

## Cultural and Creative Sectors Guarantee Facility (“CCS GF”)

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### **-FREQUENTLY ASKED QUESTIONS-** **published on 26 November 2018**

In accordance with the provisions of the [Call for Expression of Interest](#) published on the EIF’s website on 18 July 2016 to select Financial Intermediaries under the Cultural and Creative Sectors Guarantee Facility (“CCS GF”), you will find here below a list of some of the most commonly asked questions. Please read through these FAQs before contacting the EIF.

If your question is not answered below and you believe it would be a good addition to the FAQ list, please send your suggestions via e-mail to [ccs.gf@eif.org](mailto:ccs.gf@eif.org).

Unless defined otherwise in this FAQ, all capitalized expressions used in this document shall have the meaning attributed to them in the above mentioned Call for Expression of Interest.

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## General clarifications

### 1. What is the Cultural and Creative Sectors Guarantee Facility?

The CCS GF is a facility under which EIF provides guarantees and counter-guarantees on debt financing to Financial Intermediaries in order to improve access to finance to SMEs and small public enterprises operating within the cultural and creative sectors. Thanks to the CCS GF, Financial Intermediaries selected by the EIF will be able to provide additional debt financing to those SMEs and small public enterprises in Participating Countries.

The CCS GF is set up under the cross-sectoral strand of the [Creative Europe Programme](#) and it is the first EU financial instrument with a specific focus on the cultural and creative sectors.

### 2. How does the Cultural and Creative Sectors Guarantee Facility work?

The functioning of the CCS GF could be described as a three-fold relationship having the following layers:

#### 1) *European Commission – European Investment Fund*

The European Commission allocates a specific budget to the CCS GF out of the overall budget of the Creative Europe Programme, and it mandates the management of it to the European Investment Fund. An enhancement of the CCS GF's budget is also provided by the European Fund for Strategic Investments;

#### 2) *European Investment Fund – Financial Intermediaries*

In its capacity as the manager of the allocated EU funds, the European Investment Fund deploys the dedicated budget under a delegated model through Financial Intermediaries. The deployment is made in the form of capped guarantees and/or capped counter-guarantees.

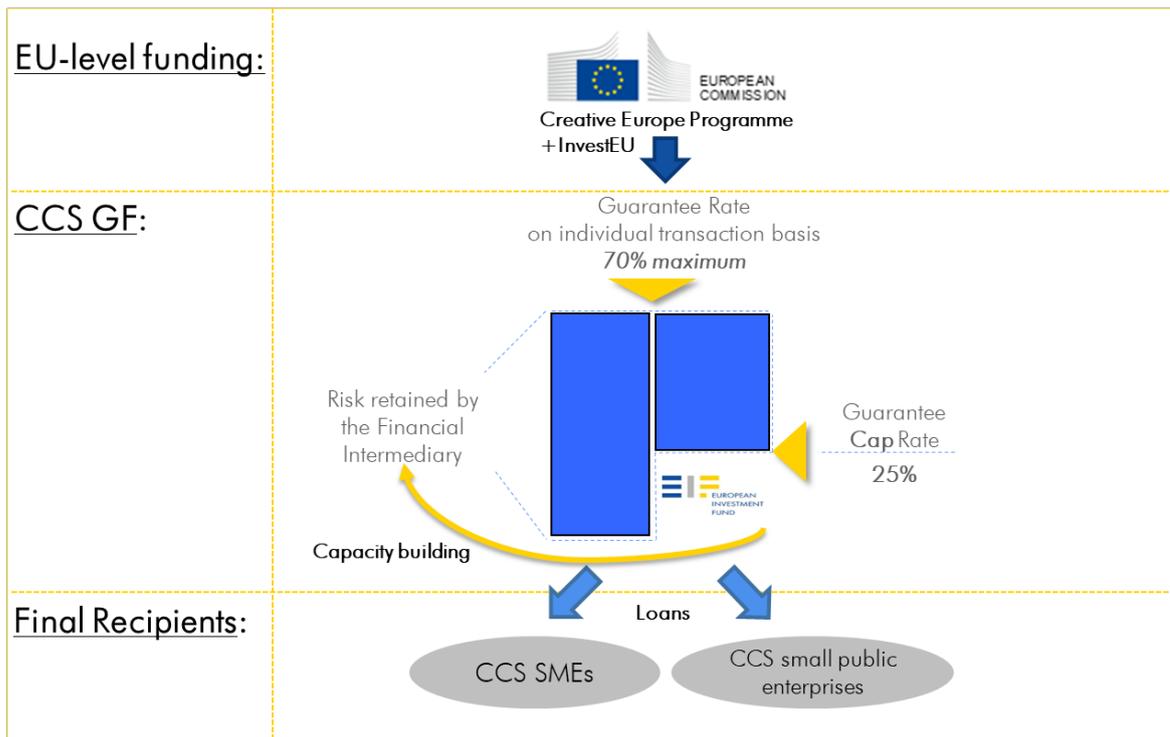
In other words, the European Investment Fund provides a risk coverage to the Financial Intermediaries by committing to partially cover losses that they may potentially incur out of the portfolio of CCS loans they would build thanks to the CCS GF. More precisely, the European Investment Fund would cover 70% of the losses of each underlying loan provided by a Financial Intermediary under the CCS GF (i.e. 70% Guarantee Rate) up to a maximum rate of 25% on the Financial Intermediary's portfolio of CCS loans (i.e. up to 25% Cap Rate).

In addition to the risk coverage, the European Investment Fund offers capacity building to Financial Intermediaries in the form of technical assistance / knowledge-building aiming at improving the ability of Financial Intermediaries to assess the risk associated with SMEs and small public enterprises operating in the field of CCS and at enabling partnerships between the financial and the creative sectors;

#### 3) *Financial Intermediaries – Final Recipients*

Thanks to the risk coverage provided by the European Investment Fund, Financial Intermediaries are more willing to grant loans / guarantees in respect of loans to Final Recipients active in the CCS.

Through this mechanism, EU helps bridging the financing gap of the CCS.



### 3. Which sectors could be considered as Cultural and Creative Sectors?

Cultural and Creative Sectors include the following sectors:

architecture, archives and libraries, artistic crafts, audiovisual (including film, television, video games and multimedia), cultural heritage, design, festivals, music, performing arts, publishing, radio and visual arts.

You can consult the list of the relevant NACE codes in the Sub-Annex 1 of the [Annex 2](#) to the Call for Expression of Interest.

### 4. How can an SME or a small public enterprise benefit from the Cultural and Creative Sectors Guarantee Facility?

Under the CCS GF, EIF supports SMEs and small public enterprises not directly, but through providing:

- direct financial guarantees to banks, debt (loan) funds and other financial intermediaries who extend loans, financial leases or bonds to the Final Recipients (“the Guarantee”), and
- financial counter-guarantees to guarantors, who issue guarantees to banks and other financial intermediaries in respect of loans and/or financial leases to the Final Recipients (“the Counter-Guarantee”), together with the Guarantees referred to as “(Counter-) Guarantees”.

SMEs and relevant small public enterprises can address themselves to (<http://access2eufinance.ec.europa.eu/>) or to EIF website ([www.eif.org](http://www.eif.org)) for information on the financial intermediaries operating under the CCS GF in their countries.

## 5. Which are the eligible Final Recipients under the Cultural and Creative Sectors Guarantee Facility?

Final Recipient under the CCS GF could be:

- micro, small or medium-sized enterprises (“SMEs”) as defined in the SME definition provided in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36); or
- micro, small or medium-sized enterprises not complying with the SME definition above but exclusively because detention of shares of the SME by public bodies exceeds the limits defined in Art 3.4 of the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) (“Public Enterprise”)

at the latest on the date of signature of the loan transaction with the Financial Intermediary.

To be eligible under the CCS GF, Final Recipients should meet **at least one** of the following criteria:

- (1) intend to use the loan to develop a CCS project as evidenced by the business plan, or
- (2) have an SME NACE code that corresponds to one of the NACE codes covered by the CCS GF<sup>1</sup>, or
- (3) should meet, in the last 24 months, at least one of the following sub-criteria:
  - i) The Final Recipient has been operating in the field of the CCS and intends to continue doing so;
  - ii) One or more CCS project(s) developed by the Final Recipient has(ve) received Debt Financing from CCS European or CCS national institution or CCS association including those of the EU’s Creative Europe Programme (MEDIA and Culture);
  - iii) One or more CCS project(s) developed by the Final Recipient has(ve) been awarded a CCS prize;
  - iv) The Final Recipient has filed copyrights, trademarks, distribution rights or any other equivalent rights in the field of CCS;
  - v) The Final Recipient has benefited from tax credit or tax exemption related to development of intellectual property rights (IPRs) or CCS activities.

It should be noted that financial instruments are generally used in areas where projects have a revenue generating capacity. In this respect, companies applying for a loan under the CCS GF should present a viable business model (i.e. demonstrating their ability to generate sufficient revenues to be able to reimburse Financial Intermediary loans) to be considered as potential Final Recipients.

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<sup>1</sup> The list of the eligible NACE codes can be found in the Sub-Annex 1 of the [Annex 2](#) to the Call for Expression of Interest.

**6. How the Final Recipient eligibility criterion 1 from question 5 above (i.e. intend to use the loan to develop a CCS project as evidenced by the business plan) should be interpreted?**

A Final Recipient carrying out activities that would not normally fall within any of the eligible CCS NACE codes under the CCS GF<sup>2</sup>, would still be able to benefit from the CCS GF provided that it intends to use the loan with the view to develop a CCS project.

A CCS project should be a project that could be assigned to any of the eligible CCS NACE codes covered by the CCS GF.

Take for instance an enterprise having its business object in the field of software development. Based on its business object, that enterprise would not normally possess one of the eligible CCS NACE codes under the CCS GF. However, in case that enterprise undertakes to develop a software having CCS as its subject matter (e.g. a platform for a digital art gallery / library / museum, or an online course for arts / music / fashion, etc.), then it will be able to benefit from a CCS GF loan for that specific CCS project.

**7. How the Final Recipient eligibility criterion 3 i) from question 5 above (i.e. “in the last 24 months, the Final Recipient has been operating in the field of CCS”) should be interpreted and evidenced?**

The compliance to this eligibility criterion should be confirmed as follows:

- a) The Final Recipient shall evidence that it had (and will continue having) a substantial focus in the field of the CCS in the last 24 months; a Final Recipient will be deemed to have a substantial focus in the field of CCS if its operation in the field of CCS is ex-ante identified as being essential for the economic success of the Final Recipient. This assessment is based, for example, on the proportionate importance of the CCS activity / project in relation to the revenues, the turnover or the client base of the Final Recipient; and
- b) Financial Intermediaries shall check compliance with this eligibility criterion through a representation made by each Final Recipient.

**8. Which type of micro, small or medium-sized enterprises not complying with the SME definition could be considered as eligible Final Recipients under the CCS GF?**

In addition to micro, small or medium-sized enterprises (“SMEs”) as defined in the SME definition provided in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36), CCS GF could also support micro, small or medium-sized enterprises not complying with the SME definition but exclusively because detention of shares of the SME by public bodies exceeds the limits defined in Art 3.4 of the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) (“Public Enterprise”). These would typically include museums, libraries, theatres etc.

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<sup>2</sup> The list of the eligible NACE codes can be found in the Sub-Annex 1 of the [Annex 2](#) to the Call for Expression of Interest.

## 9. Could (digital) art galleries benefit from a loan supported by the CCS GF?

Yes, (digital) art galleries could benefit from a CCS GF loan, provided that they are run by entities that could either be classified as:

- micro, small or medium-sized enterprises (“SMEs”) as defined in the SME definition provided in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36); or
- micro, small or medium-sized enterprises not complying with the SME definition above but exclusively because detention of shares of the SME by public bodies exceeds the limits defined in Art 3.4 of the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) (“Public Enterprise”).

at the latest on the date of signature of the loan transaction with the Financial Intermediary.

## 10. What are the main eligibility criteria of the Final Recipient transactions under the Cultural and Creative Sectors Guarantee Facility?

<i>Eligibility criteria for Final Recipient transactions:</i>	
Loan amount	Max. EUR 2m
Maturity	Min. 12 months
Purpose	<ul style="list-style-type: none"><li>• Investments</li><li>• Business transfers</li><li>• Working capital</li></ul>
Max. collateral requirements	<ul style="list-style-type: none"><li>• Assets used for the business activity</li><li>• Personal guarantee from the owner(s)</li></ul>

## 11. What is referred to as Capacity Building under the CCS GF, what is the added value, how can I apply?

For the avoidance of doubt, capacity building is only available to Financial Intermediaries operating under the CCS GF.

CCS SMEs and small public enterprises, they often face difficulties in accessing affordable debt financing for their projects, due to the challenges inherent within the nature of these sectors. More specifically, due to their cash flow schemes, intangible nature of their output, distinct life cycle, specific vehicles being set up for each project, etc. CCS entities require different approaches and skills in assessing risk as well as value creation potential, than the ones used for more mainstream sectors.

The capacity building aims precisely to tackle the lack of expertise when it comes to financing CCS by guiding financial intermediaries in understanding the cultural and creative sectors through an offering of technical assistance and knowledge/networking-building. The ultimate objective of the capacity building

is to enable partnerships between the financial and the creative sectors by, *inter alia*, improving the ability of financial intermediaries in evaluating the risk and value associated with CCS investments, help professionalising the sectors and elaborating on a common vocabulary.

The capacity building element of the CCS GF is free of charge and is available to all the financial intermediaries operating under the CCS GF. Financial intermediaries could opt in for capacity building either at the application stage (by selecting the capacity building option in the open call for expression of interest), or at a later stage by means of a written communication with the European Investment Fund.

The consortium of Deloitte Digital and KEA is the selected capacity building provider under the CCS GF. Their selection has been made through a public and open procedure and has been published thereafter (e.g. see relevant [EIF press release](#)).

## **12. Until when will the Open Call for Expression of Interest of the Cultural and Creative Sectors Guarantee Facility be open for applications?**

The CCS GF open call for expression of interest will be open for applications until 30 September 2020 or an earlier date as may be announced officially on EIF's website.

## **13. Is the same Financial Intermediary allowed to apply for more than one financial instruments available by the European Investment Fund (e.g. both for the Cultural and Creative Sectors Guarantee Facility and for COSME Loan Guarantee Facility)?**

Yes, applying for more than one of the financial instruments of the European Investment Fund is possible, as long as the conditions of application for each of the financial instruments are fulfilled. In addition, the complementarity between the different financial instruments should be clearly demonstrated since the target of each application should not overlap. If an application is made within 12 month from the preceding application to another financial instrument, limited information requirements may apply.

## **14. Could you please clarify the applicable "Restricted Sectors" definition?**

Please note that the list of restricted sectors can be found on the EIF's website:

[http://www.eif.org/news\\_centre/publications/2010\\_Guidelines\\_for\\_Restricted\\_Sectors.htm](http://www.eif.org/news_centre/publications/2010_Guidelines_for_Restricted_Sectors.htm)

When providing support to the financing of the research, development or technical applications relating to (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms ("GMOs"), the EIF will require from the Financial Intermediary appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs.

The binding list of Restricted Sectors shall be set as of the date of the Guarantee Agreement.

## Minimum Risk Retention

### 15. Could you please clarify whether any restriction on collateral requirements apply?

Any collateral or any third party guarantee under the Final Recipient Transaction, should be limited to:

- 1) if the Final Recipient is an SME, the assets of the Final Recipient and/or a Personal Guarantee from the owner of the Final Recipient, or
- 2) if the Final Recipient is a sole trader, the assets used for its business activity and/or a Personal Guarantee from such sole trader.

### 16. In relation to the above, could you please clarify how the 20% minimum risk retention requirement referred to in Annex II and III of the Open Call for Expression of Interest is calculated?

This requirement is not related to the collateral cover of a certain loan but to any additional risk cover (hedge or mitigation of the credit risk of the portfolio) not provided by the Final Recipients and is meant to ensure the alignment of interest between EIF and the Financial Intermediary. As outlined in Annex II and III of the Open Call for Expression of Interest document page 1, it is expected that the Financial Intermediary retains a minimum 20% exposure to the overall portfolio of transactions covered by the CCS GF.

### 17. Could a loan secured by the CCS GF be also secured by another guarantee (e.g. national guarantee)?

If Financial Intermediaries deem it necessary and if available to them, e.g. through national or regional funding streams or through other institutions, they may combine the credit risk protection provided by the CCS GF with an additional credit risk protection instrument. However, such combination of credit risk protections would be possible provided that, for alignment of interest, the Financial Intermediary retains a minimum of 20% risk exposure to the overall portfolio.

## State Aid

### 18. Could you please clarify whether any "State Aid" rules apply to the Cultural and Creative Sectors Guarantee Facility?

The CCS GF is a centrally-managed EU financial instrument, and as such it is not subject to State aid rules.

### 19. Could you please clarify if the Cultural and Creative Sectors Guarantee Facility interferes with other EU / national / de minimis schemes which would sustain the same project from a liquidity point of view?

The terms and conditions of the CCS GF do not impose any limitation on other structural EU / national / de minimis schemes.

In cases of measures co-funded by structural or national funds, State Aid rules relevant to those co-financing measures must be complied with (e.g. De Minimis Regulation, General Block-Exemption

Regulation, etc.). For instance, if the Financial Intermediary is a national promotional institution, its financing activities, including under the CCS GF, might constitute State aid and be subject to State aid rules.

**20. Could the CCS guarantee be used to secure a loan that will be granted on pre-financing of subventions to be made available in the future?**

The CCS guarantee could be used to secure a loan for the pre-financing of subventions, as long as there is no accumulation of public support (provided that the final beneficiary and the transaction itself meet the eligibility conditions of the CCS GF).

To this end, the loan covered by the CCS guarantee would need to be immediately repaid as soon as the subvention is received.

Provided that at no point in time the beneficiary will enjoy both the subvention and the guaranteed loan (i.e. there would be no accumulation of the EU support of the CCS GF and of the support of the subventions), no cumulation rules apply. However, the subvention remains subject to State aid rules.

**21. Could the CCS guarantee be used to secure a loan that will be granted on co-financing a project together with a subvention? Are there any limitations on volumes of grants in this case?**

Final Recipients benefitting from grants could still be eligible for CCS GF guaranteed loans as long as the eligibility criteria of the CCS GF are complied with.

However, it is at all times the designated authorities' responsibility to verify that the subsidy scheme is compliant with State aid rules (i.e. whether the Final Recipient is still eligible for the grant despite being recipient of CCS GF covered loans), including the cumulation rules.

An investment (project) may receive support under the CCS GF and at the same time be supported by a subvention / grant provided that the following conditions are met:

- Separate records are kept by Financial Intermediaries for the different forms of support (i.e. for the CCS GF guaranteed loan and for the subvention);
- The total public eligible expenditure under the subvention / grant support must be distinct from the total public eligible expenditure under the CCS GF support;
- Although the loans under the CCS GF do not constitute State aid (except when the Financial Intermediaries are e. g. national promotional institutions), the overall public aid (CCS GF gross grant equivalent + grant) to enterprises for a project shall comply with the State aid rules for cumulation of aid.

In other words, in case a single CCS project is supported from a combination of resources from a grant and resources from the CCS GF, this would involve formally one project consisting of two operations, each with distinct total public expenditure supported, which overall shall not exceed the total amount of the cost of the investment and comply with the State aid rules for cumulation of aid.

22. Could the CCS GF be used to secure a loan to an entity that was provided equity by a venture capital fund?

Yes, the CCS GF could be used to secure a loan to an entity that was invested by a venture capital fund as long as the entity complies with the Final Recipient eligibility requirements (see question 5).