

InvestEU Scoreboard¹

Presentation of the financing or investment operation:

Implementing Partner: European Investment Fund (EIF)

Name of the Operation: Framework Operation, Cultural and Creative Sector Guarantee

Type of approval: Framework Operation

Type of Financial intermediaries: guarantee intermediaries such as financial Institutions (including alternative lenders), guarantee institutions, National Promotional Banks or Institutions, providing Debt Financing² directly or indirectly to final recipients meeting at least one of the Product Eligibility Criteria from Cultural & Creative Sector Guarantee.

Type of Final recipients: SMEs (including Micro Enterprise), Midcaps (Small Midcaps), Small Public Enterprises

Country(-ies) of implementation of the operation: Via this Framework Operation, EIF expects to be able to achieve a relatively broad geographical coverage across Member States.

Short description of the financing or investment operation:

Framework Operation for Sub-Projects in the form of portfolio guarantees addressing the **Cultural and Creative Sectors (“CCS”)**, which include: architecture, archives, libraries and museums, artistic crafts, audiovisual (including film, television, video games and multimedia), tangible and intangible cultural heritage, design, festivals, music, literature, performing arts, publishing, radio and visual arts.

It builds on the implementation of the previous European Commission guarantee programme managed by the EIF, namely the **Cultural and Creative Sectors Guarantee Facility**. Via the Sub-Projects forming part of this Framework Operation, the EIF expects to support the development of the thriving, agile and creative CCS ecosystem by offering financial intermediaries the tools to enhance access to finance to companies operating in this area and help them adapting to the challenges ahead including digitalisation, changes of revenue models, etc.

Public Statement

Eligible areas for the operation in accordance with Annex II to the InvestEU Regulation:

Item 7 of Annex II of the InvestEU Regulation:

financial support to entities employing up to 499 employees, with a particular focus on SMEs, and small mid-cap companies

Item 8 of Annex II of the InvestEU Regulation:

cultural and creative sectors, cultural heritage, media, the audio-visual sector, journalism and press

Additionality shall be deemed to be met in all those cases where a financial intermediary originate final recipient transactions which carry a higher risk profile than the risk generally deemed acceptable by such intermediary, inter alia:

¹ This Scoreboard of indicators reflects the information presented to the InvestEU Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision.

² Means any debt financing, including but not limited to, bonds, loans, leases. Subordinate debt, factoring, bank guarantees, credit insurance instruments, minimum guarantees, income sharing agreements, deferred payment scheme

- In the form of targeting final recipients of lower creditworthiness; or
- By implementing financing solution in line with the enhanced access to finance measures described in the InvestEU Call for Expression of Interest published on EIF's website and which carry an increased risk profile (e.g. bespoke financing arrangements, targeting excluded segments, industries or geographies, etc.).

Additionality may also be achieved via the application of any of the following items, as per Annex V of the InvestEU Regulation:

Item (a) of Annex V A (2) to the InvestEU Regulation:

Support through subordinated positions in relation to other public or private lenders or within the funding structure

EIF expects to support a few of the financial intermediaries who would be originating final recipient transactions that are subordinated debt transactions. This type of debt financing is expected to improve the capital structure and solvency position of targeted final recipient.

Item (b) of Annex V A (2) to the InvestEU Regulation:

Support through equity and quasi-equity or through debt with long tenors, pricing, collateral requirements or other conditions not sufficiently available on the market or from other public sources

EIF expects to support financial intermediaries in originating final recipient transactions (debt financing) which meet at least one of the following **enhanced access to finance measures**:

- a) Reduction/limitation of collateral requirements;
- b) Reduction of cost of financing;
- c) Reduction in down-payment in respect of Final Recipient Transactions;
- d) Increase in financing volumes;
- e) Support to excluded segments;
- f) Financing at longer maturities;
- g) Bespoke financing arrangements;
- h) Any Subordinated Debt Transactions;
- i) Other enhanced access to finance measures proposed by the financial intermediary.

These measures ensure that the debt financing support provided to target final recipients is made with more favourable terms, compared to the standard credit and collection policies of financial intermediaries.

Item (c) of Annex V A (2) to the InvestEU Regulation:

Support to operations that carry a higher risk profile than the risk generally accepted by the implementing partner's own standard activities or support to implementing partners in exceeding own capacity to support such operations;

The use of the InvestEU Guarantee allows EIF to enter into (counter-)guarantee with financial intermediaries supporting final recipients operating in the CCS ecosystem, which otherwise would have remained underserved due to lack of guarantee programmes targeting this specific policy area.

Item (f) of Annex V A (2) to the InvestEU Regulation:

Support through financial products not available or not offered to a sufficient level in the targeted countries or regions due to missing, underdeveloped or incomplete markets.

One of the challenges for the cultural and creative sectors, especially for SMEs and organisations, is the difficulty they face in accessing the funds that they need to finance their activities, to grow, and to maintain and increase their competitiveness or internationalise their activities. While that is a common challenge for SMEs generally, the situation is significantly more difficult in the cultural and creative sectors due to the intangible nature of many of their assets, the prototype profile of their activities, and their intrinsic need to take risks and experiment in order to innovate.

The following market failures are addressed by the Framework Operation:

Item (c) of Annex V A (1) to the InvestEU Regulation:

Information asymmetries, in particular in the case of SMEs and small mid-cap companies, including higher risk levels related to early stage firms, firms with mainly intangible assets or insufficient collateral, or firms focusing on higher risk activities.

In the area of access to finance for SMEs and in particular in CCS sectors, market failure is not only present during a deep recession or a financial crisis, but also on an on-going basis as a fundamental structural issue. There are several reasons for this:

- (i) Disproportionality between the extent, and hence the cost, to assess a relatively smaller company's application for finance and its potential revenue (in particular for CCS sectors – lack of understanding of such sectors on the side of financial institutions). Coupled with an average financing need that is relatively smaller than the one required by larger companies, banks and other finance providers are struggling to achieve economies of scale, reducing the access to finance.
- (ii) The aforementioned issue is reinforced by the asymmetric information, i.e. information gap between lender and borrower, and the availability (and quality) of information on smaller and in particular younger enterprises. Combined with uncertainty, this results in an insufficient supply of credit, which can be particularly true in the case of SME financing, and in particular in the CCS sectors where due to intangible nature of assets, collateral is even scarcer.

Item (e) of Annex V A (1) to the InvestEU Regulation:

Exposure to higher levels of risks in certain sectors, countries or regions beyond levels that private financial actors are able or willing to accept, including where the investment would not have been undertaken or would not have been undertaken to the same extent because of its novelty or because of risks associated with innovation or unproven technology

The financial gap in respect of the availability of external finance for cultural and creative sectors was confirmed by an independent feasibility study³ and is addressed in the Creative Europe Programme impact assessment. The market gap in the credit area has been estimated in the range of EUR 2.51bn – EUR6.22bn over three years, or EUR 837m – EUR 2.07bn per year.

EIF will be extending (counter-) guarantees to financial intermediaries which will in turn provide debt financing to eligible final recipients. As a result, the InvestEU Guarantee will always cause that a third party financier/guarantor (i.e. financial intermediary) will provide further financing, in addition to InvestEU, to final recipients.

Origination of investment/financing is made by financial intermediaries benefitting from the InvestEU Guarantee, in line with their credit and collection policies and procedures.

³ [Ex-ante evaluation of new financial instruments for SMEs, mid-caps and organisations from the cultural and creative sectors - Publications Office of the EU \(europa.eu\)](https://publications.ec.europa.eu/en/publication-detail/-/publication/11111111-1111-1111-1111-111111111111)

EIF provides practical guidance to financial intermediaries in order to ensure terms and conditions of the guarantee are met and to facilitate the deployment and ramp-up of the portfolio. This may take the following forms:

- Ad hoc assistance (e.g. monitoring, reporting, eligibility checking, etc.);
- Webinars for individual or groups of intermediaries (on all aspects of the implementation of the InvestEU guarantee);
- Advice and guidelines provided during or after EIF's desktop or physical monitoring visits;
- Formal capacity building and advisory services under the InvestEU Advisory.

Capacity building support was made available for the first time under the CCS predecessor instrument as an effort to enhance financial intermediaries' performance and expertise in the context of CCS. This support has been recognised as a key element to enable financial intermediaries lending to SMEs in the CCS, including allowing them to enter new cultural and creative subsectors that they were not previously serving. Against this background, EIF will continue offer this type of support under InvestEU towards certain Sub-Projects covered by this Framework Operation.

The scale of financing expected to be made available by the financial intermediaries to final recipients (i.e. leverage) has been estimated indicatively as follows: (i) c. 8x for capped guarantees, (ii) c. 5x for uncapped guarantees.

Thanks to the InvestEU guarantee, the Sub-Projects aim at providing the following benefits for the final recipients:

- Increasing the repayment flexibility for final recipients (grace periods, bullet, balloon financing and financing with flexible repayment schedules);
- Providing other new features in the financing (e.g. increased maturities)
- Collateral requirements: the presence of guarantee will enable financial intermediaries to decrease collateral requirements or leverage more on soft collateral;
- Availability of non-banking alternative debt finance: by originating operations with alternative lenders in the CCS space, EIF will be supporting final recipients unserved by traditional banking players;
- Reduction of cost of financing: thanks to the guarantee final recipients may benefit from reduced financing cost;
- Bespoke financing solutions: thanks to the guarantee, financial intermediaries will be incentivised to offer bespoke financing solutions such as minimum guarantees, participation loans (revenue or profit sharing), etc.
- Extension of subordinated loans to final recipients due to their perceived high credit risk
- Diversification and stability of final recipient's financing
- Financing in local currency will improve the access of the final recipients to longer tenors

The Sub-Projects under this Framework Operation are expected to have a strong and positive impact on the overall CCS ecosystem. The presence of the guarantee will facilitate financing, encouraging intermediaries to invest resources in understanding and assessing CCS specific risks in order to extend financing to eligible final recipients. This is in turn expected to improve the overall competences and understanding of financial intermediaries in the CCS space, crowd in investments from competitors, further facilitating access to finance. Finally, by entering into operations with alternative lenders investing in the CCS space, EIF will assist in further developing alternative investment scene, encouraging new or established investment managers to expand their strategies towards the CCS sectors.

InvestEU CCS guarantee builds-up on the experience of the CCS Guarantee Facility ("CCS GF"), where a network of financial intermediaries supporting cultural and creative sectors has been created. InvestEU CCS guarantee will enable to further expand this network by cooperating with additional intermediaries.

As a result, this guarantee will play a critical role in the uptake and popularisation of CCS segment as well as stress the importance of this policy intervention and encourage additional players to finance enterprises operating in CCS. CCS GF was available only in the form of capped guarantee. However, thanks to InvestEU, the demand has already evolved and is materialising in the form of uncapped guarantee as well. Such uncapped coverage is particularly suited for regulated commercial banking players which would be even more encourage to support CCS companies than before.

Pillar 3 - Market failure or sub-optimal investment situation addressed by the financing or investment operation (**Excellent**)

Pillar 4 - Financial and technical contribution by the Implementing Partner (**Very Good**)

Pillar 5 - Impact of the financing or investment operation (**Very Good**)

Pillar 7 - Complementary indicators⁴

Key characteristics	Expected as of time of submission	Comments
Leverage Effect	Indicatively 8x for capped guarantee, 5.7x for uncapped guarantee	Preliminary estimation
Multiplier Effect	Indicatively 11x for capped guarantee, 8x for uncapped guarantee	
SMEW specific Indicators		
(a) Number of enterprises supported (expected):	7,000 – 8,000 final recipients	Preliminary estimation
(b) Allocation volume dedicated to SME/Mid-Caps [%], if it can be reasonably estimated at the moment of submission:	90% SMEs / 10% Mid-Caps (Small Mid-caps)	

ESG aspects

Within the due diligence process, EIF assesses the financial intermediaries’ environmental, climate and social risk management procedures and the capacity to screen, assess and manage environmental, climate and social risks associated with its business activity, including the presence of an Environmental and Social Management System (ESMS), by means of an “ESG” questionnaire.

⁴ The InvestEU methodology is used in order to calculate figures presented in this document. Such figures are of indicative nature only and presented at the level of the Framework Operation.