficient other external financiers
- Fear of possible rejection
- Too complicated and/or too time consuming
- Insufficient business assets to offer as collateral or guarantee
- Insufficient repayment capacity in the short term
- Fear of reduced control over the organization
- Interest rates were too high
- Insufficient understanding from the financier of the business my organization is working in
- Perception of waste of time: the financier doesn't consider my organization to be part of its target group
- Other, please specify .....
- I don't know

Q38

The following set of questions relate to the MOST RECENT LOAN APPLICATION of your organization at a BANK or SECTOR SPECIFIC PUBLIC-PRIVATE FINANCING BODY (even if it was refused in the end).

For reason of simplicity we will use the terms "BANK LOAN (APPLICATION)" to indicate a loan at either a bank or a sector specific public-private financing body.

Q27 **Where did your organization apply for its most recent bank loan?**

- Generalist bank
- Sector specialist bank
- SME specialist bank
- Sector specific public-private financing body

Q28

- Other → Q38
- I don't know → Q28

Q28 **To satisfy what type of need did your organization apply for the loan?**

multiple answers possible

- To bridge the period of waiting for the payment of subsidies or earnings (=bridging loan) or to finance working capital
- To purchase equipment for the artistic or creative practice (e.g. paint, a camera, music instrument,...)
- To (co-)finance a specific artistic or creative project
- To (co-)finance the purchase of intellectual property rights
- To (co-)finance promotion, sales and/or marketing activities
- To (co-)finance a real estate and/or other investment in tangible asset(s)

Q29

- To (co-)finance management of the organization or human resources
- Other
- I don't know

Q29 **What was the approximate amount of the loan which your organization applied for?**

- Less than €10,000
- Between €10,001 and €25,000
- Between €25,001 and €50,000
- Between €50,001 and €100,000
- Between €100,001 and €500,000
- Between €500,001 and €1,000,000
- Over €1,000,000

Q30

Q30 **Was the loan application fully or partly accepted?**

- Yes, for 100% of the amount applied for
- Yes, for between 76% and 100% of the amount applied for
- Yes, for between 51% and 75% of the amount applied for
- Yes, for < 50% of the amount applied for
- Yes, but I don't know to what extent
- No

Q31

➔ Q35

Q31 **What is/was the pay back period (maturity) of the loan?**

- 1 year or less
- More than 1 year, but less than 3 years
- More than 3 years, but less than 10 years
- More than 10 years

Q32

Q32 **In your opinion, the interest rate charged for the loan is/was ... [Please complete]**

- LOWER THAN the interest rate charged for by financiers for similar loans in other sectors
- COMPARABLE TO the interest rate charged for by financiers for similar loans in other sectors
- HIGHER THAN the interest rate charged for by financiers for similar loans in other sectors
- I don't know

Q33

Q33 **When setting the repayment schedule, did the financier take into account (highly) volatile income flows*, and thus volatile repayment capacity of your organization?**

* i.e. when periods of (high) income are interspersed with significant periods of no income

- No
- Yes
- To some extent
- My organization has no (highly) volatile income flows
- I don't know

Q34

Q34 **Did your organization have to meet any of the following requirements in order to obtain the loan?**

	No	Yes and it was not difficult	Yes and it was (slightly) difficult	Yes and it was extremely difficult	I don't know
Provide a business plan and/or financial plan					
Provide PRIVATE assets as collateral					
Provide BUSINESS assets as collateral					
Sign a personal guarantee (i.e. allows the financial institute to go after personal assets to collect money, if a business loan cannot be repaid)					
Accept a loan convenant (i.e. a usually restrictive covenant in a loan agreement that limits the borrower's freedom to incur more debt, increase the salaries of executives, pay bonuses, etc.)					

➔ Q38

Q35 **Why didn't your organization obtain the loan?**

multiple answers possible

- The financier refused lending money because the investment risks were considered to be too high
- The financier refused lending money because of a lack of trading history with the organization
- The financier refused lending money because the organization was unable to present an acceptable business plan and/or financial plan
- The financier did make an offer but asked for private collateral of stakeholders, which my organization refused
- The financier did make an offer but proposed a strict non-flexible repayment schedule, which my organzation refused
- The financier did make an offer but asked for requirements other than private collateral that the organzation couldn't meet and which my organzation refused
- The financier did make an offer but my organization refused because of the costs were too high
- Other
- I don't know

Q36

Q36 **What were the consequences of not obtaining the loan?**

multiple answers possible

- My organization looked for other financiers and found them → Q37
- My organization financed the plan with internal funding
- My organization had to downsize the plan
- My organization had to cancel the plan
- It limited or slowed down the growth of my organization
- Other
- I don't know

Q38

Q37 **What type of other financier(s) did your organization find?**

multiple answers possible

- Equity investor (venture capitalist, business angel)
- Private organization other than equity investor (e.g. philantrophic institution, private fund, foundation)
- Private individuals (family or friends, fans)
- Government body as subsidy provider
- Crowdfunding platform
- Other
- I don't know

Q38

Q38 **Will your organization apply for a bank loan or loan at a sector specific public-private financing body in the next 6 months?**

- Yes → Q39
- No → END OF SURVEY
- I don't know → END OF SURVEY

Q39 **What will be the approximate amount of the loan which your organization will apply for?**

- less than €10,000
- between €10,001 and €25,000
- between €25,001 and €50,000
- between €50,001 and €100,000
- between €100,001 and €500,000
- between €500,001 and €1,000,000
- over €1,000,000
- I don't know

END OF SURVEY

Annex 2: Interviews with investors

Table 19: List of interviewees

Interviewee	Name of organisation
Thomas Hüttich	Investitionsbank Berlin
Paul Le Conge Kleyn	Van Lanschot
Joost Heinsius	Cultuur-Ondernemen
Mark Scicluna Bartoli	Bank of Valletta
Guy Pollentier	BNP Paribas-Fortis
Olaf Stührk	Commerzbank
Guillaume de Chalendar	Bank Leumi
Fiorenza Lipparini (including inputs from colleagues)	Susidiaries of Intesa Sanpaolo Banking Group: Banca Prossima and Mediocredito Italiano's Media & Entertianment Desk
Eric Holterhues	Triodos
Dennis Heus	Rabobank
Ivana Bacanovic-Juklicek (including inputs from colleagues)	Austria Wirtschaftsservice
Csaba Harsányi	Hungarian Development Bank
Ewa Kolodziej	Bank Gospodarstwa Krajowego
Marc Noyons	Production value (Expert in CCS sector funding)

Table 20: Overview of lending activities of interviewed banks

Organisation	Type of organisation	Main CCS subsector	Employ-ees	Active in CCS since	Amount invested in CCS as % of other lending activities
Triodos	General bank	All	720	1980	4% invested in arts and culture in 2011
Rabobank	General bank	Films	59,670	-	-
Commerzbank	General bank	Films, Games, Printing, Music, architecture	58,160	-	-
Bank Leumi	General bank	Films	13,500	-	-
Bank of Valletta	General bank	Entertainment and media	1,470	-	1-2%
Banca Prossima	Bank exclusively dedicated to the nonprofit sector. Subsidiary of Intesa Sanpaolo.	Non-profit entities	100	Bank was founded in 2007	-
Mediocredito Italiano	Subsidiary of Intesa Sanpaolo.	Audiovisual Media and entertainment	87	-	-
Cultuur-Ondernemen	Guidance and microcrediting of culture	Music, theatre, design and visual arts	± 25	1996	100%
Investitionsbank Berlin	Development bank of the Federal Land of Berlin	Audiovisuals & multimedia, Music, Design, Internet start-ups	641	2004	15%
AWS Business promotion bank of Austria	Specialized in financial support of Austrian companies, focus on SME's	Innovative projects in Design, Multimedia and games, architecture, advertising, music, fashion, audio vision, film, editing, art	230	2003	Program specific grants to CCS = 7%. General loans and guarentees unknown
Van Lanschot	Specialized in private equity	Not active in the sector	2,009	-	0%
Bank	State owned	Not active in the	1,300	-	-

Organisation	Type of organisation	Main CCS subsector	Employ-ees	Active in CCS since	Amount invested in CCS as % of other lending activities
Gospodarstwa Krajowego	guarantee bank	sector			
Hungarian Development Bank	State owned bank	Not active in the sector	1,152	-	-

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