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SOCIAL & CREATIVE

Policy Briefing n. 15

INNOVATIVE MODELS OF FINANCING THE CULTURAL AND CREATIVE SECTORS DURING COVID-19 CRISIS

SOCIAL AND CREATIVE INNOVATION IN THE MEDITERRANEAN

Project co-financed by the European
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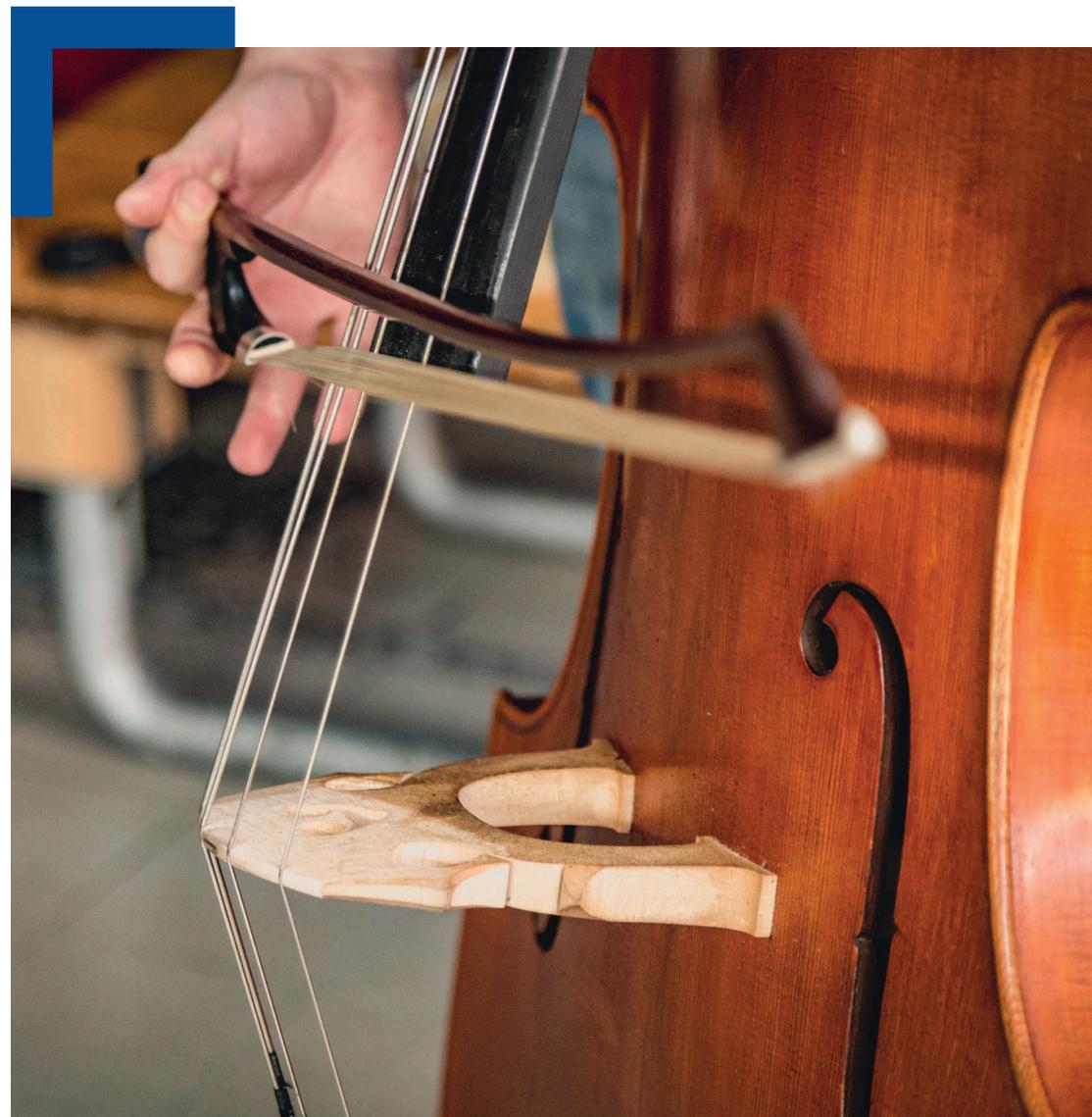
EXECUTIVE SUMMARY

Market fragmentation, insufficient access to financing and the uncertain conditions due to the COVID-19 pandemic hamper the cultural and creative sectors and strongly weaken the income of their professionals.

Access to finance represents a major challenge for the cultural and creative sectors, especially in these times of crisis due to the pandemic. The **New European Agenda for culture** already made express mention of this fact of difficulty in accessing financing for these sectors and, in its economic dimension, the objective is to promote favourable ecosystems for cultural and creative industries, promoting access to financing, the capacity for innovation, the fair remuneration of authors and creators and intersectoral cooperation.

For the next long-term EU budget (2021-2027), the European Commission proposes to increase funding for **Creative Europe**, the program to support audio-visual works and the European cultural and creative sectors, to a figure of 1.85 billion euros.

There are already numerous examples in which the Administration is exploring new models to facilitate access to finance for the cultural and creative sectors, which are characterized by being made up of micro-enterprises and entrepreneurs, little familiar with business tools and with little time to be able to dedicate to management tasks.



CONTEXT OR SCOPE OF THE PROBLEM

The cultural and creative industry faces a great challenge, but it has the opportunity to **bring innovation to global challenges**. And it is that, in the knowledge economy and the creative economy, value and wealth are found in intangible capital (knowledge, know-how, intellectual property, relational capital, positioning, talent, etc.).

In a report prepared by the **Open Method of Coordination for the European Union**, there was a detailed description of the specific characteristics of the cultural and creative sector that make it difficult for them to access financing and which have worsened with the COVID-19 crisis, among which are:

- **characteristics of its activity:** lack of tangible assets, dependence on intangible assets, lack of guarantees, high uncertainty of market demand, generation of value over long periods of time, etc.
- **characteristics of their organizations and entrepreneurial agents:** insufficient business skills, dependence on public aid, fear of losing control of their business, etc.
- **market characteristics:** market size (for example, cultural and linguistic fragmentation across Europe), lack of market knowledge, changes in existing business models (due to digital change, among others), etc.

More specifically, they also point out the following difficulties of these sectors in accessing finance:

- the lack of information on existing funding sources appears as a recurring theme in the studies carried out;
- the discrepancy in information between companies and the market;
- the lack of market research on business models of the creative industry, both past and trends;
- issues related to the valuation of intellectual property;
- little knowledge of the sector by financial institutions;
- SMEs have little capacity to plan their finances in the medium and long term;





- SMEs in the cultural and creative sectors tend to seek financing for specific projects, not for the business in general;
- there is a systematic lack in the supply of debt financing for projects and far-reaching innovation processes.

There are also studies that show the points in common with other sectors, both in terms of their economic structure, as well as their financial needs and their relationship with financial institutions:

- the economic structure of companies: the IDEA Consult survey provides data that shows that they have liquidity and solvency ratios similar to those of SMEs in other sectors. This is the case in all the Member States of the Union, except Cyprus and Greece, and, to a lesser extent, Italy, Latvia, Luxembourg, Malta, Portugal and Romania, where the cultural and creative sectors are comparatively worse off than others;
- Relationship with financial institutions: studies show that investors do not distinguish companies in the cultural and creative sectors from others when assessing their ability to pay and business risk. It is interesting to note that, given that the cultural and creative sectors are often driven by individuals, the focus of risk assessment is on the entrepreneurial person or team, not so much on the sector.

Indirect financing or aid models – the financing instruments supported by the administration are an indirect means of action in which they play the role of guarantor and facilitator, not of lender. In short, Administrations can help:

- **Guarantee:** they facilitate access to private financing since the bank or financial entity and the Administration share the risk of financing a creative project. There are different types of guarantees.
- **Financing the debt:** facilitates access to financing through loans or micro-credits. It is the way companies have to obtain the capital they need to open and operate an existing business. Micro-credits are small loans, with reasonable interest, and are usually accompanied by other financial services for entrepreneurs. This formula, created in 1976 by Muhammad Yunnus, has spread throughout the world. Like loans, they can finance investment or working capital needs.
- **Financing capital:** The ways for this type of financing are: through venture capital (public limited companies that invest their own resources in the temporary financing of SMEs, generally innovative), or through private investors (business angels) interested in support and participate in new business. This type of financing is still rare among cultural and creative companies. However, some countries, such as the Nordic countries, are betting on this model to support the development of the creative economy.
- **Tax benefits:** application of exceptions, deductions or tax deductions to activities, goods or services that are beneficial to society.

Types of instruments by objectives – the use of one or another financial instrument depends on the objective or need and the maturity stage of the company. Loans and guarantees are the most cross-cutting tools. Micro-credits, checks and seed capital are more suitable for initial phases of the business; capital instruments

for maturity stages and projects that are associated with higher risk.

- Embryonic and seed stage- Indicated instruments: checks, micro-credits and seed capital.
- Growth stage- Indicated instruments: accelerators, incubators, venture capital, loans and guarantees.
- Project development (R&D)- Indicated instruments: repayable contributions, loans, guarantees and business angels.
- Innovation- Indicated instruments: innovation checks, loans and venture capital.
- Internationalization- Indicated instruments: internationalization checks, loans and venture capital.



SUCCESS STORIES

Fonds d'investissement de la culture et des communications (Québec-Canada). Due to its corporate composition and the variety of products.

Created in 1997, it is a venture capital company and provides support to cultural companies with shared capital, as well as to social economy companies, such as non-profit organizations and cooperatives. These companies are dedicated to the creation, production, dissemination of cultural content, or technical or technological support services offered to content companies. The sectors in which they operate are: performing arts, publications, audiovisuals, recordings, radio, television, multimedia and digital.

Highlight: It is a limited company in which financial experts, specialists from the cultural industry and artists from the cultural environment of Quebec participate.

Institut de financement du cinéma et les industries culturelles (France). For being the reference credit institution in France for the financing of cultural industries.

For more than 40 years, the French Ministry of Culture has led actions that contribute to the financing of cultural industries by granting bank guarantee funds, in particular for loans for film production. The IFCIC (Institute for the Financing of Cinema and Cultural Industries) was created in 1983 at the initiative of the Ministries of Culture and the Economy, to promote this policy by facilitating access to bank financing for the cultural and creative sectors. It is a private company in charge of a service of general interest. 49% of its capital belongs to the French State and the Bpifrance group and 51% is in the hands of private shareholders, which

include, directly or indirectly, most of the main commercial banks and credit institutions established in France. Its activity first focused on the field of film production and later extended to all cultural and creative sectors: cinema, television, movie theatres, music, publications, museums, galleries, bookstores, performing arts, press, visual arts, design, auxiliary technical, artistic crafts, fashion, design, videogames, photography etc.

Highlight: IFCIC's objective is to encourage banks to accept more easily the particular risks associated with granting loans to cultural industries. Guarantees are the historic instrument and the first solution envisioned to help finance a project. Since 2006, it has also developed the ability to make loans to SMEs in the sector. In accordance with its mission, IFCIC loans encourage the participation of other banks and credit institutions in the borrower's financial plan. IFCIC's activity benefits from a strong network of institutional and professional partners. From 2010 to 2013, it administered the Media Production Guarantee Fund (MPGF), funded by the MEDIA Program of the European Union. Since 2015, it has had a delegation to process requests addressed to Bpifrance that are within the scope of the cultural and creative sectors. Since July 2017, it has benefited from the support of the Guarantee Mechanism for cultural and creative sectors, with financial backing from the European Union within the framework of the Creative Europe Program. Financial products. It provides companies in the sector with two types of debt financing products: loan guarantees and loans.

Institut Català de les Empreses Culturals (Cataluña). By the use of innovative instruments.

It is a public institution of the Department of Culture of the Generalitat de Catalunya created in 2000. It works for the development and

consolidation of the cultural sector promoting companies and cultural professionals to improve competitiveness and professionalization. Advises and accompanies companies and cultural professionals from different sectors: performing arts, visual arts, audiovisual, digital culture, books and music, and makes financing aids and tools available to them, as well as services for internationalization, business training and public development. Through its actions, the ICEC collaborates in the construction of a competitive and quality cultural fabric and also encourages consumer habits and the generation of audiences.

Highlight: A global accompaniment offer. Advises and accompanies companies and professionals in the cultural sector in their development. It offers a series of resources and services that respond to six strategic axes: support, training, information, promotion, participation and innovation. Thus, it has a wide range of services, from grants and financing, to training and advice, internationalization, development of audiences and audiovisual procedures. For its innovation, its formula of refundable contributions stands out.

POLICY RECOMMENDATIONS

Access to finance is one of the main problems in the cultural and creative sectors. It is a concern shared by the European institutions, as confirmed by studies published in recent years commissioned by the Commission and that now with the crises caused by the COVID-19 pandemic has worsened even more. From the review of the most recent studies and the analysis of cases, the following conclusions can be drawn:

- **Before launching any new financing tool, you must clearly identify its objective, the problems it intends to solve and the characteristics and needs of the sector or segment to which it is going to be addressed.** The cultural and creative sectors have very characteristic features that must be known. In the same way, it is convenient to assess the risks involved in its implementation. In this sense, there are previous experiences of financing formulas in the audiovisual sector from which lessons can be learned.
- **In the EU there is a culture of financing, accumulated knowledge from public and private entities** with a history that promote a diversity of support programs for companies in all their growth phases.
- It is important to **propose solutions aimed at the entire value chain, at all stages of the company's life cycle and at all company profiles.** Although they are sectors with a high presence of microenterprises, there are also other medium or large companies with different financial needs. For this, it is necessary to know the complementarity of the different products, as well as their interconnections to avoid the fragmentation of the service offer. Paradoxically, the number of different financing alternatives can make it difficult for a company to find the one best suited to its profile.
- The most innovative formulas go through the **creation of public-private instruments such as guarantees**, in which the



Administration shares risks with banks and risk capital. The **venture capital funds promoted by the administrations also stand out**. Another tool that is giving positive results is the **refundable contributions, specific to the cultural and creative industries**. A formula that is not strictly financial is checks, which are being applied in Europe and are well suited to the needs of cultural and creative sectors. In all cases, these models imply the involvement of the Administration in the continuous monitoring of the business fabric it supports.

- In addition to providing specific financial instruments, it is advisable for public administrations **to provide a set of combined measures of support and accompaniment to the cultural and creative sectors**, providing advice and training and creating environments for entrepreneurs and companies to face their challenges in the best possible conditions. The experiences studied propose combined measures.

- **The emergence of specific financing instruments for the cultural and creative sectors is encouraging**. In the environments where they are being applied, the valuation of the new financial instruments is positive. However, the fact that new financing formulas appear does not automatically translate into better access to finance. There are still serious problems in the flow of information between cultural and creative companies and financial institutions. In this sense, the role of pedagogy and intermediation that the Administration can perform is key to facilitate understanding and avoid informational asymmetry between the two.

CONSULTED OR RECOMMENDED SOURCES

- <https://eur-lex.europa.eu/legal-content/ES/TXT/PDF/?uri=CELEX:52018DC0267&from=ES>
- Communication- "Promoting cultural and creative sectors for growth and jobs in the EU" COM(2012)537 | European Economic and Social Committee (europa.eu)
- Towards more efficient financial ecosystems- Publications Office of the EU (europa.eu)
- Survey on access to finance for cultural and creative sectors. (europa.eu)



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