

EXECUTIVE SUMMARY

GOOD PRACTICE REPORT

**TOWARDS MORE EFFICIENT FINANCIAL ECOSYSTEMS:
INNOVATIVE INSTRUMENTS TO FACILITATE ACCESS TO
FINANCE FOR THE CULTURAL AND CREATIVE SECTORS (CCS)**OPEN METHOD OF COORDINATION (OMC)
WORKING GROUP OF EU MEMBER STATES' EXPERTS
ON CULTURAL AND CREATIVE SECTORS**1 | Introduction – challenges regarding access to finance
for the cultural and creative sectors**

In an economy increasingly reliant on creativity and intangible assets, the cultural and creative sectors (CCS) are among the fastest-growing. However, most CCS Small and Medium-Sized Enterprises (SMEs) face difficulties in accessing finance and this is one of the main obstacles to their growth. Because of the intrinsic characteristics of CCS activities (including a lack of tangible assets, dependence on intangible assets, the consequent lack of collateral and highly uncertain market demand), creative SMEs seeking finance from private banks are likely to be turned down. The financier community, including banks, still seems to have a limited understanding of these characteristics. The CCS also face challenges in the form of a fragmentation of financial instruments, information asymmetries within the financial ecosystem, lack of information on available sources of funding and issues around the valuation of intellectual property (IP).

This report addresses these challenges, sets them against the background of innovative funding schemes made available to the CCS in the Member States and provides recommendations on overcoming the main bottlenecks. **A set of 32 success stories is presented to illustrate how innovative funding can match CCS companies' needs.**

It should be noted, however, that the report does not exhaust all questions relating to CCS access to finance, because the financial ecosystem is dynamic and in constant flux. In order to maximise the impact of the expert group's work, the report's conclusions and the implementation of its recommendations should be reviewed before the end of the current Council Work Plan for Culture (2018).

2 | Context for the report

The report was produced by the 'open method of coordination' (OMC) expert group on access to finance for the CCS, whose work began in July 2014 in the framework of the Council Work Plan for Culture for 2011-2014¹ and was extended under the Council Work Plan for Culture for 2015-2018 ('Cultural and creative sectors: Creative economy and innovation' priority area)². The group was composed of Member State experts on culture, enterprise policy and finance.

Open method of coordination is a voluntary form of cooperation between Member States which aims to improve policy making and structured cooperation through peer-learning and the exchange of best practice. The method was extended to the field of culture in 2008 in response to the European Commission's recommendation put forward in the European Agenda for Culture (2007).

1 <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV:cu0007>

2 http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.C_.2014.463.01.0004.01.ENG



In line with its mandate, the OMC group's main task and contribution was to describe the financial ecosystem available to the CCS and deepen analysis and understanding of its specificities so as to improve access to finance.

This report also presents 100 examples of funding schemes which allow for peer-learning among Member States.

3 | Who is this report for?

The report has several target groups. First and foremost, it is written for political decision makers at European, national and sub-national level, but it also targets financiers, CCS companies and professionals, and others interested in CCS financing. Its assessment of existing funding schemes and recommendations should provide all stakeholders with insights on how to overcome the difficulties faced by creative businesses in securing finance and unlock the CCS' undisputed potential for smart and inclusive growth.

4 | Starting point: definition of financial ecosystems

An ecosystem is typically defined as a system or network of interconnecting and interacting parts. The financial ecosystem of a CCS company includes internal parts, e.g. its financial situation and assets, its skills, know-how, business plan and goods or services, and external elements, e.g. finance providers and supporters, demand for its goods/services, market dynamics and demand, and the regulatory and policy framework in which it operates. **Chapter 2** describes the CCS financial ecosystem, including the interaction between the various components and actors involved. It also addresses the challenges that the CCS are facing as regards access to finance, paying particular attention to the importance of IP rights (IPRs).

5 | Innovative funding schemes and good practice

The report goes beyond describing challenges to highlight a number of funding instruments in various Member States that are either available to SMEs in general (including CCS SMEs) or that specifically target the CCS.

The CCS can benefit from a range of funding measures, ranging from self-finance to public support measures and private financing (debt and equity). In addition, there are alternative (frequently 'mixed') funding models which are the most innovative in design and outreach. The examples in **Chapter 3** (*Typology of funding models*) have been selected on the basis of the availability of an assessment or evaluation, reputation, number of applications, size of budget and feasibility. Some of the instruments may be transferable from one country to another.

Chapter 4 (*Matching the needs of CCS companies with innovative funding*) presents the situation from the CCS perspective, studying the **cases of 32 companies** that have received funding and describing the respective funding schemes. In doing so, the report underlines the need to match companies' needs with those of financiers, and shows the impressive wealth of goods and services that have been developed, produced or brought onto the market with the help of innovative financing instruments.

On the basis of these two complementary classifications, an assessment of existing practice is offered in **Chapter 5**.



6 | Conclusions and Recommendations (Chapters 6 and 7)

Recent studies have confirmed CCS companies' capacity to generate growth and stimulate innovation in the economy as a whole: they also contribute to innovation and growth in other sectors. Since the CCS have a lot to offer Europe, decision makers have a responsibility to ensure that one of the obstacles to their growth – access to finance – is tackled.

To a large extent, the problems stem from financing being still very much geared, in general, to facilitating traditional manufacturing and production. This is evident from the fact that intangible assets are not accounted for in companies' balance sheets and from the complexities that beset their valuation and use as collateral. As a result, from the perspective of the CCS and other dynamic sectors of the economy, many types of financing and securities regulation appear somewhat outdated.

To overcome the failures and issues impeding CCS' access to finance, the OMC group recommends that the Member States and the Commission, within their respective areas of competence:

- **test and implement new and innovative financing schemes**
Many CCS companies have the same financing needs as other sectors, as they have similar problems, but many do not find or benefit from the more generic financing schemes. New financial instruments should be implemented, building on emerging financing schemes such as microcredits, repayable contributions, crowdfunding, etc.
- **improve access to finance through better business support**
CCS companies need to be offered better support in developing business competencies, as this will improve their readiness to approach external investors³.
- **support partnerships with companies from other sectors**
The potential for developing the B2B market between CCS companies and companies in the wider economy is great and can be a catalyst for cross sector innovation. This could be developed with innovative voucher schemes that improve access to markets and finance. In turn, this will require increased professionalisation of CCS SMEs so that they can identify innovation challenges in other industries and in society at large.
- **improve access to finance through investor awareness**
Public and private investors' awareness and understanding of the investment and business opportunities offered by CCS companies need to be raised through new best practice and common promotional initiatives.
- **improve data on the CCS and CCS companies**
Given the difficulty of measuring the impact and dynamics of the CCS, it is recommended that support be given to initiatives and cooperation aimed at collecting relevant and accurate data on them, both as sectors in themselves but also as drivers of innovation and growth in the rest of the economy. As regards better data and greater awareness of best practice, CCS companies need a stronger platform, nationally and at European level, to help improve their access to finance.

³ Only a minority of creative SMEs have developed a clear business strategy, which is usually necessary to gain access to finance.

- **harness the use of IPRs as assets and collateral**

In the context of a constantly evolving mode of economic production and the emergence of new financing tools and practices, initiatives should be envisaged to harness the use of IPRs as assets and collateral. In particular, action is needed:

- > *to improve the identification and valuation of IPRs:*

- engage with IP-based companies and financiers to facilitate the development and use of identification and valuation tools;
- exchange information on and experiences of such tools at EU level and, if possible, consider aligning them in order to make them interoperable;

- > *to mitigate the risks associated with IP assets:*

- promote the availability of products insuring financiers against litigation and, especially, products insuring the value of IPRs themselves by underwriting the value of a portfolio of rights;

- > *to ensure that securities legislation does not unnecessarily impede CSS and other IP-rich companies' access to finance:*

- review the legislation with a view to enabling relevant forms of security over IPRs;

- > *to help enforcement strategies:*

- monitor market developments as regards the emergence of IP exchanges and, if considered useful, encourage the establishment of European IP exchanges;

- > *to clarify international issues:*

- take the specificities of lending against IP into account in international cooperation in the field of secured transactions, especially at the UN Commission on International Trade Law (UNCITRAL);

- > *to increase the 'bankability' of IPRs and recognition of their full value as assets:*

- work with financiers, insurers and financial intermediaries to explore the feasibility and requisite mechanisms to support the development of a secondary market for IPRs.

The full report is available at:

http://ec.europa.eu/culture/library/index_en.htm

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