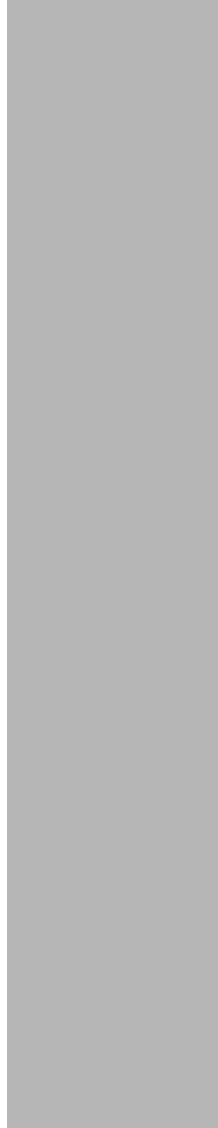




**Product Development**



**Cultural and Creative  
Sector Guarantee  
Facility Project**



## Important Disclaimer

*This CCS Guarantee Facility presentation is for information purposes only. This document is an outline of the principal terms and conditions for the product described herein, which are subject to change and non-exhaustive.*

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# EIF at a Glance

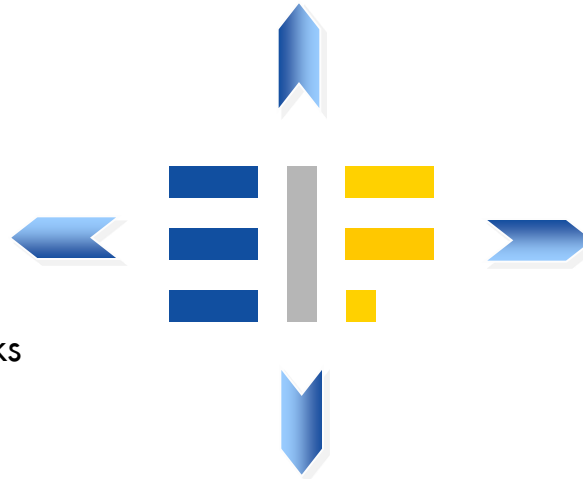
**EU specialised institution for SMEs**, risk financing

**Venture Capital and Mezzanine** (fund of funds)

**Structuring and Guaranteeing** portfolios of SME and microfinance loans/leases

## Geographic Focus / Intermediaries

EU 27, EFTA,  
Candidate Countries  
Distributing through Banks  
and Funds



## Authorised Capital

**€ 3bn**

EIB: 61%

EU: 30%

Fin. institutions: 9%

**AAA rated**

## Staffing, Culture and Values

Leading-edge modern institution

Adapting to changing market conditions

Attracting talented staff

High standards of compliance and integrity

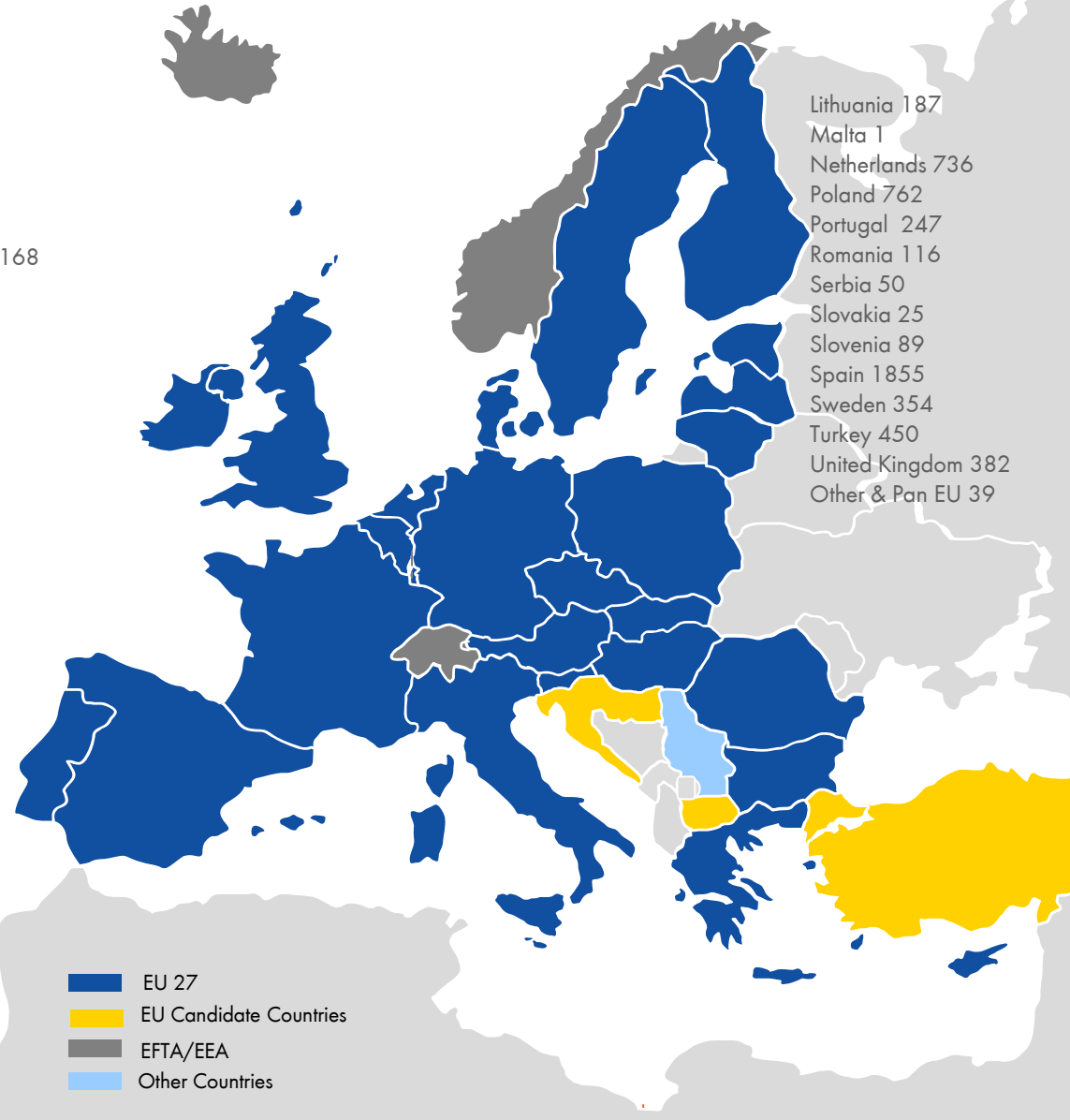
Dual Objective of Meeting EU Policy Goals & Generating a  
Satisfactory Return on Equity

# € 14.7bn in Outstanding Guarantee Commitments across Europe at 31.12.2010

EUR m

Austria 297  
Belgium 367  
Bulgaria 138  
Cyprus 10  
Czech Republic 168  
Denmark 244  
Estonia 16  
Finland 212  
France 1867  
Germany 1472  
Greece 114  
Hungary 55  
Ireland 3  
Italy 4355  
Latvia 89

Lithuania 187  
Malta 1  
Netherlands 736  
Poland 762  
Portugal 247  
Romania 116  
Serbia 50  
Slovakia 25  
Slovenia 89  
Spain 1855  
Sweden 354  
Turkey 450  
United Kingdom 382  
Other & Pan EU 39



# Cultural and creative sectors overview

- The cultural and creative sectors (CCS) represent highly innovative companies –to a great extent SMEs- with a great economic potential contributing around 4,5% to the EU GDP and employing some 3.8% of its workforce (5 million jobs).
- Cultural and creative sectors (CCS) refer to:
  - all sectors whose activities are based on cultural values and/or artistic and creative expressions, whether these activities are market or non-market oriented and whatever the type of structure that carries them out. These activities include the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or creative expressions, as well as related functions such as education, management or regulation.
- The CCS include:
  - in particular architecture and design, arts and crafts, audiovisual and multimedia, books and press, cultural heritage and archives , libraries, music, performing arts, video games and visual arts.
- This sector is a cornerstone in EU policy <sup>(1)</sup> for Europe 2020 and the next EC Programming Period (2014-2020).

Sources: "Building a Digital Economy: The importance of saving jobs in the EU's creative industries", TERA Consultants, March 2010

Green paper on "Unlocking the potential of cultural and creative industries". European Commission, 2010.

(1) European Parliament resolution of 12 May 2011 (2010/2156)

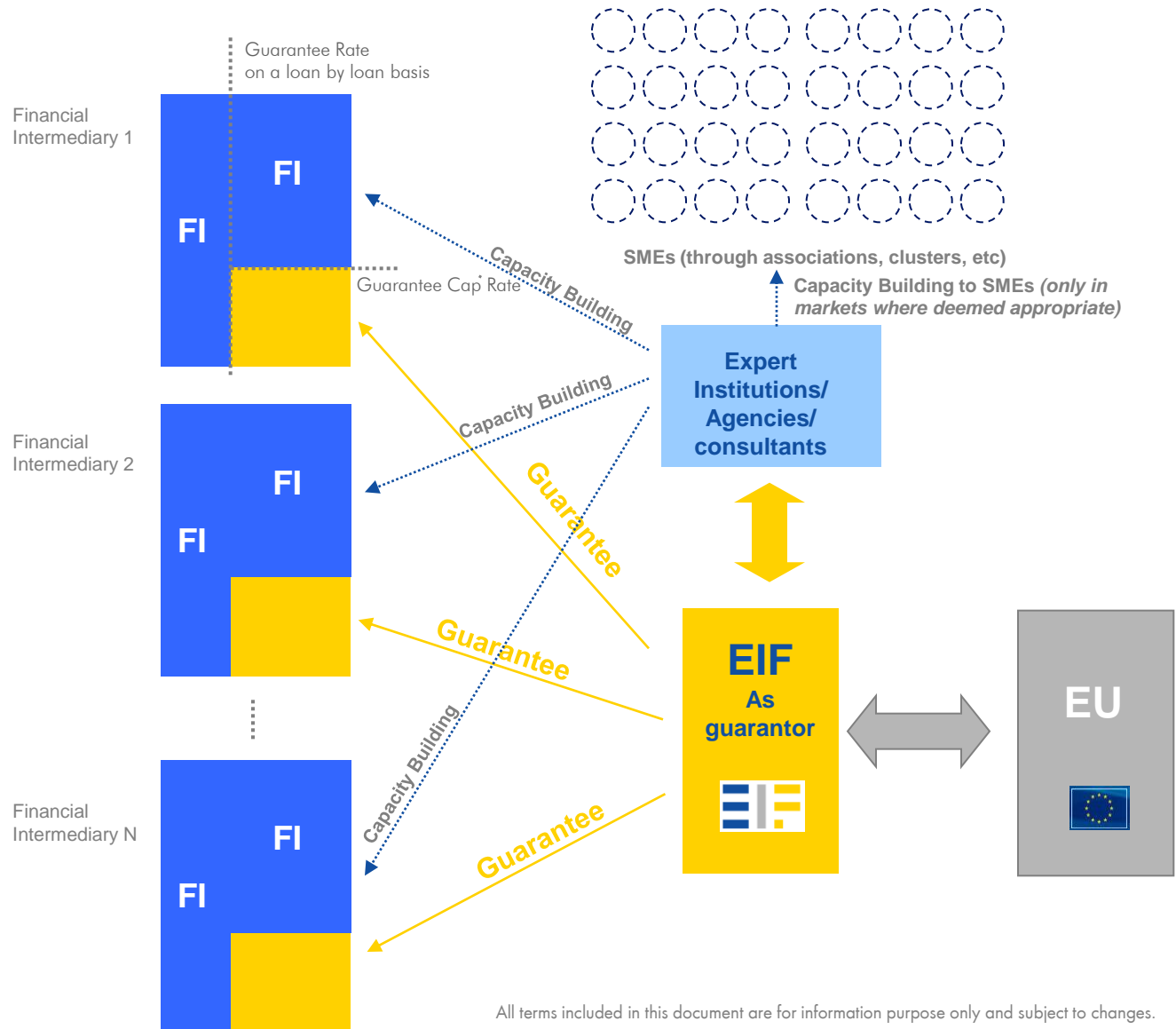
# Cultural and creative sector specificities

- The CCS face difficulty to access the funding needed for their activities. Historical weaknesses for CCS financing include fragmentation, chronic underinvestment and undercapitalization.
- Common CCS specificities which limit financing of SMEs include:
  - Intangible nature of their assets (mainly Intellectual Property Rights), difficult to evaluate
  - Prototype nature of their output
  - Niche size of the market, creating a lack of critical mass.
  - Specific cash flow schemes and life-cycle, specific vehicles per project, etc
  - Personal collateral is typically requested when providing finance.
  - Shortage of reliable data which limits the possibilities of SMEs in the sector to get funding.
- Consequently, evaluating credit risk in the CCS requires specific and different approaches and cannot be done in a very standardized way.
- European financial intermediaries –with a few exceptions - do not currently have the in-house necessary expertise for evaluating credit risk in the CCS (e.g. a common practice for lending is to request private collateral from the entrepreneur).

# EIF's proposal for the CCS: the CCS Guarantee Facility

- EIF's proposal for the CCS Guarantee Facility has been elaborated together with DG Education and Culture.
- The proposal is based on consultations with the various stakeholders such as financial intermediaries, CCS SMEs, policymakers and experts/consultants
- The CCS Guarantee Facility would rely on two main pillars:
  - Capacity Building, to provide expertise on CCS financial specificities to Financial Intermediaries.
  - Credit risk protection through financial guarantees to Financial Intermediaries building portfolios of loans in the CCS.
    - Guarantee Rate: [70%] (loan per loan basis)
    - Guarantee Cap Rate on the portfolio: [25%]
    - Leverage: [x5,7]
    - Through the EC contribution- e.g. a [€180m] EC Contribution would mean more than [1 bn€] loans made available to the CCS.
- The CCS Guarantee Facility would provide:
  - Capacity and skills to assess credit risk by Financial Intermediaries
  - Significant risk cover (and potentially capital relief).

# CCS Guarantee Facility (proposal)



All terms included in this document are for information purpose only and subject to changes.



# The CCS Guarantee Facility

## Main points to review/discuss

### ■ Eligibility Criteria

- CCS Criteria
- SME Criteria
- Loans Criteria
- Portfolio Criteria

### ■ Main terms of the Guarantee

### ■ Payment mechanism

### ■ Capacity Building

### ■ Application and selection process

### ■ Eligibility Criteria

- CCS Criteria
- SME Criteria
- Loans Criteria
- Portfolio Criteria

### ■ Main terms of the Guarantee

### ■ Payment mechanism

### ■ Capacity Building

### ■ Application and selection process

# Eligibility Criteria

- Eligibility Criteria

- CCS Criteria
- SME Criteria
- Loans Criteria
- Portfolio Criteria

- Main terms of the Guarantee
- Payment mechanism
- Capacity Building
- Application and selection process

- Eligibility Criteria for the inclusion of loans in the portfolio comprise:

- CCS Criteria
- SME Criteria
- Loans Criteria
- Portfolio Criteria

# CCS Criteria

- Eligibility Criteria

- CCS Criteria

- SME Criteria

- Loans Criteria

- Portfolio Criteria

- Main terms of the Guarantee

- Payment mechanism

- Capacity Building

- Application and selection process

- The CCS is defined as follows:

“ all sectors whose activities are based on cultural values and/or artistic and creative expressions, whether these activities are market or non-market oriented and whatever the type of structure that carries them out. These activities include the creation, the production, the dissemination and the preservation of goods and services which embody cultural, artistic or creative expressions, as well as related functions such as education, management or regulation”.

The CCS include in particular architecture and design, arts and crafts, audiovisual and multimedia, books and press, cultural heritage and archives , libraries, music, performing arts, video games and visual arts.

# CCS Criteria

An Eligible SME shall meet at least one of the following criteria:

(a) The SME intends to use the SME loan to develop a CCS project as evidenced by the business plan, **OR**

(b) The SME NACE code is one of the following:

*(See complete table of NACE Codes in Annex 1 of the Term Sheet)*

■ Eligibility Criteria

■ CCS Criteria

■ SME Criteria

■ Loans Criteria

■ Portfolio Criteria

■ Main terms of the Guarantee

■ Payment mechanism

■ Capacity Building

■ Application and selection process

Original NACE Code	NACE 2008 Section	NACE 2008 Group	NACE 2008 Class	NACE Class Label	Content
9102 HERITAGE ACTIVITIES LIBRARIES AND ARCHIVES	R Arts, entertainment and recreation services	910p*	<u>9101</u>	Library and archives activities	This class includes: > documentation and information activities of libraries of all kinds, reading, listening and viewing rooms, public archives providing service to the general public or to a special clientele, such as students, scientists, staff, members as well as operation of government archives: <ul style="list-style-type: none"> <li>organisation of a collection, whether specialised or not</li> <li>cataloguing collections</li> <li>lending and storage of books, maps, periodicals, films, records, tapes, CDs, etc.</li> <li>retrieval activities in order to comply with information requests etc.</li> </ul> > stock photo and movie libraries and services
			<u>9102</u>	Museums activities	This class includes: > operation of museums of all kinds: <ul style="list-style-type: none"> <li>art museums, museums of jewellery, furniture, costumes, ceramics, silverware</li> <li>natural history, science and technological museums, historical museums, including military museums</li> <li>other specialised museums</li> <li>open-air museums</li> </ul>
			<u>9103</u>	Operation of historical sites and buildings and similar visitor attractions	This class includes: operation and preservation of historical sites and buildings.

Partial Extraction of the NACE code table

**OR,**

## CCS Criteria

(c) The SME and/or the project promoter/team must have met, in the last 24 months, at least **one** of the following sub-criteria:

### ■ Eligibility Criteria

#### ■ CCS Criteria

#### ■ SME Criteria

#### ■ Loans Criteria

#### ■ Portfolio Criteria

### ■ Main terms of the Guarantee

#### ■ Payment mechanism

#### ■ Capacity Building

#### ■ Application and selection process

- The SME has been operating in the field of the CCS;
- One or more CCS projects developed by the SME and/or the project promoter/team has(ve) received grants/loans/funding/guarantees from CCS European or CCS national institution or CCS association including those of the EU 's Creative Europe Programme (MEDIA and Culture).
- One or more CCS projects developed by the SME and/or the project promoter/team has(ve) been awarded a CCS prize;
- The SME and/or the project promoter/team have filed copyrights, trademarks, distribution rights or any other equivalent rights in the field of CCS;
- The SME and/or the SME investor(s) has(ve) benefited from tax credit or tax exemption related to development of IPRs or CCS activities in the last 24 months;
- The SME falls under the eligibility criteria for the EU 's Creative Europe Programme (MEDIA and Culture)

# SME Criteria

## ■ Eligibility Criteria

■ CCS Criteria

■ SME Criteria

■ Loans Criteria

■ Portfolio Criteria

■ Main terms of the Guarantee

■ Payment mechanism

■ Capacity Building

■ Application and selection process

- Micro, small or medium-sized enterprises (“SMEs”) as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36):

“Enterprise with less than 250 employees and having a turnover of less than EUR 50 million or total assets less than EUR 43 million; also not belonging to a group exceeding such thresholds”.

# Loans criteria

## ■ Eligibility Criteria

■ CCS Criteria

■ SME Criteria

■ Loans Criteria

■ Portfolio Criteria

## ■ Main terms of the Guarantee

■ Payment mechanism

■ Capacity Building

■ Application and selection process

- **Collateral:** no tangible collateral external to the SME assets shall be requested on the loan, but instead it is encouraged to assess the IPRs of the CCS SME and to take them -when possible- as collateral.
- **Purpose of financing:** (1) investment in tangible assets and investment in intangible assets, and/or (2) business transfers, and/or (3) working capital,.
- Fixed repayment schedule (which shall exclude any revolving facility);
- loan principal amount up to [EUR 2m] (subject to diversification of the portfolio at Financial Intermediary Level).
- Repayment schedule: amortising and/or bullet;
- Maturity of, typically:
  - minimum of 12 months and
  - maximum of 84 months including the relevant grace period if any;
- Currency: EUR and local currency in the relevant jurisdiction and, as the case may be, in any other currency.

# Portfolio Criteria

- Eligibility Criteria

- CCS Criteria

- SME Criteria

- Loans Criteria

- Portfolio Criteria

- Main terms of the Guarantee

- Payment mechanism

- Capacity Building

- Application and selection process

- The portfolio shall comply with certain criteria to ensure some diversification (obligor, geographical, etc).

- Concentration limits:

- Typically one loan –or more than one loan to the same SME- shall not account for more than [10%] of the portfolio – [to be discussed].

- Other concentration limits might apply.



# Main terms of the Guarantee

- Eligibility Criteria

- CCS Criteria

- SME Criteria

- Loans Criteria

- Portfolio Criteria

- Main terms of the Guarantee

- Payment mechanism

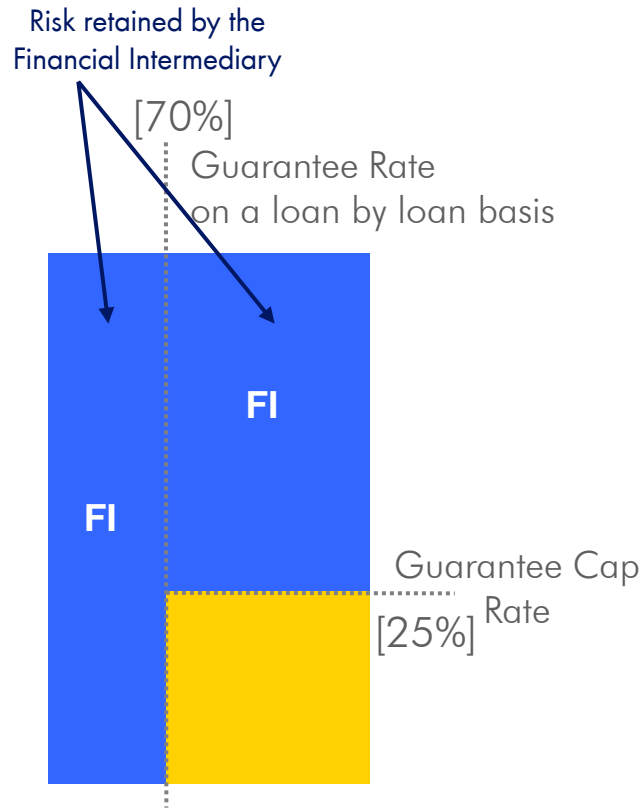
- Capacity Building

- Application and selection process

- The Guarantee will be free of charge (i.e. 0% Guarantee Fee), provided that:
  - no tangible collateral external to the SME assets is requested on the loan (in particular, excluding entrepreneur's private house as mortgage) and
  - the SME would benefit from the highest possible interest rebate in terms of risk margin (to be assessed during the selection process).
  - Financial Intermediaries are therefore incentivized to assess the Intellectual Property Rights (IPRs) of the SME and take them as collateral whenever possible.

# Main terms of the Guarantee

- Eligibility Criteria
  - CCS Criteria
  - SME Criteria
  - Loans Criteria
  - Portfolio Criteria
- Main terms of the Guarantee
- Payment mechanism
- Capacity Building
- Application and selection process



**Example:** A Financial Intermediary creates a new portfolio of CCS loans of €10 m.  
 If a loan of an outstanding amount of 100.000€ defaults, the guarantee would cover  $70\% * 100.000€ = 70.000€$ .  
 The Guarantee Facility would cover losses of the Financial Intermediary in the CCS loans portfolios up to:  $€10m * 70\% * 25\% = €1,75m$

- Financial Intermediaries: commercial/retail banks, promotional banks, guarantee institutions and other financial intermediaries.
- Financial Intermediaries would receive an EIF guarantee/counterguarantee on each of their loans in accordance to the Guarantee Rate of [70%] up to a Guarantee Cap Rate of [25%] of the portfolio of loans (enabling a 5,7x leverage).
- Financial Intermediaries will include CCS loans in the portfolio:
  - Based on Eligibility Criteria
  - Using their own underwriting processes
  - During the Availability Period (24-36 months)
  - Inclusion of loans will be reported quarterly
- Financial Intermediaries keep the relationship with the client and will perform the origination, due diligence, documentation, and servicing of the CCS loans.
- An EIB Global Loan could be used to fund partially the portfolio (optional, subject to EIB approval).

# Payment mechanism

## ■ Eligibility Criteria

- CCS Criteria
- SME Criteria
- Loans Criteria
- Portfolio Criteria

## ■ Main terms of the Guarantee

## ■ Payment mechanism

- Capacity Building
- Application and selection process

- Losses covered by the Guarantee: principal and /or interest amounts (excluding default interest, capitalised interest, fees and other costs and expenses) following a default, acceleration or restructuring.
- The EIF will rank pari passu with Financial Intermediaries with respect to recoveries.
- Default of a loan occurs when:
  - the Financial Intermediary **considers** at any time (acting reasonably in accordance with its internal procedures and as reflected in its financial and regulatory reporting) that an SME is unlikely to meet its payment obligations under such loan (without recourse by the Financial Intermediary to action such as realisation of security); or
  - an SME has failed to meet any payment obligation under the relevant loan which has continued for at least 90 consecutive calendar days.
- Payments from EIF to the Financial Intermediary:
  - Financial Intermediaries will report Payment Demands **quarterly** during the month following every calendar quarter together with the reporting of the portfolio.
  - EIF shall make guarantee payments under the Guarantee within **60 calendar days** after the month following every calendar quarter, upon reception of the Payment Demand.

# Capacity Building

## ■ Eligibility Criteria

■ CCS Criteria

■ SME Criteria

■ Loans Criteria

■ Portfolio Criteria

## ■ Main terms of the Guarantee

■ Payment mechanism

■ Capacity Building

■ Application and selection process

- Provision of **expert services** to the Financial Intermediaries signing a CCS Guarantee Facility Agreement.
- Provided typically by culture related agencies, guarantee institutions, banks, experts or consultants. Reporting.
- Financial Intermediaries are encouraged to set up a **“CCS Specialist Team”** composed by key employees who will acquire the expertise by the Capacity Building Provider. Typically this team would comprise risk specialists, officers/managers/front-office employees dealing with CCS clients, and/or other employees who could benefit from it.
- A **“CCS Business Development Package”** would be provided to Financial Intermediaries before operations under the CCS Guarantee Facility start (see next page).
- Capacity Building **periodic reviews** (yearly or biyearly) will take place to update and share the expertise and best practices.

# Capacity Building - CCS Business Development Package

The content of the Capacity Building could be customized according to experience of the Financial Intermediary in the CCS. A standard “CCS business development package” could for example be divided in three modules:

- Eligibility Criteria
  - CCS Criteria
  - SME Criteria
  - Loans Criteria
  - Portfolio Criteria
- Main terms of the Guarantee
- Payment mechanism
- Capacity Building
- Application and selection process

**a.-Module (1)** global overview of CCS from a risk prospective: This module intends to describe the specifics of CCS financing and CCS risk assessment. Among others, it will include the following topics:

- cash flow schemes found in CCS
- valuation of Intellectual Property Rights.
- public grants
- sales and distribution contracts
- funding from tax relief schemes
- collateralization of IPRs and other intangible assets

**b.- Module (2):** CCS risk assessment: a practical approach.

This module will consist in the study of real business cases - where the content of module (1) can be exercised and assimilated, - with the active participation of the CCS Specialist Team.

**c.- Module (3):** Evaluating CCS projects within the Financial Intermediary..

This last module has a consultancy orientation but within a predefined framework. The Financial Intermediary can use the expertise and know-how of the Capacity Building Provider to consult on how its current risk evaluation processes could be customized to fit CCS evaluation needs. Besides, real CCS projects could be evaluated by the Financial Intermediary hands-on with the CB Provider as support.

# Application and selection process

- Eligibility Criteria

- CCS Criteria

- SME Criteria

- Loans Criteria

- Portfolio Criteria

- Main terms of the Guarantee

- Payment mechanism

- Capacity Building

- Application and selection process

- Financial Intermediaries will be able to submit an application to EIF under an open call (up to a fixed date).
- The applications will be assessed on a “first come, first served” basis, subject to **minimum requirements** being met ( authorisation to carry out its business, absence of conflict of interest with CCS parties, experience and ability to lend to CCS SMEs, existing pricing policy and proposed pricing policy in the context of the CCS Guarantee Facility, risk management policy for lending operations, etc.)
- Due diligence of EIF of the pre-selected applicant financial intermediary in order to assess on-site, the content of the application based on, inter alia, the ability to build up the envisaged Individual Portfolio, the transfer of benefit proposal, the quality of origination, risk management, collection recovery/workout processes and systems.
- Based on the outcome of the process described above, EIF shall select the financial intermediaries

# CCS Guarantee Facility – Next Steps

- The CCS Guarantee Facility is currently being prepared in the Commission as part of the new Creative Europe Programme (2014-2020)
- Member States and European Parliament will need to approve the budget for the next MFF which can influence the CCS GF
- EIF/EC to continue their dialogue with stakeholders on how to structure the new instrument and to follow developments on the current MEDIA Production Guarantee Fund (pilot project)
- Questions & Comments